GOODYEAR TIRE & RUBBER CO /OH/
Form 10-Q
April 27, 2016

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended March 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 Incorporation or Organization)	(I.R.S. Employer Identification No.)
200 Innovation Way, Akron, Ohio	44316-0001
(Address of Principal Executive Offices)	(Zip Code)

(330) 796-2121
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (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 þ No o
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 þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(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 Exchange Act).
Yes o No þ
Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

Number of Shares of Common Stock, Without Par Value, Outstanding at March 31, 2016:	265,944,083

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended March 31,	
(In millions, except per share amounts)	2016	2015
Net Sales	$3,691	$4,024
Cost of Goods Sold	2,701	3,066
Selling, Administrative and General Expense	615	608
Rationalizations (Note 2)	11	16
Interest Expense	91	107
Other (Income) Expense (Note 3)	6	(132)
Income before Income Taxes	267	359
United States and Foreign Taxes (Note 4)	78	123
Net Income	189	236
Less: Minority Shareholders' Net Income	5	12
Goodyear Net Income	$184	$224
Goodyear Net Income — Per Share of Common Stock		
Basic	$0.69	$0.83
Weighted Average Shares Outstanding (Note 5)	267	270
Diluted	$0.68	$0.82
Weighted Average Shares Outstanding (Note 5)	271	274
Cash Dividends Declared Per Common Share	$0.07	$0.06

The accompanying notes are an integral part of these consolidated financial statements.

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended March 31,	
(In millions)	2016	2015
Net Income	$189	$236
Other Comprehensive Income (Loss):		
Foreign currency translation, net of tax of $17 in 2016 (($34) in 2015)	60	(128)
Defined benefit plans:		
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost, net of tax of $8 in 2016 ($9 in 2015)	16	19
Decrease (increase) in net actuarial losses, net of tax of ($1) in 2016 ($0 in 2015)	—	—
Deferred derivative gains (losses), net of tax of ($1) in 2016 ($2 in 2015)	(6)	13
Reclassification adjustment for amounts recognized in income, net of tax of ($1) in 2016 (($1) in 2015)	(3)	(4)
Unrealized investment gains, net of tax of $0 in 2016 ($4 in 2015)	—	7
Other Comprehensive Income (Loss)	67	(93)
Comprehensive Income	256	143
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	12	(50)
Goodyear Comprehensive Income	$244	$193

The accompanying notes are an integral part of these consolidated financial statements.

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(In millions)	March 31, 2016	December 31, 2015
Assets:		
Current Assets:		
Cash and Cash Equivalents	$ 1,079	$ 1,476
Accounts Receivable, less Allowance — $114 ($105 in 2015)	2,482	2,033
Inventories:		
Raw Materials	418	419
Work in Process	145	138
Finished Products	2,073	1,907
	2,636	2,464
Prepaid Expenses and Other Current Assets	178	153
Total Current Assets	6,375	6,126
Goodwill	574	555
Intangible Assets	138	138
Deferred Income Taxes (Note 4)	2,074	2,141
Other Assets	676	654
Property, Plant and Equipment, less Accumulated Depreciation — $8,934 ($8,637 in 2015)	6,940	6,777
Total Assets	$ 16,777	$ 16,391
Liabilities:		
Current Liabilities:		
Accounts Payable-Trade	$ 2,653	$ 2,769
Compensation and Benefits (Notes 9 and 10)	615	666
Other Current Liabilities	943	886
Notes Payable and Overdrafts (Note 7)	76	49
Long Term Debt and Capital Leases due Within One Year (Note 7)	314	585
Total Current Liabilities	4,601	4,955
Long Term Debt and Capital Leases (Note 7)	5,685	5,074
Compensation and Benefits (Notes 9 and 10)	1,437	1,468
Deferred Income Taxes (Note 4)	87	91
Other Long Term Liabilities	635	661
Total Liabilities	12,445	12,249
Commitments and Contingent Liabilities (Note 11)		
Shareholders' Equity:		
Goodyear Shareholders' Equity:		
Common Stock, no par value:		
Authorized, 450 million shares, Outstanding shares — 266 million (267 million in 2015) after deducting 12 million treasury shares (11 million in 2015)	266	267
Capital Surplus	3,053	3,093
Retained Earnings	4,735	4,570
Accumulated Other Comprehensive Loss	(3,950)	(4,010)
Goodyear Shareholders' Equity	4,104	3,920
Minority Shareholders' Equity — Nonredeemable	228	222
Total Shareholders' Equity	4,332	4,142
Total Liabilities and Shareholders' Equity	$ 16,777	$ 16,391

The accompanying notes are an integral part of these consolidated financial statements.

