COOPER TIRE & RUBBER CO
Form 10-K
February 17, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-K
For Annual and Transition Reports Pursuant to Sections 13 or 15(d) of the Securities Exchange Act of 1934
ý Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2016
or
¨ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Commission File Number 001-04329
COOPER TIRE & RUBBER COMPANY
(Exact name of registrant as specified in its charter)

| DELAWARE | 34-4297750 |
|---|---|
| (State or Other Jurisdiction of Incorporation or Organization) | (I.R.S. Employer Identification No.) |

| 701 Lima Avenue, Findlay, Ohio | 45840 |
|---|---|
| (Address of Principal Executive Offices) | (Zip Code) |

Registrant’s telephone number, including area code: (419) 423-1321
Securities registered pursuant to Section 12(b) of the Act:

| Common Stock, $1 par value per share | New York Stock Exchange |
|---|---|
| (Title of Each Class) | (Name of Each Exchange on which Registered) |

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 ý 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 ý
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 ý 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 ý 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. ý
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 definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer ý Accelerated filer ¨ Non-Accelerated Filer ¨ 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 ¨ No ý
The aggregate market value of the voting common stock held by non-affiliates of the registrant at June 30, 2016 was $1,565,213,739.
The number of shares outstanding of the registrant’s common stock as of February 14, 2017 was 52,669,503.
DOCUMENTS INCORPORATED BY REFERENCE
Certain information from the registrant’s definitive proxy statement for its 2017 Annual Meeting of Stockholders will be herein incorporated by reference into Part III, Items 10 – 14, of this report.

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## PART I

### Item 1. BUSINESS

Cooper Tire & Rubber Company with its subsidiaries ("Cooper" or the "Company") is a leading manufacturer and marketer of replacement tires. It is the fifth largest tire manufacturer in North America and, according to a recognized trade source, the Cooper family of companies is the twelfth largest tire company in the world based on sales. Cooper specializes in the design, manufacture, marketing and sales of passenger car, light truck, medium truck, motorcycle and racing tires.

The Company is organized into four business segments: North America, Latin America, Europe and Asia. Each segment is managed separately. Additional information on the Company's segments as reported, including their financial results, total assets, products, markets and presence in particular geographic areas, appears in "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the "Business Segments" note to the consolidated financial statements.

Cooper Tire & Rubber Company was incorporated in the state of Delaware in 1930 as the successor to a business originally founded in 1914. Based in Findlay, Ohio, Cooper and its family of companies currently operate 9 manufacturing facilities and 20 distribution centers in 10 countries. As of December 31, 2016, it employed 10,540 persons worldwide.

Business Segments

The Company has four segments under Accounting Standards Codification (“ASC”) 280, “Segments”:

- North America, composed of the Company’s operations in the United States (“U.S.”) and Canada;
- Latin America, composed of the Company’s operations in Mexico, Central America and South America;
- Europe; and
- Asia.

North America and Latin America meet the criteria for aggregation in accordance with ASC 280, as they are similar in their production and distribution processes and exhibit similar economic characteristics. The aggregated North America and Latin America segments are presented as “Americas Tire Operations” in the segment disclosure.

Both the Asia and Europe segments have been determined to be individually immaterial, as they do not meet the quantitative requirements for segment disclosure under ASC 280. In accordance with ASC 280, information about operating segments that are not reportable shall be combined and disclosed in an all other category separate from other reconciling items. As a result, these two segments have been combined in the segment operating results discussion. The results of the combined Asia and Europe segments are presented as “International Tire Operations.”

Americas Tire Operations Segment

The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement markets. The segment also has a joint venture manufacturing operation in Mexico, Corporacion de Occidente SA de CV (“COOCSA”), which supplies passenger car tires to the U.S., Mexican, Central American and South American markets. The segment also distributes tires for racing, medium trucks and motorcycles. The racing and motorcycle tires are manufactured in the Company’s European Operations segment and by others. The medium truck tires are sourced primarily through an off-take agreement with Cooper Chengshan (Shandong) Tire Company Ltd. (“CCT”), the Company's former joint venture, which is now known as Prinx Chengshan (Shandong) Tire Company Ltd. 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 currently sell its products directly to end users, except through three Company-owned retail stores. The segment sells a limited number of tires to original equipment manufacturers (“OEMs”).

The segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve OEMs as well as the replacement tire market. The segment also faces competition from low-cost producers in Asia, Mexico, South America and Central Europe. Some of those producers are foreign affiliates of the segment’s competitors in North America. The segment had a market share in 2016 of approximately 12 percent of all light vehicle replacement tire sales in the U.S. The segment also participates in the U.S. medium truck tire market. A portion of the products manufactured by the segment are exported throughout the world.

Success in competing for the sale of replacement tires is dependent upon many factors, the most important of which are price, quality, performance, line coverage, availability through appropriate distribution channels and relationships with dealers and retailers. Other factors include warranty, credit terms and other value-added programs. The segment has built close working relationships through the years with independent dealers. It believes those relationships have enabled it to obtain a competitive advantage in that channel of the market. As a steadily increasing percentage of replacement tires are sold by large regional and national tire retailers, the segment has increased its penetration of those distribution channels, while maintaining a focus on its traditionally strong network of independent dealers.

