WNS (HOLDINGS) LTD
Form F-1/A
July 25, 2006

Table of Contents

As filed with the Securities and Exchange Commission on July 25, 2006
Registration No. 333-135590

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

AMENDMENT NO. 2
FORM F-1
REGISTRATION STATEMENT
UNDER THE SECURITIES ACT OF 1933

WNS (Holdings) Limited
(Exact name of Registrant as specified in its charter)
Not Applicable
(Translation of Registrant s name into English)

Jersey, Channel Islands	**7389**	**33 0996780**
(State or Other Jurisdiction of Incorporation or Organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.
If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act, check the following box. o
If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement

for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered(1)	Proposed maximum offering price per share(2)	Proposed maximum aggregate offering price(2)	Amount of registration fee(4)
Ordinary shares, par value 10 pence per share, each represented by one American Depositary Share(3)	12,763,708	$20.00	$255,274,160	$27,314

(1) Includes (i) ordinary shares represented by American Depositary Shares initially offered and sold outside the United States that may be resold from time to time in the United States either as part of their distribution or within 40 days after the later of the effective date of this registration statement and the date the securities are first bona fide offered to the public and (ii) additional ordinary shares represented by American Depositary Shares which may be purchased by the underwriters at their option to cover over-allotments, if any. The ordinary shares are not being registered for the purpose of sales outside the United States.

(2) Estimated solely for the purpose of computing the amount of the registration fee in accordance with Rule 457(o).

(3) American Depositary Shares evidenced by American Depositary Receipts issuable upon deposit of the ordinary shares registered hereby are being registered pursuant to a separate Registration Statement on Form F-6 (333-135859).

(4) Registrant previously paid a registration fee of $25,658 in connection with the registration statement on Form F-1 (333-135590) filed with the Commission on July 3, 2006.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such dates as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. Neither we nor the selling shareholders may sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and is not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

SUBJECT TO COMPLETION, DATED JULY 25, 2006

11,202,708 AMERICAN DEPOSITARY SHARES

WNS (Holdings) Limited

(organized under the laws of Jersey, Channel Islands)

Representing 11,202,708 ordinary shares

This is the initial public offering of our ordinary shares in the form of American Depositary Shares, or ADSs. Each ADS represents the right to receive one of our ordinary shares. The ADSs are evidenced by American Depositary Receipts, or ADRs. See Description of Share Capital and Description of American Depositary Shares. We are offering 4,473,684 newly issued ordinary shares in the form of ADSs. The selling shareholders identified in this prospectus are offering an additional 6,729,024 ordinary shares in the form of ADSs. We will not receive any of the proceeds from the sale of ADSs by the selling shareholders. We anticipate that the initial public offering price will be between $18.00 and $20.00 per ADS.

Prior to this offering, there has been no public market for our ordinary shares and ADSs. We have applied for our ADSs to be listed on the New York Stock Exchange under the symbol WNS.

Investing in our ADSs involves risks. See Risk Factors beginning on page 9 to read about factors you should consider before buying our ADSs.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per ADS	Total
Initial public offering price	$	$
Underwriting discounts and commissions	$	$
Proceeds before expenses to WNS (Holdings) Limited	$	$
Proceeds before expenses to selling shareholders	$	$

Certain of the selling shareholders have granted to the underwriters an option to purchase up to an additional 1,561,000 ADSs to cover over-allotments at the initial public offering price less underwriting discounts and commissions.

The underwriters expect to deliver the ADSs to purchasers on , 2006.

Morgan Stanley **Deutsche Bank Securities** **Merrill Lynch & Co.**

Citigroup **UBS Investment Bank**

The date of this prospectus is , 2006

Table of Contents

You should rely only on the information contained in this prospectus. We and the selling shareholders have not authorized anyone to provide you with information that is different. We, the selling shareholders and the underwriters are not making an offer of our ADSs in any jurisdiction or state where the offer is not permitted. The information in this prospectus may only be accurate as of the date of this prospectus.

TABLE OF CONTENTS

	Page
Prospectus Summary	1
Risk Factors	9
Special Note Regarding Forward-Looking Statements	23
Use of Proceeds	24
Dividends and Dividend Policy	25
Capitalization	26
Dilution	27
Exchange Rates	29
Selected Historical Consolidated and Pro Forma Financial and Operating Data	31
Pro Forma Condensed Combined Statement of Operations	34
Management s Discussion and Analysis of Financial Condition and Results of Operations	38
Business	60
Management	76
Related Party Transactions	89
Principal and Selling Shareholders	90
Description of Share Capital	95
Description of American Depositary Shares	111
Shares Available for Future Sale	118
Taxation	121
Underwriting	128
Legal Matters	136
Experts	136
Enforcement of Civil Liabilities	137
Additional Information	139
Index To WNS (Holdings) Limited s Consolidated Financial Statements	F-1
Index to Trinity Partners Inc. s Consolidated Financial Statements	F-30

Ex-5.1 Opinion of Mourant du Feu & Jeune.
Ex-8.2 Opinion of Latham & Watkins LLP as to certain US tax matters.
Ex-23.3 Consent of Ernst & Young, registered public accounting firm with respect to WNS (Holdings) Limited.
Ex-23.4 Consent of Ernst & Young, independent auditors with respect to Trinity Partners Inc.
Ex-23.5 Consent of Amarchand & Mangaldas & Suresh A. Shroff & Co.

Table of Contents

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider before investing in our American Depositary Shares, or ADSs. You should read this entire prospectus, including Risk Factors and the financial statements and related notes, before making an investment decision. This prospectus includes forward-looking statements that involve risks and uncertainties. See Special Note Regarding Forward-Looking Statements.

Our Business

We are a leading provider of offshore business process outsourcing, or BPO, services. We provide comprehensive data, voice and analytical services that are underpinned by our expertise in our target industry sectors. We transfer the execution of the business processes of our clients, which are typically companies located in Europe and North America, to our delivery centers located primarily in India. We provide high quality execution of client processes, monitor these processes against multiple performance metrics, and seek to improve them on an ongoing basis.

We began operations as an in-house unit of British Airways in 1996, and started focusing on providing business process outsourcing services to third parties in fiscal 2003. According to the National Association of Software and Service Companies, or NASSCOM, an industry association in India, we were among the top two India-based offshore business process outsourcing companies in terms of revenue in 2004, 2005 and 2006. As of March 31, 2006, we had 10,433 employees, of whom approximately 9,700 were executing over 400 distinct business processes on behalf of over 125 significant clients. Our largest clients in terms of revenue contribution include leading global corporations such as Air Canada, AVIVA, British Airways, First Magnus Financial Corporation, GfK, IndyMac Bank, Marsh, SITA, Tesco, Travelocity and Virgin Atlantic Airways. See Business Clients. In fiscal 2006, our top five clients represented 41.0% of our revenue, our top 20 clients represented 73.0% of our revenue and one of our clients represented more than 10% of our revenue for this period.

We offer our services through industry-focused business units. First, we serve clients in the travel industry including airlines, travel intermediaries and other related service providers, for whom we perform services such as customer service and revenue accounting. Second, we serve clients in the banking, financial services and insurance industry for whom we perform services such as loan processing and insurance claims management. Third, we serve clients in several other industries including manufacturing, retail, logistics, utilities and professional services, which we refer to as emerging businesses. In addition to industry-specific services, we offer a range of services across multiple industries, in areas such as finance and accounting, human resources and supply chain management, which we collectively refer to as enterprise services, and in the areas of market, business and financial research and analytical services, which we refer to as knowledge services. Our industry focus allows us to target and outsource business processes that are core to our clients businesses, and to recruit and retain a highly capable employee base by offering them an industry-focused career path within our organization. The following graphic illustrates our organizational approach to the market:

Between fiscal 2003 and fiscal 2006, our revenue grew at a compound annual growth rate of 54.9%, faster than the projected 42.1% compound annual growth rate of the overall Indian offshore business process outsourcing industry for the comparable period, as estimated by a joint report published by NASSCOM and McKinsey, or the NASSCOM-McKinsey report, in December 2005 and NASSCOM s Handbook for ITES-BPO Industry-2005. During this period, we grew primarily through organic means supplemented by selective acquisitions. We believe that we have achieved rapid growth and industry leadership through our understanding of the industries in which our clients operate, our focus on operational excellence, and our senior management team with significant experience in the global outsourcing industry.

We believe that our track record of operational excellence has been instrumental in expanding our existing client relationships and winning new clients. Our program management methodologies have enabled us to successfully transfer over 400 distinct business processes from our clients facilities to our delivery centers. Once we transfer these processes from our clients facilities to our own, we execute them effectively to deliver high quality services as measured against the relevant performance metrics. In addition, we have industry-recognized recruiting and human capital development capabilities that we believe are critical in attracting, developing and managing outstanding talent. In 2005, neoIT, an industry consultant, ranked us number one in human capital development among global business process outsourcing companies.

We have an experienced senior management team, the majority of whom have been with us since we became a focused third party service provider in May 2002. This team has managed our rapid growth while increasing client satisfaction, as measured by our in-house customer feedback surveys over the last three years. Moreover, during this period, our team has been successful in targeting, acquiring and integrating three businesses that have provided us with essential capabilities for entry into new industry sectors.

Our revenue is generated primarily from providing business process outsourcing services. A portion of our revenue includes amounts that we invoice to our clients for payments made by us to third party automobile repair centers, or repair centers. We evaluate our business performance based on revenue net of these payments, or what we call revenue less repair payments, which is not a measure prepared under generally accepted accounting principles. We believe that revenue less repair payments reflects more accurately the value of the business process outsourcing services we directly provide to our clients. For fiscal 2006, fiscal 2005 and fiscal 2004, our revenue was $202.8 million, $162.2 million and $104.1 million, respectively, and our revenue less repair payments was $147.9 million, $99.0 million and $49.9 million, respectively. During fiscal 2006, our net income was $18.3 million and our operating income was $19.9 million. During fiscal 2005 and fiscal 2004, our net loss was $5.8 million and $6.7 million, respectively and our operating loss was $4.4 million and $7.0 million, respectively.

Market Opportunity

Businesses globally are outsourcing a growing proportion of their business processes to streamline their organizations, focus on their core operations, benefit from best-in-class process execution and increase shareholder returns. More significantly, many of these businesses are outsourcing to offshore locations such as India to access a high quality and cost effective workforce. As a pioneer in the offshore business process outsourcing industry, we are well positioned to benefit from the combination of the outsourcing and offshoring trends.

The NASSCOM-McKinsey report estimates that the offshore business process outsourcing industry will grow at a 37.0% compound annual growth rate, from $11.4 billion in fiscal 2005 to $55.0 billion in fiscal 2010. The NASSCOM-McKinsey report estimates that India-based players accounted for 46% of offshore business process outsourcing revenue in fiscal 2005 and India will retain its dominant position as the most favored offshore business process outsourcing destination for the foreseeable future. It forecasts that the Indian offshore business process outsourcing market will grow from $5.2 billion in revenue in fiscal 2005 to $25.0 billion in fiscal 2010, representing a compound annual growth rate of 36.9%. Additionally, it identifies retail banking, insurance, travel and hospitality and automobile manufacturing as the industries with the greatest potential for offshore outsourcing. We provide industry-focused business process outsourcing services to the majority of these industries. However, we cannot assure you that we will continue to benefit from the

opportunity presented by the Indian offshore business process outsourcing market. See Risk Factors Risks Related to our Business.

Our Competitive Strengths

Our principal competitive strengths include:

- Offshore business process outsourcing market leadership;
- Deep industry expertise;
- Experience in transferring operations offshore and running them efficiently;
- Diversified client base across multiple industries and geographic locations;
- Leadership in human capital development, as recognized by recent awards from neoIT and India s National Institute of Personnel Managers;
- Ability to manage the rapid growth of our organization; and
- Experienced management team.

Our Business Strategy

Our goal is to strengthen our leadership position in the offshore business process outsourcing industry. We intend to achieve this through our strategies to:

- Drive rapid growth through penetration of our existing client base;
- Enhance awareness of the WNS brand name;
- Reinforce leadership in existing industries and penetrate new industry sectors; and
- Broaden industry expertise and enhance growth through selective acquisitions.

Our Corporate Information

WNS (Holdings) Limited was incorporated on February 18, 2002 under the laws of Jersey, Channel Islands and maintains a registered office in Jersey at 22 Grenville Street, St. Helier, Jersey JE4 8PX, Channel Islands. Our principal executive office is located at Gate 4, Godrej & Boyce Complex, Pirojshanagar, Vikhroli (W), Mumbai 400 079, India and the telephone number for this office is (91-22) 6797-6100. Our website address is www.wnsgs.com. Information contained on our website is not a part of this prospectus.

Conventions used in this Prospectus

In this prospectus, references to US are to the United States of America, its territories and its possessions. References to UK are to the United Kingdom. References to India are to the Republic of India. References to $ or dollars or U dollars are to the legal currency of the US and references to Rs. or rupees or Indian rupees are to the legal currency o India. References to GBP or pounds sterling or £ are to the legal currency of the UK and all references to EUR or to Euros. References to pence are to the legal currency of Jersey, Channel Islands. Our financial statements are presented in US dollars and are prepared in accordance with US generally accepted accounting principles, or US GAAP. References to a particular fiscal year are to our fiscal year ended March 31 of that year. Any discrepancies in any table between totals and sums of the amounts listed are due to rounding. Names of our clients are listed in alphabetical order in this prospectus, unless otherwise stated.

Table of Contents

We also refer in various places within this prospectus to revenue less repair payments, which is a non-GAAP measure that is calculated as revenue less payments to automobile repair centers and more fully explained in Management s Discussion and Analysis of Financial Condition and Results of Operations. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with US GAAP.

We also refer to information regarding the business process outsourcing industry, our company and our competitors from market research reports, analyst reports and other publicly available sources. Although we believe that this information is reliable, we have not independently verified the accuracy and completeness of the information. We caution you not to place undue reliance on this data.

Table of Contents

THE OFFERING

ADSs that we are offering	4,473,684 ADSs.
ADSs that selling shareholders are offering	6,729,024 ADSs.
ADSs to be outstanding immediately after this offering	11,202,708 ADSs.
Number of shares per ADS	One ordinary share.
Ordinary shares to be outstanding immediately after this offering	39,801,857 ordinary shares.
The ADSs	Each ADS represents the right to receive one ordinary share. The ADSs will be evidenced by American Depositary Receipts, or ADRs, executed and delivered by Deutsche Bank Trust Company Americas, as Depositary. The Depositary will be the holder of the ordinary shares underlying your ADSs and you will have rights as provided in the deposit agreement and the ADRs. Subject to compliance with the relevant requirements set out herein, you may turn in your ADSs to the Depositary in exchange for ordinary shares underlying your ADSs. The Depositary will charge you fees for exchanges. You should carefully read Description of American Depositary Shares to better understand the terms of the ADSs. You should also read the deposit agreement and the form of the ADRs, which are exhibits to the registration statement that includes this prospectus.
Offering price	We currently anticipate that the initial public offering price will be between $18.00 and $20.00 per ADS.
Selling shareholders	See Principal and Selling Shareholders for information on the selling shareholders in this offering.
Over-allotment option	Certain of the selling shareholders have granted to the underwriters an option to purchase up to an additional 1,561,000 ADSs from us and them to cover over-allotments at the initial public offering price less underwriting discounts and commissions.
Use of proceeds	Our net proceeds from the sale of 4,473,684 ADSs in this offering will total approximately $73.9 million after deducting underwriting discounts and commissions and estimated offering expenses which are payable by us. We intend to use the net proceeds from this offering for general corporate purposes, including capital expenditures and working capital, and for possible acquisitions of businesses

and delivery platforms.

The proceeds from the sale of 6,729,024 ADSs in this offering to be sold by the selling shareholders will be paid to those shareholders. We will not receive any of the proceeds from the sale of those ADSs. See Use of Proceeds.

Table of Contents

Risk factors	See Risk Factors and other information included in this prospectus for a discussion of the risks you should carefully consider before deciding to invest in our ADSs.
Payment and settlement	The ADSs are expected to be delivered against payment on , 2006. The ADRs evidencing the ADSs will be deposited with a custodian for, and registered in the name of a nominee of, The Depository Trust Company, or DTC, in New York, New York. In general, beneficial interests in the ADSs will be shown on, and transfers of these beneficial interests will be effected only through, records maintained by DTC and its direct and indirect participants.
Listing and trading	We have applied for our ADSs to be listed on the New York Stock Exchange, or NYSE.
Proposed NYSE symbol	WNS.
Depositary	Deutsche Bank Trust Company Americas.
Lock-up	We, the selling shareholders, our continuing directors, executive officers and employee shareholders and certain of our other existing shareholders have agreed with the underwriters not to sell, transfer or dispose of any of our ordinary shares or ADSs for a period of 180 days after the date of this prospectus. See Underwriting.

Unless specifically stated otherwise, the information in this prospectus:

- assumes an initial public offering price of $19.00 per ADS, the midpoint of the range described above;

- excludes (i) 3,875,655 ordinary shares issuable upon exercise of outstanding options and 90,121 ordinary shares reserved for future issuance under our Stock Incentive Plan as of June 30, 2006; and (ii) 3,000,000 ordinary shares reserved for future issuance under our 2006 Incentive Award Plan (including 537,000 ordinary shares issuable upon the exercise of options to be granted effective upon the pricing of this offering (of which 320,000 are to be issued to certain of our directors and executive officers and 217,000 are to be issued to other employees) and 224,750 restricted share units to be issued effective upon the pricing of this offering (of which 160,000 are to be issued to certain of our directors and executive officers and 64,750 are to be issued to other employees), each under the 2006 Incentive Award Plan). See Management Employee Benefit Plans Stock Incentive Plan and Management Employee Benefit Plans WNS 2006 Incentive Award Plan ; and

- assumes no exercise of the underwriters option to purchase up to 1,561,000 additional ADSs to cover over-allotments. If the underwriters exercise this option in full, 12,763,708 ADSs would thereafter be outstanding. See Underwriting.

Table of Contents

SUMMARY CONSOLIDATED FINANCIAL AND OPERATING DATA

The following summary consolidated statement of operations data for fiscal 2006, 2005 and 2004 and the summary consolidated balance sheet data as of March 31, 2006 and 2005 have been derived from the audited consolidated financial statements appearing elsewhere in this prospectus. The following summary consolidated balance sheet data as of March 31, 2004 have been derived from our audited consolidated financial statements not included in this prospectus. You should read this information together with the consolidated financial statements and related notes and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. Our audited and unaudited consolidated financial statements are prepared and presented in accordance with US GAAP. Our historical results do not indicate results expected for any future period.

	Year Ended March 31,		
	2006	2005	2004
	(US dollars in millions, except share and per share data)		
Consolidated Statement of Operations Data:			
Revenue	$ 202.8	$ 162.2	$ 104.1
Cost of revenue[1]	145.7	140.3	89.7
Gross profit	57.1	21.9	14.4
Operating expenses:			
Selling, general and administrative expenses[1]	36.3	24.9	18.8
Amortization of intangible assets	0.9	1.4	2.6
Operating income (loss)	19.9	(4.4)	(7.0)
Other income, net	0.5	0.2	0.3
Interest expense	(0.4)	(0.5)	(0.1)
Income (loss) before income taxes	19.9	(4.7)	(6.8)
(Provision) benefit for income taxes	(1.6)	(1.1)	0.0
Net income (loss)	$ 18.3	(5.8)	(6.7)
Income (loss) per share:			
Basic	$ 0.56	$ (0.19)	$ (0.22)
Diluted	$ 0.52	$ (0.19)	$ (0.22)
Weighted-average shares outstanding (basic)	32,874,299	30,969,658	30,795,888
Weighted-average shares outstanding (diluted)	35,029,766	30,969,658	30,795,888

	As of March 31,		
	2006	2005	2004
	(US dollars in millions)		
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 18.5	$ 9.1	$ 14.8
Accounts receivable, net	28.1	25.2	18.1

Other current assets	10.8	9.7	9.5
Total current assets	57.4	44.0	42.5
Deposits and deferred tax asset	4.3	2.6	1.3
Goodwill and intangible assets, net	42.5	26.7	27.6
Property and equipment, net	30.6	24.7	15.3
Total assets	134.8	98.0	86.6
Note payable		10.0	
Total current liabilities	53.5	54.8	39.4
Deferred tax liabilities non-current	2.4		
Other non-current liabilities	0.8	0.2	0.5
Total shareholders equity	78.2	43.0	46.7
Total liabilities and shareholders equity	134.8	98.0	86.6

Table of Contents

The following tables set forth for the periods indicated selected consolidated financial data:

	For the Year Ended March 31,		
	2006	2005	2004
	(US dollars in millions, except percentages and employee data)		
Other Consolidated Financial Data:			
Revenue	$ 202.8	$ 162.2	$ 104.1
Gross profit as a percentage of revenue	28.1%	13.5%	13.8%
Operating income (loss) as a percentage of revenue	9.8%	(2.7)%	(6.7)%
Other Unaudited Consolidated Financial and Operating Data:			
Revenue less repair payments[(2)]	$ 147.9	$ 99.0	$ 49.9
Gross profit as a percentage of revenue less repair payments	38.6%	22.1%	28.9%
Operating income (loss) as a percentage of revenue less repair payments	13.4%	(4.4)%	(14.1)%
Number of employees (at period end)	10,433	7,176	4,472

Notes:

(1) Includes the following share-based compensation amounts:

Cost of revenue	$ 0.1	$ 0.0	$ 0.0
Selling, general and administrative expenses	1.8	0.2	0.2

(2) Revenue less repair payments is a non-GAAP measure. See the explanation below, as well as Management s Discussion and Analysis of Financial Condition and Results of Operations Overview and notes to the consolidated financial statements included in this prospectus. The following table reconciles our revenue (a GAAP measure) to revenue less repair payments (a non-GAAP measure):

	For the Year Ended March 31,		
	2006	2005	2004
	(US dollars in millions)		
Revenue	$ 202.8	$ 162.2	$ 104.1
Less: Payments to repair centers	$ 54.9	$ 63.2	$ 54.2
Revenue less repair payments	$ 147.9	$ 99.0	$ 49.9

We have two reportable segments for financial statement reporting purposes WNS Global BPO and WNS Auto Claims BPO. In our WNS Auto Claims BPO segment, we provide claims handling and accident management services, where we arrange for automobile repairs through a network of repair centers. In our accident management services, we act as the principal in our dealings with the repair centers and our clients. The amounts invoiced to our clients for payments made by us to repair centers is reported as revenue. As we wholly subcontract the repairs to the repair centers, we use revenue less repair payments as a primary measure to allocate resources and measure operating performance.

Revenue less repair payments is a non-GAAP measure. We believe that the presentation of this non-GAAP measure in this prospectus provides useful information for investors regarding the financial performance of our business and our two reportable segments. See Management s Discussion and Analysis of Financial Condition and Results of Operations Results by Reportable Segment. The presentation of this non-GAAP information is not meant to be considered in isolation or as a substitute for our financial results prepared in accordance with US GAAP. Our revenue less repair payments may not be comparable to similarly titled measures reported by other companies due to potential differences in the method of calculation.