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
(In millions)	2016	2015
Cash Flows from Operating Activities:		
Net Income	$189	$236
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and Amortization	174	172
Amortization and Write-Off of Debt Issuance Costs	7	2
Provision for Deferred Income Taxes	46	91
Net Rationalization Charges (Note 2)	11	16
Rationalization Payments	(24)	(26)
Net (Gains) Losses on Asset Sales (Note 3)	(1)	1
Pension Contributions and Direct Payments	(25)	(26)
Gain on Recognition of Deferred Royalty Income (Note 3)	—	(155)
Changes in Operating Assets and Liabilities, Net of Asset Acquisitions and Dispositions:		
Accounts Receivable	(399)	(495)
Inventories	(116)	8
Accounts Payable — Trade	(96)	(82)
Compensation and Benefits	(100)	(82)
Other Current Liabilities	24	(9)
Other Assets and Liabilities	(71)	87
Total Cash Flows from Operating Activities	(381)	(262)
Cash Flows from Investing Activities:		
Capital Expenditures	(253)	(204)
Asset Dispositions (Note 3)	1	1
Decrease in Restricted Cash	7	2
Short Term Securities Acquired	(12)	—
Short Term Securities Redeemed	—	21
Total Cash Flows from Investing Activities	(257)	(180)
Cash Flows from Financing Activities:		
Short Term Debt and Overdrafts Incurred	26	16
Short Term Debt and Overdrafts Paid	(2)	(22)
Long Term Debt Incurred	1,085	616
Long Term Debt Paid	(822)	(628)
Common Stock Issued	2	2
Common Stock Repurchased (Note 12)	(50)	(1)
Common Stock Dividends Paid (Note 12)	(19)	(16)
Transactions with Minority Interests in Subsidiaries	(6)	(1)
Debt Related Costs and Other Transactions	(1)	—
Total Cash Flows from Financing Activities	213	(34)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	28	(72)
Net Change in Cash and Cash Equivalents	(397)	(548)
Cash and Cash Equivalents at Beginning of the Period	1,476	2,161
Cash and Cash Equivalents at End of the Period	$1,079	$1,613

The accompanying notes are an integral part of these consolidated financial statements.

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THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by The Goodyear Tire & Rubber Company (the “Company,” “Goodyear,” “we,” “us” or “our”) in accordance with Securities and Exchange Commission rules a regulations and generally accepted accounting principles in the United States of America ("US GAAP") and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to fairly state the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Form 10-K”).

Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2016.

Effective January 1, 2016, we combined our North America and Latin America strategic business units ("SBUs") into one Americas SBU. 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. Prior periods have been restated to reflect this change.

Recently Adopted Accounting Standards

Effective January 1, 2016, we adopted an accounting standards update providing new guidance that eliminates the requirement in a business combination to restate prior period financial statements for measurement period adjustments. Instead, measurement period adjustments will be recognized in the reporting period in which the adjustment is identified. The adoption of this standards update did not impact our consolidated financial statements.

Effective January 1, 2016, we adopted an accounting standards update providing new guidance on whether a cloud computing arrangement includes a software license and the accounting for such an arrangement. If a cloud computing arrangement includes a software license, then the software license element of the arrangement is accounted for consistently with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the agreement is accounted for as a service contract. The adoption of this standards update did not have a material impact on our consolidated financial statements.

Effective January 1, 2016, we adopted an accounting standards update providing new guidance on the presentation of debt issuance costs that requires costs incurred to issue debt to be presented on the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. Debt issuance costs incurred in connection with line-of-credit arrangements will be presented as an asset. The new guidance also requires the amortization of such costs be reported in Interest Expense in the Statement of Operations. The adoption of this standards update resulted in reclassifications of $15 million from Prepaid Expenses and Other Current Assets and $33 million from Other Assets which decreased Long Term Debt and Capital Leases Due Within One Year by $2 million and Long Term Debt and Capital Leases by $46 million at December 31, 2015. The adoption of this standards update also resulted in a reclassification of $4 million of expense from Other (Income) Expense to Interest Expense in the Statement of Operations for the three months ended March 31, 2015.

Recently Issued Accounting Standards

In March 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update with new guidance on employee share-based payment accounting. This update involves several aspects of the accounting for share-based payment transactions, including income tax effects, forfeitures and classifications on the statement of cash flows. The standards update is effective for fiscal years and interim periods beginning after December 15, 2016. Early adoption is permitted in an interim or annual period; however, all amendments must be adopted at the same time. We are currently assessing the impact of this standards update on our consolidated financial statements.

In March 2016, the FASB issued an accounting standards update with new guidance on the transition to the equity method of accounting. This update eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for the equity method. Instead, the investor is required to apply the equity method prospectively from the date the investment qualifies for the equity method. In addition, an entity that has an available-for-sale equity security that becomes qualified for the equity method must recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment qualifies for the equity method. The

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

standards update is effective prospectively for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The adoption of this standards update is not expected to impact our consolidated financial statements.

