COOPER TIRE & RUBBER CO
Form 10-Q
August 05, 2008

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

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

For the quarterly period ended June 30, 2008

OR

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

Commission File No. 1-4329

COOPER TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

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

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

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

Yes þ No o

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

Number of shares of common stock of registrant outstanding
at July 31, 2008: 58,901,236

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Part I. FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS

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

	December 31, 2007 (Note 1)	**June 30, 2008 (Unaudited)**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 345,947	**$ 252,316**
Short-term investments	49,765	
Accounts receivable, less allowances of $8,631 in 2007 and $9,670 in 2008	354,939	**405,899**
Inventories at lower of cost or market:		
Finished goods	185,658	**269,854**
Work in process	30,730	**44,437**
Raw materials and supplies	88,172	**129,383**
	304,560	**443,674**
Other current assets	134,713	**144,404**
Total current assets	1,189,924	**1,246,293**
Property, plant and equipment:		
Land and land improvements	37,299	**37,358**
Buildings	340,512	**359,042**
Machinery and equipment	1,646,590	**1,692,440**
Molds, cores and rings	273,032	**281,083**
	2,297,433	**2,369,923**
Less accumulated depreciation and amortization	1,305,657	**1,362,769**
Net property, plant and equipment	991,776	**1,007,154**
Goodwill	24,439	**24,439**
Intangibles, net of accumulated amortization of $22,893 in 2007 and $24,862 in 2008	28,014	**26,045**
Restricted cash	2,791	**2,730**
Other assets	59,924	**60,664**
	$ 2,296,868	**$ 2,367,325**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 86,384	**$ 154,816**
Payable to noncontrolling owner of subsidiary	10,364	**1,022**
Accounts payable	291,257	**329,983**
Accrued liabilities	141,748	**144,471**

Income taxes	1,450	**4,060**
Liabilities related to the sale of automotive operations	1,332	**1,317**
Current portion of long term debt		**39,420**
Total current liabilities	532,535	**675,089**
Long-term debt	464,608	**419,060**
Postretirement benefits other than pensions	244,491	**248,919**
Other long-term liabilities	163,723	**151,196**
Long-term liabilities related to the sale of automotive operations	10,185	**9,462**
Noncontrolling shareholders interests in consolidated subsidiaries	89,035	**95,859**
Stockholders equity:		
Preferred stock, $1 par value; 5,000,000 shares authorized; none issued		
Common stock, $1 par value; 300,000,000 shares authorized; 86,322,514 shares issued in 2007 and in 2008	86,323	**86,323**
Capital in excess of par value	40,676	**42,727**
Retained earnings	1,350,527	**1,317,602**
Cumulative other comprehensive loss	(205,677)	**(186,411)**
	1,271,849	**1,260,241**
Less: common shares in treasury at cost (26,661,295 in 2007 and 27,424,709 in 2008)	(479,558)	**(492,501)**
Total stockholders equity	792,291	**767,740**
	$ 2,296,868	**$ 2,367,325**

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS ENDED JUNE 30, 2007 AND 2008
(UNAUDITED)
(Dollar amounts in thousands except per-share amounts)

	2007	**2008**
Net sales	$ 730,135	**$ 772,907**
Cost of products sold	654,773	**743,078**
Gross profit	75,362	**29,829**
Selling, general and administrative	44,168	**45,246**
Restructuring	1,692	
Operating profit (loss)	29,502	**(15,417)**
Interest expense	(12,157)	**(12,742)**
Interest income	4,259	**3,669**
Other net	1,647	**2,201**
Income (loss) from continuing operations before income taxes and noncontrolling shareholders interests	23,251	**(22,289)**
Income tax benefit (expense)	(4,708)	**677**
Income (loss) from continuing operations before noncontrolling shareholders interests	18,543	**(21,612)**
Noncontrolling shareholders interests, net of income taxes	(2,928)	**(488)**
Income (loss) from continuing operations	15,615	**(22,100)**
Income (loss) from discontinued operations, net of income taxes	1,998	**(131)**
Net income (loss)	$ 17,613	**$ (22,231)**
Basic earnings (loss) per share:		
Income (loss) from continuing operations	$ 0.25	**$ (0.38)**
Income from discontinued operations	0.03	
Net income (loss)	$ 0.28	**$ (0.38)**

Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$	0.25	**$**	**(0.38)**
Income from discontinued operations		0.03		
Net income (loss)	$	0.28	**$**	**(0.38)**
Weighted average number of shares outstanding (000 s):				
Basic		61,980		**58,897**
Diluted		62,913		**58,897**
Dividends per share	$	0.105	**$**	**0.105**

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
SIX MONTHS ENDED JUNE 30, 2007 AND 2008
(UNAUDITED)
(Dollar amounts in thousands except per-share amounts)

	2007	**2008**
Net sales	$ 1,399,735	**$ 1,452,228**
Cost of products sold	1,253,534	**1,366,161**
Gross profit	146,201	**86,067**
Selling, general and administrative	84,831	**91,930**
Restructuring	2,739	
Operating profit (loss)	58,631	**(5,863)**
Interest expense	(24,676)	**(24,220)**
Interest income	7,788	**7,392**
Debt extinguishment expense		**(583)**
Dividend from unconsolidated subsidiary	2,007	**1,943**
Other net	6,253	**3,518**
Income (loss) from continuing operations before income taxes and noncontrolling shareholders interests	50,003	**(17,813)**
Income tax benefit (expense)	(11,556)	**(371)**
Income (loss) from continuing operations before noncontrolling shareholders interests	38,447	**(18,184)**
Noncontrolling shareholders interests, net of income taxes	(3,327)	**(2,574)**
Income (loss) from continuing operations	35,120	**(20,758)**
Income from discontinued operations, net of income taxes	3,244	**213**
Net income (loss)	$ 38,364	**$ (20,545)**
Basic earnings (loss) per share:		
Income (loss) from continuing operations	$ 0.57	**$ (0.35)**
Income from discontinued operations	0.05	

Net income (loss)	$	0.62	**$**	**(0.35)**
Diluted earnings (loss) per share:				
Income (loss) from continuing operations	$	0.56	**$**	**(0.35)**
Income from discontinued operations		0.05		
Net income (loss)	$	0.61	**$**	**(0.35)**
Weighted average number of shares outstanding (000 s):				
Basic		61,729		**59,191**
Diluted		62,445		**59,191**
Dividends per share	$	0.210	**$**	**0.210**

See accompanying notes.