Table of Contents

RISK FACTORS

This prospectus contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those described in the following risk factors and elsewhere in this prospectus. You should consider the following risk factors carefully in evaluating us and our business before investing in our American Depositary Shares, or ADSs. If any of the following risks actually occur, our business, financial condition and results of operations could suffer, the trading-price of our ADSs could decline and you may lose all or part of your investment.

Risks Related to our Business

We may be unable to effectively manage our rapid growth and maintain effective internal controls, which could have a material adverse effect on our operations, results of operations and financial condition.

Since we were founded in April 1996, and especially since Warburg Pincus acquired a controlling stake in our company in May 2002, we have experienced rapid growth and significantly expanded our operations. Our revenue has grown at a compound annual growth rate of 54.9% to $202.8 million in fiscal 2006 from $54.6 million in fiscal 2003. Our revenue less repair payments has grown at a compound annual growth rate of 79.4% to $147.9 million in fiscal 2006 from $25.6 million in fiscal 2003. We have established six delivery centers in India, two in the UK and one in Sri Lanka. Our employees have increased to 10,433 on March 31, 2006 from 2,348 on March 31, 2003. In fiscal 2007, we intend to set up new delivery centers in Pune and Mumbai as well as to expand our delivery center at Gurgaon, India. We intend to continue expansion in the foreseeable future to pursue existing and potential market opportunities. This rapid growth places significant demands on our management and operational resources. In order to manage growth effectively, we must implement and improve operational systems, procedures and internal controls on a timely basis. If we fail to implement these systems, procedures and controls on a timely basis, we may not be able to service our clients needs, hire and retain new employees, pursue new business, complete future acquisitions or operate our business effectively. Failure to effectively transfer new client business to our delivery centers, properly budget transfer costs or accurately estimate operational costs associated with new contracts could result in delays in executing client contracts, trigger service level penalties or cause our profit margins not to meet our expectations or our historical profit margins. As a result of any of these problems associated with expansion, our business, results of operations, financial condition and cash flows could be materially and adversely affected.

A few major clients account for a significant portion of our revenue and any loss of business from these clients could reduce our revenue and significantly harm our business.

We have derived and believe that we will continue to derive in the near term a significant portion of our revenue from a limited number of large clients. For fiscal 2006 and fiscal 2005, our five largest clients accounted for 41.0% and 40.1% of our revenue and 52.8% and 56.4% of our revenue less repair payments. Our contract with one of our major clients, British Airways, expires in March 2007. In May 2006, we entered into a non-binding letter of intent with British Airways to extend the term of this contract to May 2012, subject to negotiating and entering into a definitive contract. If we fail to enter into a definitive contract or if this contract is terminated for cause or convenience, our client will have no obligation to purchase services from us. For fiscal 2006 and fiscal 2005, British Airways accounted for 7.2% and 10.1% of our revenue and 9.9% and 16.5% of our revenue less repair payments. Our contracts with another major client, AVIVA, provide the client options, exercisable at will after April 28, 2007 and December 30, 2007, to require us to transfer the relevant projects and operations to this client. See We may lose some or all of the revenue generated by one of our major clients. In May 2006, we entered into a non-binding letter of intent with respect to one of the AVIVA contracts to postpone the start of the option exercise period from April 28, 2007 to after June 2007. See We may lose some or all of the revenue generated by one of our major clients.

In addition, the volume of work performed for specific clients is likely to vary from year to year, particularly since we may not be the exclusive outside service provider for our clients. Thus, a major client in one year may

Table of Contents

not provide the same level of revenue in any subsequent year. The loss of some or all of the business of any large client could have a material aumho. The Company and Kumho have also agreed to a standstill agreement relative to the shares of Kumho as well as to the shares of the Company. Effective February 4, 2006, the Company acquired a 51 percent ownership position in Cooper Chengshan (Shandong) Passenger Tire Company Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. (Cooper-Chengshan). The new companies, which were formed upon governmental approval of the transaction, together were known as Shandong Chengshan Tire Company, Ltd. (Chengshan) of Shandong, China. The Company has recently completed construction of a tire manufacturing facility under a joint venture arrangement with Kenda Rubber Industrial Co., Ltd. of Taiwan.

In recent years, the Company has faced both general industry challenges and internal challenges. In 2006, the replacement tire market in North America was far weaker than anticipated. Raw material costs continued escalating reaching record high price levels. The Company incurred high production costs, rapidly expanded its finished goods inventory level and consumed cash at higher than expected rates.

The Company has directed its attention to cost reduction initiatives impacting every aspect of its business. Plans are in place to cut costs, reduce complexity and improve efficiency within its operations. A specific inventory reduction initiative has yielded dramatic results in the second half of 2006 and is planned to further reduce inventory levels in 2007.

The Company has focused its attention in recent years on the performance and ultra high performance markets. In 2007, new product introductions of premium broadline and touring tires will be aimed at improving the profitability of that segment of the Company s product offerings. The Company s marketing program will be more customer driven and more controlled emphasizing profitable sales growth and profitable product and customer mix.

The Company has two reportable segments for continuing operations North American Tire Operations and International Tire Operations. The Company s reportable segments are each managed separately because they operate in different geographic locations.

The following discussion of financial condition and results of operations should be read together with Selected Financial Data, the Company s consolidated financial statements and the notes to those statements and other financial information included elsewhere in this report.

This Management s Discussion and Analysis of Financial Condition and Results of Operations presents information related to the consolidated results of the continuing operations of the Company, including the impact of restructuring costs on the Company s results, a discussion of past results and future outlook of each of the Company s segments and information concerning both the liquidity and capital resources and critical accounting policies of the Company. A discussion of the past results of its discontinued operations and information related to the gain recognized on the sale of Cooper-Standard are also included. This report contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those indicated in the forward-looking statements. See Risk Factors in Item 1A for information regarding forward-looking statements.

Table of Contents

Consolidated Results of Continuing Operations

(Dollar amounts in millions except per share amounts)	2004	% Change	2005	% Change	2006
Revenues:					
North American Tire	$ 1,862.9	4.9%	$ 1,954.7	7.2%	$ 2,096.2
International Tire	308.4	-1.0%	305.3	122.8%	680.1
Eliminations	(89.7)	16.8%	(104.8)	-4.5%	(100.1)
Net sales	$ 2,081.6	3.5%	$ 2,155.2	24.2%	$ 2,676.2
Segment profit (loss):					
North American Tire	$ 64.0	-48.8%	$ 32.8	-112.2%	$ (4.0)
International Tire	21.4	-103.3%	(0.7)	-1442.9%	9.4
Eliminations	0.5	-180.0%	(0.4)	50.0%	(0.6)
Unallocated corporate charges	(22.7)	-76.7%	(5.3)	173.6%	(14.5)
Operating profit	63.2	-58.2	26.4	-136.7	(9.7)
Interest expense	27.6	97.5	54.5	-13.4	47.2
Debt extinguishment (gains) losses			4.2		(0.1)
Interest income	(2.1)	781.0	(18.5)	-45.4	(10.1)
Dividend from unconsolidated subsidiary					(4.3)
Impairment of goodwill and indefinite-lived intangible asset					51.5
Other - net	2.7	-77.8	0.6	-433.3	(2.0)
Income (loss) from continuing operations before income taxes and minority interests	35.0	-141.1	(14.4)	538.2	(91.9)
Provision (benefit) for income taxes	7.6	-90.8	0.7	-1485.7	(9.7)
Income/(loss) from continuing operations before minority interests	27.4	-155.1%	(15.1)	444.4%	(82.2)
Minority interests			0.1		(3.7)
Income (loss) from continuing operations	$ 27.4	-154.7%	$ (15.0)	472.7%	$ (85.9)
Basic and diluted earnings (loss) per share	$ 0.37		$ (0.24)		$ (1.40)

2006 versus 2005

Consolidated net sales increased by $521 million in 2006. The acquisition of Cooper-Chengshan in February 2006 added $358 million in net sales in 2006. The remainder of the increase was primarily a result of improved net pricing and product mix. This increase was offset by lower unit volume. Operating profit in 2006 was $36 million less than the operating profit reported in 2005. The favorable impacts of the Cooper-Chengshan acquisition and improved pricing and mix were offset by increased raw material costs, lower sales volumes, higher products liability costs and restructuring costs related to five initiatives undertaken by the Company. These initiatives are described in more detail in the Restructuring section below.

The Company continued to experience significant increases in the costs of certain of its principal raw materials during 2006 compared with the levels experienced during 2005. 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. The increases in the cost of natural rubber and petroleum-based materials were the most significant drivers of higher raw material costs during 2006, which were up approximately $129 million from 2005. The pricing volatility in these commodities contributed to the difficulty in managing the costs of related raw materials. The increased price of crude oil and the growing global demand for its derivative products is contributing to the cost increases being experienced for raw materials used by the Company. Approximately 65 percent of the Company s raw materials are crude oil-based, a commodity which repeatedly set new price records during 2006.

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 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. These arrangements provide quantities needed to satisfy normal manufacturing demands.

Selling, general and administrative expenses were $193 million (7.2 percent of net sales) in 2006 compared to $161 million (7.5 percent of net sales) in 2005. The addition of the Chinese operations, higher advertising costs in the North American Tire Operations segment and the expense associated with the severance component of payments made to the former chairman, president and chief executive officer of the Company accounted for this increase.

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.

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. Premium costs for insurance coverage in excess of the self-insured amounts for the April 1, 2004 to March 31, 2005 policy year were $10.4 million higher than under the program in place prior to April 1, 2003, the per claim retention limit increased $13.3 million and the aggregate retention limit was eliminated, while excess liability coverage increased by $35 million. The Company continued the program effective April 1, 2005 with an increase in the per claim retention limit of $10 million and a premium cost reduction of $5.3 million. The total per claim retention limit for claims occurring in the policy years subsequent to April 1, 2005 is $25 million.

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 if the conditions for reimbursement are met. Products liability costs totaled $52.3 million and $63.6 million in 2005 and 2006, respectively. Recoveries of legal fees were $12.7 million and $9.4 million in 2005 and 2006, respectively. Policies applicable to claims occurring on April 1, 2003 and, thereafter, do not provide for recovery of legal fees.

During 2006, the Company recorded $14.6 million in restructuring costs related to the five initiatives described below.

Interest expense decreased $7 million in 2006 from 2005 primarily due to the Company s repurchases of debt in 2005 and 2006.

Interest income decreased $8 million in 2006 from 2005 as a result of lower cash levels in 2006 than in 2005.

During 2006, the Company recorded dividend income from its investment in Kumho Tire Co., Inc. A dividend of approximately $0.57 per share was declared to shareholders of record on March 17, 2006. The Company owns the equivalent of 7,500,000 shares and recorded $4.3 million of dividend income.

During the fourth quarter of 2006, the Company completed its annual test for impairment and determined that impairment existed in the goodwill and in the indefinite-lived intangible assets of its North American Tire Operations segment. While the Company made good faith projections of future cash flow in 2005, it failed to meet those projections in 2006 due to industry conditions and other factors. The Company believes certain of these factors will continue to have an impact in 2007 and late in 2006, the Company implemented specific cost reduction initiatives to improve profitability. Following a review of the valuation of the segment s identifiable assets, the Company wrote off the goodwill of the North American Tire Operations segment which totaled $48.2 million and also recorded an impairment charge of $3.4 million related to the indefinite-lived intangible assets of the segment.

Other net increased $3 million in 2006 from 2005 primarily as a result of foreign currency gains being recorded in 2006 compared to losses in 2005.

For the twelve months ended December 31, 2006, the Company recorded an income tax benefit of $9.7 million on a loss before taxes from continuing operations of $95.6 million which includes minority interest of $3.7 million and the impairment of non-deductible goodwill. Since a valuation allowance was recorded in income tax expense for the net deferred tax asset position of the U. S. operations during the year, the remaining income tax benefit relates primarily to the utilization of certain tax attributes, the release of certain tax contingencies plus income tax expense from non-U. S. operations. Comparable amounts for 2005 were an income tax expense of $.7 million on a loss before taxes of $14.3 million.

A valuation allowance is required to be recorded pursuant to SFAS No. 109, Accounting for Income Taxes, when, based upon an assessment which is largely dependent upon objectively verifiable evidence including recent operating loss history, expected reversal of existing deferred tax liabilities and tax loss carry back capacity, 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 tax attribute carryforwards, products liability, pension and other post retirement 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 has recorded a $128.6 million valuation allowance for the portion of U.S. deferred tax assets exceeding deferred tax liabilities with $18.1 million being recorded as an expense in 2006. The pension liability and associated deferred tax asset adjustment recorded to equity in the fourth quarter as a result of adoption of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, accounts for $72.5 million of the total valuation allowance. The Company intends to evaluate the realizability of deferred tax assets on a quarterly basis.

The effects of inflation in areas other than raw materials and natural gas did not have a material effect on the results of operations of the Company in 2006.

2005 versus 2004

Consolidated net sales increased by $74 million in 2005. The increase was primarily a result of improved net pricing and product mix. This increase was offset by lower unit volume and unfavorable foreign currency translation.

Operating profit in 2005 was $37 million less than the operating profit reported in 2004. The favorable impacts of improved pricing and mix, lower products liability costs and reductions to cost of sales resulting from settlements with raw material suppliers for reimbursements of previously expensed costs were offset by increased raw material costs, lower sales volumes, increasing production complexity and the impact of the work stoppage at the Texarkana, Arkansas tire manufacturing facility.

The North American Tire Operations segment reached a contract agreement with members of United Steelworkers of America Local No. 7521 on April 10, 2005 following a work stoppage at its Texarkana, Arkansas facility which commenced on March 12, 2005. The facility employs approximately 1,700 production people and produces approximately 40,000 tires per day at capacity.

The Company experienced significant increases in the costs of certain of its principal raw materials and natural gas, the principal energy source used in its manufacturing processes, during 2005 compared with the levels experienced during 2004. The principal raw materials for the Company include synthetic rubber, carbon black, natural rubber, chemicals and reinforcement components. The increases in the cost of crude oil based materials were the most

significant driver of higher raw material costs, with synthetic rubber increasing approximately 30 percent from 2004. The pricing volatility in commodities such as crude oil and, to a lesser extent, steel continued to contribute to the difficulty in managing the costs of related raw materials. Approximately 65 percent of the Company s raw materials are crude oil-based, a commodity which repeatedly set new price records during 2005. The average cost of natural gas during 2005 increased approximately 20 percent from the average cost during 2004.

Table of Contents

Reliable supply of raw materials was a significant concern during 2005, and contributed to the volatility of the Company s costs for certain commodities. The increased price of crude oil, the growing global demand for its derivative products, and the recent supply disruption in the United States for certain commodities are contributing to the cost increases being experienced for raw materials used by the Company and adding to concerns regarding their availability. The disruption of supply in the United States for carbon black and synthetic rubber caused by hurricane Rita resulted in the Company s decision to reduce production levels for certain of its products in its domestic facilities during the fourth quarter. The production reductions were necessary to ensure the adequate and uninterrupted availability of these commodities to maintain production efficiencies and to assure the supply of certain products that are in high demand by the Company s customers.

The Company manages the procurement of its raw materials and natural gas to assure supply and to obtain the most favorable pricing. For natural rubber and natural gas, procurement is managed by buying forward of production requirements and utilizing the spot market when advantageous. For steel-based tire reinforcement materials, 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 needed to satisfy normal manufacturing demands. The Company reacted promptly to the supply disruptions occurring late in the third quarter by working to secure synthetic rubber and carbon black from alternative vendors.

Selling, general and administrative expenses were $161 million (7.5 percent of net sales) in 2005 compared to $172 million (8.3 percent of net sales) in 2004. The decrease resulted primarily from lower advertising costs and fringe benefits associated with employee programs that provide for compensation based on the profitability of total Company financial results.

The North American Tire Operations segment conducts annual reviews of the enhanced product warranty reserve established in connection with the 2001 settlement of class action litigation. This review resulted in a decrease to the reserve of $.3 million in 2005 compared to a decrease of $11.3 million recorded in 2004.

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.

Effective April 1, 2003, the Company established a new excess liability insurance program as more fully described in the discussion of 2006 versus 2005 results. Products liability costs totaled $60.5 million and $52.3 million in 2004 and 2005, respectively. Recoveries of legal fees were $9.3 million and $12.7 million in 2004 and 2005, respectively.

Interest expense increased $26.9 million in 2005 from 2004 primarily due to the allocation of $34.0 million of interest expense to discontinued operations in 2004. This increase was partially offset by the reductions in interest expense resulting from the Company s repurchases of debt in 2004 and 2005. Also included in interest expense in 2005 is a gain of $1.7 million from interest rate swap agreements on the Company s senior notes which were settled in the second quarter of 2005.

The Company incurred $4.2 million in costs associated with the repurchase of $278.4 million of its long-term debt during 2005. Interest income increased $16.4 million in 2005 from 2004 as a result of the high levels of cash on hand in 2005. Other net decreased by $2.1 million in 2005 compared to 2004. In 2004, the Company recorded a write-down of its investment in RubberNetwork.com LLC of $1.9 million and, in 2005, recorded an additional write-down of $.2 million.

The Company recorded income tax expense of $.7 million on a loss before taxes of $14.3 million for 2005. This compares to income tax expense of $7.6 million on earnings before taxes of $35 million for 2004. The net tax expense results primarily from an $8.4 million tax expense related to the repatriation of $169 million under the provisions of the Homeland Investment Act, a provision of the American Jobs Creation Act of 2004, offset by deferred tax benefits from operations.

The effects of inflation in areas other than raw materials and natural gas did not have a material effect on the results of operations of the Company in 2005.

Restructuring

During 2004, the North American Tire Operations segment initiated two restructuring plans. In the second quarter, the segment announced an initiative to consolidate its pre-cure retread operations in Asheboro, North Carolina, and recorded a charge of $1.7 million to write certain related equipment down to its scrap salvage value (the fair market value) and recorded $.1 million in equipment disposal costs. In the third quarter, a plan to cease production of radial medium truck tires by the end of 2005 at the Albany, Georgia tire facility was announced. These tires are being sourced from Asian manufacturers. No employees were affected by this initiative. The segment

- 20 -

recorded an impairment charge of $7.3 million for equipment associated with radial medium truck tire production, writing it down to its fair market value, as determined by the Company s expectations for proceeds upon its disposition.

During 2006, there were five restructuring initiatives announced and these are described below:

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 million and $11 million. 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. During 2006, restructuring costs of $11.1 million were recorded. The assets of the facility were written down to fair value resulting in a charge of $8.2 million. Severance costs totaling $1.5 million were recorded and payments totaling $1.1 million have been made resulting in an accrued severance balance at December 31, 2006 of $.4 million. Additional employee-related severance costs of $.1 million were recorded. Employee relocation costs of $.1 million have been incurred. Equipment relocation and closure costs of $1.2 million have been recorded to date. The assets of the facility, with a fair value of $4 million, are considered as held for sale and are included on the Other current assets line of the Company s Consolidated Balance Sheets.

In September, the North American Tire Operations segment announced its plans to reconfigure its tire manufacturing facility in Texarkana, Arkansas so that its production levels can flex to meet tire demand. This reconfiguration is expected to result in a workforce reduction of approximately 350 people. This reduction is expected to be accomplished through attrition and layoffs. Certain equipment in the facility will be 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 between $8 million and $11.5 million. This amount consists of equipment relocation and associated costs of between $5 million and $7 million and personnel related costs of between $3 million and $4.5 million. During 2006, equipment relocation costs of $.7 million have been recorded.

In November, the Company announced a restructuring of salaried support positions. The restructuring will be accomplished through reductions in part-time assistance, normal attrition and targeted severance actions. Approximately 80 people will be impacted by this initiative and the end of the first quarter of 2007 is the targeted completion date. To date, $.9 million of severance benefits have been accrued for persons or positions identified and payments totaling $.1 million have been made, resulting in an accrued severance balance at December 31, 2006 of $.8 million.

In December, 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. Approximately 600 molds have been identified under this plan. At December 31, 2006, 449 molds have been taken out of service and written off. The service lives of the molds still in production have been reduced to reflect the remaining useful production life. Both the mold write-off and the increased depreciation expense associated with the change in the estimate of useful life are being recorded as restructuring expense. Through December 31, 2006, $.3 million of molds have been written-off and $.1 million of additional depreciation associated with this initiative has been recorded. The end of the second quarter is the expected date when all of the molds will be taken out of service and the total cost of this plan is estimated to be $.5 million.

During 2006, the International Tire Operations segment recorded $1.5 million in restructuring costs associated with a management reorganization in Cooper Tire Europe. This initiative was undertaken to reduce the European cost base to compensate for raw material cost increases in an increasingly competitive European market. There were 50 employees impacted by this initiative and all severance payments were made during 2006.

Additional information related to these restructuring initiatives appears in the Restructuring note to the consolidated financial statements.

Table of Contents

North American Tire Operations Segment

(Dollar amounts in millions)	2004	Change %	2005	Change %	2006
Sales	$1,862.9	4.9%	$1,954.7	7.2%	$2,096.2
Operating profit	$ 64.0	-48.8%	$ 32.8	-112.2%	$ (4.0)
Operating profit margin	3.4%	-1.7%	1.7%	-1.9%	-0.2%
Unit sales change		-3.7%		-0.5%	

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).

2006 versus 2005

Sales of the North American Tire Operations segment increased $142 million in 2006 from levels in 2005. The increase in sales was a result of improved net pricing and product mix ($171 million), offset by lower unit volume ($29 million). The segment s increased unit sales in the sport utility vehicle tire replacement market and new product offerings of high performance tires contributed to the improved product mix. The segment experienced a decrease in unit sales in the economy, broadline and light truck tire lines. The segment recorded increases in the sales of its proprietary brand tires and in sales to the segment s distributor customers. These increases were offset by decreased sales to its mass merchandiser customers.

In the United States, the segment s unit sales of total light vehicle tires decreased 0.5% in 2006 from 2005. The decrease in tire unit sales was due, in part, to a weakening of the tire replacement market as total industry shipments of light vehicle replacement tires in 2006 decreased 5% from 2005 levels. The segment also experienced increased competition from Asian tire manufacturers. The segment experienced higher unit sales during the fourth quarter 2006 partially as a result of the work stoppage at a competitor of the segment.

The segment also experienced decreased volume in mixed rubber pounds sold in the retread and custom mixing markets 2006 compared to 2005. The decrease in mixed rubber pounds was due primarily to the elimination of rubber mixing for automotive products previously supplied to Cooper-Standard Automotive.

Segment operating profit in 2006 decreased $37 million from 2005. The impacts of improved net pricing and product mix ($146 million) were offset by higher raw material costs ($101 million), restructuring charges ($13 million), products liability costs ($11 million) and unabsorbed overhead expenses associated with the reduced production schedule in 2006 ($18 million). The segment also experienced lower unit volumes, higher advertising costs, higher shipping and outside storage costs, higher utility costs and increases in other costs. During 2006, the segment reduced production levels as part of a temporary shutdown of its four tire manufacturing facilities in the United States in order to control inventory levels resulting from the weak North American replacement tire market. 2006 also includes the cost to convert one of the segment s manufacturing facilities to a seven-day operation. 2005 included the cost of the work stoppage at the Texarkana, Arkansas tire manufacturing facility and a reduction to cost of sales resulting from the settlement with a raw material supplier for reimbursement of previously expensed costs.