In February 2016, the FASB issued an accounting standards update with new guidance intended to increase transparency and comparability among organizations relating to leases. Lessees will be required to recognize a liability to make lease payments and a right-of-use asset representing the right to use the underlying asset for the lease term. The FASB retained a dual model for lease classification, requiring leases to be classified as finance or operating leases to determine recognition in the statements of operations and cash flows; however, almost all leases will be required to be recognized on the balance sheet. Lessor accounting is largely unchanged from the current accounting model. The standards update will also require quantitative and qualitative disclosures regarding key information about leasing arrangements. The standards update is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. It must be adopted using a modified retrospective approach, and provides for certain practical expedients. The transition will require application at the beginning of the earliest comparative period presented at the time of adoption. We are currently assessing the impact of this standards update on our consolidated financial statements.

In July 2015, the FASB issued an accounting standards update with new guidance on the measurement of inventory. Inventory within the scope of this update is required to be measured at the lower of its cost or net realizable value, with net realizable value being the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. The standards update is effective prospectively for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. We are currently assessing the impact of adopting this standards update on our consolidated financial statements.

In August 2014, the FASB issued an accounting standards update with new guidance on management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Management must evaluate whether it is probable that known conditions or events, considered in the aggregate, would raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. If such conditions or events are identified, the standard requires management's mitigation plans to alleviate the doubt or a statement of the substantial doubt about the entity’s ability to continue as a going concern to be disclosed in the financial statements. The standards update is effective for the first annual period ending after December 15, 2016, with early adoption permitted. The adoption of this standards update is not expected to impact our consolidated financial statements.

In May 2014, the FASB issued an accounting standards update with new guidance on recognizing revenue from contracts with customers. The standards update outlines a single comprehensive model for entities to utilize to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that will be received in exchange for the goods and services. Additional disclosures will also be required to enable users to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. In 2016, the FASB issued accounting standards updates with amendments to clarify the guidance for identifying performance obligations, licenses and determining if a company is the principal or agent in a revenue arrangement. In August 2015, the FASB deferred the effective date of this standards update to fiscal years beginning after December 15, 2017, with early adoption permitted on the original effective date of fiscal years beginning after December 15, 2016. We are currently evaluating our significant contracts and assessing any impact of adopting this standards update on our consolidated financial statements.

Principles of Consolidation

The consolidated financial statements include the accounts of all legal entities in which we hold a controlling financial interest. A controlling financial interest generally arises from our ownership of a majority of the voting shares of our subsidiaries. We would also hold a controlling financial interest in variable interest entities if we are considered to be the primary beneficiary. Investments in companies in which we do not own a majority interest and we have the ability to exercise significant influence over operating and financial policies are accounted for using the equity method. Investments in other companies are carried at cost. All intercompany balances and transactions have been eliminated in consolidation.

Effective December 31, 2015, we concluded that we did not meet the accounting criteria for control over our Venezuelan subsidiary and began reporting the results of our Venezuelan subsidiary using the cost method of accounting. We have determined the fair value of our investment in, and receivables from, our Venezuelan subsidiary to be insignificant based on our expectations of dividend payments and settlements of such receivables in future periods. Beginning January 1, 2016, our financial results do not include the operating results of our Venezuelan subsidiary although that subsidiary has continued operations. We will record income from sales of inventory and raw materials or from dividends or royalties to the extent cash is received from our Venezuelan subsidiary. Our exposure to future losses resulting from our Venezuelan subsidiary is limited to the extent that we decide to provide raw materials or finished goods to, or make future investments in, our Venezuelan subsidiary.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Dissolution of Global Alliance with Sumitomo Rubber Industries, Ltd. ("SRI")
On October 1, 2015, the Company completed the previously announced dissolution of its global alliance with 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.
Prior to the dissolution, the Company owned 75% and SRI owned 25% of two companies, Goodyear Dunlop Tires Europe B.V. (“GDTE”) and Goodyear Dunlop Tires North America, Ltd. (“GDTNA”). GDTE owns and operates substantially all of the Company’s tire businesses in Western Europe. GDTNA had rights to the Dunlop brand and operated certain related businesses in North America. In Japan, the Company 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.
Pursuant to the Framework Agreement, the Company has sold to SRI its 75% interest in GDTNA, 25% interest in DGT and Huntsville, Alabama test track used by GDTNA. Accordingly, the Company no longer has any remaining ownership interests in GDTNA, DGT or the Huntsville, Alabama test track. With the sale of GDTNA, SRI obtained full ownership of the Dunlop motorcycle tire business in North America and the rights to sell Dunlop-brand tires to Japanese vehicle manufacturers in the United States, Canada and Mexico. The Company retained exclusive rights to sell Dunlop-brand tires in both the consumer and commercial replacement markets of the United States, Canada and Mexico as well as to non-Japanese vehicle manufacturers in those countries.
The Company also has acquired from SRI its 75% interest in NGY and 25% interest in GDTE. Accordingly, the Company now has full ownership interests in NGY and GDTE. In addition, 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.
Prior to October 1, 2015, GDTE’s assets and liabilities were included in our consolidated balance sheets and GDTE’s results of operations were included in our consolidated statements of operations, which also reflected SRI’s minority interest in GDTE. Subsequent to October 1, 2015, we continue to include GDTE in our consolidated balance sheets and consolidated statements of operations; however, there is no minority interest impact to our results of operations related to GDTE. Additionally, prior to October 1, 2015, we accounted for NGY under the equity method as we did not have a controlling financial interest in NGY. Subsequent to October 1, 2015, we have a controlling interest in NGY and, accordingly, NGY’s assets and liabilities are included in our consolidated balance sheets and NGY’s results of operations are included in our consolidated statements of operations.
Reclassifications and Adjustments
Certain items previously reported in specific financial statement captions have been reclassified to conform to the current presentation.
NOTE 2. COSTS ASSOCIATED WITH RATIONALIZATION PROGRAMS
In order to maintain our global competitiveness, we have implemented rationalization actions over the past several years to reduce high-cost manufacturing capacity and associate headcount.
The following table shows the roll-forward of our liability between periods:

(In millions)	Associate-Related Costs	Other Exit and Non-cancelable Lease Costs	Total
Balance at December 31, 2015	$ 96	$ 7	$103
2016 Charges	4	7	11
Reversed to the Statements of Operations	—	—	—
Incurred, Net of Foreign Currency Translation of ($1) million and $0 million, respectively	(18)	(7)	(25)

Balance at March 31, 2016	$ 82	$ 7	$89

The accrual balance of $89 million at March 31, 2016 is expected to be substantially utilized within the next 12 months, and includes $30 million related to the plan to close our Wolverhampton, U.K. mixing and retreading facility and the plan to transfer consumer tire production from our manufacturing facility in Wittlich, Germany to other manufacturing facilities in Europe, Middle East and Africa ("EMEA"), as well as $20 million related to the closure of one of our manufacturing facilities in Amiens, France.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table shows net rationalization charges included in Income before Income Taxes:

(In millions)	Three Months Ended March 31, 2016	2015
Current Year Plans		
Associate Severance and Other Related Costs	$ —	$ —
Other Exit and Non-Cancelable Lease Costs	—	—
Current Year Plans - Net Charges	$ —	$ —
Prior Year Plans		
Associate Severance and Other Related Costs	$ 4	$ 10
Other Exit and Non-Cancelable Lease Costs	7	6
Prior Year Plans - Net Charges	11	16
Total Net Charges	$ 11	$ 16
Asset Write-off and Accelerated Depreciation Charges	$ 2	$ 3

There were no new rationalization actions initiated during the first quarter of 2016 and 2015. Substantially all of the new charges for prior year plans for the three months ended March 31, 2016 and 2015 related to future cash outflows. Net prior year plan charges for the first quarter of 2016 include charges of $6 million for associate severance and idle plant costs related to the closure of one of our manufacturing facilities in Amiens, France. In addition, net prior year plan charges for the first quarter of 2015 include charges of $12 million for associate severance and idle plant costs related to the closure of one of our manufacturing facilities in Amiens, France and our exit from the farm tire business in EMEA. Rationalization charges in 2016 of $11 million relate to previously announced rationalization plans that had approximately $365 million in charges incurred prior to 2016 and for which approximately $30 million is expected to be incurred in future periods.

In the first quarter of 2016, approximately 200 associates were released under plans initiated in prior years. In total, approximately 500 associates remain to be released under rationalization plans. At March 31, 2016, approximately 800 former associates of the closed Amiens, France manufacturing facility have asserted wrongful termination or other claims against us. Refer to Note 11.

Accelerated depreciation charges for the three months ended March 31, 2016 primarily related to the plan to close our Wolverhampton, U.K. mixing and retreading facility. Accelerated depreciation charges for the three months ended March 31, 2015 related to property and equipment in one of our manufacturing facilities in Amiens, France. Accelerated depreciation charges for all periods were recorded in cost of goods sold (“CGS”).

NOTE 3. OTHER (INCOME) EXPENSE

(In millions)	Three Months Ended March 31, 2016	2015
Financing fees and financial instruments	$ 16	$ 12
Royalty income	(4)	(165)
Interest income	(4)	(5)
Net foreign currency exchange (gains) losses	(2)	16
General and product liability expense (income) — discontinued products	(2)	5

Net (gains) losses on asset sales	(1)	1
Miscellaneous	3	4
	$6	$(132)

Royalty income in the first quarter of 2016 was $4 million, compared to $165 million in the first quarter of 2015. Royalty income is derived primarily from licensing arrangements related to divested businesses. Royalty income in 2015 included a one-time pre-tax gain of $155 million on the recognition of deferred income resulting from the termination of a licensing agreement associated with the sale of our former Engineered Products business ("Veyance"). The licensing agreement was terminated following the acquisition of Veyance by Continental AG in January 2015.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Net foreign currency exchange gains in the first quarter of 2016 were $2 million compared to losses of $16 million in the first quarter of 2015.

Also included in Other (Income) Expense are financing fees and financial instruments expense consisting of commitment fees and charges incurred in connection with financing transactions; interest income consisting primarily of amounts earned on cash deposits; general and product liability expense (income) — discontinued products which includes charges for claims against us related primarily to asbestos personal injury claims, net of probable insurance recoveries; and net gains and losses on asset sales. During the first quarter of 2016 general and product liability — discontinued products included a $3 million benefit for an insurance recovery related to past costs.