The segment’s replacement tire business has a broad customer base that includes purchasers of proprietary brand tires that are marketed and distributed by the Company and private label tires which are manufactured by the Company but marketed and distributed by the Company’s customers.

Customers generally place orders on a month-to-month basis and the segment adjusts production and inventory to meet those orders, which results in varying backlogs of orders at different times of the year. Tire sales are subject to a seasonal demand pattern. This usually results in the sales volumes being strongest in the third and fourth quarters and weaker in the first and second quarters.

International Tire Operations Segment

The International Tire Operations segment is the combination of the Asia and Europe operating segments. The European segment has operations in the United Kingdom (“U.K.”) and the Republic of Serbia (“Serbia”). The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures light vehicle tires primarily for the European markets and for export. The Asian operations are located in the People’s Republic of China (“PRC”). In the PRC, Cooper Kunshan Tire manufactures light vehicle tires both for the Chinese domestic market and for export to markets outside of the PRC. The segment also had a joint venture in the PRC, CCT, which manufactured and marketed radial and bias medium truck tires as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company now procures these tires under off-take agreements through mid-2018 from this entity. The majority of the tires manufactured by the segments are sold in the replacement market, with an increasing portion also sold to OEMs.

On January 4, 2016, the Company announced that it had entered into an agreement to purchase a majority of China-based Qingdao Ge Rui Da Rubber Co., Ltd. ("GRT"). After the transaction closed in December 2016, the Company owns 65 percent of the entity. Based on the Company's ownership percentage and corresponding control of voting rights, the results of GRT and 100 percent of its assets and liabilities are consolidated from the date of the closing. GRT is expected to serve as a global source of truck and bus radial tire production for the Company. Passenger car radial tires may also be manufactured at the facility in the future.

The segment has also established sales, marketing, distribution and research and development capabilities to support the Company’s objectives.

As in the Americas Tire Operations segment, the International Tire Operations segment operates in a highly competitive industry, which includes Bridgestone Corporation, Goodyear Tire & Rubber Company and Groupe Michelin. These competitors are substantially larger than the Company and serve OEMs as well as the replacement tire market. The segment also faces competition from low-cost producers.

Raw Materials

The Company’s principal raw materials include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. The Company acquires its raw materials from various sources around the world to assure continuing supplies for its manufacturing operations and to mitigate the risk of potential supply disruptions.

During 2016, the Company experienced lower raw material costs compared with 2015. Raw material costs in the fourth quarter of 2016 were flat to 2015, and began to increase sharply at the end of 2016. The pricing volatility of natural rubber and certain other raw materials contributes to the difficulty in accurately predicting and managing these costs.

The Company has a purchasing office in Singapore to acquire natural rubber directly from producers in Southeast Asia. This purchasing operation enables the Company to work directly with producers to continually improve consistency and quality while reducing the costs of materials, transportation and transactions.

The Company’s contractual relationships with its raw material suppliers are generally based on long-term agreements or purchase order arrangements. For natural rubber and natural gas, procurement is managed through a combination of buying forward production requirements and utilizing the spot market. For other principal materials, procurement arrangements include supply agreements that may contain formula-based pricing based on commodity indices, multi-year agreements or spot purchases. These arrangements only cover quantities needed to satisfy normal manufacturing demands.

Working Capital

The Company’s working capital consists mainly of inventory, accounts receivable and accounts payable. These working capital accounts are closely managed by the Company. Inventory balances are primarily valued at a last-in, first-out (“LIFO”) basis in the U.S. and under the first-in, first-out (“FIFO”) or average cost method in the rest of the world. Inventories turn regularly, but balances typically increase during the first half of the year before declining as a result of increased sales in the second half. The Company’s inventory levels are generally kept within a targeted range to meet projected demand. The mix of inventory is critical to inventory turnover and meeting customer demand. Accounts receivable and accounts payable are also affected by this business cycle, typically requiring the Company to

have greater working capital needs during the second and third quarters. The Company engages in a rigorous credit analysis of its customers and monitors their financial positions. The Company offers incentives to certain customers to encourage the payment of account balances prior to their scheduled due dates.

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At December 31, 2016, the Company held cash and cash equivalents of $504 million.

### Research, Development and Product Improvement

The Company directs its research activities toward product development, performance and operating efficiency. The Company conducts extensive testing of current tire lines, as well as new concepts in tire design, construction and materials. During 2016, over 100 million miles of tests were performed on indoor test wheels and in monitored road tests. The Company has a tire and vehicle test track in Texas that assists with the Company’s testing activities. Uniformity equipment is used to physically monitor manufactured tires for high standards of ride quality. The Company continues to design and develop specialized equipment to fit the precise needs of its manufacturing and quality control requirements. Research and development expenditures were $56 million, $52 million and $57 million during 2016, 2015 and 2014, respectively.