During 2006, the North American Tire Operations segment recorded restructuring charges of $13 million related to four separate initiatives. See the discussion of these initiatives under the Restructuring section above.

2005 versus 2004

Sales of the North American Tire Operations segment increased $92 million in 2005 from levels in 2004. The increase in sales was a result of improved net pricing and product mix ($178 million), offset by lower unit volume

($86 million). The segment s increased unit sales in the light truck tire replacement market and new product offerings of high performance tires contributed to the improved product mix. The segment recorded decreases in the sales of its proprietary brand tires and in sales to the segment s mass merchandiser customers. These decreases were partially offset by increased sales to its distributor customers.

In the United States, the segment s unit sales of total light vehicle tires decreased 3.7% in 2005 from 2004. The decrease in tire unit sales was primarily due to broadline economy tire lines, offset partially by increased unit sales in the high performance and sport utility vehicle tire lines. The increase in light truck tire units was due, in part, to the continuing expansion of light truck products into the marketplace and was accomplished in spite of the work stoppage at the Texarkana, Arkansas tire manufacturing facility.

Segment operating profit in 2005 decreased $31 million from 2004. Operating margins in 2005 were 1.7 percentage points below 2004 levels. The impacts of higher raw material costs ($126 million), lower sales volumes, partially attributable with the work stoppage at the Texarkana, Arkansas tire manufacturing facility ($36 million), and increasing production complexity and higher manufacturing costs associated with the Texarkana facility work stoppage ($16 million) were partially offset by improvements in pricing and product mix ($103 million), lower products liability costs ($8 million) and reductions to cost of sales resulting from the settlements with raw material suppliers for reimbursements of previously expensed costs ($18 million). In 2005 approximately $12 million of corporate general and administrative expenses, which would have been allocated to the Company s automotive operations in previous periods, were allocated to the North American Tire Operations segment.

Outlook

The segment is optimistic regarding its opportunities for 2007. The segment has developed new products in its premium touring and specialty light truck product offerings 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.

The segment has 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 one million medium truck and economy passenger tires in 2007 through various manufacturing initiatives. These initiatives are important to the segment s ability to profitably provide tire products to its customers in North America.

Raw material prices are proving very difficult to predict accurately as commodity markets remain volatile. Although the Company has seen some softening of the price of crude oil in the last quarter, it will take some time to filter into the raw material feedstock markets. The Company has also seen a downward trend in the natural rubber market since prices peaked in June 2006. Natural rubber prices have decreased 30 percent through late November, however, due to the lead times involved in the procurement and shipment of natural rubber, the Company will not see meaningful relief until early 2007. Natural rubber prices have rallied since November and the upward movement is gaining strength. While the Company believes raw material, energy and transportation costs will remain near current levels throughout 2007, these levels are substantially higher than those experienced during the first six months of 2006. The Company expects the pace of the increases to slow down and eventually stabilize or slightly decrease.

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 Transportation Recall Enhancement Accountability and Documentation Act (TREAD Act) became law on November 1, 2000 and directly impacts the tire industry. The TREAD Act and any rules promulgated under the TREAD Act are applicable to all tire manufacturers and importers of tires who sell tires in the United States, regardless of where such tires are manufactured. Pursuant to the statute, the National Highway Transportation Safety Administration (NHTSA), the federal agency that oversees certain aspects of the tire industry, has proposed rules relating to test standards, tire labeling, tire pressure monitoring, early warning reporting, tire recalls and record retention. Rules for certain of these issues have been finalized; however, petitions for reconsideration of certain of the finalized rules have been filed with NHTSA by the RMA on behalf of its member tire manufacturers and the outcome of those petitions cannot be predicted with any certainty. The segment incurred approximately $1.7 million of costs during 2006 to comply with changes mandated by the technical design rules of the TREAD Act and anticipates incurring approximately $0.8 million in 2007 to comply with the rules phasing in during the period.

The segment believes its operating profit levels will improve beyond the first quarter of 2007 not only due to higher sales, but also due to the favorable impact of improved product mix, the implementation of cost reduction programs, the leveling of raw material costs, the reduction of manufacturing complexity and the conversion of its manufacturing facility in Texarkana, Arkansas to a flexible production schedule. Targeted growth plans for specific proprietary brand and key private brand customers, growth in high performance product lines, the introduction of a new premium touring tire and increasing demand for sport utility vehicle and light truck tire lines are expected to yield higher margins and contribute favorably to the segment s operating profit.

Table of Contents

International Tire Operations Segment

(Dollar amounts in millions)	2004	Change %	2005	Change %	2006
Sales	$308.4	-1.0%	$305.3	122.8%	$680.1
Operating profit	$ 21.4	-103.3%	$ (0.7)	n/m	$ 9.4
Operating profit margin	6.9%	-7.1%	-0.2%	1.6%	1.4%
Unit sales change		-0.5%		113.0%	

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 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.

2006 versus 2005

Sales of the International Tire Operations segment increased $375 million in 2006 from the sales levels in 2005. The acquisition of Cooper-Chengshan contributed $365 million of sales in 2006. Foreign currency changes had a favorable impact on sales of approximately $2 million. The impact of the acquisition of Cooper-Chengshan and improved net pricing and product mix ($11 million) were partially offset by lower unit volumes in Europe ($3 million).

Operating profit for the segment in 2006 was approximately $10 million higher than in 2005. The impacts of the acquisition of Cooper-Chengshan and improved net pricing and product mix ($21 million) were partially offset by higher raw material costs ($10 million), higher expenses related to the startup of the segment s Asian operations ($7 million), restructuring costs ($2 million) and increases in utility and other plant costs ($2 million). During 2006, the International Tire Operations segment recorded approximately $2 million in restructuring costs related to a management reorganization in Cooper Tire Europe and the restructuring of salaried personnel. See the discussion of these initiatives under the Restructuring section above.

2005 versus 2004

Sales of the International Tire Operations segment decreased $3 million in 2005 from the sales levels in 2004. The segment s unit sales decreased .5 percent in 2005 from levels in 2004. The foreign currency impact of a strengthened United States dollar in relation to the British pound decreased sales in this segment approximately $1 million. The decrease in sales resulted from lower sales volumes ($13 million), partially offset by improved pricing and customer/product mix, including new product offerings in the performance line of tires ($11 million).

Operating profit for the segment in 2005 was approximately $22 million lower than in 2004 as the contributions of improved pricing and customer/product mix ($3 million) were offset by lower sales volumes, higher raw material costs ($6 million), expenses related to the startup of the segment s Asian operations ($5 million) and increases in utility and other plant costs.

Outlook

In Europe, the focus is on growing the Cooper and Avon brands in profitable 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.

Table of Contents

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.

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.

Discontinued Operations

On December 23, 2004, the Company sold its automotive business, Cooper-Standard Automotive. In September 2004, the North American Tire Operations segment announced its intent to cease its inner tube business. These operations 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 which differs from the approach used to report the Company s results in prior years. It also requires restatement of comparable prior periods to conform to the required presentation.

Automotive Operations

(Dollar amounts in millions)	**2004**
Sales	$1,852.0
Operating profit	$ 137.8
Operating profit margin	7.4%
Vehicle build (millions)	
North America	15.7
Europe	20.1
Sales to U.S.-based OEMs	78%

Overview

The Company s former automotive operations produced body sealing systems, active and passive vibration control systems and fluid handling systems, primarily for the global automotive original equipment manufacturing and replacement markets. The sale of these operations generated proceeds of approximately $1.2 billion and a gain of $112 million. The sale provided the Company significant opportunities to focus exclusively on its global tire business where it believes more value can be generated over the longer term.

Inner Tube Business

In September 2004 the Company announced its intent to cease its inner tube business. The Company recorded restructuring charges of $5.1 million related to this decision, which included an impairment charge of $2.9 million to write the inner tube assets down to their fair market value, severance costs of $1.1 million, employee benefit costs of $.8 million and other costs of $.3 million.

Sales for the Company s inner tube business for 2004 were $17 million. The operating loss in 2004 was $5.8 million, including the restructuring costs described above.

- 25 -

Gain on Sale of Cooper-Standard Automotive

On December 23, 2004, the Company sold its automotive operations, known as Cooper-Standard Automotive, to an entity formed by The Cypress Group and Goldman Sachs Capital Partners. Proceeds from the sale were $1.226 billion, including additional proceeds of approximately $54.3 million received during 2005.

The Company recorded a gain of $112.4 million on the sale based on the preliminary sales price, including a tax benefit of $6.4 million resulting primarily from currently deductible compensation expenses and other costs associated with the sale. Differences from the buyer s reported post-closing amounts and the final payment amount, if any, were to be reflected as adjustments to the gain on the sale after the final payment amount was agreed upon. There was no tax liability on the gain due to a capital loss in the United States resulting from book and tax bases differences and a statutory exemption from tax on the capital gain in the United Kingdom.

During the first quarter of 2005, the Company recorded the final settlement on purchase price adjustments reached with the buyer of Cooper-Standard during April, resulting in additional sales proceeds of $5.5 million and total proceeds of $1.227 billion. Other minor adjustments were recorded in subsequent quarters as additional information became known.

For 2005, the Company recorded a net additional gain of $5.5 million plus a tax benefit of $.2 million resulting primarily from deductible compensation expenses and other costs associated with the sale. There was no tax liability on the additional gain due to a non-tax-benefited capital loss in the United States resulting from book and tax bases differences and a statutory exemption from tax on the capital gain in the United Kingdom. These amounts are included in Income (loss) from discontinued operations, net of income taxes, on the Company s consolidated statements of operations.

In connection with the sale, the Company agreed to indemnify the buyer against pre-closing income tax liabilities and other items specified in the Sale Agreement. For indemnity commitments where the Company believes future payments are probable, it also believes the expected outcomes can be estimated with reasonable accuracy. Accordingly, for such amounts, a liability has been recorded with a corresponding decrease in the gain on the sale. Other indemnity provisions will be monitored for possible future payments not presently contemplated. With the passage of time, additional information may become available to the Company which would indicate the estimated indemnification amounts require revision. Changes in estimates of the amount of indemnity payments will be reflected as an adjustment to the gain on sale in the periods in which the additional information becomes known.

Outlook for the Company

The Company believes improving operating efficiencies, cost reduction projects and production realignment will enable it to improve profitability in 2007. 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 our manufacturing strategy and a multitude of cost reduction initiatives.

Modest growth in performance, sport utility vehicle and light truck tires will also contribute to margin improvement. After a year of extraordinary soft market demand, the industry is expected to return to more normal levels of growth in 2007. In addition, price increases implemented in 2006 will help the Company offset the continuing high costs of raw materials.

However, 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.

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 grow richer as new, premium products continue to be introduced. The Company is aggressively managing its exposure to products liability litigation.

Raw material prices are proving very difficult to predict accurately as commodity markets remain volatile. Although the Company has seen some softening of the price of crude oil in the last quarter, it will take some time to filter into the raw material feedstock markets. The Company has also seen a downward trend in the natural rubber market since

prices peaked in June 2006. Natural rubber prices have decreased 30 percent through November, however, due to the lead times involved in the procurement and shipment of natural rubber, the Company will not see meaningful relief until early 2007. Natural rubber prices have rallied since November and the upward movement is gaining strength. While the Company believes raw material, energy and transportation costs will remain near current levels throughout 2007, these levels are substantially higher than those experienced during the first six months of 2006. The Company expects the pace of the increases to slow down and eventually stabilize or slightly decrease.

Liquidity and Capital Resources

Generation and uses of cash - Net cash provided by the operating activities of continuing operations was $115.5 million in 2006, $44.2 million more than the $71.3 million provided in 2005. Net income after adjustments for non-cash items increased $15.7 million to $99.8 million in 2006. Changes in operating assets and liabilities generated $15.7 million in 2006 compared to $12.8 million used in 2005. The inclusion of the Cooper-Chengshan operations has contributed to the increases in accounts receivable, inventories and accounts payable. Inventory levels in the North American Tire Operations segment at December 31, 2006 were below prior year levels.

Net cash used in investing activities during 2006 reflects the Company s acquisition of its ownership position in Cooper-Chengshan for $43.0 million, net of cash acquired, and capital expenditures of $187.7 million, an increase of $15.5 million from 2005. This increase is primarily due to investments in the Company s joint venture with Kenda to build a tire plant in China. The Company s capital expenditure commitments at December 31, 2006 are $24.6 million and are included in the Unconditional purchase line of the Contractual Obligations table which appears later in this section. These commitments will be satisfied with existing cash and cash flows from operations in early 2007.

During 2006, Cooper-Chengshan issued $15.3 million of long-term debt to its minority interest shareholder and $48.6 million in short-term debt to financial institutions. The Company s Cooper-Kenda joint venture issued $10.2 million of long-term debt to a Chinese financial institution and received $18.4 million from its joint venture partner for construction of the tire manufacturing facility in China.

Dividends paid on the Company s common shares in 2006 were $25.8 million, compared to $26.6 million in 2005. The Company has maintained a quarterly dividend of 10.5 cents per share for the three years ending December 31, 2006.

Available credit facilities On June 30, 2004, the Company restated and amended its revolving credit facility with a consortium of ten banks (the Agreement). The Agreement contains two primary covenants. An interest coverage ratio (consolidated earnings before interest, taxes, depreciation and amortization divided by consolidated net interest expense) is required to be maintained at a minimum of 3.0 times by the Company. A ratio of consolidated net indebtedness to consolidated capitalization below 55 percent is also required. Consolidated net indebtedness is indebtedness measured in accordance with generally accepted accounting principles in the United States reduced by cash and eligible short term investments in excess of $30 million. At December 31, 2006, the Company was in compliance with the financial covenants contained it its credit agreements. At that date, the ratio of consolidated net indebtedness to consolidated capitalization was 41.2 percent and the interest coverage was 3.9 times. The Company anticipates that it will remain in compliance with these covenants in 2007 based upon its business forecast for the year.

The Agreement, as amended, provides up to $175 million in credit facilities until August 31, 2008.

On August 30, 2006, the Company established an accounts receivable securitization facility of up to $175 million. Pursuant to the terms of the facility, the Company sells certain of its domestic trade receivables on a continuous basis to its wholly-owned, bankruptcy-remote subsidiary, Cooper Receivables LLC (CRLLC). In turn, CRLLC may sell from time-to-time an undivided ownership interest in the purchased trade receivables, without recourse, to a PNC Bank administered, asset-backed commercial paper conduit. The facility expires in August 2009. No ownership interests in the purchased trade receivables have been sold to the bank conduit through December 31, 2006.

Under the provisions of SFAS No. 140 Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , the ownership interest in the trade receivables sold to the bank conduit will be recorded as legal transfers without recourse, with those accounts receivable removed from the consolidated balance sheet. The Company has agreed to service any sold trade receivables for the financial institution at market rates; accordingly, no servicing asset or liability will be recognized.

The Company established a $1.2 billion universal shelf registration in 1999 in connection with an acquisition. Fixed rate debt of $800 million was issued pursuant to the shelf registration in December 1999 to fund the acquisition. The remaining $400 million available under the shelf registration continues to be available at December 31, 2006. Securities that may be issued under this shelf registration include debt securities, preferred stock, fractional interests in preferred stock represented by depositary shares, common stock and warrants to purchase debt securities, common stock or preferred stock.

Available cash and contractual commitments - At December 31, 2006, the Company had cash and cash equivalents totaling $222 million. The Company s additional borrowing capacity through use of its credit agreement with its bank group and other bank lines at December 31, 2006 was $346.9 million.

As part of the amounts payable to the non-controlling owner of Cooper-Chengshan, the Company has remaining obligations of $17.9 million due upon the signing of the share pledge agreement providing collateral against unknown liabilities or upon the resolution of post-closing adjustments, if any, for which the period extends to July 2007.

Table of Contents

The Company anticipates that cash flows from operations in 2007 will be positive and, together with available cash and credit facilities, will be more than adequate to fund its projected capital expenditures, including its portion of expenditures in partially-owned subsidiaries and dividend goals. There are no significant long-term debt obligations due until 2009.

In connection with the Cooper-Chengshan acquisition, beginning January 1, 2009 and continuing through December 31, 2011, the minority interest partner has the right to sell, and, if exercised, the Company has the obligation to purchase, the remaining 49 percent minority interest share at a minimum price of $62.7 million. This put option is not included in the table below.

The Company s cash requirements relating to contractual obligations at December 31, 2006 are summarized in the following table:

(Dollar amounts in thousands)		Payment Due by Period			
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	After 5 years
Long-term debt	$ 508,133	$	$ 217,675	$	$ 290,458
Capital lease obligations	5,080				5,080
Interest on long-term debt and capital lease obligations	412,550	39,415	77,403	46,257	249,475
Operating leases	67,399	15,739	22,732	18,162	10,766
Notes payable	112,803	112,803			
Unconditional purchase (a)	71,617	71,617			
Postretirement benefits other than pensions (b)	275,128	16,549	34,190	36,194	188,195
Other long-term liabilities (b) (c)	296,344	2,014	42,668	33,753	217,909
Total contractual cash obligations	$ 1,749,054	$ 258,137	$ 394,668	$ 134,366	$ 961,883

(a) Noncancelable purchase order commitments for capital expenditures and raw materials, principally natural rubber, made in the ordinary course of business.

(b) Based on long-term amounts recorded under U.S. generally accepted accounting

principles.

(c) Pension liability, products liability, nonqualified benefit plans, warranty reserve and other non-current liabilities.

Credit agency ratings Standard & Poor s has rated the Company s long-term corporate credit, senior unsecured debt and senior unsecured shelf registration at B+. Moody s Investors Service has assigned a B2 rating to the Company s long-term debt. The Company believes it will continue to have access to the credit markets, although at higher borrowing costs than in the past.

New Accounting Standards

For a discussion of recent accounting pronouncements and their impact on the Company, see the Significant Accounting Policies Accounting pronouncements note to the consolidated financial statements.

Critical Accounting Policies

Management s Discussion and Analysis of Financial Condition and Results of Operations discusses the Company s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. When more than one accounting principle, or the method of its application, is generally accepted, the Company selects the principle or method that is appropriate in its specific circumstances. The Company s accounting policies are more fully described in the Significant Accounting Policies note to the consolidated financial statements. Application of these accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. Management bases its estimates and judgments on historical experience and on other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. The Company believes that of its significant accounting policies, the following may involve a higher degree of judgment or estimation than other accounting policies.

Products liability The Company is a defendant in various products liability claims in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the 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, 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. 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. 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. Premium costs for insurance coverage in excess of the self-insured amounts for the April 1, 2004 to March 31, 2005 policy year were $10,419 higher than under the program in place prior to April 1, 2003, the per claim retention limit increased $13,250 and the aggregate retention limit was eliminated, while excess liability coverage increased by $35,000. The Company continued the program effective April 1, 2005 with an increase in the per claim retention limit of $10,000 and a premium cost reduction of $5,320. The total per claim retention limit for claims occurring in this policy year is $25,000.

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.

Products liability costs totaled $60,476, $52,323 and $63,649 in 2004, 2005 and 2006, respectively, and include recoveries of legal fees of $9,349, $12,700 and $9,434 in 2004, 2005 and 2006, respectively. Policies applicable to claims occurring on April 1, 2003, and thereafter, do not provide for recovery of legal fees.

Income Taxes The Company is required to make certain estimates and judgments to determine income tax expense for financial statement purposes. These estimates and judgments are made in the calculation of tax credits, tax benefits and deductions (such as the U.S. tax incentive for export sales) and in the calculation of certain tax assets and liabilities which arise from differences in the timing of the recognition of revenue and expense for tax and financial statement purposes. Significant changes to these estimates may result in an increase or decrease to tax provisions in subsequent periods.

The Company must assess the likelihood that it will be able to recover its deferred tax assets. If recovery is not likely, the provision for income tax expense must be increased by recording a valuation allowance against the deferred tax assets that are deemed to be not recoverable. The Company has recorded a full valuation allowance against its net U.S. deferred tax asset position at December 31, 2006 as it cannot assure the utilization of these assets before they expire. In the event there is a change in circumstances in the future which would affect the utilization of these deferred tax assets, the tax provision in that accounting period would be reduced by the amount of the assets then deemed to be realizable.

In addition, the calculation of the Company s tax liabilities involves a degree of uncertainty in the application of complex tax regulations. The Company recognizes liabilities for anticipated tax audit issues in the U. S. and other jurisdictions based on its estimates of whether, and the extent to which, additional tax payments are more likely than not. If, and at the time, the Company determines payment of such amounts are less likely than not, the liability will be reversed and a tax benefit recognized to reduce the provision for income taxes. The Company will record an increase to its provision for income tax expense in the period it determines it is more likely than not that recorded liabilities are less than the ultimate tax assessment.

Impairment of long-lived assets The Company s long-lived assets include property, plant and equipment, goodwill and other intangible assets. If an indicator of impairment exists for certain groups of property, plant and equipment or definite-lived intangible assets, the Company will compare the forecasted undiscounted cash flows attributable to the assets to their carrying values. If the carrying values exceed the undiscounted cash flows, the Company then determines the fair values of the assets. If the carrying values exceed the fair values of the assets, then an impairment charge is recognized for the difference. During 2006, the Company recorded impairment

Table of Contents

charges related to two restructuring initiatives in the North American Tire segment. The segment closed its manufacturing facility in Athens, Georgia and recorded $8.2 million to write assets down to fair value. The segment also recorded $.4 million associated with the write-off of tire molds which were taken out of production in conjunction with the initiative to reduce the number of stock keeping units manufactured in its facilities.

During 2005, impairments of $.9 million were recorded related to molds used in the North American Tire Operations segment. During 2004, impairments of $7.5 million were recorded as part of the Company s restructuring expenses related to the decision to cease radial medium truck tire production.

During 2006, the Company recorded goodwill of $23.7 million and intangible assets of $14.1 million associated with the Chengshan acquisition. The Company assesses the potential impairment of its goodwill and other indefinite-lived assets at least annually or when events or circumstances indicate impairment may have occurred. The carrying value of these assets is compared to their fair value. If the carrying values exceed the fair values, then a hypothetical purchase price allocation is computed and the impairment charge, if any, is then recorded.

As discussed in the footnotes to the financial statements, Note 6 Goodwill and Intangible Assets, the Company assessed the goodwill and the indefinite-lived intangible asset in the North American Tire Operations segment at December 1, 2006 and determined that impairment existed. Following a review of the valuation of the segment s identifiable assets, the Company wrote off the goodwill of the segment. The Company reduced the value of the indefinite-lived intangible at December 31, 2006 to the value indicated by the annual review.

The Company cannot predict the occurrence of future impairment-triggering events. Such events may include, but are not limited to, significant industry or economic trends and strategic decisions made in response to changes in the economic and competitive conditions impacting the Company s businesses.

Pension and postretirement benefits The Company has recorded significant pension liabilities in the United States and the United Kingdom and other postretirement benefit liabilities in the United States that are developed from actuarial valuations. The determination of the Company s pension liabilities requires key assumptions regarding discount rates used to determine the present value of future benefits payments, expected returns on plan assets and the rates of future compensation increases. The discount rate is also significant to the development of other postretirement benefit liabilities. The Company determines these assumptions in consultation with its actuaries.