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COOPER TIRE & RUBBER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2007 AND 2008
(UNAUDITED)
(Dollar amounts in thousands)

	2007	**2008**
Operating activities:		
Net income (loss)	$ 38,364	**$ (20,545)**
Adjustments to reconcile net income (loss) to net cash provided by (used in) continuing operations:		
Income from discontinued operations, net of income taxes	(3,244)	**(213)**
Depreciation	64,534	**69,155**
Amortization	3,271	**2,508**
Deferred income taxes	1,739	**990**
Stock based compensation	1,738	**2,645**
Amortization of unrecognized postretirement benefits	9,222	**6,538**
Loss (gain) on sale of assets	(4,935)	**564**
Debt extinguishment costs		**583**
Restructuring asset write-down	197	
Noncontrolling shareholders income	3,327	**2,574**
Changes in operating assets and liabilities of continuing operations:		
Accounts receivable	(15,220)	**(45,444)**
Inventories	6,954	**(130,623)**
Other current assets	(755)	**(14,314)**
Accounts payable	10,452	**26,925**
Accrued liabilities	36,777	**(501)**
Other items	5,494	**(941)**
Net cash provided by (used in) continuing operations	157,915	**(100,099)**
Net cash used in discontinued operations	*(164)*	***(525)***
Net cash provided by (used in) operating activities	157,751	**(100,624)**
Investing activities:		
Property, plant and equipment	(77,582)	**(65,512)**
Proceeds from sale of (investments in) available-for-sale debt securities	(50,314)	**49,765**
Acquisition of business, net of cash acquired		**(5,956)**
Proceeds from the sale of assets	9,118	**317**
Net cash used in investing activities	(118,778)	**(21,386)**
Net cash used in discontinued operations	*(1,167)*	
Net cash used in investing activities	(119,945)	**(21,386)**
Financing activities:		
Issuance of debt	8,624	**67,725**
Payments on long-term debt		**(14,000)**
Premium paid on debt repurchases		**(543)**

Contributions of joint venture partner	8,500	**4,250**
Purchase of treasury shares		**(13,853)**
Payment of dividends	(13,000)	**(12,402)**
Issuance of common shares and excess tax benefits on options	19,474	**297**
Net cash provided by financing activities	23,598	**31,474**
Effects of exchange rate changes on cash of continuing operations	(1,920)	**(3,095)**
Changes in cash and cash equivalents	59,484	**(93,631)**
Cash and cash equivalents at beginning of year	221,655	**345,947**
Cash and cash equivalents at end of period	$ 281,139	**$ 252,316**
Cash and cash equivalents at end of period continuing operations	$ 281,121	**$ 252,316**
Cash and cash equivalents at end of period discontinued operations	18	
Cash and cash equivalents at end of period	$ 281,139	**$ 252,316**

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, 2008 are not necessarily indicative of the results that may be expected for the year ended December 31, 2008.

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

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

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

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

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

   The Company s consolidated financial statements reflect the accounting and disclosure requirements of SFAS No. 144, which mandate the segregation of operating results for the current year and comparable prior year periods and the balance sheets related to the discontinued operations from those related to ongoing operations. Accordingly, the consolidated statements of income for the three-month and six-month periods ended June 30, 2007 and 2008 reflect this segregation as income from continuing operations and income from discontinued operations.

   In addition to the segregation of operating financial results, assets and liabilities, Emerging Issues Task Force (EITF) No. 87-24, Allocation of Interest to Discontinued Operations, mandates the reallocation to continuing operations of general corporate overhead previously allocated to discontinued operations. Corporate overhead that previously would have been allocated to these operations of $219 and $416 for the three-month and six-month periods ended June 30, 2007 is charged against continuing operations in the Company s consolidated statements of income.

Operating results for the Oliver Rubber Company are included in income (loss) from discontinued operations, net of income taxes on the Company s consolidated statements of operations. Sales for this operation were $20,506 and $39,991 for the three-month and six-month periods ended June 30, 2007, respectively. For the three-month and six-month periods ended June 30, 2007, respectively, this operation generated a pretax profit of $2,778 and $4,066 and net income of $1,936 and $2,807.

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

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

In accordance with SFAS No. 157, the Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within the different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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

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

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

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

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

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

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

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

The following table presents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2008:

		Fair Value Measurements at June 30, 2008 Using		
Description	**June 30, 2008**	**Quoted Prices in Active Markets for Identical Assets Level (1)**	**Significant Other Observable Inputs Level (2)**	**Significant Unobservable Inputs Level (3)**
Liabilities:				

Accrued liabilities foreign currency (gain) loss on derivative financial instruments	$8,702	$ 8,702

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

	Three months ended June 30		Six months ended June 30	
	2007	**2008**	2007	**2008**
Revenues from external customers:				
North American Tire	$ 533,181	**$ 547,513**	$ 1,048,270	**$ 1,045,185**
International Tire	234,495	**282,966**	417,456	**514,746**
Eliminations	(37,541)	**(57,572)**	(65,991)	**(107,703)**
Net sales	$ 730,135	**$ 772,907**	$ 1,399,735	**$ 1,452,228**
Segment profit (loss):				
North American Tire	$ 20,692	**$ (21,906)**	$ 47,489	**$ (13,762)**
International Tire	11,772	**5,944**	17,886	**12,853**
Eliminations	413	**987**	(411)	**(282)**
Unallocated corporate charges	(3,375)	**(442)**	(6,333)	**(4,672)**
Operating profit (loss)	29,502	**(15,417)**	58,631	**(5,863)**
Interest expense	(12,157)	**(12,742)**	(24,676)	**(24,220)**
Interest income	4,259	**3,669**	7,788	**7,392**
Debt extinguishment				**(583)**
Dividend from unconsolidated subsidiary			2,007	**1,943**
Other net	1,647	**2,201**	6,253	**3,518**
Income (loss) from continuing operations before income taxes and noncontrolling shareholders interests	$ 23,251	**$ (22,289)**	$ 50,003	**$ (17,813)**

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

   Prior to the adoption of SFAS No. 123 (R), the Company presented all benefits of its tax deductions resulting from the exercise of share-based compensation as operating cash flows in its Statement of Cash Flows. SFAS No. 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. For the three-month periods ended June 30, 2007 and 2008, the Company recognized $1,860 and $0 of excess tax benefits, respectively, as a financing cash inflow. For the six-month periods ended June 30, 2007 and 2008, the Company recognized $2,317 and $14 respectively, as a financing cash inflow.