NOTE 4. INCOME TAXES

In the first quarter of 2016, we recorded tax expense of $78 million on income before income taxes of $267 million. For the first quarter of 2015, we recorded tax expense of $123 million on income before income taxes of $359 million. Income tax expense for the three months ended March 31, 2016 was favorably impacted by $12 million, primarily related to a $7 million tax benefit resulting from the release of a valuation allowance in our Americas operations and $5 million of tax benefits related to other discrete tax adjustments, including the resolution of an audit in our Americas operations. Income tax expense for the three months ended March 31, 2015 was unfavorably impacted by $4 million of discrete tax adjustments, primarily related to prior tax years, resulting from an audit in EMEA.

Our losses in various foreign taxing jurisdictions in recent periods represented sufficient negative evidence to require us to maintain a full valuation allowance against certain of our net foreign deferred tax assets. However, it is reasonably possible that sufficient positive evidence required to release all, or a portion, of certain valuation allowances will exist during 2016. This may result in a reduction of the valuation allowance by up to $275 million.

At January 1, 2016, we had unrecognized tax benefits of $54 million that if recognized, would have a favorable impact on our tax expense of $40 million. We had accrued interest of $5 million as of January 1, 2016. If not favorably settled, $9 million of the unrecognized tax benefits and all of the accrued interest would require the use of our cash. We do not expect any changes to our unrecognized tax benefits to have a significant impact on our financial position or results of operations.

Generally, years from 2010 onward are still open to examination by foreign taxing authorities. We are open to examination in Germany from 2011 onward and in the United States for 2015.

NOTE 5. EARNINGS PER SHARE

Basic earnings per share are computed based on the weighted average number of common shares outstanding. Diluted earnings per share are calculated to reflect the potential dilution that could occur if securities or other contracts were exercised or converted into common stock.

Basic and diluted earnings per common share are calculated as follows:

	Three Months Ended March 31,	
(In millions, except per share amounts)	2016	2015
Earnings per share — basic:		
Goodyear net income available to common shareholders	$184	$224
Weighted average shares outstanding	267	270
Earnings per common share — basic	$0.69	$0.83
Earnings per share — diluted:		
Goodyear net income available to common shareholders	$184	$224
Weighted average shares outstanding	267	270
Dilutive effect of stock options and other dilutive securities	4	4

Weighted average shares outstanding — diluted	271	274
Earnings per common share — diluted	$0.68	$0.82

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Weighted average shares outstanding - diluted for the three months ended March 31, 2015 exclude approximately 2 million equivalent shares related to options with exercise prices greater than the average market price of our common shares (i.e., “underwater” options).

NOTE 6. BUSINESS SEGMENTS

Effective January 1, 2016, we combined our North America and Latin America SBUs into one Americas SBU. 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. As a result, we now operate our business through three operating segments: Americas; Europe, Middle East and Africa; and Asia Pacific.

The prior year Americas operating income has been adjusted to reflect the elimination of intercompany profit between the former North America and Latin America SBUs, whereas the elimination had previously been reflected in Corporate CGS. In addition, certain start-up costs related to the construction of our new manufacturing facility in San Luis Potosi, Mexico were reclassified from Corporate Other (Income) Expense to Americas segment operating income to align with the new organizational structure beginning in 2016.

	Three Months Ended March 31,	
(In millions)	2016	2015
Sales:		
Americas	$1,951	$2,243
Europe, Middle East and Africa	1,251	1,331
Asia Pacific	489	450
Net Sales	$3,691	$4,024
Segment Operating Income:		
Americas	$260	$248
Europe, Middle East and Africa	80	73
Asia Pacific	79	67
Total Segment Operating Income	$419	$388
Less:		
Rationalizations	11	16
Interest expense	91	107
Other (income) expense [(1)]	6	(132)
Asset write-offs and accelerated depreciation	2	3
Corporate incentive compensation plans	26	13
Intercompany profit elimination	2	4
Retained expenses of divested operations	5	2
Other	9	16
Income before Income Taxes	$267	$359

(1) Refer to Note 3.

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Rationalizations, as described in Note 2, Costs Associated with Rationalization Programs, Net (gains) losses on asset sales, as described in Note 3, Other (Income) Expense, and Asset write-offs and accelerated depreciation were not charged (credited) to the SBUs for performance evaluation purposes but were attributable to the SBUs as follows:

	Three Months Ended March 31,	
(In millions)	2016	2015
Rationalizations:		
Americas	$3	$—
Europe, Middle East and Africa	8	15
Asia Pacific	—	1
Total Segment Rationalizations	$11	$16
Net (Gains) Losses on Asset Sales:		
Americas	$—	$(1)
Europe, Middle East and Africa	—	2
Asia Pacific	(1)	—
Total Segment Asset Sales	$(1)	$1

Asset Write-offs and Accelerated Depreciation:		
Europe, Middle East and Africa	$2	$3
Total Segment Asset Write-offs and Accelerated Depreciation	$2	$3

NOTE 7. FINANCING ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

At March 31, 2016, we had total credit arrangements of $8,344 million, of which $1,988 million were unused. At that date, 40% of our debt was at variable interest rates averaging 5.45%.