### Patents, Intellectual Property and Trademarks

The Company owns or has licenses to use patents and intellectual property covering various aspects in the design and manufacture of its products and processes and equipment for the manufacture of its products. While the Company believes these assets as a group are of material importance, it does not consider any one asset or group of these assets to be of such importance that the loss or expiration thereof would materially affect its business.

The Company owns and uses tradenames and trademarks worldwide. While the Company believes such tradenames and trademarks as a group are of material importance, the trademarks the Company considers most significant to its business are those using the words “Cooper,” “Mastercraft”, "Roadmaster", "Starfire" and “Avon.” The Company believes all of these significant trademarks are valid and will have unlimited duration as long as they are adequately protected and appropriately used. Certain other tradenames and trademarks are being amortized over the next two to 12 years.

### Seasonal Trends

There is year-round demand for passenger car and truck replacement tires, but passenger car replacement tire sales are generally strongest during the third and fourth quarters of the year. Winter tires are sold principally during the months of June through November.

### Environmental Matters

The Company recognizes the importance of compliance in environmental matters and has an organizational structure to supervise environmental activities, planning and programs. The Company also participates in activities concerning general industry environmental matters. The Company’s operations have been recognized with several awards for efforts to improve energy efficiency.

The Company’s manufacturing facilities, like those of the industry generally, are subject to numerous laws and regulations designed to protect the environment. In general, the Company has not experienced difficulty in complying with these requirements and believes they have not had a material adverse effect on its financial condition or the results of its operations. The Company expects additional requirements with respect to environmental matters will be imposed in the future. The Company’s 2016 expense and capital expenditures for environmental matters at its facilities were not material, nor is it expected that expenditures in 2017 for such uses will be material.

### Foreign Operations

The Company has a manufacturing facility, a technical center, a distribution center and its European headquarters office located in the U.K. The Company has a manufacturing facility and two distribution centers in Serbia. In total, there are seven distribution centers and five sales offices in Europe. The Company has a manufacturing facility and a joint venture manufacturing facility, two distribution centers, a technical center, a sales office and an administrative office in the PRC. The Company also has a purchasing office in Singapore. In Latin America, the Company has a joint venture manufacturing facility, an administrative office, three sales offices and a distribution center.

Additional information on the Company’s foreign operations can be found in the “Business Segments” note to the consolidated financial statements.

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Available Information

The Company makes available free of charge, on or through its website, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after it electronically files such material with, or furnishes it to, the U.S. Securities and Exchange Commission (“SEC”). The Company’s internet address is http://www.coopertire.com. The Company has adopted charters for each of its Audit, Compensation and Nominating and Governance Committees, corporate governance guidelines and a code of business ethics and conduct, which are available on the Company’s website and will be available to any stockholder who requests them from the Company’s Director of Investor Relations. The information contained on or accessible through the Company’s website is not incorporated by reference in this annual report on Form 10-K and should not be considered a part of this report.

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EXECUTIVE OFFICERS OF THE REGISTRANT

The names, ages and all positions and offices held by all executive officers of the Company are as follows:

| Name | Age | Executive Office Held | Business Experience |
| --- | --- | --- | --- |
| Brenda S. Harmon | 65 | Senior Vice President and Chief Human Resources Officer | Senior Vice President, Chief Human Resources Officer since December 2009. |
| Bradley E. Hughes | 55 | President, Chief Executive Officer and Director | President, Chief Executive Officer and Director since September 2016. Senior Vice President and Chief Operating Officer from January 2015 to September 2016. Senior Vice President and President-International Tire Operations from July 2014 to January 2015. Senior Vice President and Chief Financial Officer from September 2014 to December 2014. Senior Vice President, Chief Financial Officer and Treasurer from July 2014 to September 2014. Vice President, Chief Financial Officer and Treasurer from November 2013 to July 2014. Vice President and Chief Financial Officer from November 2009 to November 2013. |
| Ginger M. Jones | 52 | Senior Vice President and Chief Financial Officer | Senior Vice President and Chief Financial Officer since May 2016. Vice President and Chief Financial Officer from December 2014 to May 2016. Previously Senior Vice President and Chief Financial Officer of Plexus Corporation, an electronics manufacturing services company, from 2011 to May 2014; Vice President and Chief Finance Officer of Plexus Corporation from 2007 to 2011. |
| Stephen Zamansky | 46 | Senior Vice President, General Counsel and Secretary | Senior Vice President, General Counsel and Secretary since July 2014. Vice President, General Counsel and Secretary from April 2011 to July 2014. Previously Senior Vice President, General Counsel & Secretary of Trinity Coal Corporation, a privately held mining company, from 2008 to March 2011. Trinity was acquired by the Essar Group in 2010 and commenced bankruptcy proceedings in March 2013. |