   The Company did not award stock options in the second quarter of 2008. In the second quarter of 2007, the Company awarded eight thousand two hundred eighty 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:

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	2007
Risk-free interest rate	4.6%
Dividend yield	2.2%
Expected volatility of the Company s common stock	0.360
Expected life in years	8.0

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 had recorded $139 of stock compensation expense associated with these awards for the six months ended June 30, 2007.

In the second quarter of 2008, the Company recorded $87 of stock compensation expense associated with the 2006 and 2007 stock option awards and has recorded $178 of stock compensation expense associated with these awards for the six months ended June 30, 2008.

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 three-month and six-month periods ended June 30, 2007, the Company recognized $426 and $1,030 respectively, in compensation expense associated with restricted stock units and stock awards. For the three-month and six-month periods ended June 30, 2008, the Company has recognized $471 and $1,086, respectively, 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, 2008:

Restricted stock units outstanding at January 1, 2008	401,681
Accrued dividend equivalents	7,915
Restricted stock units settled	(20,694)
Restricted stock units cancelled	(152)
Restricted stock units outstanding at June 30, 2008	388,750

The Company recorded compensation expense associated with performance based units of $376 and $569 for the three-month and six-month periods ended June 30, 2007, respectively. The Company recorded compensation expense associated with performance based units of ($183) and $1,381 for the three-month and six-month periods ended June 30, 2008, respectively. Amounts accrued in the first quarter for 2008 performance based units were reversed during the second quarter. Executives participating in the Company s Long-Term Incentive Plan earn performance based units based on the Company s financial performance. As part of the 2007 2009 plan, the units earned in 2007 and 2008 will vest in February 2010. As part of the 2008 2010 plan, the units earned in 2008 will vest in February 2011.

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6. The following table discloses the amount of net periodic benefit costs for the three-month and six-month periods ended June 30, 2007 and 2008 for the Company s defined benefit plans and other postretirement benefits relating to continuing operations:

	Pension Benefits			
	Three months ended June 30		Six months ended June 30	
	2007	**2008**	2007	**2008**
Components of net periodic benefit cost:				
Service cost	$ 5,488	**$ 5,527**	$ 10,963	**$ 11,051**
Interest cost	15,460	**16,279**	30,866	**32,548**
Expected return on plan assets	(19,288)	**(20,519)**	(38,517)	**(41,027)**
Amortization of prior service cost	178	**126**	355	**252**
Recognized actuarial loss	3,806	**2,921**	7,603	**5,842**
Net periodic benefit cost	$ 5,644	**$ 4,334**	$ 11,270	**$ 8,666**

	Other Postretirement Benefits			
	Three months ended June 30		Six months ended June 30	
	2007	**2008**	2007	**2008**
Components of net periodic benefit cost:				
Service cost	$ 1,392	**$ 1,243**	$ 2,785	**$ 2,487**
Interest cost	3,918	**3,873**	7,837	**7,746**
Amortization of prior service cost	(77)	**(77)**	(154)	**(154)**
Recognized actuarial loss	709	**299**	1,418	**598**
Net periodic benefit cost	$ 5,942	**$ 5,338**	$ 11,886	**$ 10,677**

7. 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 (loss) includes net income and components of other comprehensive income (loss), such as foreign currency translation adjustments, unrealized gains or losses on certain marketable securities and derivative instruments and unrecognized postretirement benefit plans amounts.

   The Company s comprehensive income (loss) is as follows:

	Three months ended June 30		Six months ended June 30	
	2007	**2008**	2007	**2008**
Income (loss) from continuing operations	$ 15,615	**$ (22,100)**	$ 35,120	**$ (20,758)**
Other comprehensive income (loss):				
Currency translation adjustments	4,078	**4,237**	5,430	**15,173**
Unrealized net gains (losses) on derivative instruments and marketable securities	(3,582)	**3,351**	(4,013)	**(2,000)**
Unrecognized postretirement benefit plans	3,344	**3,104**	7,661	**6,093**
	$ 19,455	**$ (11,408)**	$ 44,198	**$ (1,492)**

Comprehensive income (loss) from continuing operations

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

   In September of 2006, the North American Tire Operations segment announced its plans to reconfigure its tire manufacturing facility in Texarkana, Arkansas so that production levels could flex to meet tire demand. This initiative was completed during the third quarter of 2007. During the second quarter of 2007, the Company recorded restructuring expense of $1,521 associated with this initiative and had recorded $2,000 of restructuring expense through the first six months of 2007.

   In November of 2006, a restructuring of salaried support positions was announced. The Company recorded $21 of restructuring expenses associated with this initiative during the second quarter of 2007 and through the first six months of 2007, $471 had been recorded as restructuring expense associated with this initiative.

   In December of 2006, the North American Tire Operations segment initiated a plan to reduce the number of stock-keeping units manufactured in its facilities and to take tire molds out of service. The Company did not record any restructuring expenses associated with this initiative during the second quarter of 2007 and through the first six months of 2007, $80 had been recorded as restructuring expense associated with this initiative.

   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 of 2007 resulting in the elimination of one position at a severance cost of $38 which was recorded in the first quarter.

9. The Company provides for the estimated cost of product warranties at the time revenue is recognized based primarily on historical return rates, estimates of the eligible tire population, and the value of tires to be replaced. The following table summarizes the activity in the Company s product warranty liabilities for 2007 and 2008:

	2007	**2008**
Reserve at January 1	$ 15,967	**$ 16,510**
Additions	7,779	**10,764**
Payments	(7,712)	**(8,707)**
Reserve at June 30	$ 16,034	**$ 18,567**

   The increase in both Additions and Payments can be attributed primarily to the Company s increased operations in China.

