

GOODYEAR TIRE & RUBBER CO /OH/

Form 10-K

February 08, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2016

Commission File Number: 1-1927

THE GOODYEAR TIRE & RUBBER COMPANY

(Exact name of registrant as specified in its charter)

Ohio 34-0253240

(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

200 Innovation Way, Akron, Ohio 44316-0001

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (330) 796-2121

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Without Par Value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes  No

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

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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

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

Yes  No

The aggregate market value of the common stock held by nonaffiliates of the registrant, computed by reference to the last sales price of such common stock as of the closing of trading on June 30, 2016, was approximately \$6.7 billion.

Shares of Common Stock, Without Par Value, outstanding at January 31, 2017:

251,652,040

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the Company's Proxy Statement for the Annual Meeting of Shareholders to be held on April 10, 2017 are incorporated by reference in Part III.

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## THE GOODYEAR TIRE &amp; RUBBER COMPANY

Annual Report on Form 10-K

For the Fiscal Year Ended December 31, 2016

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PART I.

ITEM 1. BUSINESS.

BUSINESS OF GOODYEAR

The Goodyear Tire & Rubber Company (the “Company”) is an Ohio corporation organized in 1898. Its principal offices are located at 200 Innovation Way, Akron, Ohio 44316-0001. Its telephone number is (330) 796-2121. The terms “Goodyear,” “Company” and “we,” “us” or “our” wherever used herein refer to the Company together with all of its consolidated U.S. and foreign subsidiary companies, unless the context indicates to the contrary.

We are one of the world’s leading manufacturers of tires, engaging in operations in most regions of the world. In 2016, our net sales were \$15,158 million and Goodyear’s net income and net income available to common shareholders were \$1,264 million. Together with our U.S. and international subsidiaries, we develop, manufacture, market and distribute tires for most applications. We also manufacture and market rubber-related chemicals for various applications. We are one of the world’s largest operators of commercial truck service and tire retreading centers. In addition, we operate approximately 1,100 tire and auto service center outlets where we offer our products for retail sale and provide automotive repair and other services. We manufacture our products in 48 manufacturing facilities in 21 countries, including the United States, and we have marketing operations in almost every country around the world. We employ approximately 66,000 full-time and temporary associates worldwide.

Dissolution of Global Alliance with Sumitomo Rubber Industries

On October 1, 2015, we completed the previously announced dissolution of our global alliance with Sumitomo Rubber Industries, Ltd. (“SRI”) in accordance with the terms and conditions set forth in the Framework Agreement, dated as of June 4, 2015, by and between the Company and SRI.

Under the global alliance, we owned 75% and SRI owned 25% of two companies, Goodyear Dunlop Tires Europe B.V. (“GDTE”) and Goodyear Dunlop Tires North America, Ltd. (“GDTNA”). In Japan, we owned 25% and SRI owned 75% of two companies, one, Nippon Goodyear Ltd. (“NGY”), for the sale of Goodyear-brand passenger and truck tires for replacement in Japan and the other, Dunlop Goodyear Tires Ltd. (“DGT”), for the sale of Goodyear-brand and Dunlop-brand tires to vehicle manufacturers in Japan. We also owned 51%, and SRI owned 49%, of a company that coordinated and disseminated both commercialized tire technology and non-commercialized technology among us and SRI, the joint ventures and their respective affiliates (the “Technology JV”), and we owned 80%, and SRI owned 20%, of a global purchasing company (the “Purchasing JV”). The global alliance also provided for the investment by us and SRI in the common stock of the other.

As result of the completion of the transactions contemplated by the Framework Agreement:

- we acquired SRI’s 25% interest in GDTE and SRI’s 75% interest in NGY;
- we sold to SRI our 75% interest in GDTNA, as well as the Huntsville, Alabama test track used by GDTNA, and our 25% interest in DGT;
- we maintained control of the Dunlop-related trademarks for tire-related businesses in North America but granted to SRI an exclusive license to develop, manufacture and sell Dunlop-brand tires for motorcycles and for Japanese-owned original equipment manufacturers operating in North America;
- SRI obtained exclusive rights to sell Dunlop-brand tires in those countries that were previously non-exclusive under the global alliance, including Russia, Turkey and certain countries in Africa;
- we liquidated the Technology JV and Purchasing JV and distributed the remaining assets and liabilities of those entities to us and SRI in accordance with our respective ownership interests; and
- we sold our investment in the common stock of SRI resulting in total proceeds of \$47 million and a pre-tax gain of \$30 million.