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## Item 1A. RISK FACTORS

Some of the more significant risk factors related to the Company follow:
Pricing volatility for raw materials or commodities or an inadequate supply of key raw materials could result in increased costs and may significantly affect the Company's profitability.
The pricing volatility for natural rubber, petroleum-based materials and other raw materials contributes to the difficulty in managing the costs of raw materials. Costs for certain raw materials used in the Company's operations, including natural rubber, chemicals, carbon black, steel reinforcements and synthetic rubber remain highly volatile. Increasing costs for raw material supplies will increase the Company's production costs and affect its margins if the Company is unable to pass the higher production costs on to its customers in the form of price increases. Even if the Company is able to pass along these higher costs, its profitability may be adversely affected until it is able to do so. Decreasing costs for raw materials could also affect margins if the Company is unable to maintain its pricing structure due to the need to offer price reductions to remain competitive. Further, if the Company is unable to obtain adequate supplies of raw materials in a timely manner for any reason, its operations could be interrupted or otherwise adversely affected.
The Company is facing heightened risks due to the current business environment.
Current global economic conditions may affect demand for the Company's products, create volatility in raw material costs and affect the availability and cost of credit. These conditions also affect the Company's customers and suppliers as well as the ultimate consumer.
Deterioration in the global macroeconomic environment or in specific regions could impact the Company and, depending upon the severity and duration of these factors, the Company's profitability and liquidity position could be negatively impacted.
The Company's competitors may also change their actions as a result of changes to the business environment, which could result in increased price competition and discounts, resulting in lower margins or reduced sales volumes for the business.
In addition, the bankruptcy, restructuring or consolidation of one or more of the Company's major customers or suppliers due to current global economic conditions could result in the write-off of accounts receivable, a reduction in purchases of the Company's products or a supply disruption to its facilities, which could harm the Company's results of operations, financial condition and liquidity.
The Company's results could be impacted by changes in tariffs or other trade restrictions imposed by the U.S. or other governments on imported tires or raw materials.
The Company's ability to competitively source and sell tires can be significantly impacted by changes in tariffs or other trade restrictions imposed by various governments. Other effects, including impacts on the price of tires, responsive actions from other governments and the opportunity for competitors to establish a presence in markets where the Company participates, could also have significant impacts on the Company's results.
For example, antidumping and countervailing duty investigations into certain passenger car and light truck tires imported from the PRC into the United States were initiated on July 14, 2014. The determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. These determinations are undergoing an Administrative Review with the preliminary results being expected in the third quarter of 2017.
In addition, antidumping and countervailing duty investigations into certain truck and bus tires imported from the PRC into the U.S. were initiated on January 29, 2016. The preliminary determinations announced in both investigations were affirmative and resulted in the imposition of significant additional duties from each. Final determinations in these investigations are expected during the first quarter of 2017. Currently, the Company sources its truck and bus tires exclusively from the PRC.
The imposition of additional duties or other trade restrictions in the U.S. on certain tires imported from the PRC or other countries will result in higher costs and potentially lower margins, or in those tires being diverted to other regions of the world, such as Europe, Latin America or elsewhere in Asia, which could materially harm the Company's results of operations, financial condition and liquidity.

The Company is facing supply risks related to certain tires it purchases from CCT.
In 2014, the Company sold its ownership interest in CCT and entered into off-take agreements with CCT to provide the continuous supply of certain tires for the Company. The off-take agreements expire in mid-2018. If there are any disruptions in or quality issues with the supply of Cooper-branded products from CCT, it could have a material negative impact on the Company's business. In addition, the Company could be required to find an alternative source for CCT-produced tires and there

can be no assurance that the Company will be able to do so in a timely manner. CCT is currently the primary supplier of medium truck tires for the Company.

The Company's industry is highly competitive, and the Company may not be able to compete effectively with lower-cost producers and larger competitors.

The tire industry is a highly competitive, global industry. Some of the Company's competitors are larger companies with greater financial resources. Intense competitive activity in the replacement tire industry has caused, and will continue to cause, pressures on the Company's business. As the Company increases its presence in the original equipment market, the demand for products by the OEM's will be impacted by automotive vehicle production. The Company's ability to compete successfully will depend in part on its ability to balance capacity with demand, leverage global purchasing of raw materials, make required investments to improve productivity, eliminate redundancies and increase production at low-cost, high-quality supply sources. If the Company is unable to offset continued pressures with improved operating efficiencies, its sales, margins, operating results and market share would decline and the impact could become material on the Company's earnings.

The Company may not be successful in executing and integrating acquisitions into its operations, which could harm its results of operations and financial condition.

The Company routinely evaluates potential acquisitions, such as the recent purchase of a majority interest in GRT, and may pursue additional acquisition opportunities, some of which could be material to its business. The Company cannot provide assurance whether it will be successful in pursuing and integrating any acquisition opportunities or what the consequences of any acquisition would be. The Company may encounter various risks in any acquisitions, including:

- the possible inability to integrate an acquired business into its operations;
- diversion of management's attention;
- loss of key management personnel;
- unanticipated problems or liabilities; and
- increased labor and regulatory compliance costs of acquired businesses.