10. The Company s other current assets are:

	December 31, 2007	**June 30, 2008**
Investment in Kumho Tire Co., Inc.	$ 112,170	**$ 106,950**
Other	22,543	**37,454**
	$ 134,713	**$ 144,404**

The Company exercised its put option associated with its investment in Kumho Tire Company, Inc. in March of 2008. In August of 2008, the Company received cash proceeds of $106,950 plus interest from the initial due date of May 31, 2008.

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

	December 31, 2007	**June 30, 2008**
Payroll and withhholdings	$ 46,140	**$ 26,124**
Products liability	16,864	**29,306**
Other	78,744	**89,041**
	$ 141,748	**$ 144,471**

12. The Company is a defendant in various products liability claims brought in numerous jurisdictions in which individuals seek damages resulting from automobile accidents allegedly caused by defective tires manufactured by the Company. Each of the products liability claims faced by the Company generally involve different types of tires, models and lines, different circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company s products liability lawsuits the plaintiff alleges that his or her harm was caused by one or more co-defendants who acted independently of the Company. Accordingly, both the claims asserted and the resolutions of those claims have an enormous amount of variability. The aggregate amount of damages asserted at any point in time is not determinable since often times when claims are filed, the plaintiffs do not specify the amount of damages. Even when there is an amount alleged, at times the amount is wildly inflated and has no rational basis.

    The fact that the Company is a defendant in products liability lawsuits is not surprising given the current litigation climate which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company s tires. The Company sells approximately 35 to 40 million passenger, light truck, SUV, high performance, ultra high performance and radial medium truck tires per year in North America. The Company estimates that approximately 300 million Cooper-produced tires made up of thousands of different specifications are still on the road in North America. While tire disablements do occur, it is the Company s and the tire industry s experience that the vast majority of tire failures relate to service-related conditions which are entirely out of the Company s control such as failure to maintain proper tire pressure, improper maintenance, road hazard and excessive speed.

    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.

    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 to determine the requirement for establishment or revision of an accrual for any potential liability. The liability often 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. The Company uses a range of settlements because an average settlement cost would not be meaningful since the products liability claims faced by the Company are unique and widely variable. The cases involve different types of tires, models and lines, different circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company s products liability lawsuits the plaintiff alleges that his or her harm was caused by one or more co-defendants who acted independently of the Company. Accordingly, the claims asserted and the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to $12 million in one case with no average that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management s expectations for future litigation activity and the settled claims history is maintained. 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 Company s experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are settled at amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

The Company determines its reserves using the number of incidents expected during a year. During the second quarter of 2008, the Company increased its products liability reserve by $9,238. The addition of another quarter of self-insured incidents accounted for $8,835 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims, which increased the reserve by $804. Finally, amounts on existing reserves decreased by $401.

During the first six months of 2008, the Company increased its products liability reserve by $34,363. The addition of another six months of self-insured incidents accounted for $17,510 of this increase. The Company revised its estimates of future settlements for unasserted and premature claims, which increased the reserve by $2,794. Finally, amounts on existing reserves increased by $14,059.

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

The Company paid $7,455 during the second quarter of 2008 to resolve cases and claims and has paid $12,357 through the first six months of 2008. The Company s products liability reserve balance at December 31, 2007 totaled $107,304 (current portion of $16,864) and the balance at June 30, 2008 totaled $129,310 (current portion of $29,306).

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. The Company records the reimbursements under such policies in the period the conditions for reimbursement are met.

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For the three-month periods ended June 30, 2007 and 2008, products liability expenses totaled $15,142 and $17,979, respectively, and include recoveries of legal fees of $1,185 and $0 in the periods ended June 30, 2007 and 2008, respectively. For the six-month periods ended June 30, 2007 and 2008, products liability expenses totaled $29,224 and $45,825, respectively, and include recoveries of legal fees of $3,151 and $4,168 in the periods ended June 30, 2007 and 2008, respectively. Policies applicable to claims occurring on April 1, 2003 and thereafter do not provide for recovery of legal fees.

13. For the quarter ended June 30, 2008, the Company recorded an income tax benefit for continuing operations of $677, which included tax expense relating to discrete items of $110. Discrete items related to changes to audit contingencies for interest and state taxes.

    The effective tax rate for the quarter and six-month period ended June 30, 2008 for continuing operations is 3.5 percent and 1.4 percent, respectively, exclusive of discrete items. For comparable periods in 2007, the effective tax rate for continuing operations, exclusive of discrete items, was 19.8 percent and 24.3 percent, respectively. The change in the tax rate, exclusive of discrete items, relates primarily to the impact of an accounting rule which limits the recording of a tax benefit on a loss in an interim period, an increase in net U.S. deferred tax assets and the mix of earnings or loss by jurisdiction as compared to 2007.

    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 U.S., the Company has recorded significant deferred tax assets, the largest of which relates 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 relates to accelerated depreciation. Based upon this assessment, the Company maintains an $84,306 valuation allowance for the portion of U.S. deferred tax assets exceeding its U.S. deferred tax liabilities. In addition the Company has recorded valuation allowances of $865 for deferred tax assets associated with initial start-up losses in foreign jurisdictions.

    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.

    During the first quarter of 2008, the Company became aware of a potential favorable settlement of the pending bilateral Advance Pricing Agreement negotiations between the United States and Canada relating to pre-disposition years of a discontinued operation (2000-2004). The Company is responsible for pre-disposition tax obligations and is entitled to refunds applicable to that period under the related sales agreement. At this time the Company believes the settlement could be significant but is unable to quantify the potential impact from this settlement with certainty until the final settlement agreement is completed and signed and complex adjustments are made to the affected years income tax returns in the United States and Canada. At such time as a more definitive estimate of the impact from the resolution can be made, the Company will record what is expected to be a favorable adjustment to discontinued operations.