We paid to SRI a net amount of \$271 million and delivered a promissory note to GDTNA in the initial principal amount of \$56 million at an interest rate of LIBOR plus 0.1% and with a maturity date three years following the date of dissolution.

Deconsolidation of our Venezuelan Subsidiary

Effective December 31, 2015, we concluded that we did not meet the accounting criteria for control over our Venezuelan subsidiary. We deconsolidated the operations of our Venezuelan subsidiary and began reporting their

results using the cost method of accounting. Our financial results for 2016 do not include the operating results of our Venezuelan subsidiary. Refer to the Note to the Consolidated Financial Statements No. 1, Accounting Policies.

**AVAILABLE INFORMATION**

We make available free of charge on our website, <http://www.goodyear.com>, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we file or furnish such reports to the Securities and Exchange Commission (the "SEC"). The information on our website is not incorporated by reference in or considered to be a part of this Annual Report on Form 10-K.

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## DESCRIPTION OF GOODYEAR'S BUSINESS

## GENERAL INFORMATION REGARDING OUR SEGMENTS

For the year ended December 31, 2016, we operated our business through three operating segments representing our regional tire businesses: Americas; Europe, Middle East and Africa ("EMEA"); and Asia Pacific.

Financial information related to our operating segments for the three year period ended December 31, 2016 appears in the Note to the Consolidated Financial Statements No. 8, Business Segments.

Effective January 1, 2016, we combined our former North America and Latin America strategic business units into one Americas strategic business unit. We have combined the North America and Latin America reportable segments effective on this date to align with the new organizational structure and the basis used for reporting to our Chief Executive Officer. This 2016 Form 10-K reflects the new segment structure with prior periods recast for comparable disclosure.

Our principal business is the development, manufacture, distribution and sale of tires and related products and services worldwide. We manufacture and market numerous lines of rubber tires for:

- automobiles
- trucks
- buses
- aircraft
- motorcycles
- earthmoving and mining equipment
- farm implements
- industrial equipment, and
- various other applications.

In each case, our tires are offered for sale to vehicle manufacturers for mounting as original equipment ("OE") and for replacement worldwide. We manufacture and sell tires under the Goodyear, Dunlop, Kelly, Debica, Sava and Fulda brands and various other Goodyear owned "house" brands, and the private-label brands of certain customers. In certain geographic areas we also:

- retread truck, aviation and off-the-road, or OTR, tires,
- manufacture and sell tread rubber and other tire retreading materials,
- sell chemical products, and
- provide automotive and commercial repair services and miscellaneous other products and services.

Our principal products are new tires for most applications. Approximately 87% of our sales in 2016, 2015 and 2014 were for new tires. Sales of chemical products and natural rubber to unaffiliated customers were 3% in 2016, 2% in 2015 and 3% in 2014 of our consolidated sales (5%, 4% and 5% of Americas total sales in 2016, 2015 and 2014, respectively). The percentages of each segment's sales attributable to new tires during the periods indicated were:

Sales of New Tires By	Year Ended December 31,		
	2016	2015	2014
Americas	82 %	84 %	82 %
Europe, Middle East and Africa	94	94	94
Asia Pacific	89	89	88

Each segment exports tires to other segments. The financial results of each segment exclude sales of tires exported to other segments, but include operating income derived from such transactions.

Goodyear does not include motorcycle, aviation or all-terrain vehicle tires in reported tire unit sales.