The discount rate reflects the rate used to estimate the value of the Company s pension and other postretirement liabilities for which they could be settled at the end of the year. When determining the discount rate, the Company considers the most recent available interest rates on Moody s Aa Corporate bonds, with maturities of at least twenty years, late in the fourth quarter and then factors into the rate its expectations for change by year-end. The Company discounted the expected pension disbursements over the next fifty years using a yield curve based on market data as of December 31, 2006, which validated the present value determined using the single benchmark rate for all years. Based upon this analysis, the Company did not change the discount rate used to measure its United States pension and postretirement benefit liabilities from 5.75 percent. A similar analysis was completed in the United Kingdom and the Company reduced the discount rate used to measure its United Kingdom pension liabilities to 5.3 percent at December 31, 2006 from 5.5 percent at December 31, 2005. The effect of this reduction in the discount rate assumption was to increase the projected benefit obligation at December 31, 2006 by $3.6 million which will also result in an increase of less than $.1 million in pension expense during 2007.

The rate of future compensation increases is used to determine the future benefits to be paid for salaried and non-bargained employees, because the amount of a participant s pension is partially attributable to the compensation earned during his or her career. The rate reflects the Company s expectations over time for salary and wage inflation and the impacts of promotions and incentive compensation, which is based on profitability. The Company used 3.25 percent for the estimated future compensation increases in measuring its United States pension liabilities at December 31, 2006 and December 31, 2005. In the United Kingdom, the Company used 3.67 percent for the estimated future compensation increase at December 31, 2006 compared to a rate of 4.0 percent at December 31, 2005. The reduction is result of a pay reduction for process workers.

The assumed long-term rate of return on pension plan assets is applied to the market value of plan assets to derive a reduction to pension expense that approximates the expected average rate of asset investment return over ten or more years. A decrease in the expected long-term rate of return will increase pension expense, whereas an increase in the

expected long-term rate will reduce pension expense. Decreases in the level of actual plan assets will serve to increase the amount of pension expense, whereas increases in the level of actual plan assets will serve to decrease the amount of pension expense. Any shortfall in the actual return on plan assets from the expected return will increase pension expense in future years due to the amortization of the shortfall, whereas any excess in the actual return on plan assets from the expected return will reduce pension expense in future periods due to the amortization of the excess.

The Company s investment policy for United States plans assets is to maintain an allocation of 70 percent in equity securities and 30 percent in debt securities. The Company s investment policy for United Kingdom plan assets is to maintain an allocation of 65 percent in equity securities and 35 percent in fixed income securities. Equity security investments are structured to achieve an equal balance between growth and value stocks. The Company determines the annual rate of return on pension assets by first analyzing the composition of its asset portfolio. Historical rates of return are applied to the portfolio. This computed rate of return is reviewed by the Company s investment advisors and actuaries. Industry comparables and other outside guidance is also considered in the annual selection of the expected rates of return on pension assets.

The actual return on United States pension plans assets approximated 11.2 percent in 2006 and 8.0 percent in 2005. The higher actual return on plan assets reflects higher equity returns than in the prior year. The actual return on United Kingdom pension plan assets approximated 9.8 percent in 2006 and 19.4 percent in 2005. The lower returns in 2006 were mainly the result of lower returns on United Kingdom and overseas equities. Using recent and projected market and economic conditions, the Company maintained its estimate for the expected long-term return on its United States plan assets at nine percent, the same assumption used to derive 2005 and 2006 expense. The expected long-term return on United Kingdom plan assets used to derive the 2006 pension expense was 7.5 percent, compared to a rate of 8.75 percent used to derive the 2005 pension expense. The lower rate is the result of a reduction in real bond yields in 2005 which led to an expectation of lower investment returns in 2006, in addition to a .5 percent reduction in the underlying assumed level of inflation.

The Company has accumulated net deferred losses resulting from the shortfalls and excesses in actual returns on pension plan assets from expected returns and, in the measurement of pensions liabilities, decreases and increases in the discount rate and the rate of future compensation increases and differences between actuarial assumptions and actual experience totaling $300 million at December 31, 2006. These amounts are being amortized in accordance with the corridor amortization requirements of SFAS No. 87, Employers Accounting for Pensions, over periods ranging from ten years to 15 years. Amortization of these net deferred losses was $15 million in 2006 and $13 million in 2005.

The Company adopted SFAS No. 106, Employers Accounting for Postretirement Benefits Other Than Pensions (SFAS No. 106), in 1992 and, to mitigate the impact of medical cost inflation on the Company s retiree medical obligation, instituted per participant, or per household, caps on the amounts of retiree medical benefits it will provide to future retirees. The caps do not apply to individuals who retired prior to certain specified dates. Costs in excess of these caps will be paid by plan participants. The Company implemented increased cost sharing in 2004 in the retiree medical coverage provided to certain eligible current and future retirees. Since then cost sharing has expanded such that nearly all covered retirees pay a charge to be enrolled. The medical care cost trend rate has a significant impact on the liabilities recorded by the Company. A one percent increase in the assumed health care cost trend rate would increase retiree medical obligations by $3.6 million and increase retiree medical benefits expense by $.3 million.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was enacted in December 2003. The Act introduced a prescription drug benefit under Medicare Part D as well as an option for a federal subsidy to sponsors of retiree health plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003. This FSP provided accounting and disclosure guidance for employers who sponsor postretirement health care plans that provide drug benefits. Regulations regarding implementation of provisions relevant to the Company s accounting are complex and contain acknowledged open issues. The Act reduced the Company s net periodic postretirement benefit cost by $2.2 million in 2004 including service cost, interest cost and amortization of the actuarial gain. The total impact on the Company s actuarial liability in 2004, under all U. S. plans, was a reduction of $15.3 million being accounted for as an actuarial gain to be amortized. Cumulative gains and losses are amortized as a portion of the Company s periodic expense over a period of fifteen years. At December 31, 2006, this actuarial gain has been reduced to $5.8 million as a result of amortization, the Company s revised expectations of the subsidy to be received and the impact of the Act on the health care benefits being provided to its participants. The Company applied to receive the federal drug subsidy in 2006 and received $.4 million relating to the first three quarters of the year. The Company intends to continue to analyze the options available with respect to the relationship of the Company health care benefits with all parts of

Medicare to attain the most cost effective coordination.

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. This statement required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its pension and other postretirement benefit (OPEB) plans in the December 31, 2006 consolidated balance sheet, with a corresponding adjustment to cumulative other comprehensive loss (a component of stockholders equity), net of tax. The adjustment to cumulative other comprehensive loss at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, all of which were previously netted against the plans funded status in the Company s consolidated balance sheets pursuant to the provisions of SFAS No. 87, Employers Accounting for Pensions (SFAS No. 87) and SFAS No. 106. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company s historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit costs in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as components of net periodic benefit cost on the same basis as the amount recognized in cumulative other comprehensive loss at adoption of SFAS No. 158.

Table of Contents

The adoption of SFAS No. 158 had no effect on the Company s consolidated statement of operations for the year ended December 31, 2006, or for any prior periods presented, and it will not effect the Company s operating results in future periods. Had the Company not been required to adopt SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No 87.

Off-Balance Sheet Arrangements

Certain operating leases related to property and equipment used in the operations of Cooper-Standard Automotive were guaranteed by the Company. These guarantees require the Company, in the event Cooper-Standard fails to honor its commitments, to satisfy the terms of the lease agreements. As part of the sale of the automotive operations, the Company is seeking releases of those guarantees but to date has been unable to secure releases from certain lessors. The most significant of those leases is for a U. S. manufacturing facility with a remaining term of 10 years and total remaining payments of approximately $11.5 million. Other leases cover two facilities in the United Kingdom and manufacturing equipment. These leases have remaining terms of from nine months to seven years and remaining payments of approximately $5.0 million. The Company does not believe it is presently probable that it will be called upon to make these payments. Accordingly, no accrual for these guarantees has been recorded. If information becomes known to the Company at a later date which indicates its performance under these guarantees is probable, accruals for the obligations will be required.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to fluctuations in interest rates and currency exchange rates from its financial instruments. The Company actively monitors its exposure to risk from changes in foreign currency exchange rates and interest rates. Derivative financial instruments are used to reduce the impact of these risks. See the Significant Accounting Policies Derivative financial instruments and Fair Value of Financial Instruments notes to the consolidated financial statements for additional information.

The Company has estimated its market risk exposures using sensitivity analysis. These analyses measure the potential loss in future earnings, cash flows or fair values of market sensitive instruments resulting from a hypothetical ten percent change in interest rates or foreign currency exchange rates.

A ten percent decrease in interest rates would have adversely affected the fair value of the Company s fixed-rate, long-term debt by approximately $25.1 million at December 31, 2006 and approximately $27.1 million at December 31, 2005. A ten percent increase in the interest rates for the Company s floating rate long-term debt obligations would not have been material to the Company s results of operations and cash flows.

To manage the volatility of currency exchange exposures related to future sales and purchases, the Company nets the exposures on a consolidated basis to take advantage of natural offsets. For the residual portion, the Company enters into forward exchange contracts and purchases options with maturities of less than 12 months pursuant to the Company s policies and hedging practices. The changes in fair value of these hedging instruments are offset in part or in whole by corresponding changes in the fair value of cash flows of the underlying exposures being hedged. The Company s unprotected exposures to earnings and cash flow fluctuations due to changes in foreign currency exchange rates were not significant at December 31, 2006 and 2005.

The Company enters into fair value, foreign exchange contracts to manage its exposure to foreign currency denominated receivables and payables. The impact from a ten percent change in foreign currency exchange rates on the Company s foreign currency denominated obligations and related foreign exchange contracts would not have been material to the Company s results of operations and cash flows.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31
(Dollar amounts in thousands except per share amounts)

	2004	2005	**2006**
Net sales	$ 2,081,609	$ 2,155,185	**$ 2,676,242**
Cost of products sold	1,848,616	1,967,835	**2,478,679**
Gross profit	232,993	187,350	**197,563**
Selling, general and administrative	171,689	161,192	**192,737**
Adjustments to class action warranty	(11,273)	(277)	
Restructuring	9,353		**14,575**
Operating profit	63,224	26,435	**(9,749)**
Interest expense	27,569	54,511	**47,166**
Debt extinguishment costs		4,228	**(77)**
Interest income	(2,068)	(18,541)	**(10,067)**
Dividend from unconsolidated subsidiary			**(4,286)**
Impairment of goodwill and indefinite-lived intangible asset			**51,546**
Other net	2,717	588	**(2,077)**
Income/(loss) from continuing operations before income taxes	35,006	(14,351)	**(91,954)**
Provision (benefit) for income taxes	7,560	704	**(9,727)**
Income/(loss) from continuing operations before minority interests	27,446	(15,055)	**(82,227)**
Minority interests		22	**(3,663)**
Income/(loss) from continuing operations	27,446	(15,033)	**(85,890)**
Income from discontinued operations, net of income taxes	61,478		**7,379**
Gain on sale of discontinued operations including income tax benefit	112,448	5,677	
Net income/(loss)	$ 201,372	$ (9,356)	**$ (78,511)**

Basic earnings (loss) per share:						
Income/(loss) from continuing operations	$	0.37	$	(0.24)	**$**	**(1.40)**
Income from discontinued operations		0.83				**0.12**
Gain on sale of discontinued operations		1.52		0.09		
Net income/(loss)	$	2.71*	$	(0.15)	**$**	**(1.28)**
Diluted earnings (loss) per share:						
Income/(loss) from continuing operations	$	0.37	$	(0.24)	**$**	**(1.40)**
Income from discontinued operations		0.82				**0.12**
Gain on sale of discontinued operations		1.50		0.09		
Net income/(loss)	$	2.68*	$	(0.15)	**$**	**(1.28)**

* Amounts do not add due to rounding

See Notes to Consolidated Financial Statements, pages 38 to 67.

Table of Contents

CONSOLIDATED BALANCE SHEETS
December 31
(Dollar amounts in thousands, except par value amounts)

	2005	**2006**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 280,712	**$ 221,655**
Accounts receivable, less allowances of $5,765 in 2005 and $8,880 in 2006	338,793	**414,096**
Inventories at lower of cost or market:		
Finished goods	221,968	**240,100**
Work in process	21,820	**28,458**
Raw materials and supplies	62,258	**83,129**
	306,046	**351,687**
Other current assets	20,120	**21,686**
Deferred income taxes	23,130	
Total current assets	968,801	**1,009,124**
Property, plant and equipment:		
Land and land improvements	39,152	**41,553**
Buildings	266,364	**298,706**
Machinery and equipment	1,396,248	**1,636,091**
Molds, cores and rings	225,555	**268,158**
	1,927,319	**2,244,508**
Less accumulated depreciation and amortization	1,141,094	**1,252,692**
Net property, plant and equipment	786,225	**991,816**
Goodwill	48,172	**24,439**
Intangibles, net of accumulated amortization of $18,028 in 2005 and $22,446 in 2006	31,108	**37,399**
Restricted cash	12,382	**7,550**
Other assets	305,498	**164,951**
	$ 2,152,186	**$ 2,235,279**

See Notes to Consolidated Financial Statements, pages 38 to 67.

Table of Contents

December 31

	2005	**2006**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Notes payable	$ 79	**$ 112,803**
Payable to non-controlling owner of subsidiary		**51,527**
Accounts payable	157,785	**238,181**
Accrued liabilities	99,659	**117,005**
Income taxes	15,390	**4,698**
Liabilities related to the sale of automotive operations	4,684	**3,038**
Total current liabilities	277,597	**527,252**
Long-term debt	491,618	**513,213**
Postretirement benefits other than pensions	181,997	**258,579**
Other long-term liabilities	220,896	**217,743**
Long-term liabilities related to the sale of automotive operations	14,407	**8,913**
Deferred income taxes	21,941	
Minority interests in consolidated subsidiaries	4,954	**69,688**
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 2005 and in 2006	86,323	**86,323**
Capital in excess of par value	37,667	**38,144**
Retained earnings	1,361,269	**1,256,971**
Cumulative other comprehensive loss	(86,323)	**(282,552)**
	1,398,936	**1,098,886**
Less: common shares in treasury at cost (25,001,503 in 2005 and 24,943,265 in 2006)	(460,160)	**(458,995)**
Total stockholders equity	938,776	**639,891**
	$ 2,152,186	**$ 2,235,279**

See Notes to Consolidated Financial Statements, pages 38 to 67.

Table of Contents

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(Dollar amounts in thousands except per share amounts)

	Common Stock $1 Par Value	Capital In Excess of Par Value	Retained Earnings	Cumulative Other Comprehensive Income (Loss)	Common Shares in Treasury	Total
Balance at January 1, 2004	$ 85,268	$ 24,813	$ 1,226,999	$ (109,679)	$ (197,012)	$ 1,030,389
Net income			201,372			201,372
Other comprehensive income:						
Minimum pension liability adjustment, net of $16,641 tax effect				24,798		24,798
Currency translation adjustment				23,200		23,200
Change in the fair value of derivatives and unrealized gain on marketable securities, net of $894 tax effect				1,454		1,454
Sale of Automotive				(13,858)		(13,858)
Comprehensive income						236,966
Purchase of 4,030,100 treasury shares					(83,064)	(83,064)
Stock compensation plans	1,054	13,259			3,032	17,345
Cash dividends $.42 per share			(31,103)			(31,103)
Balance at December 31, 2004	86,322	38,072	1,397,268	(74,085)	(277,044)	1,170,533
Net loss			(9,356)			(9,356)
Other comprehensive income:						
Minimum pension liability adjustment, net of $4,238 tax effect				(4,818)		(4,818)
Currency translation adjustment				(10,714)		(10,714)
				3,294		3,294

Change in the fair value of derivatives and unrealized gain on marketable securities, net of $2,034 tax effect						
Comprehensive income (loss)						(21,594)
Purchase of 10,151,636 treasury shares					(189,764)	(189,764)
Stock compensation plans, including tax benefit of $1,273	1	(405)			6,648	6,244
Cash dividends $.42 per share			(26,643)			(26,643)
Balance at December 31, 2005	86,323	37,667	1,361,269	(86,323)	(460,160)	938,776
Net loss			**(78,511)**			**(78,511)**
Other comprehensive income (loss):						
Minimum pension liability adjustment, net of $6,469 tax effect				**(15,795)**		**(15,795)**
Currency translation adjustment				**16,228**		**16,228**
Change in the fair value of derivatives and unrealized gain on marketable securities, net of $633 tax effect				**559**		**559**
Comprehensive income (loss)						**(77,519)**
Adjustment to initially apply SFAS No. 158, net of tax				**(197,221)**		**(197,221)**
Stock compensation plans, including tax benefit of $8		**477**	**(6)**		**1,165**	**1,636**
Cash dividends $.42 per share			**(25,781)**			**(25,781)**
Balance at December 31, 2006	**$ 86,323**	**$ 38,144**	**$ 1,256,971**	**$ (282,552)**	**$ (458,995)**	**$ 639,891**

See Notes to Consolidated Financial Statements, pages 38 to 67.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31
(Dollar amounts in thousands)

	2004	2005	**2006**
Operating activities:			
Net income/(loss)	$ 201,372	$ (9,356)	**$ (78,511)**
Adjustments to reconcile net income/(loss) to net cash provided by (used in) continuing operations:			
Income from discontinued operations, net of income taxes	(61,478)	(5,677)	**(7,379)**
Gain on sale of discontinued operations including income tax benefit	(112,448)		
Depreciation	109,805	108,340	**132,860**
Amortization	4,792	7,327	**5,513**
Deferred income taxes	(12,296)	(16,522)	**(18,056)**
Stock based compensation		248	**1,572**
Noncontrolling shareholders income (expense)		(22)	**3,663**
Adjustments to class action warranty	(11,273)	(277)	
Restructuring asset write-down	9,251		**8,570**
Impairment of goodwill and indefinite-lived intangible asset			**51,546**
Changes in operating assets and liabilities of continuing operations:			
Accounts receivable	(8,379)	(2,952)	**(30,823)**
Inventories	(55,823)	(62,715)	**(1,557)**
Other current assets	(24,765)	28,156	**3,981**
Accounts payable	44,154	(21,329)	**14,779**
Accrued liabilities	1,106	15,931	**4,532**
Other items	(91,335)	30,100	**24,788**
Net cash provided by (used in) continuing operations	(7,317)	71,252	**115,478**
Net cash provided by (used in) discontinued operations	*109,289*	*(17,635)*	***239***
Net cash provided by operating activities	101,972	53,617	**115,717**
Investing activities:			
Property, plant and equipment	(159,308)	(172,152)	**(188,525)**
Investment in Kumho Tire Company		(107,961)	
Proceeds from the sale of (investment in) available-for-sale debt securities	(46,064)	46,064	
Acquisition of businesses, net of cash acquired			**(43,046)**
Proceeds from the sale of business	1,172,267	54,270	
Proceeds from the sale of assets	37	3,709	**972**
Net cash provided by (used in) continuing operations	966,932	(176,070)	**(230,599)**
Net cash provided by (used in) discontinued operations	*(45,318)*	*3,170*	
Net cash provided by (used in) investing activities	921,614	(172,900)	**(230,599)**
Financing activities:			
Payments on long-term debt	(90,003)	(278,362)	**(4,000)**
Net borrowings (repayments) under credit facilities	(32,751)	(354)	**74,097**

Contributions of joint venture partner		4,210	**18,424**
Purchase of treasury shares	(83,064)	(189,764)	
Payment of dividends	(31,103)	(26,643)	**(25,781)**
Issuance of common shares and excess tax benefits on options	17,345	4,673	**149**
Net cash provided by (used in) continuing operations	(219,576)	(486,240)	**62,889**
Net cash provided by discontinued operations	*14,495*		
Net cash provided by (used in) financing activities	(205,081)	(486,240)	**62,889**
Effects of exchange rate changes on cash of continuing operations	9,757	4,507	**(7,064)**
Effects of exchange rate changes on cash of discontinued operations	*(12,960)*		
Changes in cash and cash equivalents	815,302	(601,016)	**(59,057)**
Cash and cash equivalents at beginning of year	66,426	881,728	**280,712**
Cash and cash equivalents at end of year	$ 881,728	$ 280,712	**$ 221,655**

See Notes to Consolidated Financial Statements, pages 38 to 67.

Table of Contents

Notes to Consolidated Financial Statements
(Dollar amounts in thousands except per share amounts)
Note 1 - Significant Accounting Policies
Reclassification On December 23, 2004, the Company sold its automotive business, Cooper-Standard Automotive (Cooper-Standard), to an entity formed by The Cypress Group and Goldman Sachs Capital Partners. Also in September 2004, the North American Tire Operations segment announced its intent to cease its inner tube business. These operations 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.
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 operations for the years ended December 31, 2004, 2005 and 2006 reflect this segregation as income from continuing operations and income from discontinued operations and the consolidated balance sheets at December 31, 2005 and 2006 display the current and long-term liabilities related to the sale of the automotive operations.
Certain amounts for prior years have been reclassified to conform to 2006 presentations.
Principles of consolidation - The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. Acquired businesses are included in the consolidated financial statements from the dates of acquisition. All intercompany accounts and transactions have been eliminated.
The equity method of accounting is followed for investments in 20 percent to 50 percent owned companies. The cost method is followed in those situations where the Company s ownership is less than 20 percent and the Company does not have the ability to exercise significant influence over the affiliate.
The Company has entered into a joint venture with Kenda Tire Company to construct and operate a tire manufacturing facility in China. The Company has determined it is the primary beneficiary of this variable interest entity and has included its assets, liabilities and operating results in its consolidated financial statements. The Company has recorded the minority interest related to the joint venture partners ownership in minority interests in consolidated subsidiaries.
The following table summarizes the balance sheets of this variable interest entity at December 31:

	2005	**2006**
Assets		
Cash and cash equivalents	$ 608	**$ 5,940**
Accounts receivable	106	**2,238**
Prepaid expenses	39	**960**
Total current assets	753	**9,138**
Net property, plant and equipment	9,563	**69,409**
Intangibles and other assets		**4,326**
Total assets	$ 10,316	**$ 82,873**
Liabilities and stockholders equity		
Notes payable	$	**$ 10,083**
Accounts payable	404	**5,889**
Accrued liabilities	4	**48**
Current liabilities	408	**16,020**
Long-term debt		**10,234**

Stockholders equity	9,908	**56,619**
Total liabilities and stockholders equity	$ 10,316	**$ 82,873**

Cash and cash equivalents and Short-term investments - The Company considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

The Company s objectives related to the investment of cash not required for operations is to preserve capital, meet the Company s liquidity needs and earn a return consistent with these guidelines and market conditions. Investments deemed

eligible for the investment of the Company s cash include: 1) U.S. Treasury securities and general obligations fully guaranteed with respect to principle and interest by the government; 2) obligations of U.S. government agencies; 3) commercial paper or other corporate notes of prime quality purchased directly from the issuer or through recognized money market dealers; 4) time deposits, certificates of deposit or bankers acceptances of banks rated A- by Standard & Poor s or A3 by Moody s; 5) collateralized mortgage obligations rated AAA by Standard & Poor s and Aaa by Moody s; 6) tax-exempt and taxable obligations of state and local governments of prime quality; and 7) mutual funds or outside managed portfolios that invest in the above investments. The Company had cash and cash equivalents totaling $280,712 and $221,655 at December 31, 2005 and December 31, 2006, respectively. The majority of the cash and cash equivalents was invested in eligible financial instruments in excess of amounts insured by the Federal Deposit Insurance Corporation and, therefore, subject to credit risk.