14. On June 18, 2008, the Company announced an agreement to invest in a tire manufacturing facility in Guadalajara, Mexico. The facility will be jointly owned by the Company, IBSA (a Mexican holding corporation) and Cooperativa TRADOC S.R.L. (employee owners of the Occidente facility). The Company ownership in this facility will be approximately 38 percent at an investment of $31 million. Corporacion de Occidente is the second largest tire plant in Mexico and is currently producing 2.4 million tires per year. This transaction is expected to close in the third quarter of 2008.

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Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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		
	2007	Change	2008	2007	Change	2008
Revenues:						
North American Tire	$ 533.2	2.7%	$ 547.5	$ 1,048.3	-0.3%	$ 1,045.2
International Tire	234.5	20.6%	282.9	417.4	23.3%	514.7
Eliminations	(37.6)	52.9%	(57.5)	(66.0)	63.2%	(107.7)
Net sales	$ 730.1	5.9%	$ 772.9	$ 1,399.7	3.8%	$ 1,452.2
Segment profit (loss):						
North American Tire	$ 20.7	n/m	$ (21.9)	$ 47.4	n/m	$ (13.8)
International Tire	11.8	-50.0%	5.9	17.9	-27.9%	12.9
Eliminations	0.4	150.0%	1.0	(0.4)	-25.0%	(0.3)
Unallocated corporate charges	(3.4)	-88.2%	(0.4)	(6.3)	-25.4%	(4.7)
Operating profit (loss)	29.5	n/m	(15.4)	58.6	n/m	(5.9)
Interest expense	(12.2)	4.1%	(12.7)	(24.7)	-2.0%	(24.2)
Interest income	4.3	-16.3%	3.6	7.8	-5.1%	7.4
Debt extinguishment expense						(0.6)
Dividend from unconsolidated subsidiary				2.0	-5.0%	1.9
Other net	1.6	37.5%	2.2	6.3	-42.9%	3.6
Income (loss) from continuing operations before income taxes and noncontrolling shareholders interests	23.2		(22.3)	50.0		(17.8)
Income tax benefit (expense)	(4.7)		0.7	(11.6)		(0.4)
Income (loss) from continuing operations before noncontrolling shareholders interests	18.5		(21.6)	38.4		(18.2)

Noncontrolling shareholders interests	(2.9)	(0.5)	(3.3)	(2.6)
Income (loss) from continuing operations	$ 15.6	$ (22.1)	$ 35.1	$ (20.8)
Basic earnings (loss) per share	$ 0.25	$ (0.38)	$ 0.57	$ (0.35)
Diluted earnings (loss) per share	$ 0.25	$ (0.38)	$ 0.56	$ (0.35)

Consolidated net sales for the three-month period ended June 30, 2008 were $42.8 million higher than the comparable period one year ago. The increase in net sales for the second quarter of 2008 compared to the second quarter of 2007 was primarily the result of improved net pricing in both the North American Tire Operations and International Tire Operations segments, improved customer and product mix in the North American Tire Operations segment and higher unit volumes in the International Tire Operations segment. Net sales for the quarter were negatively impacted by lower unit volumes in the North American Tire Operations segment. Operating profit in the second quarter of 2008 decreased by $44.9 million from the second quarter of 2007. The favorable impact of the improved pricing, along with lower incentive-related compensation expense, was offset by higher raw material costs and production curtailments in the North American Tire Operations segment.

Consolidated net sales for the six-month period ended June 30, 2008 were $52.5 million higher than the comparable period one year ago. The increase in net sales for the six months ended June 30, 2008 compared to the six months ended June 30, 2007 was primarily the result of improved net pricing in both the North American Tire Operations and International Tire Operations segments, improved customer and product mix in the North American Tire Operations segment and higher unit volumes in the International Tire Operations segment. Net sales for the six months were negatively impacted by lower unit volumes in the North American Tire Operations segment. Operating profit in the first six months of 2008 decreased by $64.5 million from the first six months of 2007. The favorable impact of the improved pricing, along with lower incentive-related compensation expense, was offset by higher raw material costs, production curtailments in the North American Tire Operations segment and higher products liability costs.

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 2008 compared with the levels experienced during the comparable periods of 2007. The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and reinforcement components. Approximately 65 percent of the Company s raw materials are petroleum-based and crude oil continued its upward trend by setting new price ceilings during 2008. Natural rubber prices also continued at all-time highs during 2008. The increases in the cost of petroleum-based materials and natural rubber were the most significant drivers of higher raw material costs during the second quarter of 2008, which were up approximately $72.5 million from the second quarter of 2007, and approximately $107.5 million for the six-month period ended June 30, 2008, from the comparable period in 2007. The pricing volatility in these commodities contributes to the difficulty in managing the costs of raw materials. The growing global demand and increased prices of crude oil and natural rubber remain fundamental factors to the raw material cost increases experienced 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 and natural gas, procurement is managed by the buying forward of production requirements and utilizing the spot market when advantageous. For other principal materials, procurement arrangements include supply agreements that may contain formula-based pricing based on commodity indices, multi-year agreements or spot purchase contracts. While these arrangements typically provide quantities necessary to satisfy normal manufacturing demands, the Company did experience raw material shortages in its North American Tire Operations segment which led to the production curtailments mentioned above.

Selling, general, and administrative expenses were $45.2 million in the second quarter of 2008 (5.9 percent of net sales) and $44.2 million in the second quarter of 2007 (6.0 percent of net sales). This increase was due primarily to higher advertising costs, mainly in North America and China, and higher consulting fees as the Company committed resources to developing and implementing its strategic initiatives. This higher advertising and consulting spending was partially offset by lower incentive-related compensation expense in the second quarter of 2008 compared to the second quarter of 2007. For the six-month period ended June 30, 2008, selling, general and administrative expenses were $91.9 million (6.3 percent of net sales) compared to $84.8 million (6.1 percent of net sales) for the comparable period of 2007. This increase was due to the same reasons cited for the quarter increase.