Notes Payable and Overdrafts, Long Term Debt and Capital Leases due Within One Year and Short Term Financing Arrangements

At March 31, 2016, we had short term committed and uncommitted credit arrangements totaling $518 million of which $442 million were unused. These arrangements are available primarily to certain of our foreign subsidiaries through various banks at quoted market interest rates.

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The following table presents amounts due within one year:

(In millions)	March 31, 2016	December 31, 2015
Notes payable and overdrafts	$ 76	$ 49
Weighted average interest rate	12.44 %	9.42 %
Long term debt and capital leases due within one year		
Other domestic and foreign debt (including capital leases) [1]	$ 314	$ 587
Unamortized deferred financing fees	—	(2)
Total other domestic and foreign debt (including capital leases)	$ 314	$ 585
Weighted average interest rate	7.49 %	6.68 %
Total obligations due within one year	$ 390	$ 634

(1) The decrease in long term debt and capital leases due within one year was due primarily to the redemption of the €250 million 6.75% senior notes due 2019 in January 2016. The notes were classified as current at December 31, 2015 in connection with the irrevocable call for their redemption issued in December 2015.

Long Term Debt and Capital Leases and Financing Arrangements

At March 31, 2016, we had long term credit arrangements totaling $7,826 million, of which $1,546 million were unused.

The following table presents long term debt and capital leases, net of unamortized discounts, and interest rates:

	March 31, 2016		December 31, 2015	
(In millions)	Amount	Interest Rate	Amount	Interest Rate
Notes:				
6.75% Euro Notes due 2019	$—		$272	
8.75% due 2020	271		271	
6.5% due 2021	900		900	
7% due 2022	700		700	
5.125% due 2023	1,000		1,000	
3.75% Euro Notes due 2023	285		272	
7% due 2028	150		150	
Credit Facilities:				
$2.0 billion first lien revolving credit facility due 2017	270	1.90 %	—	—
Second lien term loan facility due 2019	598	3.75 %	598	3.75 %
€550 million revolving credit facility due 2020	268	1.75 %	—	—
Pan-European accounts receivable facility	247	1.23 %	125	1.35 %
Chinese credit facilities	433	4.54 %	465	5.22 %
Other foreign and domestic debt[1]	873	8.50 %	906	9.42 %
Unamortized deferred financing fees	(43)		(48)	
	5,952		5,611	
Capital lease obligations	47		48	
	5,999		5,659	
Less portion due within one year	(314)		(585)	
	$5,685		$5,074	

(1) Interest rates are weighted average interest rates related to various foreign credit facilities with customary terms and conditions and domestic debt related to our Global and Americas Headquarters.

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CREDIT FACILITIES

$2.0 billion Amended and Restated First Lien Revolving Credit Facility due 2017

Our amended and restated first lien revolving credit facility is available in the form of loans or letters of credit, with letter of credit availability limited to $800 million. Subject to the consent of the lenders whose commitments are to be increased, we may request that the facility be increased by up to $250 million. Our obligations under the facility are guaranteed by most of our wholly-owned U.S. and Canadian subsidiaries. Our obligations under the facility and our subsidiaries' obligations under the related guarantees are secured by first priority security interests in a variety of collateral. Amounts drawn under this facility bore interest at LIBOR plus 150 basis points.

Availability under the facility is subject to a borrowing base, which was based primarily on eligible accounts receivable and inventory of The Goodyear Tire & Rubber Company and certain of its U.S. and Canadian subsidiaries. To the extent that our eligible accounts receivable and inventory and other components of the borrowing base decline in value, our borrowing base will decrease and the availability under the facility may decrease below $2.0 billion. As of March 31, 2016, our borrowing base, and therefore our availability, under this facility was $618 million below the facility's stated amount of $2.0 billion.

The facility has customary representations and warranties including, as a condition to borrowing, that all such representations and warranties are true and correct, in all material respects, on the date of the borrowing. The facility also has customary defaults, including a cross-default to material indebtedness of Goodyear and our subsidiaries.

At March 31, 2016, we had $270 million of borrowings and $284 million of letters of credit issued under the revolving credit facility. At December 31, 2015, we had no borrowings and $315 million of letters of credit issued under the revolving credit facility.

On April 7, 2016, we amended and restated the first lien revolving credit facility. Changes to the facility include extending the maturity to 2021 and reducing the interest rate for loans under the facility by 25 basis points to LIBOR plus 125 basis points, based on our current liquidity. In addition, the borrowing base will be increased to include (i) the value of our principal trademarks and (ii) certain cash in an amount not to exceed $200 million.