Accounts receivable The Company records trade accounts receivable when revenue is recorded in accordance with its revenue recognition policy and relieves accounts receivable when payments are received from customers.

Allowance for doubtful accounts - The allowance for doubtful accounts is established through charges to the provision for bad debts. The Company evaluates the adequacy of the allowance for doubtful accounts on a periodic basis. The evaluation includes historical trends in collections and write-offs, management s judgment of the probability of collecting accounts and management s evaluation of business risk. This evaluation is inherently subjective, as it requires estimates that are susceptible to revision as more information becomes available. Accounts are determined to be uncollectible when the debt is deemed to be worthless or only recoverable in part, and are written off at that time through a charge against the allowance for doubtful accounts.

Inventories - Inventories are valued at cost, which is not in excess of market. Inventory costs have been determined by the last-in, first-out (LIFO) method for substantially all U. S. inventories. Costs of other inventories have been determined principally by the first-in, first-out (FIFO) method.

Long-lived assets - Property, plant and equipment are recorded at cost and depreciated or amortized using the straight-line or accelerated methods over the following expected useful lives:

Buildings and improvements	10 to 40 years
Machinery and equipment	5 to 14 years
Furniture and fixtures	5 to 10 years
Molds, cores and rings	4 to 10 years

Intangibles with definite lives include trademarks, technology and intellectual property which are amortized over their useful lives which range from five years to 30 years. The Company evaluates the recoverability of long-lived assets based on undiscounted projected cash flows excluding interest and taxes when any impairment is indicated. Goodwill and other indefinite-lived intangibles are assessed for potential impairment at least annually or when events or circumstances indicate impairment may have occurred.

Pre-production costs related to long-term supply arrangements - When the Company has a contractual arrangement for reimbursement of costs incurred during the engineering and design phase of customer-owned mold projects by the customer, development costs are recorded in Other assets in the accompanying consolidated balance sheets. Reimbursable costs for customer-owned molds included in Other assets were $1,773 and $2,238 at December 31, 2005 and 2006, respectively. Upon completion and acceptance of customer-owned molds, reimbursable costs are recorded as accounts receivable. At December 31, 2005 and 2006, respectively, $1,664 and $2,110 were included in Accounts receivable for customer-owned molds.

Restricted cash - In conjunction with the sale of Cooper-Standard, under terms of an employment agreement with the president of the automotive operations, the Company is obligated to pay the severance costs and related excise taxes, if any, if severance occurs on or prior to December 31, 2007. Under the terms of a change in control severance pay plan for eight additional key executives, such executives were entitled to specified severance payments if terminated by the buyer on or prior to December 22, 2006. The Company was required to fund, immediately following the sale, its potential obligation for such severance payments into a rabbi trust with a third party trustee for the possible benefit of these executives. During 2005 and 2006, payments were made as a result of the separation of two executives covered by this change in control agreement. Subsequent to December 22, 2006, the amounts in the rabbi trust relating

to the obligation for severance payments of the six remaining executives covered by the change in control severance pay plan were returned to the general cash account of the Company. The balances of this and other smaller trusts at December 31, 2005 and 2006 were $12,382 and $7,550, respectively.

Earnings (loss) per common share Net income (loss) per share is computed on the basis of the weighted average number of common shares outstanding each year. Diluted earnings (loss) per share from continuing operations includes the dilutive effect of stock options and other stock units. The following table sets forth the computation of basic and diluted earnings (loss) per share:

(Number of shares in thousands)	2004	2005	**2006**
Numerator for basic and diluted earnings (loss) per share income (loss) from continuing operations available to common stockholders	$ 27,446	$ (15,033)	**$ (85,890)**
Denominator for basic earnings (loss) per share weighted-average shares outstanding	74,201	63,653	**61,338**
Effect of dilutive securities stock options and other stock units	984		
Denominator for diluted earnings (loss) per share adjusted weighted-average shares outstanding	75,185	63,653	**61,338**
Basic and diluted earnings (loss) per share from continuing operations	$ 0.37	$ (0.24)	**$ (1.40)**

Options to purchase shares of the Company s common stock not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares were 501,000 in 2004. These options could be dilutive in the future depending on the performance of the Company s stock. Due to the loss recorded in 2005, 3,165,000 options were not included in the computation of diluted earnings (loss) per share. Due to the loss recorded in 2006, 2,597,000 options were not included in the computation of diluted earnings (loss) per share. During 2005, the Company repurchased 10,151,000 shares. No additional shares were repurchased in 2006.

Derivative financial instruments Derivative financial instruments are utilized by the Company to reduce foreign currency exchange risks. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. The Company does not enter into financial instruments for trading or speculative purposes.

The Company uses foreign currency forward contracts as hedges of the fair value of certain non-U.S. dollar denominated asset and liability positions, primarily accounts receivable. Gains and losses resulting from the impact of currency exchange rate movements on these forward contracts are recognized in the accompanying consolidated statements of income in the period in which the exchange rates change and offset the foreign currency gains and losses on the underlying exposure being hedged.

Foreign currency forward contracts are also used to hedge variable cash flows associated with forecasted sales and purchases denominated in currencies that are not the functional currency of certain entities. The forward contracts have maturities of less than twelve months pursuant to the Company s policies and hedging practices. These forward contracts meet the criteria for and have been designated as cash flow hedges. Accordingly, unrealized gains and losses on such forward contracts are recorded as a separate component of stockholders equity in the accompanying consolidated balance sheets and reclassified into earnings as the hedged transaction affects earnings.

The Company s hedges have been highly effective. The Company monitors the actual and forecasted foreign currency sales and purchases versus the amounts hedged to identify any hedge ineffectiveness. The Company also performs regression analysis comparing the change in value of the hedging contracts versus the underlying foreign currency sales and purchases, which confirms a high correlation and hedge effectiveness. Any hedge ineffectiveness is recorded as an adjustment in the accompanying consolidated financial statements of operations in the period in which the ineffectiveness occurs. To date, an immaterial amount of ineffectiveness has been identified and recorded.

Income taxes - Income tax expense for continuing operations and discontinued operations is based on reported earnings (loss) before income taxes in accordance with the tax rules and regulations of the specific legal entities within the various specific taxing jurisdictions where the Company s income is earned. The income tax rates imposed by these taxing jurisdictions vary substantially. Taxable income may differ from income before income taxes for financial accounting purposes. To the extent that differences are due to revenue or expense items reported in one period for tax purposes and in another period for financial accounting purposes, a provision for deferred income taxes

is made using enacted tax rates in effect for the year in which the

differences are expected to reverse. A valuation allowance is recognized if it is anticipated that some or all of a deferred tax asset may not be realized. Deferred income taxes are not recorded on undistributed earnings of international affiliates based on the Company s intention that these earnings will continue to be reinvested.

Products liability 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. 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. 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. Premium costs for insurance coverage in excess of the self-insured amounts for the April 1, 2004 to March 31, 2005 policy year were $10,419 higher than under the program in place prior to April 1, 2003; the per claim retention limit increased $13,250 and the aggregate retention limit was eliminated, while excess liability coverage increased by $35,000. The Company continued the program effective April 1, 2005 with an increase in the per claim retention limit of $10,000 and a premium cost reduction of $5,320. The total per claim retention limit for claims occurring in this policy year is $25,000.

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.

Products liability costs totaled $60,476, $52,323 and $63,649 in 2004, 2005 and 2006, respectively, and include recoveries of legal fees of $9,349, $12,700 and $9,434 in 2004, 2005 and 2006, respectively. Policies applicable to claims occurring on April 1, 2003, and thereafter, do not provide for recovery of legal fees.

Advertising expense Expenses incurred for advertising include production and media and are generally expensed when incurred. Dealer-earned cooperative advertising expense is recorded when earned. Advertising expense for 2004, 2005 and 2006 was $51,745, $48,064 and $59,328, respectively.

Stock-based compensation - On January 1, 2006, the Company adopted 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. Accordingly, prior periods have not been restated.

On November 16, 2005, the Compensation Committee of the Company approved an acceleration of vesting of employee stock options and approximately 1,768 options with varying remaining vesting schedules became immediately exercisable. The action to accelerate vesting was done for the purpose of avoiding future expenses associated with any unvested stock options granted prior to the effective date of SFAS No. 123(R). In accordance with the adoption of SFAS No. 123 (R), the Company s pre-tax income from continuing operations for year ended December 31, 2006 was not materially affected because of the acceleration of the vesting.

Table of Contents

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 year ended December 31, 2006, the Company recognized $8 of excess tax benefits as a financing cash inflow.
The fair value of option grants was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	2004	2005	**2006**
Risk-free interest rate	2.4%	3.5%	**4.6%**
Dividend yield	2.1%	1.9%	**2.9%**
Expected volatility of the Company s common stock	0.336	0.240	**0.350**
Expected life in years	6.7	6.8	**6.8**

The weighted-average fair value of options granted in 2004, 2005 and 2006 was $5.69, $5.28 and $4.55, respectively. For purposes of pro forma disclosures, the estimated fair value of options is amortized to expense over the options vesting period.
The Company s reported and pro forma financial results are as follows:

	2004	2005
Income (loss) from continuing operations as reported	$ 27,446	$ (15,033)
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects	(1,322)	(5,138)
Pro forma income (loss) from continuing operations	$ 26,124	$ (20,171)
Basic earnings (loss) per share from continuing operations:		
Reported	$ 0.37	$ (0.24)
Pro forma	0.35	(0.32)
Diluted earnings (loss) per share from continuing operations:		
Reported	$ 0.37	$ (0.24)
Pro forma	0.35	(0.32)

Warranties 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. During 2005, as a result of the review of the adequacy of its warranty liabilities which is performed each quarter, the Company reduced the enhanced warranty accrual established in 2001 as a result of the class action settlement by $371. The following table summarizes the activity in the Company s product warranty liabilities which are recorded in Accrued liabilities and Other long-term liabilities in the Company s Consolidated Balance Sheets:

	2005	**2006**
Reserve at January 1	$ 10,048	**$ 9,064**
Acquisition of Cooper-Chengshan		**6,810**
Additions	5,789	**15,186**
Reduction to enhanced warranty reserve	(371)	
Payments	(6,402)	**(15,093)**
Reserve at December 31	$ 9,064	**$ 15,967**

Use of estimates The preparation of consolidated financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of: (1) revenues and expenses during the reporting period; and (2) assets and liabilities, as well as disclosure of contingent assets and liabilities, at the date of the consolidated financial statements. Actual results could differ from those estimates.

Revenue recognition - Revenues are recognized when title to the product passes to customers. Shipping and handling costs are recorded in cost of products sold. Allowance programs such as volume rebates and cash discounts are recorded at the time of sale based on anticipated accrual rates for the year.

Research and development - Costs are charged to cost of products sold as incurred and amounted to approximately $18,582, $15,946 and $23,184 in 2004, 2005 and 2006, respectively.

Accounting pronouncements

In June, 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109. This Statement clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS No. 109 and also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Statement also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. This Statement is effective for fiscal year beginning after December 15, 2006. The Company has not yet finalized its analysis of the impact from the change on its consolidated financial statements as of January 1, 2007, the date of the initial adoption by the Company; however, it does not believe there will be a material effect on its financial position or results of operations.

In September, 2006, the FASB issued SFAS No. 157, Fair Value Measurements. This Statement provides guidance for using fair value to measure assets and liabilities. The Statement defines fair value and establishes a fair value hierarchy that prioritizes the information used to develop assumptions market participants would use when pricing the asset or liability. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the provisions of this Statement, the impact on its consolidated financial statements and the timing and approach to adoption of the Statement.

In September, 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of SFAS Nos. 87, 88, 106 and 132(R) (SFAS No. 158). This Statement requires plan sponsors of defined benefit pension and other postretirement benefit plans (collectively, postretirement benefit plans) to recognize the funded status of their postretirement benefit plans in the balance sheet, measure the fair value of plan assets and benefit obligations as of the date of the fiscal year-end balance sheet and provide additional disclosures. On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. The effect of adopting SFAS No. 158 on the Company s financial condition at December 31, 2006 has been included in the accompanying consolidated balance sheet. SFAS No. 158 did not require restatement of the Company s previously issued consolidated balance sheet at December 31, 2005, accordingly, the two balance sheets presented are not comparable. SFAS No. 158 s provisions regarding the change in measurement date of postretirement benefit plans are not applicable as the Company already uses a measurement date of December 31 for its pension plan. See Note 12 Pensions and Postretirement Benefits Other than Pensions for further discussion of the effect of adopting SFAS No. 158 on the Company s consolidated financial statements.

Table of Contents

Note 2 - Acquisitions

Effective February 4, 2006, the Company acquired a 51 percent ownership position in Cooper Chengshan (Shandong) Passenger Tire Company Ltd. and Cooper Chengshan (Shandong) Tire Company, Ltd. (Cooper-Chengshan). The new companies, which were formed upon governmental approval of the transaction, together were known as Shandong Chengshan Tire Company, Ltd. (Chengshan) of Shandong, China. The two companies were formed by transferring specified assets and obligations to newly formed entities and the Company acquired a 51 percent interest in each thereafter. Certain inventories and accounts receivable were not transferred to the newly formed entities and cash was provided by Chengshan to achieve the contractually required net value of the Cooper-Chengshan companies. Following formation of the companies, working capital increases consumed cash as accounts receivable and inventory balances grew to operating levels. The Company also acquired a 25 percent ownership position in the steel cord factory which is located adjacent to the tire manufacturing facility in Rongchen City, Shandong, China.

The purchase price of the acquisition was $79,782 which included $73,382 for the 51 percent ownership position in Cooper-Chengshan and $6,400 for the 25 percent position in the steel cord factory. The Company has paid $36,646 (net of cash acquired of $18,815) and an additional $17,921 is due upon the signing of the share pledge agreement providing collateral against unknown liabilities or upon the resolution of post-closing adjustments, if any, for which the period extends to July 2007. Debt of $61,750 was also transferred to the newly formed Cooper-Chengshan entities. The newly formed entities reflect an obligation of $35,739 to Chengshan at December 31, 2006 and this obligation will be funded by issuing new debt.

Cooper-Chengshan manufactures car and light truck radial tires as well as radial and bias medium truck tires primarily under the brand names of Chengshan and Austone.

The Cooper-Chengshan acquisition has been accounted for as a purchase transaction. The total purchase price has been allocated to fixed assets, liabilities and tangible and identifiable intangible assets based on independent appraisals of their respective fair values. The excess purchase price over the estimated fair value of the net assets acquired is allocated to goodwill. The operating results of Cooper-Chengshan have been included in the consolidated financial statements of the Company since the date of acquisition.

The purchase price and the final allocation for the 51 percent interest in Cooper-Chengshan are as follows:

Assets	
Cash	$ 18,815
Accounts receivable	23,863
Inventory	32,672
Other current assets	1,012
Property, plant & equipment	151,081
Goodwill	24,439
Intangible and other assets	25,265
Liabilities	
Payable to Chengshan	(35,739)
Accounts payable	(57,246)
Accrued liabilities	(10,767)
Deferred taxes	(617)
Minority interest	(37,646)
Debt	(61,750)
	$ 73,382

The acquisition does not meet the thresholds for a significant acquisition and therefore no pro forma financial information is presented.

In connection with this acquisition, beginning January 1, 2009 and continuing through December 31, 2011, the minority interest partner has the right to sell, and, if exercised, the Company has the obligation to purchase, the remaining 49 percent minority interest share at a minimum price of $62,700.

Table of Contents

Note 3 - Discontinued Operations

On December 23, 2004, the Company sold its automotive operations, known as Cooper-Standard Automotive, to an entity formed by The Cypress Group and Goldman Sachs Capital Partners. 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 and permits the allocation of interest to discontinued operations in accordance with specific guidelines. Corporate overhead that previously would have been allocated to Cooper-Standard of $12,201 for the year ended 2004 is charged against continuing operations in the Company s consolidated statements of operations. The Company used the permitted allocation method for interest expense on corporate debt, which is based on the ratio of net assets sold or discontinued to the sum of total net assets of the consolidated Company plus consolidated debt. Under this method, interest expense of $34,019 for the year ended 2004, was allocated to discontinued operations in addition to interest on debt held directly by Cooper-Standard. Operating results for Cooper-Standard included in income from discontinued operations, net of income taxes, on the Company s consolidated statements of operations are presented in the following table. These amounts plus the results of other, smaller discontinued operations comprise the total income from discontinued operations.

(Dollar amounts in thousands)		Year Ended December 31, 2004
Net sales	$	1,851,954
Operating profit, including restructuring costs		137,838
Interest expense		36,365
Other net		(2,696)
Income from discontinued operations before income taxes		104,169
Provision for income taxes		39,053
Income from discontinued operations, net of income taxes	$	65,116

Proceeds from the December 2004 sale of Cooper-Standard Automotive were $1,226,537. In December 2004, the Company recorded a gain of $112,448 on the sale based on the preliminary sales price, including a tax benefit of $6,362 resulting primarily from currently deductible compensation expenses and other costs associated with the sale. During 2005, the Company recorded adjustments to the gain on sale totaling $5,463, plus a tax benefit of $214. There was no tax liability on the gain due to a capital loss in the United States resulting from book and tax bases differences and a statutory exemption from tax on the capital gain in the United Kingdom.

In connection with the sale, the Company agreed to indemnify the buyer against pre-closing income tax liabilities and other items specified in the Sale Agreement. For indemnity commitments where the Company believes future payments are probable, it also believes the expected outcomes can be estimated with reasonable accuracy. Accordingly, for such amounts, a liability has been recorded with a corresponding decrease in the gain on the sale. Other indemnity provisions will be monitored for possible future payments not presently contemplated. With the passage of time, additional information may become available to the Company which would indicate the estimated indemnification amounts require revision. Changes in estimates of the amount of indemnity payments will be reflected as income or loss from discontinued operations in the periods in which the additional information becomes known.

In September 2004, the North American Tire Operations segment announced its intent to cease its inner tube business. The segment recorded restructuring charges of $5,163 related to this decision, which included an impairment charge of $2,922 to write the inner tube assets down to their fair market value, severance costs of $1,115, employee benefit costs of $826 and other costs of $300.

Sales for the Company s inner tube business were $17,301 for 2004. An operating loss of $5,821 was recorded in 2004, including the restructuring charges described above. A net loss of $3,638 was recognized in 2004.

Table of Contents

Note 4 - Inventories

At December 31, 2005, approximately 77 percent of the Company s inventories had been valued under the LIFO method. With the acquisition of Cooper-Chengshan in February 2006, approximately 51 percent of the Company s inventories at December 31, 2006 have been valued under the LIFO method and the remaining inventories have been valued under the FIFO method. All inventories are stated at the lower of cost or market.

Under the LIFO method, inventories have been reduced by approximately $125,617 and $117,501 at December 31, 2005 and 2006, respectively, from current cost which would be reported under the first-in, first-out method. As a result of the Company s inventory management initiative, inventories in the United States which are accounted for using the LIFO cost method, at December 31, 2006 are lower than at December 31, 2005 and, for the year ended December 31, 2006, cost of products sold has been reduced by $8,790 as a result.

Note 5 - Assets Held for Sale

The assets of the Cleveland, Ohio manufacturing facility, a closed Cooper-Standard plastics parts operation, valued at $400, remained with the Company and were classified as assets held for sale in Other current assets on the consolidated balance sheet of the Company at December 31, 2005. During 2006, the $400 was transferred to Other assets as the Company continues to pursue the sale of the facility.

During 2006, the Company closed its manufacturing facility in Athens, Georgia and wrote the assets down to fair value. The land, building and certain manufacturing equipment are now classified as assets held for sale included in Other current assets on the consolidated balance sheet of the Company at December 31, 2006. In February 2007, the manufacturing facility was sold for $3,000.

During the fourth quarter of 2006, the Company removed one of its corporate aircraft from service and sold the aircraft in January 2007. At December 31, 2006 this asset has also been classified as an asset held for sale included in Other current assets on the consolidated balance sheet of the Company at December 31, 2006.

Assets Held for Sale are recorded at the lower of carrying value or fair value and adjusted if necessary in accordance with SFAS No. 144. The following table summarizes the activity in these assets since December 31, 2005:

	December 31, 2005	Assets Sold	Transferred (from)/to Held for Sale	Asset Writedown to Fair Value	**December 31, 2006**
Cleveland, Ohio manufacturing facility	$ 400	$	$ (400)	$	**$**
Athens, Georgia manufacturing facility			3,000		**3,000**
Athens, Georgia tire manufacturing equipment			1,000		**1,000**
Corporate aircraft			790		**790**
	$ 400	$	$ 4,390	$	**$ 4,790**

Note 6 - Goodwill and Intangibles

Goodwill is recorded in the segment where it was generated by acquisitions. During 2006, the Company recorded $24,439 of goodwill and $14,082 of definite-lived intangible assets associated with its acquisition of Cooper-Chengshan. Purchased goodwill and indefinite-lived intangible assets are tested annually for impairment unless indicators are present that would require an earlier test. During the fourth quarter of 2005, the Company completed its annual test for goodwill impairment and no impairment was indicated. During the fourth quarter of 2006, the Company completed its annual test for impairment and determined that impairment existed in the goodwill and in the indefinite-lived intangible assets of its North American Tire Operations segment. While the Company made

good faith projections of future cash flow in 2005, it failed to meet those projections in 2006 due to industry conditions and other factors. The Company believes certain of these factors will continue to have an impact in 2007 and, late in 2006, the Company implemented specific cost reduction initiatives to improve profitability. Following a review of the valuation of the segment s identifiable assets, the Company wrote off the goodwill of the North American Tire Operations segment which totaled $48,172 and also recorded an impairment charge of $3,374 related to the indefinite-lived intangible assets of the segment.

Table of Contents

The Company also reevaluates its intangible assets annually and determined that there were no significant changes in their useful lives in 2006. The following table presents intangible assets and accumulated amortization balances as of December 31, 2005 and 2006:

	December 31, 2005			**December 31, 2006**		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Definite-lived:						
Trademarks and tradenames	$ 16,500	$ (5,075)	$ 11,425	**$ 20,600**	**$ (6,261)**	**$ 14,339**
Patents and technology	14,131	(10,191)	3,940	**16,330**	**(11,719)**	**4,611**
Other	5,314	(2,762)	2,552	**13,098**	**(4,466)**	**8,632**
	35,945	(18,028)	17,917	**50,028**	**(22,446)**	**27,582**
Indefinite-lived:						
Trademarks	13,191		13,191	**9,817**		**9,817**
	$ 49,136	$ (18,028)	$ 31,108	**$ 59,845**	**$ (22,446)**	**$ 37,399**

Estimated amortization expense over the next five years is as follows: 2007 - $4,643, 2008 - $4,078, 2009 - $2,593, 2010 - $2,593 and 2011 - $2,593.