Some or all of those risks could impair the Company's results of operations and impact its financial condition. The Company may finance any future acquisitions from internally generated funds, bank borrowings, public offerings or private placements of equity or debt securities, or a combination of the foregoing. Acquisitions may involve the expenditure of significant funds and management time.

Acquisitions may also require the Company to increase its borrowings under its bank credit facilities or other debt instruments, or to seek new sources of liquidity. Increased borrowings would correspondingly increase the Company's financial leverage, and could result in lower credit ratings and increased future borrowing costs. These risks could also reduce the Company's flexibility to respond to changes in its industry or in general economic conditions.

In addition, the Company's business plans call for growth, particularly in Asia. If the Company is unable to identify or execute on appropriate opportunities for acquisition, investment or growth, its business could be materially adversely affected.

The Company may be adversely affected by legal actions, including product liability claims which, if successful, could have a negative impact on its financial position, cash flows and results of operations.

The Company's operations expose it to legal actions, including potential liability for personal injury or death as an alleged result of the failure of or conditions in the products that it designs, manufactures and sells. Specifically, the Company is a party to a number of product liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires that it manufactured. Product liability claims and lawsuits, including possible class action, may result in material losses in the future and cause the Company to incur significant litigation defense costs. The Company is largely self-insured against these claims. These claims could have a negative effect on the Company's financial position, cash flows and results of operations.

From time to time, the Company is also subject to litigation or other commercial disputes and other legal proceedings relating to its business. Due to the inherent uncertainties of any litigation, commercial disputes or other legal proceedings, the Company cannot accurately predict their ultimate outcome, including the outcome of any related appeals. An unfavorable outcome could materially adversely impact the Company's financial condition, cash flows and

results of operations.

The Company conducts its manufacturing, sales and distribution operations on a worldwide basis and is subject to risks associated with doing business outside the U.S.

The Company has affiliate, subsidiary and joint venture operations worldwide, including in the U.S., Europe, Mexico and the PRC. The Company has a wholly-owned manufacturing entity, Cooper Kunshan, and is the majority owner of GRT, both in the PRC. The Company also is the majority owner of COOCSA, a manufacturing entity in Mexico, and has established an operation in Serbia. In 2014, the Company entered into off-take agreements with CCT, subsequent to the Company's sale of its ownership interest in this former joint venture, to continue supplying tires to the Company. CCT is currently the primary supplier of medium truck tires for the Company. There are a number of risks in doing business abroad, including political and economic uncertainty, social unrest, sudden changes in laws and regulations, ability to enforce existing or future contracts, shortages of trained labor and the uncertainties associated with entering into joint ventures or similar arrangements in foreign countries. These risks may impact the Company's ability to expand its operations in different regions and otherwise achieve its objectives relating to its foreign operations, including utilizing these locations as suppliers to other markets. In addition, compliance with multiple and potentially conflicting foreign laws and regulations, import and export limitations and exchange controls is burdensome and expensive. For example, the Company could be adversely affected by violations of the Foreign Corrupt Practices Act ("FCPA") and similar worldwide anti-bribery laws as well as export controls and economic sanction laws. The FCPA and similar anti-bribery laws in other jurisdictions generally prohibit companies and their intermediaries from making improper payments to government officials and, in some cases, other persons, for the purpose of obtaining or retaining business. Violations of these laws and regulations could result in civil and criminal fines, penalties and sanctions against the Company, its officers or its employees, prohibitions on the conduct of the Company's business and on its ability to offer products and services in one or more countries, and could also harm the Company's reputation, business and results of operations. The Company's foreign operations also subject it to the risks of international terrorism and hostilities and to foreign currency risks, including exchange rate fluctuations and limits on the repatriation of funds. See also related comments under "The Company's results could be impacted by changes in tariffs or other trade restrictions imposed by the U.S. or other governments on imported tires or raw materials."

A disruption in, or failure of, the Company's information technology systems, including those related to cybersecurity, could adversely affect the Company's business operations and financial performance.

The Company relies on the accuracy, capacity and security of its information technology systems across all of its major business functions, including its research and development, manufacturing, sales, financial and administrative functions. While the Company maintains some of its critical information technology systems, it is also dependent on third parties to provide important information technology services relating to, among other things, human resources, electronic communications and certain finance functions. Despite the security measures that the Company has implemented, including those related to cybersecurity, its systems could be breached or damaged by computer viruses, natural or man-made incidents or disasters or unauthorized physical or electronic access. Furthermore, the Company may have little or no oversight with respect to security measures employed by third-party service providers, which may ultimately prove to be ineffective at countering threats. A system failure, accident or security breach could result in business disruption, theft of its intellectual property, trade secrets or customer information and unauthorized access to personnel information. To the extent that any system failure, accident or security breach results in disruptions to its operations or the theft, loss or disclosure of, or damage to, its data or confidential information, the Company's reputation, business, results of operations, cash flows and financial condition could be materially adversely affected. In addition, the Company may be required to incur significant costs to protect against and, if required, remediate the damage caused by such disruptions or system failures in the future.