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Tire unit sales for each segment during the periods indicated were:

## GOODYEAR'S ANNUAL TIRE UNIT SALES — SEGMENT

(In millions of tires)	Year Ended		
	December 31,		
	2016	2015	2014
Americas	74.1	79.1	78.5
Europe, Middle East and Africa	61.1	61.1	60.5
Asia Pacific	30.9	26.0	23.0
Goodyear worldwide tire units	166.1	166.2	162.0

Our replacement and OE tire unit sales during the periods indicated were:

## GOODYEAR'S ANNUAL TIRE UNIT SALES — REPLACEMENT AND OE

(In millions of tires)	Year Ended		
	December 31,		
	2016	2015	2014
Replacement tire units	117.3	115.5	112.9
OE tire units	48.8	50.7	49.1
Goodyear worldwide tire units	166.1	166.2	162.0

New tires are sold under highly competitive conditions throughout the world. On a worldwide basis, we have two major competitors: Bridgestone (based in Japan) and Michelin (based in France). Other significant competitors include Continental, Cooper, Hankook, Kumho, Pirelli, SRI, Toyo, Yokohama and various regional tire manufacturers.

We compete with other tire manufacturers on the basis of product design, performance, price and terms, reputation, warranty terms, customer service and consumer convenience. Goodyear and Dunlop brand tires enjoy a high recognition factor and have a reputation for performance and product design. The Kelly, Debica, Sava and Fulda brands and various house brand tire lines offered by us, and tires manufactured and sold by us to private brand customers, compete primarily on the basis of value and price.

We do not consider our tire businesses to be seasonal to any significant degree.

**AMERICAS**

Americas, our largest segment in terms of revenue, develops, manufactures, distributes and sells tires and related products and services in North, Central and South America, and sells tires to various export markets, primarily through intersegment sales. Americas manufactures tires in six plants in the United States, two plants in Canada and five plants in Brazil, Chile, Colombia, Peru and Venezuela.

Americas manufactures and sells tires for automobiles, trucks, buses, earthmoving, mining and industrial equipment, aircraft, and for various other applications.

Goodyear brand radial passenger tire lines sold throughout Americas include the Assurance family of product lines for the premium and mid-tier passenger and cross-over utility segments; the Direction family of product lines for the mid-tier consumer segment; the Eagle family of product lines for the high-performance segment; the Wrangler family of product lines for the sport utility vehicle and light truck segments; and the Ultra Grip family of winter tires.

Additionally, we offer Dunlop brand radial tire lines including Signature HP, SP Sport and Direzza for the passenger and performance segments; the Grandtrek tire lines for the cross-over, sport utility vehicle and light truck segments; and SP Winter, Winter Maxx and Grandtrek tire lines for the winter tire segment. Americas also manufactures and sells several lines of Kelly brand radial tires for passenger cars and light trucks including the Kelly Edge A/S, Edge HP, Edge AT and Safari TSR. Goodyear's Americas commercial business unit provides commercial truck tires, retreads, services, tools and business solutions to trucking fleets.

In 2016, Americas launched five new consumer tires under the Goodyear and Kelly brands, including our new Goodyear Wrangler TrailRunner AT, Goodyear Eagle F1 Asymmetric 3 and Kelly Edge HP. Americas commercial

truck tire business launched eleven new tire lines under the Goodyear Endurance, Goodyear Fuel Max, Goodyear Armor Max, Goodyear CityMax, Marathon Workhorse and Kelly ArmorSteel lines to service our long haul, regional and mixed service customers.

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In 2016, Americas expanded its roll-out of online tire sales in the United States, after becoming the first major tire manufacturer to sell products, as well as installation services, online through our website, www.goodyear.com in 2015. We service our online customers through a network of authorized installers including independent dealers and Company-owned locations across the United States. Americas also:

- manufactures tread rubber and other tire retreading materials for trucks, heavy equipment and aviation,
- retreads truck, aviation and OTR tires, primarily as a service to its commercial customers,
- provides automotive maintenance and repair services at approximately 600 retail outlets primarily under the Goodyear or Just Tires names,
- provides trucking fleets with new tires, retreads, mechanical service, preventative maintenance and roadside assistance from approximately 190 Company-owned Goodyear Commercial Tire & Service Centers,
- sells automotive repair and maintenance items, automotive equipment and accessories and other items to dealers and consumers,
- sells chemical products and natural rubber to Goodyear's other business segments and to unaffiliated customers, and
- provides miscellaneous other products and services.

Markets and Other Information

Tire unit sales to replacement and OE customers served by Americas during the periods indicated were:

AMERICAS UNIT SALES — REPLACEMENT AND OE

	Year Ended		
	December 31,		
(In millions of tires)	2016	2015	2014
Replacement tire units	55.0	57.4	56.5
OE tire units	19.1		