Note 7 - Other Assets

In February 2005, the Company purchased 15 million global depositary shares of Kumho Tire Co. Inc. of Korea (Kumho Tire) for $107,961. In accordance with SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, the Company is accounting for this investment as restricted stock due to the contractual requirements of the Strategic Subscription Agreement with Kumho Tire.

Other assets at December 31 are as follows:

	2005	**2006**
Pension funding in excess of amounts expensed	$ 167,027	**$**
Investment in Kumho Tire Co., Inc.	107,961	**107,961**
Other	30,510	**56,990**
	$ 305,498	**$ 164,951**

With the Company s adoption of SFAS No. 158, the pension funding in excess of amounts expensed has been removed as detailed in Note 12 Pensions and Postretirement Benefits Other than Pensions.

Note 8 - Accrued Liabilities

Accrued liabilities at December 31 are as follows:

	2005	**2006**
Payroll and withholdings	$ 26,712	**$ 28,443**
Dealer incentive programs	12,622	**19,778**
Products liability	16,690	**16,056**
Other	43,635	**52,728**

$ 99,659	**$ 117,005**

Table of Contents

Note 9 - Income Taxes

Components of income (loss) from continuing operations before income taxes were as follows:

	2004	2005	**2006**
United States	$ 21,666	$ (26,358)	**$ (111,412)**
Foreign	13,340	12,007	**19,458**
Total	$ 35,006	$ (14,351)	**$ (91,954)**

The provision (benefit) for income tax for continuing operations consists of the following:

	2004	2005	**2006**
Current:			
Federal	$ 14,936	$ 4,283	**$ 3,814**
State and local	273	217	**203**
Foreign	4,647	4,263	**4,312**
	19,856	8,763	**8,329**
Deferred:			
Federal	(9,917)	(18,470)	**(16,492)**
State and local	(94)	(25)	**(631)**
Foreign	(2,285)	1,973	**(933)**
	(12,296)	(16,522)	**(18,056)**
Section 965 repatriation		8,463	
	$ 7,560	$ 704	**$ (9,727)**

A reconciliation of income tax expense (benefit) for continuing operations to the tax based on the U.S. statutory rate is as follows:

	2004	2005	**2006**
Income tax provision (benefit) at 35%	$ 12,252	$ (5,015)	**$ (33,466)**
State and local income tax, net of federal income tax effect	163	125	**(757)**
Medicare prescription benefit	(764)		
Section 404(k) dividend	(1,117)	(738)	**(783)**
U.S. tax credits	(825)	(237)	**(5,505)**
Extraterritorial income exclusion	(735)	(183)	**(1,982)**
Difference in effective tax rates of international operations	(2,307)	(2,661)	**(2,617)**
Section 965 repatriation		8,463	
Impairment of goodwill			**16,849**
Valuation allowance			**18,136**
Tax exempt income		(272)	
Tax on foreign deemed dividend		268	
Adjustments to tax accruals	750	198	
Other net	143	756	**398**
Income tax expense	$ 7,560	$ 704	**$ (9,727)**

Payments for income taxes in 2004, 2005 and 2006, net of refunds, were $24,861, $1,017 and $4,505, respectively.

Deferred tax assets and liabilities result from differences in the basis of assets and liabilities for tax and financial reporting purposes. Significant components of the Company s deferred tax assets and liabilities at December 31 were as follows:

	2005	**2006**
Deferred tax assets:		
Postretirement and other employee benefits	$ 141,479	**$ 162,610**
Net operating loss, capital loss, and tax credits carryforwards	45,609	**54,397**
All other items	56,452	**63,630**
Total deferred tax assets	243,540	**280,637**
Deferred tax liabilities:		
Property, plant and equipment	(114,648)	**(113,882)**
Pension benefits	(65,731)	
All other items	(21,335)	**(24,793)**
Total deferred tax liabilities	(201,714)	**(138,675)**
	41,826	**141,962**
Valuation allowances	(40,637)	**(128,640)**
Net deferred tax asset	$ 1,189	**$ 13,322**

- 49 -

The net deferred taxes in the consolidated balance sheets are as follows:

	2005	**2006**
Current assets	$ 23,130	**$**
Non-current assets		**13,322**
Non-current liabilities	(21,941)	
Net deferred tax asset	$ 1,189	**$ 13,322**

At December 31, 2006, the Company has a U. S. federal tax loss carryforward of $4,362, as well as certain state tax losses, $18,646 of foreign tax losses, $76,464 of U. S. capital losses and $8,734 of U. S. federal and state credits available for carryforward. All U. S. federal and state tax attributes are offset with valuation allowances and expire from 2007 through 2026. The foreign tax losses have an indefinite carryforward period. The U. S. federal capital loss carryover will expire in 2009.

U. S. income taxes were not provided on a cumulative total of approximately $48,780 of undistributed earnings, as well as a minimal amount of other comprehensive income for certain non-U.S. subsidiaries. The Company currently intends to reinvest these earnings in operations outside the United States. It is not practicable to determine the amount of additional U.S. income taxes that could be payable upon remittance of these earnings since taxes payable would be reduced by foreign tax credits based upon income tax laws and circumstances at the time of distribution. The Company has joint ventures in the People s Republic of China that have been granted tax holidays. The holidays terminate after five years of profitability.

Note 10 - Debt

On June 30, 2004, the Company restated and amended its revolving credit facility with a consortium of ten banks (the Agreement). The Agreement contains two primary covenants. An interest coverage ratio (consolidated earnings before interest, taxes, depreciation and amortization divided by consolidated net interest expense) is required to be maintained at a minimum of 3.0 times by the Company. A ratio of consolidated net indebtedness to consolidated capitalization below 55 percent is also required. Consolidated net indebtedness is indebtedness measured in accordance with generally accepted accounting principles in the United States reduced by cash and eligible short-term investments in excess of $30 million. At December 31, 2006, 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 41.2 percent and the interest coverage ratio was adequate. The Agreement, as amended, provides up to $175,000 in credit facilities until August 31, 2008. In addition, the terms of the Agreement permit the Company to request bid rate loans from banks participating in the Agreement. Borrowings under the Agreement bear a margin linked to the Company s long-term credit ratings from Moody s and Standard & Poor s. There are no compensating balances required and the facility fees are not material. The credit facility also supports issuance of commercial paper and letters of credit. There were no borrowings under the revolving credit facility and no commercial paper was outstanding at December 31, 2005 or 2006.

The Company s revolving credit facility also contains a covenant which prevents the disposition of a substantial portion of its assets. A waiver of this covenant was granted by the bank group in December 2004 to permit the disposition of Cooper-Standard Automotive.

On August 30, 2006, the Company established an accounts receivable securitization facility of up to $175,000. Pursuant to the terms of the facility, the Company sells certain of its domestic trade receivables on a continuous basis to its wholly-owned, bankruptcy-remote subsidiary, Cooper Receivables LLC (CRLLC). In turn, CRLLC may sell from time-to-time an undivided ownership interest in the purchased trade receivables, without recourse, to a PNC Bank administered, asset-backed commercial paper conduit. The facility expires in August 2009. No ownership interests in the purchased trade receivables have been sold to the bank conduit through December 31, 2006.

Under the provisions of SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities , the ownership interest in the trade receivables sold to the bank conduit will be recorded as legal transfers without recourse, with those accounts receivable removed from the consolidated balance

sheet. The Company continues to service any sold trade receivables for the financial institution at market rates; accordingly, no servicing asset or liability will be recognized.

The Company had entered into $150,000 of interest rate swap contracts to convert a portion of the 2009 Senior Notes to floating rates. In the second quarter of 2005, the Company settled these contracts, recording a gain of $1,700, which is included in interest expense.

During 2005, the Company repurchased $157,920 of its long-term debt due in 2009, $48,422 of its long-term debt due in 2019 and $72,020 of its long-term debt due in 2027. The Company incurred transaction-related costs of $4,228 related to these repurchases, including $3,026 of deferred financing costs written off. During 2006, the Company repurchased $3,000 of its long-term debt due in 2019 and $1,000 of its long-term debt due in 2027. Deferred financing costs of $65 were written off in conjunction with these repurchases.

The following table summarizes the long-term debt of the Company at December 31, 2005 and 2006:

	2005	**2006**
7.75% unsecured notes, aggregate principal payment due December 2009	$ 192,080	**$ 192,080**
8% unsecured notes, aggregate principal payment due December 2019	176,578	**173,578**
7.625% unsecured notes, aggregate principal payment due March 2027	117,880	**116,880**
5.58% unsecured notes, aggregate principal payment due March 2009		**15,360**
5.427% unsecured notes, aggregate principal payment due August 2009		**5,120**
6.2881% unsecured notes, aggregate principal payment due August 2009		**1,020**
4.725% unsecured notes, aggregate principal payment due September 2009		**3,585**
6.2206% unsecured notes, aggregate principal payment due September 2009		**510**
Capitalized leases and other	5,080	**5,080**
	491,618	**513,213**
Less current maturities		
	$ 491,618	**$ 513,213**

The Company s revolving credit facility requires it to maintain, among other things, certain financial ratios. Retained earnings at December 31, 2006 are available for the payment of cash dividends and purchases of the Company s common shares and are limited by the above ratios.

The Company and its subsidiaries also have, from various banking sources, approximately $330,100 of available short-term lines of credit at rates of interest approximating euro-based interest rates. The amounts available and outstanding vary based on exchange rates as borrowings may be in currencies other than the U.S. Dollar.

The weighted average interest rate of short-term notes payable at December 31, 2005 and 2006 was 6.00 percent and 5.50 percent, respectively.

Interest paid on debt, net of payments received under interest rate swap agreements, during 2004, 2005 and 2006 was $61,723, $55,783 and $55,272, respectively. The amount of interest capitalized was $2,014, $2,612 and $2,894 during 2004, 2005 and 2006, respectively.

Note 11 - Fair Value of Financial Instruments

The fair value of the Company s debt is computed using discounted cash flow analyses based on the Company s estimated current incremental borrowing rates. The carrying amounts and fair values of the Company s financial instruments as of December 31 are as follows:

	2005		**2006**	
	Carrying Amount	Fair Value	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	$ 280,712	$ 280,712	**$ 221,655**	**$ 221,655**
Notes payable	(79)	(79)	**(112,803)**	**(112,803)**
Long-term debt	(491,618)	(474,318)	**(513,213)**	**(484,213)**
Derivative financial instruments	616	616	**1,594**	**1,594**

The derivative financial instruments include fair value and cash flow hedges of foreign currency exposures. Exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations are offset by the change in values of the fair value foreign currency hedges. The Company presently hedges exposures in the Euro, Canadian

dollar, British pound sterling, Swiss franc and Swedish kronar generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at December 31, 2005 and 2006 was $208,600 and $205,100, respectively. The counterparties to each of these agreements are major commercial banks. Management believes that the probability of losses related to credit risk on investments classified as cash and cash equivalents and short-term investments is remote.

Note 12 - Pensions and Postretirement Benefits Other than Pensions

The Company and its consolidated U. S. subsidiaries have a number of plans providing pension, retirement or profit-sharing benefits for substantially all domestic employees. These plans include defined benefit and defined contribution plans. The Company has an unfunded, nonqualified supplemental retirement plan covering certain employees whose participation in the qualified plan is limited by provisions of the Internal Revenue Code.

For defined benefit plans, benefits are generally based on compensation and length of service for salaried employees and length of service for hourly employees. In 2002, a new hybrid pension plan covering all domestic salaried and non-bargained hourly employees was established. Employees at the effective date, meeting certain requirements, were grandfathered in the previous defined benefit rules. The new pension plan resembles a savings account. Nominal accounts are credited based on a combination of age, years of service and percentage of earnings. A cash-out option is available upon termination or retirement.

The Company s general funding policy is to contribute more than minimum requirements but not in excess of amounts deductible for United States federal income tax purposes. Employees of certain of the Company s foreign operations are covered by either contributory or non-contributory trusteed pension plans.

Participation in the Company s defined contribution plans is voluntary. The Company matches certain plan participants contributions up to various limits. Participants contributions are limited based on their compensation and for certain supplemental contributions which are not eligible for company matching based on their age. Company contributions for certain of these plans are dependent on operating performance. Expense for those plans was $6,069, $0 and $0 for 2004, 2005 and 2006, respectively.

The Company currently provides retiree health care and life insurance benefits to a significant percentage of its U. S. salaried and hourly employees. U. S. salaried and non-bargained hourly employees hired on or after January 1, 2003 are not eligible for retiree health care or life insurance coverage. The majority of new hires covered by U. S. bargaining units are also not eligible for retiree health care or life insurance coverage. Subject to specific provisions contained in certain of its labor agreements, the Company has reserved the right to modify or terminate such benefits at any time.

The Company adopted SFAS No. 106 in 1992 and, to mitigate the impact of medical cost inflation on the Company s retiree medical obligation, instituted per participant, or per household, caps on the amounts of retiree medical benefits it will provide to future retirees. The caps do not apply to individuals who retired prior to certain specified dates. Costs in excess of these caps will be paid by plan participants. The Company implemented increased cost sharing in 2004 in the retiree medical coverage provided to certain eligible current and future retirees. Since then cost sharing has expanded such that nearly all covered retirees pay a charge to be enrolled.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) was enacted in December 2003. The Act introduced a prescription drug benefit under Medicare Part D as well as a federal subsidy to sponsors of retiree health plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In May 2004, the FASB issued FASB Staff Position (FSP) 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug Improvement and Modernization Act of 2003. This FSP provided accounting and disclosure guidance for employers who sponsor postretirement health care plans that provide drug benefits. Regulations regarding implementation of provisions relevant to the Company s accounting are complex and contain acknowledged open issues. The Act reduced the Company s net periodic postretirement benefit cost by $2,183 in 2004 including service cost, interest cost and amortization of the actuarial gain. The total impact on the Company s actuarial liability in 2004, under all U. S. plans, was a reduction of $15,300 being accounted for as an actuarial gain to be amortized as a reduction of the Company s periodic expense and balance sheet liability over a period of fifteen years. At December 31, 2006, this actuarial gain has been reduced to $6,800 as a result of amortization, the Company s revised expectations of the subsidy to be received and the impact of the Act on the health care benefits being provided to its participants. With the adoption of SFAS No. 158, this actuarial gain is included in the pension liability and in Cumulative other comprehensive loss on the December 31, 2006 balance sheet. The amortization period is now estimated to be ten years. The Company applied to receive the federal drug subsidy in 2006 and received $406 relating to the first three quarters of the year. The Company intends to continue to analyze the options available with respect to the relationship of the Company health care benefits with all parts of Medicare to attain the most cost effective

coordination.

In connection with the divestiture of the Company s automotive operations, defined benefit plans relating to automotive operations were assumed by the buyer except those relating to previously closed plants. Obligations assumed by the buyer consisted of: 1) plans established under collective bargaining agreements, all of which related to discrete automotive employee units, and which have been separately measured and transferred to the buyer at closing; and, 2) obligations relating to active automotive employees and retirees who participated in the Company s non-bargained defined benefit plan which covered all

Table of Contents

eligible non-bargained employees. Pursuant to terms of the sale, an actuarial determination was made of the obligations and assets being split from the Company s non-bargained plan. As of December 31, 2004, the Company s actuary provided estimates of the obligations, computed using the Company s accounting methods and actuarial estimates, and trust assets to be transferred to the buyer. The final derivation of trust assets was agreed with the buyer and transferred during the third quarter of 2005.

On December 31, 2006, the Company adopted the recognition and disclosure provisions of SFAS No. 158. This statement required the Company to recognize the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its pension and other postretirement benefit (OPEB) plans in the December 31, 2006 consolidated balance sheet, with a corresponding adjustment to cumulative other comprehensive loss (a component of stockholders equity), net of tax. The adjustment to cumulative other comprehensive loss at adoption represents the net unrecognized actuarial losses and unrecognized prior service costs, all of which were previously netted against the plans funded status in the Company s consolidated balance sheets pursuant to the provisions of SFAS No. 87, Employers Accounting for Pensions (SFAS No. 87) and SFAS No. 106. These amounts will be subsequently recognized as net periodic pension cost pursuant to the Company s historical accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit costs in the same periods will be recognized as a component of other comprehensive income. Those amounts will be subsequently recognized as components of net periodic benefit cost on the same basis as the amount recognized in cumulative other comprehensive loss at adoption of SFAS No. 158.

The incremental effects of adopting the provisions of SFAS No. 158 on the Company s consolidated balance sheet at December 31, 2006 are presented in the following table. The adoption of SFAS No. 158 had no effect on the Company s consolidated statement of operations for the year ended December 31, 2006, or for any prior periods presented, and it will not effect the Company s operating results in future periods. Had the Company not been required to adopt SFAS No. 158 at December 31, 2006, it would have recognized an additional minimum liability pursuant to the provisions of SFAS No 87. The effect of recognizing the additional minimum liability is included in the table below in the column labeled Before Application of Statement 158.

Incremental Effect of Applying SFAS No. 158
on Individual Line Items in the Consolidated Balance Sheet
December 31, 2006

			Adjustments		
	Before Application of Statement 158	**Reverse Minimum Pension**	**Recognize Underfunded Pension**	**Recognize Unfunded OPEB**	**After Application of Statement 158**
Intangible pension asset	$ 7,970	$ (7,970)	$	$	$
Pension funding in excess of expense	163,324		(163,324)		
Deferred income tax assets	57,993	(57,993)	108,598	25,183	133,781
Deferred income tax valuation allowance	(39,249)		(47,342)	(25,183)	(111,774)
Other assets	336,245	(7,970)	(163,324)		**164,951**
Postretirement benefits other than pensions	(192,742)			(65,837)	**(258,579)**
Accrued pension liability	(3,893)		(136,414)		(140,307)
Minimum pension liability	(173,061)	173,061			
Other long-term liabilities	(254,390)	173,061	(136,414)		**(217,743)**

Cumulative other comprehensive loss (portion applicable to post retirement plans)	107,098	(107,098)	238,482	65,837	304,319
Total stockholders equity	(837,112)	(107,098)	238,482	65,837	**(639,891)**

The table below reflects changes in the projected obligations and fair market values of assets in all defined benefit pension and other postretirement benefit plans of the Company.

Table of Contents

	Pension Benefits		Other Postretirement Benefits	
	2005	**2006**	2005	**2006**
Change in projected benefit obligation:				
Projected benefit obligation at January 1	$ 920,654	**$ 1,011,099**	$ 264,842	**$ 273,586**
Divestiture	148			
Service cost	20,643	**22,824**	5,473	**5,725**
Participant contributions	2,363	**2,334**		
Interest cost	55,112	**57,501**	15,704	**15,605**
Actuarial (gain)/loss	82,309	**21,977**	183	**(5,870)**
Amendments	7,275	**(128)**		
Benefits paid	(48,273)	**(52,063)**	(12,616)	**(13,918)**
Foreign currency translation effect	(29,132)	**38,883**		
Projected benefit obligation at December 31	$ 1,011,099	**$ 1,102,427**	$ 273,586	**$ 275,128**
Change in plans assets:				
Fair value of plans assets at January 1	$ 819,054	**$ 871,174**	$	**$**
Actual return on plans assets	87,085	**88,782**		
Employer contributions	31,234	**21,063**		
Participant contributions	2,363	**2,334**		
Divestiture	2,475			
Benefits paid	(48,273)	**(52,063)**		
Foreign currency translation effect	(22,764)	**30,830**		
Fair value of plans assets at December 31	$ 871,174	**$ 962,120**	$	**$**
Funded status of the plans	$ (139,925)	**$ (140,307)**	$ (273,586)	**$ (275,128)**
Unrecognized actuarial loss	314,061		78,445	
Unrecognized prior service cost	(13,270)		(3,541)	
Adjustment for minimum liability	(152,507)			
Net amount recognized	$ 8,359	**$ (140,307)**	$ (198,682)	**$ (275,128)**
Amounts recognized in the balance sheets:				
Other assets	$ 167,027	**$**	$	**$**
Accrued liabilities			(16,685)	**(16,549)**
Postretirement benefits other than pensions			(181,997)	**(258,579)**
Other long-term liabilities	(158,668)	**(140,307)**		

Included in cumulative other comprehensive loss at December 31, 2006 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of $(17,196) ($(14,990) net of tax) and unrecognized actuarial losses of $382,771 ($319,310 net of tax). The prior service cost and actuarial loss included in cumulative other comprehensive loss and expected to be recognized in net periodic benefit cost during the fiscal year-ended December 31, 2007 is $172 and $17,437, respectively.

The underfunded status of the pension plans of $140,307 at December 31, 2006 is recognized in the accompanying consolidated balance sheets as Other long-term liabilities and the unfunded status of the other postretirement benefits is recognized as Accrued liabilities for the current portion and as Postretirement benefits other than pensions for the long-term portion. No pension plan assets are expected to be returned to the Company during the fiscal year-ended December 31, 2007.

Table of Contents

The accumulated benefit obligation for all defined benefit pension plans was $930,322 and $1,031,780 at December 31, 2005 and 2006, respectively.

Weighted-average assumptions used to determine benefit obligations at December 31:

	Pension Benefits		Other Postretirement Benefits	
	2005	**2006**	2005	**2006**
All plans				
Discount rate	5.68%	**5.61%**	5.75%	**5.75%**
Rate of compensation increase	3.44%	**3.37%**		
Domestic plans				
Discount rate	5.75%	**5.75%**	5.75%	**5.75%**
Rate of compensation increase	3.25%	**3.25%**		
Foreign plans				
Discount rate	5.49%	**5.29%**	n/a	**n/a**
Rate of compensation increase	3.98%	**3.65%**		

At December 31, 2006, the weighted average assumed annual rate of increase in the cost of medical benefits was 7.0 percent per year for 2007 and 2008 and 6.0 percent per year for 2009 and thereafter. The weighted average assumed annual rate of increase in the cost of prescription drugs was 11.0 percent per year for 2007 and 2008 and 6.0 percent per year for 2009 and thereafter.