The results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets or the Company's business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The referendum was advisory, and the terms of any withdrawal are subject to a negotiation period that could last two years or longer after the government of the United Kingdom formally initiates a withdrawal process. Nevertheless, the referendum has created significant uncertainty about the future relationship between the United Kingdom and the European Union, including with respect to the laws and regulations that will apply as the United

Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal. The referendum has also given rise to calls for the governments of other European Union member states to consider withdrawal. These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, including volatility in the value of the British pound sterling and Euro. These developments may also significantly reduce global market liquidity or restrict the ability of key market participants to operate in certain financial markets. The effects of the United Kingdom’s withdrawal from the European Union will also depend on terms of new trade agreements between the United Kingdom and other countries, as well as any other agreements the United Kingdom makes to retain access to European Union markets either during a transitional period or

more permanently. Any of these factors could depress economic activity and restrict the Company's access to capital, which could have a material adverse effect on the Company's business, financial condition and results of operations. These developments may also have other direct or indirect effects which could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's expenditures for pension and other postretirement obligations could be materially higher than it has predicted if its underlying assumptions prove to be incorrect.

The Company provides defined benefit and hybrid pension plan coverage to union and non-union U.S. employees and a contributory defined benefit plan in the U.K. The Company's pension expense and its required contributions to its pension plans are directly affected by the value of plan assets, the projected and actual rates of return on plan assets and the actuarial assumptions the Company uses to measure its defined benefit pension plan obligations, including the discount rate at which future projected and accumulated pension obligations are discounted to a present value and the inflation rate. The Company could experience increased pension expense due to a combination of factors, including the decreased investment performance of its pension plan assets, decreases in the discount rate, changes in its assumptions relating to the expected return on plan assets, updates to mortality tables and the impact of changes to the Company's pension strategy. The Company could also experience increased other postretirement expense due to decreases in the discount rate, increases in the health care trend rate and changes in the health care environment.

In the event of declines in the market value of the Company's pension assets or lower discount rates to measure the present value of pension and other postretirement benefit obligations, the Company could experience changes to its Consolidated Balance Sheet or significant cash requirements.

Compliance with legal and regulatory initiatives could increase the cost of operating the Company's business.

The Company is subject to federal, state, local and foreign laws and regulations. Compliance with those laws now in effect, or that may be enacted, could require significant capital expenditures, increase the Company's production costs and affect its earnings and results of operations. Changes as the result of elections in the U.S. and worldwide make it difficult to predict the legislative and regulatory changes that may occur.

Several countries have or may implement labeling requirements for tires. This legislation could cause the Company's products to be at a disadvantage in the marketplace resulting in a loss of market share or could otherwise impact the Company's ability to distribute and sell its tires.

In addition, while the Company believes that its tires are free from design and manufacturing defects and comply with all applicable regulations and standards, it is possible that a recall of the Company's tires could occur in the future. A recall could harm the Company's reputation, operating results and financial position.

The Company is also subject to legislation governing labor, occupational safety and health both in the U.S. and other countries. The related legislation can change over time making it more expensive for the Company to produce its products.

The Company could also, despite its best efforts to comply with these laws and regulations, be found liable and be subject to additional costs because of these laws and regulations.

The Company has a risk due to volatility of the capital and financial markets.

The Company periodically requires access to the capital and financial markets as a significant source of liquidity for maturing debt payments or working capital needs that it cannot satisfy by cash on hand or operating cash flows. Substantial volatility in world capital markets and the banking industry may make it difficult for the Company to access credit markets and to obtain financing or refinancing, as the case may be, on satisfactory terms or at all. In addition, various additional factors, including a deterioration of the Company's credit ratings or its business or financial condition, could further impair its access to the capital markets and bank financings. Additionally, any inability to access the capital markets or bank financings, including the ability to refinance existing debt when due, could require the Company to defer critical capital expenditures, reduce or not pay dividends, reduce spending in areas of strategic importance, sell important assets or, in extreme cases, seek protection from creditors. See also related comments under "There are risks associated with the Company's global strategy, which includes using joint ventures and partially-owned subsidiaries."

The Company's operations in the PRC have been financed in part using multiple loans from several lenders to finance working capital needs. These loans are generally for terms of one year or less. Therefore, debt maturities occur

frequently and access to the capital markets and bank financings is crucial to the Company's ability to maintain sufficient liquidity to support its operations in the PRC.

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If the Company fails to develop technologies, processes or products needed to support consumer demand or, consumer demand shifts, it may lose significant market share or be unable to recover associated costs.

The Company's ability to sell tires may be significantly impacted if it does not develop or have available technologies, processes, or products that competitors may be developing and consumers demanding. This includes, but is not limited to, changes in the design of and materials used to manufacture tires or changes in the types of tires consumers desire. Technologies may also be developed by competitors that better distribute tires to consumers, which could affect the Company's customers.