Products liability expenses totaled $18.0 million and $15.1 million in the second quarter of 2008 and 2007, respectively, and included recoveries of legal fees of $0 and $1.2 million in the second quarter of 2008 and 2007, respectively. Products liability expenses totaled $45.8 million and $29.2 million in the first six months of 2008 and 2007, respectively, and included recoveries of legal fees of $4.2 million and $3.2 million in the first six months of

2008 and 2007, respectively. Insurance policies applicable to claims occurring on April 1, 2003, and

thereafter, do not provide for recovery of legal fees. Additional information related to the Company s accounting for products liability costs appears in the Notes to Consolidated Financial Statements.

During the second quarter and first six months of 2007, the Company recorded restructuring charges of $1.7 million and $2.7 million, respectively, related to the four initiatives described in the Notes to Consolidated Financial Statements. The Company has not incurred any restructuring charges in 2008.

Interest expense increased $0.5 million in the second quarter of 2008 from the second quarter of 2007 due to additional debt related to investments in China. For the first six months of 2008, interest expense decreased $0.5 million compared to the same period in 2007 as a result of the Company s repurchases of debt during 2007 and 2008.

The Company incurred $0.6 million in costs associated with the repurchase of $14.0 million of its long-term debt during the first quarter of 2008.

Interest income decreased $0.7 million and $0.4 million in the second quarter and first six months of 2008, respectively, from comparable periods of 2007 as a result of lower cash levels and short-term investments in 2008 than in 2007.

The Company recorded dividend income from its investment in Kumho Tire Co., Inc. in both 2008 and 2007. The dividend rate in both 2008 and 2007 was approximately $.27 per share. The Company owned 15 million global depositary shares (the equivalent of 7,500,000 common shares) and recorded dividend income of $1.9 million in 2008 and $2.0 million in 2007.

Other net decreased by $2.7 million in the first six months of 2008 compared to 2007 as a result of the $4.2 million gain on the sale of a corporate aircraft in the first quarter of 2007, partially offset by an increase in foreign currency gains in the first six months of 2008 compared to 2007.

For the quarter ended June 30, 2008, the Company recorded an income tax benefit for continuing operations of $0.7 million, which included tax expense relating to discrete items of $0.1 million. Discrete items related to changes to audit contingencies for interest and state taxes. For the six-month period ended June 30, 2008, the Company recorded income tax expense of $0.4 million which included discrete items.

The resulting effective tax rate for the quarter and six month period ended June 30, 2008 for continuing operations is 3.5 percent and 1.4 percent, respectively, exclusive of discrete items. For comparable periods in 2007, the effective tax rate for continuing operations, exclusive of discrete items, was 19.8 percent and 24.3 percent, respectively. The change in the tax rate, exclusive of discrete items, relates primarily to the impact of an accounting rule which limits the recording of a tax benefit on a loss in an interim period, an increase in net U.S. deferred tax assets and the mix of earnings or loss by jurisdiction as compared to 2007.

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 U.S., the Company has recorded significant deferred tax assets, the largest of which relates 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 relates to accelerated depreciation. Based upon this assessment, the Company maintains an $84.3 million valuation allowance for the portion of U.S. deferred tax assets exceeding its U.S. deferred tax liabilities. In addition the Company has recorded valuation allowances of $0.9 million for deferred tax assets associated with initial start-up losses in foreign jurisdictions.

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North American Tire Operations Segment
(Dollar amounts in millions)

	Three months ended June 30			Six months ended June 30		
	2007	**Change**	**2008**	**2007**	**Change**	**2008**
Net sales	$ 533.2	2.7%	$ 547.5	$ 1,048.3	-0.3%	$ 1,045.2
Operating profit (loss)	$ 20.7	n/m	$ (21.9)	$ 47.4	n/m	$ (13.8)
United States unit shipments changes:						
Passenger tires						
Segment		-15.6%			-14.1%	
RMA members		-4.5%			-4.4%	
Total Industry		-1.0%			-0.7%	
Light truck tires						
Segment		-2.9%			-8.6%	
RMA members		-8.2%			-7.3%	
Total Industry		-12.0%			-9.1%	
Total light vehicle tires						
Segment		-13.4%			-13.1%	
RMA members		-5.0%			-4.8%	
Total Industry		-2.6%			-1.9%	
Total segment unit sales change		-7.0%			-9.0%	

Overview

The North American Tire Operations segment produces passenger car and light truck tires, primarily for sale in the United States replacement market. 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, except through three Company-owned retail stores, and does not manufacture tires for sale to the automobile original equipment manufacturers (OEMs).

Sales

Sales of the North American Tire Operations segment increased $14.3 million, or 2.7 percent, in the second quarter of 2008 from levels in 2007. The increase in sales was a result of improved net pricing and mix ($70.5 million), offset by lower unit volume ($56.2 million). The improved pricing was the result of price increases implemented during 2007 and 2008. The improved mix was primarily the result of increased sales volumes of the Cooper brand, which continues to outperform the industry, while unit sales to private brand distributors showed declines over the prior year. The segment also increased its sales of winter tires and showed decreased unit sales in economy and broadline tires.

In the United States, the segment s unit sales of total light vehicle tires decreased 13.4 percent in the second quarter of 2008 compared to the second quarter of 2007. This decrease exceeded the 5.0 percent decrease in total light vehicle shipments experienced by all members of the Rubber Manufacturers Association (RMA), and also exceeded the 2.6 percent decrease in total light vehicle shipments for the total industry (which includes an estimate for non-RMA members) for the quarter. The industry decrease in light vehicle tire units was due to the macroeconomic conditions in North America in which higher fuel prices and recession concerns have caused delays in replacement tire purchases. A portion of the volume in the segment decreased more than the industry in

the second quarter of 2008 due to strategic decisions made by the Company to eliminate one brand and to exit unprofitable lines of business.

Sales of the North American Tire Operations segment decreased $3.1 million in the first six months of 2008 from levels in 2007. The decrease in sales was a result of lower unit volume ($117.9 million) partially offset by improved net pricing and product mix ($114.8 million). The improved pricing was the result of price increases implemented during 2007 and 2008. The improved mix was primarily the result of increased sales volumes of the Cooper brand, which continues to outperform the industry, while unit sales to private brand distributors showed declines over the prior year. The segment also increased its sales of winter tires and showed decreased unit sales in economy and broadline tires.