	Pension Benefits			Other Postretirement Benefits		
	2004	2005	**2006**	2004	2005	**2006**
Components of net periodic benefit cost:						
Service cost	$ 20,782	$ 20,643	**$ 22,824**	$ 5,048	$ 5,473	**$ 5,725**
Interest cost	51,603	55,112	**57,501**	15,106	15,704	**15,605**
Expected return on plan assets	(58,426)	(67,566)	**(71,030)**			
Amortization of transition obligation	(38)	(30)				
Plan curtailment	826					
Amortization of prior service cost	2,463	1,445	**919**	(122)	(219)	**(308)**
Recognized actuarial loss	14,031	12,651	**15,335**	3,047	3,677	**3,507**
Net periodic benefit cost	$ 31,241	$ 22,255	**$ 25,549**	$ 23,079	$ 24,635	**$ 24,529**

Table of Contents

Weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31:

	Pension Benefits			Other Postretirement Benefits		
	2004	2005	**2006**	2004	2005	**2006**
All plans						
Discount rate	6.38%	6.14%	**5.68%**	6.25%	6.00%	**5.75%**
Expected return on plan assets	8.98%	8.92%	**8.62%**			
Rate of compensation increase	3.58%	3.60%	**3.44%**			
Domestic plans						
Discount rate	6.25%	6.00%	**5.75%**	6.25%	6.00%	**5.75%**
Expected return on plan assets	9.00%	9.00%	**9.00%**			
Rate of compensation increase	3.25%	3.25%	**3.25%**			
Foreign plans						
Discount rate	6.73%	6.49%	**5.49%**	n/a	n/a	**n/a**
Expected return on plan assets	8.93%	8.66%	**7.45%**			
Rate of compensation increase	4.47%	4.49%	**3.98%**			

The following table lists the projected benefit obligation, accumulated benefit obligation and fair value of plan assets for the pension plans with projected benefit obligations and accumulated benefit obligations in excess of plan assets at December 31, 2005 and 2006:

	2005		**2006**	
	Projected benefit obligation exceeds plan assets	Accumulated benefit obligation exceeds plan assets	**Projected benefit obligation exceeds plan assets**	**Accumulated benefit obligation exceeds plan assets**
Projected benefit obligation	$1,004,435	$553,459	**$1,102,427**	**$638,908**
Accumulated benefit obligation	923,659	533,721	**1,031,780**	**624,942**
Fair value of plan assets	864,087	461,202	**962,120**	**531,242**

Assumed health care cost trend rates for other postretirement benefits have a significant effect on the amounts reported. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	Percentage Point	
	Increase	Decrease
Increase (decrease) in total service and interest cost components	$ 319	$ (279)
Increase (decrease) in the postretirement benefit obligation	3,573	(3,156)

The Company s weighted average asset allocations for its domestic and foreign pension plans assets at December 31, 2005 and December 31, 2006 by asset category are as follows:

U. S. Plans	U. K. Plan

Asset Category	2005	**2006**	2005	**2006**
Equity securities	66%	**71%**	75%	**63%**
Debt securities	32	**29**	25	**37**
Cash	2	**0**		
Total	100%	**100%**	100%	**100%**

- 56 -

The Company s investment policy for United States plans assets is to maintain an allocation of 70 percent in equity securities and 30 percent in debt securities. The Company s investment policy for United Kingdom plan assets is to maintain an allocation of 65 percent in equity securities and 35 percent in fixed income securities. Rebalancing of the asset portfolios occurs periodically if the mix differs from the target allocation. Equity security investments are structured to achieve an equal balance between growth and value stocks. The Company also has a pension plan in Germany and the assets of that plan consist of investments in a German insurance company.

The fair value of U. S. plan assets was $655,141 and $698,479 at December 31, 2005 and 2006, respectively. The fair value of United States plans assets at the end of each December are derived using assets held by the Trust at the end of each November, then adding contributions made during December and deducting benefits paid to the plans participants during December.

The fair market value of the United Kingdom plan assets was $213,977 and $261,472 at December 31, 2005 and 2006, respectively, using the method described above for the U. S. plan assets.

The fair value of the German pension plan assets was $2,056 and $2,169 at December 31, 2005 and 2006, respectively.

The Company determines the annual expected rates of return on pension assets by first analyzing the composition of its asset portfolio. Historical rates of return are applied to the portfolio. These computed rates of return are reviewed by the Company s investment advisors and actuaries. Industry comparables and other outside guidance are also considered in the annual selection of the expected rates of return on pension assets.

The Company estimates it would contribute between $30,000 and $35,000 to its domestic and foreign pension plans in 2007 under its normal funding policy.

The Company estimates its benefit payments for its domestic and foreign pension plans and postretirement benefit plans during the next ten years to be as follows:

	Pension Benefits	Other Postretirement Benefits
2007	$ 46,000	$ 16,000
2008	47,000	17,000
2009	48,000	17,000
2010	49,000	18,000
2011	51,000	18,000
2012 through 2016	291,000	98,000

Note 13 - Other Long-term Liabilities

Other long-term liabilities at December 31 are as follows:

	2005	**2006**
Minimum pension liability	$ 152,507	**$**
Long-term pension liability		**140,307**
Other	68,389	**77,436**
	$ 220,896	**$ 217,743**

- 57 -

Table of Contents

Note 14 - Preferred Stock Purchase Rights

Under the Company s rights plan, one right is associated with each outstanding common share. Each right entitles the holder to purchase 1/100th of a share of Series A Preferred Stock of the Company at an exercise price of $135. The rights will become exercisable only if a person or group (i) acquires beneficial ownership of 15 percent or more of the Company s outstanding common stock (Acquiring Person), or (ii) subject to extension of the date by the Board of Directors of the Company, commences a tender or exchange offer which upon consummation would result in such person or group beneficially owning 15 percent or more of the Company s outstanding common stock (ten days following the date of announcement of (i) above, the Stock Acquisition Date).

If any person becomes an Acquiring Person, or if an Acquiring Person engages in certain self-dealing transactions or a merger transaction in which the Company is the surviving corporation and its common stock remains outstanding, or an event occurs which results in such Acquiring Person s ownership interest being increased by more than one percent, then each right not owned by such Acquiring Person or certain related parties will entitle its holder to purchase a number of shares of the Company s Series A Preferred Stock (or in certain circumstances, Company common stock, cash, property or other securities of the Company) having a value equal to twice the then-current exercise price of the right. In addition, if, following the Stock Acquisition Date, the Company (i) is acquired in a merger or other business combination and the Company is not the surviving corporation; (ii) is involved in a merger or other business combination transaction with another person after which all or part of the Company s common stock is converted or exchanged for securities, cash or property of any other person; or (iii) sells 50 percent or more of its assets or earning power to another person, each right (except rights that have been voided as described above) will entitle its holder to purchase a number of shares of common stock of the ultimate parent of the Acquiring Person having a value equal to twice the then-current exercise price of the right.

The Company will generally be entitled to redeem the rights at one cent per right, subject to adjustment in certain events, payable in cash or shares of the Company s common stock at any time until the tenth business day following the Stock Acquisition Date.

Note 15 - Common Stock

There were 14,182 common shares reserved for grants under compensation plans and contributions to the Company s Spectrum Investment Savings Plan and Pre-Tax Savings plans at December 31, 2006. The Company matches contributions made by participants to these plans in accordance with a formula based upon the financial performance of the Company. Matching contributions are directed to the Company Stock Fund and must remain invested in that fund until an employee has attained three years of service with the Company. Once an employee has attained three years of service, any matching contributions may be transferred to any of the other investment funds offered under the plans.

Note 16 - Cumulative Other Comprehensive Loss

The balances of each component of Cumulative other comprehensive loss in the accompanying consolidated statements of stockholders equity are as follows:

	2005	**2006**
Cumulative currency translation adjustment	$ 4,819	**$ 21,047**
Changes in the fair value of derivatives and unrealized gains/(losses) on marketable securities	260	**1,452**
Tax effect	(99)	**(732)**
Net	161	**720**
Minimum pension liability	(142,827)	
Tax effect	51,524	
Net	(91,303)	

Underfunded postretirement benefit plans		**(365,575)**
Tax effect		**61,256**
Net		**(304,319)**
	$ (86,323)	**$ (282,552)**

Net income (loss) reflects realized gains and losses on marketable securities and derivatives. Losses of $3,724, $153 and $1,083 were recognized in 2004, 2005 and 2006, respectively.

Table of Contents

Note 17 - Stock-Based Compensation

Stock Options

The Company s 1998, 2001 and 2006 incentive compensation plans allow the Company to grant awards to key employees in the form of stock options, stock awards, restricted stock units, stock appreciation rights, performance units, dividend equivalents and other awards. The 1996 incentive stock option plans and the 1998, 2001 and 2006 incentive compensation plans provide for granting options to key employees to purchase common shares at prices not less than market at the date of grant. Options under these plans may have terms of up to ten years becoming exercisable in whole or in consecutive installments, cumulative or otherwise. The plans allow the granting of nonqualified stock options which are not intended to qualify for the tax treatment applicable to incentive stock options under provisions of the Internal Revenue Code.

Options which were outstanding at January 1, 2004 and options granted under the 2001 incentive compensation plan have terms of ten years and become exercisable 25 percent per year. On November 16, 2005, the Compensation Committee of the Company approved an acceleration of vesting of employee stock options and approximately 1,768 options with varying remaining vesting schedules became immediately exercisable. As a result of the acceleration, all of the options of the Company at December 31, 2005 were exercisable.

The 1998 employee stock option plan allowed the Company to make a nonqualified option grant to substantially all of its employees to purchase common shares at a price not less than market value at the date of grant. Options granted under this plan have a term of ten years and became exercisable in full beginning three years after the date of grant.

The Company s 2002 nonqualified stock option plan provides for granting options to directors who are not current or former employees of the Company to purchase common shares at prices not less than market at the date of grant. Options granted under this plan have a term of ten years and become exercisable one year after the date of grant.

Table of Contents

Summarized information for the plans follows:

		Number of Shares	Weighted Average Exercise Price	Available For Grant
January 1, 2004	Outstanding	3,629,396	$16.89	
	Exercisable	*2,545,146*	*17.78*	
	Granted	705,900	19.81	
	Exercised	(394,012)	14.29	
	Expired	(20,629)	24.55	
	Cancelled	(127,627)	18.84	
December 31, 2004				3,987,480
	Outstanding	3,793,028	17.60	
	Exercisable	*2,599,954*	*17.56*	
	Granted	446,585	21.45	
	Exercised	(209,155)	14.30	
	Expired	(26,168)	24.13	
	Cancelled	(343,171)	19.95	
December 31, 2005				3,405,990
	Outstanding	3,661,119	17.78	
	Exercisable	*3,661,119*	*17.78*	
	Granted	451,438	14.35	
	Exercised	(10,589)	13.30	
	Expired	(25,122)	18.70	
	Cancelled	(1,044,295)	17.12	
December 31, 2006				5,404,430
	Outstanding	3,032,551	17.76	
	Exercisable	*2,670,865*	*18.22*	

The weighted average remaining contractual life of options outstanding at December 31, 2006 is 5.3 years.
Segregated disclosure of options outstanding at December 31, 2006 is as follows:

	Range of Exercise Prices		
	Less than or equal to $14.75	Greater than $14.75 and less than $19.80	Greater than or equal to $19.80
Options outstanding	1,130,546	792,626	1,109,379
Weighted average exercise price	$ 14.01	$ 17.98	$ 21.41
Remaining contractual life	6.2	6.2	3.7
Options exercisable	772,360	789,126	1,109,379
Weighted average exercise price	$ 13.87	$ 18.00	$ 21.41

Table of Contents

Restricted Stock Units
Under the 1998, 2001 and 2006 Incentive Compensation Plans, restricted stock units may be granted to officers and other key employees. Compensation related to the restricted stock units is determined based on the fair value of the Company s stock on the date of grant and is amortized to expense over the vesting period. The restricted stock units granted in 2005 and 2006 have vesting periods ranging from one to five years. With the adoption of SFAS No. 123 (R), the Company recognizes compensation expense based on the earlier of the vesting date or the date when the employee becomes eligible to retire. The following table provides details of the restricted stock units granted by the Company:

	2005	**2006**
Restricted stock units outstanding at beginning of period	100,523	**141,688**
Restricted stock units granted	63,534	**91,210**
Accrued dividend equivalents	4,165	**5,724**
Restricted stock units settled	(23,405)	**(112,147)**
Restricted stock units cancelled	(3,129)	
Restricted stock units outstanding at end of period	141,688	**126,475**

At December 31, 2006, the Company has $1,669 of unvested compensation cost related to stock options and restricted stock units and this cost will be recognized as expense over a weighted average period of 31 months.

Note 18 - Lease Commitments

The Company rents certain distribution facilities and equipment under long-term leases expiring at various dates. The total rental expense for the Company, including these long-term leases and all other rentals, was $19,469, $24,122 and $29,815 for 2004, 2005 and 2006, respectively.

Future minimum payments for all non-cancelable operating leases through the end of their terms, which in aggregate total $67,399, are listed below. Certain of these leases contain provisions for optional renewal at the end of the lease terms.

2007	$15,739
2008	12,926
2009	9,806
2010	15,330
2011	2,832
Thereafter	10,766

Note 19 - Restructuring

During 2004, the North American Tire Operations segment initiated two restructuring plans. In the second quarter, the segment announced an initiative to consolidate its pre-cure retread operations in Asheboro, North Carolina, and recorded a charge of $1,715 to write certain related equipment down to its scrap salvage value (the fair market value) and recorded $102 in equipment disposal costs. In the third quarter, a plan to cease production of radial medium truck tires by the end of 2005 at the Albany, Georgia tire facility was announced. These tires are being sourced from Asian manufacturers. No employees were affected by this initiative. The segment recorded an impairment charge of $7,536 for equipment associated with radial medium truck tire production to write the equipment down to its fair market value as determined by sales proceeds negotiated with a potential buyer.

During 2006, five restructuring initiatives were announced.

Table of Contents

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. During 2006, restructuring costs of $11,123 were recorded. The assets of the facility were written down to fair value resulting in a charge of $8,191. Severance costs totaling $1,522 were recorded and payments totaling $1,112 have been made resulting in an accrued severance balance at December 31, 2006 of $410. Additional employee-related severance costs of $95 were recorded. Employee relocation costs of $108 have been incurred. Equipment relocation and closure costs of $1,207 have been recorded to date. The assets of the facility, with a fair value of $4,000, are considered as held for sale and are included on the Other current assets line of the Company s Consolidated Balance Sheets.

In September, the North American Tire Operations segment announced its plans to reconfigure its tire manufacturing facility in Texarkana, Arkansas so that its production levels can flex to meet tire demand. This reconfiguration is expected to result in a workforce reduction of approximately 350 people. This reduction is expected to be accomplished through attrition and layoffs. Certain equipment in the facility will be 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 $8,000 to $11,500. This amount consists of equipment relocation and associated costs of between $5,000 and $7,000 and personnel related costs of between $3,000 and $4,500. During 2006, equipment relocation costs of $723 have been recorded.

In November, a restructuring of salaried support positions was announced. The restructuring will be accomplished through reductions in part-time assistance, normal attrition and targeted severance actions. Approximately 80 people will be impacted by this initiative and the end of the first quarter of 2007 is the targeted completion date. To date, $847 of severance benefits has been accrued for persons or positions identified and payments totaling $38 have been paid, resulting in an accrued severance balance at December 31, 2006 of $809. Payments have been made for outplacement services totaling $17.

In December, 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. Approximately 600 molds have been identified under this plan. At December 31, 2006, 449 molds have been taken out of service and written off. The service lives of the molds still in production have been reduced to reflect the remaining useful production life. Both the mold write-off and the increased depreciation expense associated with the change in the estimate of useful life are being recorded as restructuring expense. Through December 31, 2006, $378 of molds has been written-off and $27 of additional depreciation associated with this initiative has been recorded. The end of the second quarter of 2007 is the expected date when all of the molds will be taken out of service and the total cost of this plan is estimated to be $535.

During 2006, the International Tire Operations segment recorded $1,461 in restructuring costs associated with a management reorganization in Cooper Tire Europe. This initiative was undertaken to reduce the European cost base to compensate for raw material cost increases in an increasingly competitive European market. There were 50 employees impacted by this initiative and all severance payments were made during 2006. At December 31, 2006 there was no balance remaining in the restructuring severance accrual.

Note 20 Severance payments to former Chief Executive Officer

During the third quarter of 2006, the Company paid $6,797 in severance and benefits to Thomas A. Dattilo, the former chairman, president and chief executive officer of the Company, pursuant to the terms of his Employment Agreement which was filed as Exhibit (10) (ii) to the Company s Form 10-K for the year ended December 31, 2001 and the First Amendment which was filed as Exhibit (10) to the Company s Form 10-Q for the quarter ended June 30, 2003. An additional payment of $585 was paid to Mr. Dattilo in the first quarter of 2007. Expense of $5,069 was recorded in the third quarter in conjunction with this distribution relating to the severance component of the payments. The Company had previously accrued $2,313 under existing benefit programs. This additional expense appears as a component of Selling, general and administrative expense in the Condensed Consolidated Statements of Operations and within Unallocated corporate charges as presented in the operating segment footnote. Mr. Dattilo s August 2, 2006 resignation was deemed by the Board of Directors to be an involuntary termination without cause.

Note 21 - Other Net
The components of Other net in the statement of operations for the years 2004, 2005 and 2006 are as follows:

	2004	2005	**2006**
Foreign currency (gains)/losses	$ 1,010	$ 1,187	**$ (864)**
Partial write-off of long term investment	1,940	240	
Equity in earnings from joint ventures		(76)	**(666)**
Other	(233)	(763)	**(547)**
	$ 2,717	$ 588	**$ (2,077)**

Note 22 - Contingent Liabilities
Indemnities Related to the Sale of Cooper-Standard Automotive
The sale of the Company s automotive operations included contract provisions which provide for indemnification of the buyer by the Company for all income tax liabilities related to periods prior to closing and for various additional items outlined in the agreement. Indemnity payments would be reflected as expenses of discontinued operations. The recorded gain on the sale includes reductions for estimates of the expected tax liabilities and the other potential indemnity items to the extent they are deemed to be probable and estimable at December 31, 2006. For indemnity commitments where the Company believes future payments are probable, it also believes the expected outcomes can be estimated with reasonable accuracy. Accordingly, for such amounts, a liability has been recorded with a corresponding decrease in the gain on the sale. Other indemnity provisions will be monitored for possible future payments not presently contemplated. The Company will reevaluate the probability and amounts of indemnity payments being required quarterly and adjustments, if any, to the initial estimates will be reflected as a change in the gain on sale in the periods when revised estimates are determined.
Guarantees
Certain operating leases related to property and equipment used in the operations of Cooper-Standard Automotive were guaranteed by the Company. These guarantees require the Company, in the event Cooper-Standard fails to honor its commitments, to satisfy the terms of the lease agreements. As part of the sale of the automotive operations, the Company is seeking releases of those guarantees, but to date has been unable to secure releases from certain lessors. The most significant of those leases is for a U. S. manufacturing facility with a remaining term of 10 years and total remaining payments of approximately $11,500. Other leases cover two facilities in the United Kingdom and manufacturing equipment. These leases have remaining terms of from nine months to seven years and remaining payments of approximately $5,000. The Company does not believe it is presently probable that it will be called upon to make these payments. Accordingly, no accrual for these guarantees has been recorded. If information becomes known to the Company at a later date which indicates its performance under these guarantees is probable, accruals for the obligations will be required.
Products Liability
The Company is a defendant in various products liability claims in which individuals involved in vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company.
The accounting process is based on estimates derived from information known by the Company when the reserves are determined. 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. 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.

Table of Contents

On July 13, 2006, the National Highway Traffic Safety Administration (NHTSA) opened a Preliminary Evaluation (PE06-0027) regarding Dominator Sport A/T LT 265/75R16 tires manufactured by the Company between 2003 and 2005 based on the Early Warning Reporting data submitted by the Company. Approximately 101,600 tires are subject to the Preliminary Evaluation. The Company responded to the information request in October 2006. On December 27, 2006, NHTSA upgraded the investigation to an Engineering Analysis (EA06-021) to further assess the subject tires and the data provided in the Company s response.

Cooper-Chengshan Acquisition

In connection with the investment in Cooper-Chengshan, beginning January 1, 2009 and continuing through December 31, 2011, the minority interest partner has the right to sell, and, if exercised, the Company has the obligation to purchase, the remaining 49 percent minority interest share at a minimum price of $62,700.

Employment Contracts

The Company has employment arrangements with two key executive employees and has change in control severance agreements covering eight additional key executives. These arrangements provide for continuity of management and provide for payments of multiples of annual salary, certain incentives and continuation of benefits upon the occurrence of specified events in a manner that is believed to be consistent with comparable companies.

Under terms of an employment agreement with the president of the automotive operations and terms of a change in control severance pay plan for eight additional key automotive executives, such executives were entitled to specified severance payments if terminated by the buyer within predetermined time periods after the sale. The Company is obligated to pay the severance costs and related excise taxes, if any, if severance occurs on or prior to December 31, 2007 in the case of the automotive operations president. The Company was obligated to pay the severance costs and related excise taxes, if any, if severance occurred on or prior to December 22, 2006 for the eight other automotive executives. The Company was required to fund, immediately following the sale, its potential obligation for such severance payments into a rabbi trust with a third party trustee for the possible benefit of these executives. The Company paid one executive covered by the change in control agreement in 2005 and one in 2006. The Company does not believe it is presently probable that the automotive operations president will be terminated within the period in which it is obligated to pay the severance costs. Accordingly, no additional accrual for severance has been recorded. If information becomes known to the Company at a later date which indicates severance of the automotive operations president is probable within the time period covered by the Company, an accrual for severance will be required.

Unconditional Purchase Orders

Noncancelable purchase order commitments for capital expenditures and raw materials, principally natural rubber, made in the ordinary course of business were $71,617 at December 31, 2006.

Supplier Dispute

During 2005, the Company resolved a dispute with raw material suppliers resulting in an agreement for reimbursement of $18,000 of previously expensed costs. This recovery was recorded as a reduction to cost of goods sold in the financial results of the North American Tire Operations segment.

Note 23 - Business Segments

The Company has two reportable segments North American Tire Operations and International Tire Operations. The Company s reportable segments are each managed separately.

The North American Tire Operations segment produces passenger and light truck tires, which are sold nationally and internationally in the replacement tire market to independent tire dealers, wholesale distributors, regional and national retail tire chains and large retail chains that sell tires as well as other automotive products, and supplies retread equipment and materials to the commercial truck tire industry.

The International Tire Operations segment currently manufactures and markets passenger car, light and medium 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. The segment manufactures and markets passenger car, bias and radial light and medium truck tires and off-the-road tires in China.