Additionally, developing new products and technologies requires significant investment and capital expenditures, is technologically challenging and requires extensive testing and accurate anticipation of technological and market trends. If the Company fails to develop new products that are appealing to its customers, or fails to develop products on time and within budgeted amounts, the Company may be unable to recover its product development and testing costs. If the Company cannot successfully use new production or equipment methodologies it invests in, it may also not be able to recover those costs.

The Company may fail to successfully develop or implement information technologies or related systems, resulting in a significant competitive disadvantage.

Successfully competing in the highly competitive tire industry can be impacted by the successful development of information technology. If the Company fails to successfully develop or implement information technology systems, it may be at a disadvantage to its competitors resulting in lost sales and negative impacts on the Company's earnings. The Company has implemented an Enterprise Resource Planning system in the United States and is continuing to enhance the system and implement it globally, which will require significant amounts of capital and human resources to deploy. These requirements may exceed the Company's projections. If for any reason this implementation is not successful, the Company could be required to expense rather than capitalize related amounts. Throughout implementation of the system there are also risks created to the Company's ability to successfully and efficiently operate.

Any interruption in the Company's skilled workforce, or that of its suppliers or customers, including labor disruptions, could impair its operations and harm its earnings and results of operations.

The Company's operations depend on maintaining a skilled workforce and any interruption of its workforce due to shortages of skilled technical, production or professional workers, work disruptions, or other events could interrupt the Company's operations and affect its operating results. Further, a significant number of the Company's employees are currently represented by unions. If the Company is unable to resolve any labor disputes or if there are work stoppages or other work disruptions at the Company or any of its suppliers or customers, the Company's business and operating results could suffer. See also related comments under "The Company is facing supply risks related to certain tires it purchases from CCT."

If the Company is unable to attract and retain key personnel, its business could be materially adversely affected.

The Company's business depends on the continued service of key members of its management. The loss of the services of a significant number of members of its management team could have a material adverse effect on its business. The Company's future success will also depend on its ability to attract, retain and develop highly skilled personnel, such as engineering, marketing and senior management professionals. Competition for these employees is intense, especially in the PRC, and the Company could experience difficulty in hiring and retaining the personnel necessary to support its business. If the Company does not succeed in retaining its current employees and attracting new high-quality employees, its business could be materially adversely affected.

If assumptions used in developing the Company's strategic plan are inaccurate or the Company is unable to execute its strategic plan effectively, its profitability and financial position could be negatively impacted.

The Company faces both general industry and company-specific challenges. These include volatile raw material costs, increasing product complexity and pressure from competitors with greater resources or manufacturing in lower-cost regions. To address these challenges and position the Company for future success, the Company continues to execute towards strategic imperatives outlined in its Strategic Plan. The three strategic imperatives are building a sustainable cost competitive position, driving top-line profitable growth and building organizational capabilities and enablers to support strategic goals.

The Company continually reviews and updates its business plans to achieve these imperatives. If the assumptions used in developing the Company's business plans vary significantly from actual conditions, the Company's sales, margins and profitability could be harmed. If the Company is unsuccessful in implementing the tactics necessary to execute its business plans, it may not be able to achieve or sustain future profitability, which could impair its ability to meet debt and other obligations and could otherwise negatively affect its operating results, financial condition and liquidity.

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There are risks associated with the Company's global strategy, which includes using joint ventures and partially-owned subsidiaries.

The Company's strategy includes the use of joint ventures and other partially-owned subsidiaries. These entities operate in countries outside of the U.S., are generally less well capitalized than the Company and bear risks similar to the risks of the Company. In addition, there are specific risks applicable to these subsidiaries and these risks, in turn, add potential risks to the Company. Such risks include greater risk of joint venture partners or other investors failing to meet their obligations under related stockholders' agreements; conflicts with joint venture partners; the possibility of a joint venture partner taking valuable knowledge from the Company; and risk of being denied access to the capital markets, which could lead to resource demands on the Company in order to maintain or advance its strategy. The Company's outstanding notes and primary credit facility contain cross default provisions in the event of certain defaults by the Company under other agreements with third parties. For further discussion of access to the capital markets, see also related comments under "The Company has a risk due to volatility of the capital and financial markets."

If the price of energy sources increases, the Company's operating expenses could increase significantly or the demand for the Company's products could be affected.

The Company's manufacturing facilities rely principally on natural gas, as well as electrical power and other energy sources. High demand and limited availability of natural gas and other energy sources can result in significant increases in energy costs increasing the Company's operating expenses and transportation costs. Higher energy costs would increase the Company's production costs and adversely affect its margins and results of operations. If the Company is unable to obtain adequate sources of energy, its operations could be interrupted.

In addition, if the price of gasoline increases significantly for consumers, it can affect driving and purchasing habits and impact demand for tires.

The Company could incur restructuring charges as it continues to execute actions in an effort to improve future profitability and competitiveness and may not achieve the anticipated savings and benefits from these actions.