In the United States, the segment s unit sales of total light vehicle tires decreased 13.1 percent in the first six months of 2008 compared to the same period in 2007. This decrease exceeded the 4.8 percent decrease in total light vehicle shipments experienced by all members of the RMA, and also exceeded the 1.9 percent decrease in total light vehicle shipments for the total industry for the first six months. The industry decrease in light vehicle tire units was primarily due to the overall economic conditions in North America. Higher fuel prices and recession concerns have caused delays in replacement tire purchases. Volumes in the segment decreased more significantly than the industry due to a tougher comparable as the segment benefited in 2007 from a competitor s strike. Further impacting the segment s volumes were strategic decisions made by the Company to eliminate one brand and to exit unprofitable lines of business.

Operating Profit

Segment operating profit decreased $42.6 million in the second quarter of 2008 from the level in the second quarter of 2007. The decrease in operating profit was due to lower unit volumes ($10.2 million), higher raw material costs ($50.9 million), higher manufacturing costs ($7.1 million) due in part to utility and maintenance costs, higher products liability costs ($2.8 million) and higher advertising spending. During the second quarter of 2008, the segment experienced a shortage of a certain raw material that caused it to curtail production at its four manufacturing facilities, decreasing operating profit by an estimated $13.0 million. These decreases were partially offset by improved net pricing and product mix ($42.4 million), restructuring charges recorded in the second quarter of 2007 ($1.5 million) and lower incentive-related compensation expense.

Segment operating profit decreased $61.2 million in the six months ended June 30, 2008 from the level in the same period of 2007. The decrease in operating profit was due to lower unit volumes ($21.9 million), higher raw material costs ($75.6 million), production curtailments ($13.0 million), higher manufacturing costs ($10.2 million) due in part to utility and maintenance costs, higher products liability costs ($16.6 million) and higher advertising spending. These decreases were partially offset by improved net pricing and product mix ($74.1 million), restructuring charges recorded in the first six months of 2007 ($2.5 million) and lower incentive-related compensation expense.

Factors in global commodity markets are driving record-high raw material prices, specifically, in natural and synthetic rubber as well as other petroleum-based materials. These high prices, coupled with the use of last-in, first-out (LIFO) cost flow assumptions for inventory accounting in North America, have contributed to decreased earnings. The LIFO accounting method charges the most recent costs against sales and in periods of rising raw material costs, results in lower profits compared to other inventory accounting methods. When costs moderate, the North American operations will experience lower charges to cost of goods sold than would be reported under other inventory costing methods.

A combination of events during the first six months of 2008 resulted in an increase in products liability costs of $16.6 million. Details of the methodology used to calculate the products liability reserve are discussed in the Notes to Consolidated Financial Statements. The Company does not believe that increases of this magnitude will occur repeatedly in the future.

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Segment Outlook

The segment has lowered its expectations for profitability during the second half of 2008. Total industry sales volumes are projected to remain soft as higher fuel prices and recession concerns affect the consumer resulting in fewer miles driven and delayed tire purchases. The segment has targeted market opportunities in profitable products and channels that are planned to improve the segment s performance in comparison to the industry. New premium products launched to satisfy customer requirements are expected to improve profitability by continuing to improve the mix of products sold.

Manufacturing operations in North America should improve during the remainder of 2008 as Six Sigma, LEAN, automation and other projects are implemented. These efforts, in addition to the increased sourcing of tires from lower cost countries, will continue to improve the Company s cost competitiveness.

The price of natural rubber and petroleum-based raw materials reached historic highs during the first six months of 2008. The cost of steel, another significant commodity for the Company, also increased during this period. Raw material costs are expected to continue increasing in price during the remainder of the year. There are no indications that the prices of these raw materials will decline appreciably thereafter. The Company will continue to evaluate the need for price increases to offset the effects of higher raw material costs.

International Tire Operations Segment

(Dollar amounts in millions)

	Three months ended June 30			Six months ended June 30		
	2007	**Change**	**2008**	**2007**	**Change**	**2008**
Net sales	$ 234.5	20.6%	$ 282.9	$ 417.4	23.3%	$ 514.7
Operating profit	$ 11.8	-50.0%	$ 5.9	$ 17.9	-27.9%	$ 12.9
Unit sales change		28.1%			23.8%	

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 tire retread materials, in Europe. The segment s Cooper Chengshan joint venture 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 s Cooper Kenda joint venture manufactures tires to be exported to markets outside of China. Until May 2012, all of the tires produced by this joint venture will be exported and sold through Cooper Tire & Rubber Company and its affiliates.

Sales

Sales of the International Tire Operations segment increased $48.4 million, or 20.6 percent, in the second quarter of 2008 compared to the second quarter of 2007. The foreign currency impact of a weakened United States dollar particularly in relation to the British pound and the Chinese renminbi increased sales $18.5 million in the second quarter of 2008. The remainder of the increase in sales in the second quarter of 2008 compared to the second quarter of 2007 was due to higher unit volumes ($29.0 million), primarily from the start-up of Cooper Kenda, continued growth in the Chinese markets and improved net pricing and product mix ($0.9 million).

Sales of the International Tire Operations segment increased $97.3 million, or 23.3 percent, in the first six months of 2008 compared to the same period in 2007. The foreign currency impact of a weakened United States dollar particularly in relation to the British pound and the Chinese renminbi increased sales $31.7 million in the first six months of 2008. The remainder of the increase in sales in the first six months of 2008 compared to the same

period in 2007 was due to higher unit volumes ($52.5 million), primarily from the start-up of Cooper Kenda continued growth in the Chinese markets and improved net pricing and product mix ($13.0 million).

Operating Profit

Operating profit for the segment in the second quarter of 2008 was $5.9 million lower than in 2007. The impacts of the higher unit volumes ($4.0 million) and improved net pricing and product mix ($19.7 million) were offset by higher raw material costs ($21.7 million), higher utility costs in China, higher advertising costs in Asia and higher expenses related to the continued start-up of Cooper Kenda. During the second quarter of 2007, the segment recorded a gain on the sale of land in Europe ($2.2 million).