Amended and Restated Second Lien Term Loan Facility due 2019

Our obligations under our second lien term loan facility are guaranteed by most of our wholly-owned U.S. and Canadian subsidiaries and are secured by second priority security interests in the same collateral securing the $2.0 billion first lien revolving credit facility. This facility may be increased by up to $300 million at our request, subject to the consent of the lenders making such additional term loans. The term loan bears interest at LIBOR plus 300 basis points, subject to a minimum LIBOR rate of 75 basis points.

After June 16, 2015 and prior to June 16, 2016, (i) loans under the facility may not be prepaid or repaid with the proceeds of term loan indebtedness, or converted into or replaced by new term loans, bearing interest at an effective interest rate that is less than the effective interest rate then applicable to such loans and (ii) no amendment of the facility may be made that, directly or indirectly, reduces the effective interest rate applicable to the loans under the facility, in each case unless we pay a fee equal to 1.0% of the principal amount of the loans so affected.

At March 31, 2016 and December 31, 2015, the amounts outstanding under this facility were $598 million.

€550 million Amended and Restated Senior Secured European Revolving Credit Facility due 2020

Our amended and restated €550 million European revolving credit facility consists of (i) a €125 million German tranche that is available only to Goodyear Dunlop Tires Germany GmbH (“GDTG”) and (ii) a €425 million all-borrower tranche that is available to GDTE, GDTG and Goodyear Dunlop Tires Operations S.A. Up to €150 million of swingline loans and €50 million in letters of credit are available for issuance under the all-borrower tranche. Amounts drawn under this facility will bear interest at LIBOR plus 175 basis points for loans denominated in U.S. dollars or pounds sterling and EURIBOR plus 175 basis points for loans denominated in euros.

GDTE and certain of its subsidiaries in the United Kingdom, Luxembourg, France and Germany provide guarantees to support the facility. The German guarantors secure the German tranche on a first-lien basis and the all-borrower tranche on a second-lien basis. GDTE and its other subsidiaries that provide guarantees secure the all-borrower tranche on a first-lien basis and generally do not provide collateral support for the German tranche. The Company and its U.S. subsidiaries and primary Canadian subsidiary that guarantee our U.S. senior secured credit facilities described above also provide unsecured guarantees in support of the facility.

The facility has customary representations and warranties including, as a condition to borrowing, that all such representations and warranties are true and correct, in all material respects, on the date of the borrowing, including representations as to no material

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adverse change in our business or financial condition since December 31, 2014. The facility also has customary defaults, including a cross-default to material indebtedness of Goodyear and our subsidiaries.

At March 31, 2016, the amounts outstanding under the German and all-borrower tranche were $142 million (€125 million) and $126 million (€110 million), respectively. At December 31, 2015, there were no borrowings outstanding under the European revolving credit facility. There were no letters of credit issued at March 31, 2016 and December 31, 2015.

Accounts Receivable Securitization Facilities (On-Balance Sheet)

GDTE and certain other of our European subsidiaries are parties to a pan-European accounts receivable securitization facility that expires in 2019. The terms of the facility provide the flexibility to designate annually the maximum amount of funding available under the facility in an amount of not less than €45 million and not more than €450 million. For the period beginning October 16, 2015 to October 15, 2016, the designated maximum amount of the facility is €340 million.

The facility involves an ongoing daily sale of substantially all of the trade accounts receivable of certain GDTE subsidiaries to a bankruptcy-remote French company controlled by one of the liquidity banks in the facility. These subsidiaries retain servicing responsibilities. Utilization under this facility is based on eligible receivable balances.

The funding commitments under the facility will expire upon the earliest to occur of: (a) September 25, 2019, (b) the non-renewal and expiration (without substitution) of all of the back-up liquidity commitments, (c) the early termination of the facility according to its terms (generally upon an Early Amortisation Event (as defined in the facility), which includes, among other things, events similar to the events of default under our senior secured credit facilities; certain tax law changes; or certain changes to law, regulation or accounting standards), or (d) our request for early termination of the facility. The facility's current back-up liquidity commitments will expire on October 15, 2016.

At March 31, 2016, the amounts available and utilized under this program totaled $247 million (€217 million). At December 31, 2015, the amounts available and utilized under this program totaled $276 million (€254 million) and $125 million (€115 million), respectively. The program does not qualify for sale accounting, and accordingly, these amounts are included in Long Term Debt and Capital Leases.

In addition to the pan-European accounts receivable securitization facility discussed above, subsidiaries in Australia have an accounts receivable securitization program that provides up to $65 million (85 million Australian dollars) of funding. The terms of the facility provide flexibility to designate semi-annually the maximum amount of funding available under the facility in an amount of not less than 60 million Australian dollars and not more than 85 million Australian dollars. At March 31, 2016, the amounts available and utilized under this program were $36 million and $21 million, respectively. At December 31, 2015, the amounts available and utilized under this program were $34 million and $19 million, respectively. The receivables sold under this program also serve as collateral for the related facility. We retain the risk of loss related to these receivables in the event of non-payment. These amounts are included in Long Term Debt and Capital Leases.