The following customers of the North American Tire Operations segment contributed ten percent or more of the Company s total consolidated net sales in 2004, 2005 and 2006. Net sales and percentage of consolidated Company sales for these customers in 2004, 2005 and 2006 are as follows:

	2004		2005		**2006**	
		Consolidated		Consolidated		**Consolidated**
Customer	Net Sales	Net Sales	Net Sales	Net Sales	**Net Sales**	**Net Sales**
TBC/Treadways	$279,172	13%	$323,815	15%	**$365,767**	**14%**

Table of Contents

The accounting policies of the reportable segments are consistent with those described in the Significant Accounting Policies note to the consolidated financial statements. Corporate administrative expenses are allocated to segments based principally on assets, employees and sales. The following table details segment financial information:

	2004	2005	**2006**
Revenues			
North American Tire	$ 1,862,954	$ 1,954,685	**$ 2,096,174**
International Tire	308,383	305,291	**680,164**
Eliminations and other	(89,728)	(104,791)	**(100,096)**
Consolidated	2,081,609	2,155,185	**2,676,242**
Segment profit (loss)			
North American Tire	64,002	32,838	**(4,020)**
International Tire	21,370	(663)	**9,427**
Unallocated corporate charges and eliminations	(22,148)	(5,740)	**(15,156)**
Operating profit (loss)	63,224	26,435	**(9,749)**
Interest income	2,068	18,541	**10,067**
Dividend from unconsolidated subsidiary			**4,286**
Debt extinguishment costs		(4,228)	**77**
Other net	(2,717)	(588)	**2,077**
Interest expense	(27,569)	(54,511)	**(47,166)**
Impairment of goodwill and indefinite-lived intangible asset			**(51,546)**
Income (loss) from continuing operations before income taxes and minority interest	35,006	(14,351)	**(91,954)**
Depreciation and amortization expense			
North American Tire	98,327	97,526	**104,786**
International Tire	12,612	12,186	**31,358**
Corporate	3,658	5,955	**2,229**
Consolidated	114,597	115,667	**138,373**
Segment assets			
North American Tire	1,222,723	1,320,557	**1,198,862**
International Tire	203,714	208,464	**687,204**
Corporate and other	1,241,647	623,165	**349,213**
Consolidated	2,668,084	2,152,186	**2,235,279**
Expenditures for long-lived assets			
North American Tire	143,290	146,686	**101,196**
International Tire	10,817	24,970	**86,859**
Corporate	5,201	496	**470**
Consolidated	159,308	172,152	**188,525**

Table of Contents

Geographic information for revenues, based on country of origin, and long-lived assets follows:

	2004	2005	**2006**
Revenues			
North America	$ 1,779,694	$ 1,863,657	**$ 2,028,917**
Europe	285,488	272,923	**285,412**
Asia	16,427	18,605	**361,913**
Consolidated	2,081,609	2,155,185	**2,676,242**
Long-lived assets			
North America	648,879	700,006	**684,430**
Europe	81,178	76,279	**77,407**
Asia	813	9,940	**229,979**
Consolidated	730,870	786,225	**991,816**

Shipments of domestically-produced products to customers outside the U. S. approximated eight percent of net sales in both 2005 and 2006.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Cooper Tire & Rubber Company

We have audited the accompanying consolidated balance sheets of Cooper Tire & Rubber Company (the Company) as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedules listed in the index at Item 15(a) (2). These financial statements and schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Cooper Tire & Rubber Company at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the financial statements taken as a whole, present fairly in all material respects the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for stock options in 2006. As discussed in Note 12 to the consolidated financial statements, the Company changed its method of accounting for pension and other postretirement benefit plans in 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Cooper Tire & Rubber Company s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP
Toledo, Ohio
February 26, 2007

Table of Contents

SELECTED QUARTERLY DATA
(Dollar amounts in thousands except per share amounts.)

(Unaudited)

	2005			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 514,057	$ 510,930	$ 557,795	$ 572,403
Gross profit	48,682	37,910	55,426	45,332
Net loss	(1,044)	(6,418)	(1,075)	(6,496)
Basic loss per share	(0.01)	(0.10)	(0.02)	(0.11)
Diluted loss per share	(0.01)	(0.10)	(0.02)	(0.11)
Revenues from external customers:				
North American Tire	$ 462,855	$ 458,874	$ 508,756	$ 524,200
International Tire	79,400	82,929	76,539	66,423
Eliminations and other	(28,198)	(30,873)	(27,500)	(18,220)
Net sales	$ 514,057	$ 510,930	$ 557,795	$ 572,403
Segment profit:				
North American Tire	$ 6,452	$ 1,330	$ 16,278	$ 8,778
International Tire	180	2,536	67	(3,446)
Eliminations	(370)	(208)	(114)	247
Corporate	(381)	(3,245)	(2,159)	490
Operating profit	5,881	413	14,072	6,069
Interest expense	(14,215)	(13,715)	(13,545)	(13,036)
Debt extinguishment gains (losses)		(9,075)	(1,328)	6,175
Interest income	5,614	4,520	3,857	4,550
Other net	1,229	305	(1,296)	(826)
Income (loss) from continuing operations before income taxes and minority interest	$ (1,491)	$ (17,552)	$ 1,760	$ 2,932

	2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net sales	$ 596,582	$ 624,785	$ 715,795	$ 739,080
Gross profit	43,605	29,192	51,538	73,228
Net loss	(5,468)	(22,922)	(24,878)	(32,622)
Basic loss per share	(0.09)	(0.37)	(0.41)	(0.53)
Diluted loss per share	(0.09)	(0.37)	(0.41)	(0.53)
Revenues from external customers:				
North American Tire	$ 495,851	$ 463,448	$ 551,681	$ 585,194
International Tire	125,073	185,904	192,659	176,528

Eliminations and other	(24,342)	(24,567)	(28,545)	(22,642)
Net sales	$ 596,582	$ 624,785	$ 715,795	$ 739,080
Segment profit:				
North American Tire	$ (5,912)	$ (29,895)	$ (3,285)	$ 35,072
International Tire	3,415	7,710	3,137	(4,835)
Eliminations	(828)	(844)	1,673	(568)
Corporate	(1,014)	(2,863)	(8,846)	(1,866)
Operating profit	(4,339)	(25,892)	(7,321)	27,803
Interest expense	(10,813)	(11,584)	(12,964)	(11,805)
Debt extinguishment gains	77			
Interest income	2,971	2,097	2,064	2,935
Dividend from unconsolidated subsidiary	4,609	(323)		
Impairment of goodwill and indefinite-lived intangible asset				(51,546)
Other net	33	(163)	1,704	503
Income (loss) from continuing operations before income taxes and minority interest	$ (7,462)	$ (35,865)	$ (16,517)	$ (32,110)

Certain amounts for 2005 have been reclassified to conform to the 2006 presentation. The operating results of Cooper-Chengshan have been included in the 2006 results since the February 4, 2006 acquisition date.

Table of Contents

COOPER TIRE & RUBBER COMPANY
SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS
Years ended December 31, 2004, 2005 and 2006

	Balance at Beginning of Year	Additions		Deductions (a)	Balance at End of Year
		Charged To Income	Business Acquisitions		
Allowance for doubtful accounts					
2004	$ 4,841,666	$ 961,322		$ 934,802	$ 4,868,186
2005	$ 4,868,186	$ 2,154,686		$ 1,257,506	$ 5,765,366
2006	$ 5,765,366	$ 2,499,348	$ 2,540,263	$ 1,924,517	$ 8,880,460

(a) Accounts charged off during the year, net of recoveries of accounts previously charged off.

	Balance at Beginning of Year	Additions		Deductions (a)	Balance at End of Year
		Charged To Income	Charged To Equity		
Tax valuation allowance					
2004	$ 12,782,892	$	$	$ (28,279,100)	$ 41,061,992
2005	$ 41,061,992	$	$	$ 425,118	$ 40,636,874
2006	$ 40,636,874	$ 18,135,790	$ 72,524,882	$ 2,657,372	$ 128,640,174

(a) Change in reserve as a result of balance sheet reclassifications or charges to income from discontinued operations.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure 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 Annual Report on Form 10-K, 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 in identifying the information required to be disclosed in the Company s periodic reports filed with the SEC, including this Annual Report on Form 10-K, and ensuring that such information is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

(b) Management s Annual Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002, management has conducted an assessment, including testing, using the criteria in *Internal Control Integrated Framework,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s system of internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In accordance with the Securities and Exchange Commission s published guidance, the Company s assessment of internal control over financial reporting excluded the 2006 acquisition of Cooper-Chengshan which represents approximately 13.6 percent of consolidated net sales for the year ended December 31, 2006, and 16.5 percent of consolidated total assets as of December 31, 2006.

Based on its assessment, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria in *Internal Control Integrated Framework* issued by the COSO, and that the Company s internal control over financial reporting is effective. Management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(c) Report of the Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Cooper Tire & Rubber Company

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting, that Cooper Tire & Rubber Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Cooper Tire & Rubber Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and

evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.
A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting

principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.
Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the accompanying Management s Annual Report on Internal Control over Financial Reporting, management s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the 2006 acquisition of Cooper-Chengshan, which is included in the consolidated statements of the Company and constituted 16.5 percent of consolidated total assets as of December 31, 2006 and 13.6 percent of consolidated net sales for the year then ended. Management did not include an assessment of the internal control over financial reporting for Cooper-Chengshan because it was acquired in a business combination on February 4, 2006.

In our opinion, management s assessment that Cooper Tire & Rubber Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Cooper Tire & Rubber Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Cooper Tire & Rubber Company as of December 31, 2006 and 2005, and the related consolidated statements of operations, shareholders equity and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 26, 2007 expressed an unqualified opinion thereon.

Ernst & Young LLP
Toledo, Ohio
February 26, 2007

(d) Changes in Internal Control over Financial Reporting

During 2006, the Company experienced reorganization in its information technology area. The internal controls in this area were evaluated for effectiveness and the controls were assessed to be effective. The Company continues to assess and improve the design and effectiveness of its internal controls over financial reporting.

Item 9B. OTHER INFORMATION

None.

PART III

Item 10. DIRECTORS AND CORPORATE GOVERNANCE

Information concerning the Company s directors, corporate governance guidelines, Compensation Committee and Nominating and Governance Committee appears in the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders, which will be herein incorporated by reference.

AUDIT COMMITTEE

Information regarding the Audit Committee, including the identification of the Audit Committee members and the audit committee financial expert, appears in the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders, which will be herein incorporated by reference.

COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Table of Contents

Information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934, as amended, appears in the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders, which will be herein incorporated by reference.

CODE OF ETHICS

Information regarding the Company s code of business conduct and ethics is available on the Company s website at http://www.coopertire.com. To access this information, first click on Company , then click Investors and lastly click Corporate Governance of the Company s website. Then, select the Code of Business Conduct and Ethics link listed on the lower left side of the web page under Corporate Governance.

Item 11. EXECUTIVE COMPENSATION

Information regarding executive and director compensation, Compensation Committee Interlocks and Insider Participation, and the Compensation Committee Report appears in the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders, which will be herein incorporated by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information concerning the security ownership of certain beneficial owners and management of the Company s voting securities and equity securities appears in the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders, which will be herein incorporated by reference.

Equity Compensation Plan Information

The following table provides information as of December 31, 2006 regarding the Company s equity compensation plans, all of which have been approved by the Company s security holders:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of Securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by stockholders	3,032,551	$ 17.76	5,447,607
Equity compensation plans not approved by stockholders			
Total	3,032,551	$ 17.76	5,447,607

Additional information on equity compensation plans is contained in the Stock-Based Compensation note to the consolidated financial statements.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

There were no transactions with related persons during 2006.

Information regarding the independence of the Company s directors appears in the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders, which will be herein incorporated by reference.

Table of Contents

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information regarding the Company s independent auditor appears in the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders, which will be herein incorporated by reference.

PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Consolidated Financial Statements

	Page(s) Reference
Consolidated Statements of Operations for the years ended December 31, 2004, 2005 and 2006	33
Consolidated Balance Sheets at December 31, 2005 and 2006	34-35
Consolidated Statements of Stockholders Equity for the years ended December 31, 2004, 2005 and 2006	36
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2005 and 2006	37
Notes to Consolidated Financial Statements	38-67
Report of Independent Registered Public Accounting Firm	68
Selected Quarterly Data (Unaudited)	69

2. Financial Statement Schedule

Valuation and qualifying accounts Allowance for doubtful accounts and tax valuation allowance	70

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedules, or because the information required is included in the Consolidated Financial Statements or the notes thereto.

3. Exhibits

The exhibits listed on the accompanying exhibit index are filed as part of this Annual Report on Form 10-K.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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/ Roy V. Armes
Roy V. Armes
President and Chief Executive Officer

Date: March 1, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Roy V. Armes ROY V. ARMES	President, Chief Executive Officer and Director (Principal Executive Officer)	March 1, 2007
/s/ Philip G. Weaver PHILIP G. WEAVER	Vice President and Chief Financial Officer (Principal Financial Officer)	March 1, 2007
/s/ Robert W. Huber ROBERT W. HUBER	Director of External Reporting (Principal Accounting Officer)	March 1, 2007
ARTHUR H. ARONSON*	Director	March 1, 2007
LAURIE J. BREININGER*	Director	March 1, 2007
STEVEN M. CHAPMAN*	Director	March 1, 2007
JOHN J. HOLLAND*	Director	March 1, 2007
JOHN F. MEIER*	Director	March 1, 2007
BYRON O. POND*	Director	March 1, 2007
JOHN H. SHUEY*	Director	March 1, 2007
RICHARD L. WAMBOLD*	Director	March 1, 2007

* The undersigned, by signing his name

hereto, does sign and execute this Annual Report on Form 10-K pursuant to a Power of Attorney executed on behalf of the above-indicated directors of the registrant and filed herewith as Exhibit 24 on behalf of the registrant.

*By: /s/ James E. Kline
JAMES E. KLINE, Attorney-in-fact

-75-

EXHIBIT INDEX

(3) Certificate of Incorporation and Bylaws

(i) Certificate of Incorporation, as restated and filed with the Secretary of State of Delaware on May 17, 1993, is incorporated herein by reference from Exhibit 3(i) of the Company s Form 10-Q for the quarter ended June 30, 1993

Certificate of Correction of Restated Certificate of Incorporation, as filed with the Secretary of State of Delaware on November 24, 1998, is incorporated by reference from Exhibit 3(i) of the Company s Form 10-K for the year ended December 31, 1998

(ii) Bylaws, as amended as of February 28, 2007, are incorporated herein by reference from Exhibit 3.1 to the Company s Form 8-K dated February 28, 2007.

(4) (i) Prospectus Supplement dated March 20, 1997 for the issuance of $200,000,000 notes is incorporated herein by reference from Form S-3 Registration Statement No. 33-44159

(ii) Amended and Restated Rights Agreement, dated May 11, 1998, between the Company and The Fifth Third Bank as Rights Agent is incorporated herein by reference from Exhibit 4 to the Company s Form 8-K dated May 15, 1998

(iii) Amendment No. 1 to Amended and Restated Rights Agreement dated as of May 7, 2004, by and among Cooper Tire & Rubber Company, Fifth Third Bank and Computershare Investor Services, LLC is incorporated herein by reference from Exhibit 4 of the Company s Form 10-Q for the quarter ended September 30, 2004

(iv) Prospectus Supplement dated December 8, 1999 for the issuance of an aggregate $800,000,000 notes is incorporated herein by reference from Form S-3 Registration Statement No. 333-89149

(10) (i) Second Amended and Restated Employment Agreement dated as of February 6, 2002 between Cooper Tire & Rubber Company and Thomas A. Dattilo is incorporated herein by reference from Exhibit (10)(ii) of the Company s Form 10-K for the year ended December 31, 2001 *

(ii) First Amendment to Amended and Restated Employment Agreement dated as of July 18, 2003 between Cooper Tire & Rubber Company and Thomas A. Dattilo is incorporated herein by reference from Exhibit (10) of the Company s Form 10-Q for the quarter ended June 30, 2003 *

(iii) Employment Agreement dated as of June 6, 2000 between Cooper Tire & Rubber Company and Philip G. Weaver is incorporated herein by reference from Exhibit (10)(v) of the Company s Form 10-K for the year ended December 31, 2001 *

(iv) Second Amended and Restated Employment Agreement dated October 13, 2006 by and between Cooper Tire & Rubber Company and Philip G. Weaver is incorporated herein by reference from Exhibit (10)(1) for the Company s Form 8-K dated October 13, 2006*

(v) Employment Agreement dated as of July 17, 2002 between Cooper Tire & Rubber Company and D. Richard Stephens incorporated herein by reference from Exhibit (10)(ii) of the Company s Form 10-Q for the quarter ended September 30, 2002 *

(vi) First Amendment to Employment Agreement dated as of February 4, 2004 between Cooper Tire & Rubber Company and D. Richard Stephens incorporated herein by reference from Exhibit (10)(i) of the Company s Form 10-Q for the quarter ended March 31, 2004 *

(vii) Employment Agreement dated as of December 19, 2006 between Cooper Tire & Rubber Company and Roy V. Armes incorporated by reference from Exhibit (10)(1) of the Company s Form 8-K dated December 19, 2006*

(viii) Description of management contracts, compensatory plans, contracts, or arrangements will be herein incorporated by reference from the Company s definitive Proxy Statement for its 2007 Annual Meeting of Stockholders *

(ix) Amended and Restated Credit Agreement dated as of September 1, 2000 by and among Cooper Tire & Rubber Company, the Banks and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(i) of the Company s Form 10-Q for the quarter ended March 31, 2001

(x) Amendment No. 1 to the Amended and Restated Credit Agreement dated as of March 27, 2001 by and among Cooper Tire & Rubber Company, the Banks and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(ii) of the Company s Form 10-Q for the quarter ended March 31, 2001

(xi) Amendment No. 2 to the Amended and Restated Credit Agreement dated as of August 30, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(i) of the Company s Form 10-Q for the quarter ended September 30, 2001

(xii) Amendment No. 3 to the Amended and Restated Credit Agreement dated as of September 30, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(ii) of the Company s Form 10-Q for the quarter ended September 30, 2001

(xiii) Amendment No. 4 to the Amended and Restated Credit Agreement dated as of November 1, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(iii) of the Company s Form 10-Q for the quarter ended September 30, 2001

(xiv) Amendment No. 5 to the Amended and Restated Credit Agreement dated as of December 21, 2001 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(xiii) of the Company s Form 10-K for the year ended December 31, 2001

(xv) Amendment No. 6 to the Amended and Restated Credit Agreement dated as of August 29, 2002 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10)(i) of the Company s Form 10-Q for the quarter ended September 30, 2002

(xvi) Amendment No. 7 to the Amended and Restated Credit Agreement dated as of August 28, 2003 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10) of the Company s Form 10-Q for the quarter ended September 30, 2003

(xvii) Amendment No. 8 to the Amended and Restated Credit Agreement dated as of June 30, 2004 among Cooper Tire & Rubber Company, the Banks, and PNC Bank, National Association, as agent for the Banks is incorporated herein by reference from Exhibit (10) of the Company s Form 10-Q for the quarter ended June 30, 2004

(xviii) Purchase and Sale Agreement dated as of August 30, 2006, by and among Cooper Tire & Rubber Company, Oliver Rubber Company and Cooper Receivables LLC is incorporated herein by reference from Exhibit (10)(1) of the Company s Form 8-K dated August 30, 2006

(xix) Receivables Purchase Agreement dated as of August 30, 2006, by and among Cooper Receivables LLC, Cooper Tire & Rubber Company, PNC Bank, National Association, and the various purchaser groups from time to time party thereto is incorporated herein by reference from Exhibit (10)(2) of the Company s Form 8-K dated August 30, 2006

(xx) First Amendment to Receivables Purchase Agreement, dated as of November 30, 2006, by and among Cooper Receivables LLC, Cooper Tire & Rubber Company and PNC Bank, National Association is incorporated herein by reference from Exhibit (10)(1) of the Company s Form 8-K dated November 30, 2006

(xxi) 1991 Stock Option Plan for Non-Employee Directors is incorporated herein by reference from the Appendix to the Company s Proxy Statement dated March 26, 1991 *

(xxii) 1996 Stock Option Plan is incorporated herein by reference from the Appendix to the Company s Proxy Statement dated March 26, 1996 *

(xxiii) 1998 Incentive Compensation Plan and 1998 Employee Stock Option Plan are incorporated herein by reference from the Appendix to the Company s Proxy Statement dated March 24, 1998 *

(xxiv) Amended and Restated 1998 Non-Employee Directors Compensation Deferral Plan is incorporated herein by

reference from the Appendix to the Company s Proxy Statement dated March 24, 1998 *

(xxv) 2001 Incentive Compensation Plan is incorporated herein by reference from the Appendix A to the Company s Proxy Statement dated March 20, 2001 *

(xxvi) Executive Deferred Compensation Plan is incorporated herein by reference from Exhibit (10)(iv) of the Company s Form 10-Q for the quarter ended September 30, 2001 *

-77-

Table of Contents

(xxvii)	2002 Non-Employee Directors Stock Option Plan is incorporated herein by reference from Appendix A to the Company s Proxy Statement dated March 27, 2002 *
(xxviii)	2006 Incentive Compensation Plan is incorporated herein by reference from Appendix A to the Company s Proxy Statement dated March 21, 2006*
(xxix)	Stock Purchase Agreement dated as of September 16, 2004 by and among Cooper Tire & Rubber Company, Cooper Tyre & Rubber Company UK Limited and CSA Acquisition Corp. is incorporated herein by reference from Exhibit (10) of the Company s Form 10-Q for the quarter ended September 30, 2004
(xxx)	First Amendment to Stock Purchase Agreement dated as of December 3, 2004 by and among Cooper Tire & Rubber Company, Cooper Tyre & Rubber Company UK Limited and CSA Acquisition Corp. is herein incorporated by reference from Exhibit (xxvi) of the Company s Form 10-K for the year ended December 31, 2004
(xxxi)	Strategic Subscription Agreement dated as of January 7, 2005 between Kumho Tire Co. Inc. and Cooper Tire & Rubber Company is herein incorporated by reference from Exhibit (xxvii) of the Company s Form 10-K for the year ended December 31, 2004
(xxxii)	Sino-Foreign Equity Joint Venture Contract for Cooper Chengshan (Shandong) Passenger Tire Company Ltd. by and among Shandong Chengshan Tire Company Limited by Shares and Cooper Tire Investment Holding (Barbados) Ltd. and Joy Thrive Investments Limited is incorporated herein by reference from Exhibit (xxvii) of the Company s Form 10-K for the year ended December 31, 2005
(xxxiii)	Asset Purchase Agreement by and among Shandong Chengshan Tire Company Limited by Shares and Cooper Chengshan (Shandong) Passenger Tire Company Ltd. and Chengshan Group Limited is incorporated herein by reference from Exhibit (xxviii) of the Company s Form 10-K for the year ended December 31, 2005

(xxxiv) Sino-Foreign Equity Joint Venture Contract for Cooper Chengshan (Shandong) Tire Company Ltd. by and among Shandong Chengshan Tire Company Limited by Shares and Cooper Tire Investment Holding (Barbados) Ltd. and Joy Thrive Investments Limited is incorporated herein by reference from Exhibit (xxix) of the Company s Form 10-K for the year ended December 31, 2005

(xxxv) Asset Purchase Agreement by and among Shandong Chengshan Tire Company Limited by Shares and Cooper Chengshan (Shandong) Tire Company Limited and Chengshan Group Company Limited is incorporated herein by reference from Exhibit (xxx) of the Company s Form 10-K for the year ended December 31, 2005

(xxxvi) Sino-Foreign Equity Joint Venture Contract for Rongcheng Chengshan Steel Cord Company Ltd. by and between Chengshan Group Company Limited and CTB (Barbados) Investment Co. Ltd is incorporated herein by reference from Exhibit (xxxi) of the Company s Form 10-K for the year ended December 31, 2005

(xxxvii) Share Purchase Agreement by and among Chengshan Group Company Limited and CTB (Barbados) Investment Co. Ltd. is incorporated herein by reference from Exhibit (xxxii) of the Company s Form 10-K for the year ended December 31, 2005

(xxxviii) Supplementary Agreement by and among Shandong Chengshan Tire Company Limited by Shares, Cooper Tire Investment Holding (Barbados) Ltd., Joy Thrive Investments Limited, Chengshan Group Company Limited and CTB (Barbados) Investment Co., Ltd.

(13) Annual report to security holders

(21) Subsidiaries of the Registrant

(23) Consent of Independent Registered Public Accounting Firm

(24) Power of Attorney

(31.1) Certification of Chief Executive Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Exchange Act

(31.2) Certification of Chief Financial Officer pursuant to Rule 13a 14(a)/15d 14(a) of the Exchange Act

(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

* Indicates management contracts or compensatory plans or arrangements.