Operating profit for the segment in the first six months of 2008 was $5.0 million lower than in 2007. The impacts of the higher unit volumes ($8.4 million) and improved net pricing and product mix ($29.9 million) were offset by higher raw material costs ($31.9 million), higher utility costs in China and Europe, higher advertising costs in Asia and higher expenses related to the continued start-up of Cooper Kenda. During the second quarter of 2007, the segment recorded a gain on the sale of land in Europe ($2.2 million).

Segment Outlook

The segment is cautiously optimistic regarding its opportunities for the remainder of 2008. New products released during the quarter were well received by consumers and represent the successful implementation of the first phase of a strategy to improve product mix.

In Europe, the focus will continue on growing the Cooper and Avon brands in profitable channels using performance and niche products. The manufacturing facility in Melksham, England will concentrate on high performance, racing and motorcycle products. Additional opportunities for outsourced products from low cost suppliers will be explored to supply customer needs.

The segment has manufacturing, sales, marketing, distribution and technical facilities in Asia. The segment intends to grow in both radial medium truck and passenger sales in China during 2008. This growth will be focused in profitable channels and products and should continue to elevate the Company s brands in Asia.

The ramp up of production at Cooper Kenda will continue in 2008 and the facility expects to produce nearly 3 million tires during the year. These tires are exported from China and used in North America to support the Company s growth.

The operations at Cooper Chengshan are expected to continue improving and expanding through the rest of the year. Expansions are underway to increase tire production capacities to meet the high demand growth for consumer and commercial tires in Asia.

Outlook for Company

The current macroeconomic conditions in North America have created intense challenges for the Company. Consumers have reduced the number of miles driven in reaction to economic pressures and are delaying tire purchases. Raw material costs have continued to climb and show no signs of declining in the near term.

The Company is fully committed to its long-term strategy to build a sustainable and cost competitive supply of tires, profitably grow its business and increase its organizational capabilities. The Company is in a position to deal with the current economic environment with a strong balance sheet and high liquidity levels. The Company has the financial strength to pursue these goals going into the rest of the year and beyond.

The Company continues to monitor its spending and has increased its focus on delivering cost improvements during 2008, with many initiatives already in place. These efforts, seasonal volume increases, strong order patterns in specific profitable tire lines and success in implementing price increases, provide support for the Company s belief that results will be appreciably more favorable as the economy improves.

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Liquidity and Capital Resources

Generation and uses of cash   Net cash used in operating activities of continuing operations was $100.1 million during the first six months of 2008, a decrease of $258.0 million from the $157.9 million provided in the first six months of 2007. Income after adjustments for non-cash items decreased by $48.1 million. Changes in operating assets and liabilities, primarily the increase in inventories, consumed $164.9 million in cash in 2008 versus a cash generation of $45.0 million in 2007.

Net cash used in investing activities during the first six months of 2008 reflects capital expenditures of $65.5 million and the final payment of $6.0 million associated with the purchase of Cooper Chengshan. The available-for-sale debt securities purchased in 2007 were sold and converted into cash during 2008. Net cash used in investing activities during the first six months of 2007 reflects capital expenditures of $77.6 million and proceeds from the sale of assets, the majority from the sale of a corporate aircraft, of $9.1 million.

The issuances of debt in 2007 and 2008 relate to the Company s operations in China. During the first six months of 2007, the Company s Cooper Kenda joint venture received $8.5 million from its joint venture partner and the joint venture received $4.3 million during the first six months of 2008.

During the first six months of 2008, the Company repurchased $14.0 million of its Senior Notes due in 2009 and has remaining authorization to repurchase $105 million of debt. Also during the first six months of 2008, the Company repurchased 803,300 shares of its common stock for $13.9 million and has remaining authorization of $40 million for share repurchases.

Dividends paid on the Company s common shares in the first six months of 2008 and 2007 were $12.4 million and $13.0 million, respectively. During the first six months of 2007, stock options were exercised to acquire 1,035,283 shares of common stock while in 2008, there were 19,192 stock options exercised.

Available credit facilities   The Company has a revolving credit facility with a consortium of six banks that provides up to $200 million in credit facilities and expires November 9, 2012. The Company also has an accounts receivable securitization facility with a $125 million limit with a September 2010 maturity. These credit facilities do not contain any significant financial covenants.

Available cash and contractual commitments   At June 30, 2008 the Company had cash and cash equivalents of $252.3 million. The Company s additional borrowing capacity through use of its credit facility with its bank group and its accounts receivable securitization facility at June 30, 2008 was approximately $298.0 million and is subject to the amount of available qualified collateral.

In August of 2008, the Company liquidated its investment in Kumho Tire Company, Inc. and received proceeds of $107.0 million plus interest from the initial due date of May 31, 2008.

The Company expects capital expenditures for 2008 to be in the $160 million range. Of this capital expenditure amount, approximately $77 million will be in consolidated entities where the Company s ownership is at or near 50 percent.

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

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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, 2008. The Company is aggressively managing its products liability costs.

The 2001 TREAD Act required that all tire companies submit quarterly data to NHTSA on fatalities, injuries, property damage claims and lawsuits on tires beginning with the third quarter, 2003. On July 22, 2008, the U.S. District Court of Appeals for the District of Columbia Circuit ruled that this data is subject to disclosure made in response to requests under the Freedom of Information Act. Consequently, Cooper s data, which is unverified at the time of submission to NHTSA, may be made public in the near future. The impact, if any, of this release on current or future litigation or on future sales is not known at this time.

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 t 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;

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;

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

- the failure of the Company to achieve the full cost reduction and profit improvement targets; and

- the inability or failure to implement the Company s strategic plan.

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, 2008 from those detailed in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2007.

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 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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, 2008.

Item 1A. RISK FACTORS

Except for the following, there have been no material changes in the risk factors at June 30, 2008 from those detailed in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2007. Challenges in the current business environment with rapidly escalating raw material costs and disruptions in the capital markets present heightened risks to the Company. The deterioration in the macroeconomic environment, including disruptions in the credit markets, is also impacting the Company s customers and retail consumers. Depending on the seventy and duration of these factors, the Company s liquidity position could be negatively impacted.

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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 5, 2008
(Date)