For a description of the collateral securing the credit facilities described above as well as the covenants applicable to them, refer to the Note to the Consolidated Financial Statements No. 15, Financing Arrangements and Derivative Financial Instruments, in our 2015 Form 10-K.

Accounts Receivable Factoring Facilities (Off-Balance Sheet)

Various subsidiaries sold certain of their trade receivables under off-balance sheet programs. For these programs, we have concluded that there is generally no risk of loss to us from non-payment of the sold receivables. At March 31, 2016, the gross amount of receivables sold was $249 million, compared to $299 million at December 31, 2015.

Other Foreign Credit Facilities

A Chinese subsidiary has several financing arrangements in China. At March 31, 2016, these non-revolving credit facilities had total unused availability of $67 million and can only be used to finance the expansion of our manufacturing facility in China. At March 31, 2016 and December 31, 2015, the amounts outstanding under these facilities were $433 million and $465 million, respectively. The facilities ultimately mature in 2023 and principal amortization began in 2015. The facilities contain covenants relating to the Chinese subsidiary and have customary representations and warranties and defaults relating to the Chinese subsidiary’s ability to perform its obligations under the facilities. At March 31, 2016 and December 31, 2015, restricted cash related to funds obtained under these credit facilities was $3 million and $11 million, respectively.

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DERIVATIVE FINANCIAL INSTRUMENTS

We utilize derivative financial instrument contracts and nonderivative instruments to manage interest rate, foreign exchange and commodity price risks. We have established a control environment that includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. We do not hold or issue derivative financial instruments for trading purposes.

Foreign Currency Contracts

We enter into foreign currency contracts in order to manage the impact of changes in foreign exchange rates on our consolidated results of operations and future foreign currency-denominated cash flows. These contracts may be used to reduce exposure to currency movements affecting existing foreign currency-denominated assets, liabilities, firm commitments and forecasted transactions resulting primarily from trade purchases and sales, equipment acquisitions, intercompany loans and royalty agreements. Contracts hedging short term trade receivables and payables normally have no hedging designation.

The following table presents the fair values for foreign currency contracts not designated as hedging instruments:

(In millions)	March 31, 2016	December 31, 2015
Fair Values — asset (liability):		
Accounts receivable	$ 4	$ 10
Other current liabilities	(31)	(10)

At March 31, 2016 and December 31, 2015, these outstanding foreign currency derivatives had notional amounts of $1,188 million and $1,094 million, respectively, and were primarily related to intercompany loans. Other (Income) Expense included net transaction losses on derivatives of $23 million and net transaction gains on derivatives of $58 million for the three months ended March 31, 2016 and 2015, respectively. These amounts were more than offset in Other (Income) Expense by the effect of changing exchange rates on the underlying currency exposures.

The following table presents fair values for foreign currency contracts designated as cash flow hedging instruments:

(In millions)	March 31, 2016	December 31, 2015
Fair Values — asset (liability):		
Accounts receivable	$ 1	$ 5
Other current liabilities	(5)	(1)

At March 31, 2016 and December 31, 2015, these outstanding foreign currency derivatives had notional amounts of $156 million and $168 million, respectively, and primarily related to U.S. dollar denominated intercompany transactions.

We enter into master netting agreements with counterparties. The amounts eligible for offset under the master netting agreements are not material and we have elected a gross presentation of foreign currency contracts in the Consolidated Balance Sheets.

The following table presents information related to foreign currency contracts designated as cash flow hedging instruments (before tax and minority):

(In millions) (Income) Expense	Three Months Ended March 31, 2016	2015
Amounts deferred to Accumulated Other Comprehensive Loss ("AOCL")	$7	$(15)
Amount of deferred (gain) loss reclassified from AOCL into CGS	(4)	(5)

The estimated net amount of deferred losses at March 31, 2016 that is expected to be reclassified to earnings within the next twelve months is $3 million.

The counterparties to our foreign currency contracts were considered by us to be substantial and creditworthy financial institutions that are recognized market makers at the time we entered into those contracts. We seek to control our credit exposure to these counterparties by diversifying across multiple counterparties, by setting counterparty credit limits based on long term credit ratings

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and other indicators of counterparty credit risk such as credit default swap spreads, and by monitoring the financial strength of these counterparties on a regular basis. We also enter into master netting agreements with counterparties when possible. By controlling and monitoring exposure to counterparties in this manner, we believe that we effectively manage the risk of loss due to nonperformance by a counterparty. However, the inability of a counterparty to fulfill its contractual obligations to us could have a material adverse effect on our liquidity, financial position or results of operations in the period in which it occurs.

NOTE 8. FAIR VALUE MEASUREMENTS

The following table presents information about assets and liabilities recorded at fair value on the Consolidated Balance Sheets at March 31, 2016 and December 31, 2015:

	Total Carrying Value in the Consolidated Balance Sheet		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In millions)	2016	2015	2016	2015	2016	