The Company may initiate restructuring actions designed to improve future profitability and competitiveness, and enhance the Company's flexibility. The Company may not realize anticipated savings or benefits from future actions in full or in part or within the time periods it expects. The Company is also subject to the risks of labor unrest, negative publicity and business disruption in connection with these actions. Failure to realize anticipated savings or benefits from the Company's actions could have an adverse effect on the business. Such restructuring actions could have a significant negative impact on the Company's earnings or cash flows in the short-term.

The realizability of deferred tax assets may affect the Company's profitability and cash flows.

The Company has significant net deferred tax assets recorded on the balance sheet and determines at each reporting period whether or not a valuation allowance is necessary based upon the expected realizability of such deferred tax assets. In the U.S., the Company has recorded deferred tax assets, the largest of which relate to product liability, pension and other postretirement benefit obligations, partially offset by deferred tax liabilities, the most significant of which relates to accelerated depreciation. The Company's non-U.S. deferred tax assets relate to pension, accrued expenses and net operating losses, and are partially offset by deferred tax liabilities related to accelerated depreciation. Based upon the Company's assessment of the realizability of its net deferred tax assets, the Company maintains a small valuation allowance for the portion of its U.S. deferred tax assets primarily associated with a loss carryforward. In addition, the Company has recorded valuation allowances for deferred tax assets primarily associated with non-U.S. net operating losses.

The Company's assessment of the realizability of deferred tax assets is based on certain assumptions regarding future profitability, and potentially adverse business conditions could have a negative impact on the future realizability of the deferred tax assets and therefore impact the Company's future operating results or financial position.

The Company may incur additional tax expense or become subject to additional tax exposure.

The Company's provision for income taxes and the cash outlays required to satisfy its income tax obligations in the future could be adversely affected by numerous factors. These factors include changes in the level of earnings in the tax jurisdictions in which the Company operates, changes in plans to repatriate the earnings of the Company's foreign operations to the U.S. and changes in tax laws and regulations. The Company's income tax returns are subject to

examination by federal, state and local tax authorities in the U.S. and tax authorities outside the U.S. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. Such an outcome could have an adverse effect on the Company's provision for income taxes and the cash outlays required to satisfy income tax obligations.

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The Company is required to comply with environmental laws and regulations that could cause it to incur significant costs.

The Company's manufacturing facilities are subject to numerous federal, state, local and foreign laws and regulations designed to protect the environment, and the Company expects that additional requirements with respect to environmental matters will be imposed on it in the future. In addition, the Company has contractual indemnification obligations for environmental remediation costs and liabilities that may arise relating to certain divested operations. Material future expenditures may be necessary if compliance standards change, if material unknown conditions that require remediation are discovered, or if required remediation of known conditions becomes more extensive than expected. If the Company fails to comply with present and future environmental laws and regulations, it could be subject to future liabilities or the suspension of production, which could harm its business or results of operations. Environmental laws could also restrict the Company's ability to expand its facilities or could require it to acquire costly equipment or to incur other significant expenses in connection with its manufacturing processes.

The Company has been and may continue to be impacted by currency fluctuations, which may reduce reported results for the Company's international operations and otherwise adversely affect the business.

Because the Company conducts transactions in various non-U.S. currencies, including the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish kronar, Norwegian krone, Mexican peso, Chinese yuan, Serbian dinar and Brazilian real, fluctuations in foreign currency exchange rates may impact the Company's financial condition, results of operations and cash flows, despite currency hedging actions by the Company. The Company's operating results are subject to the effects of fluctuations in the value of these currencies and fluctuations in the related currency exchange rates. As a result, the Company's sales have historically been affected by, and may continue to be affected by, these fluctuations. Exchange rate movements between currencies in which the Company sells its products have been affected by and may continue to result in exchange losses that could materially affect results. During times of strength of the U.S. dollar, the reported revenues of the Company's international operations will be reduced because local currencies will translate into fewer dollars. In addition, a strong U.S. dollar may increase the competitiveness of competitors based outside of the United States. As a result, continued strengthening of the U.S. dollar may have a material adverse effect on the Company's financial condition, results of operations and cash flows.

The Company may not be able to protect its intellectual property rights adequately.

The Company's success depends in part upon its ability to use and protect its proprietary technology and other intellectual property, which generally covers various aspects in the design and manufacture of its products and processes. The Company owns and uses tradenames and trademarks worldwide. The Company relies upon a combination of trade secrets, confidentiality policies, nondisclosure and other contractual arrangements and patent, copyright and trademark laws to protect its intellectual property rights. The steps the Company takes in this regard may not be adequate to prevent or deter challenges, reverse engineering or infringement or other violations of its intellectual property, and the Company may not be able to detect unauthorized use or take appropriate and timely steps to enforce its intellectual property rights.

In addition, the laws of some countries may not protect and enforce the Company's intellectual property rights to the same extent as the laws of the U.S. Further, while the Company believes it has rights to use all intellectual property in the Company's use, if the Company is found to infringe on the rights of others it could be adversely impacted.

The impact of proposed new accounting standards may have a negative impact on the Company's financial statements.

The Financial Accounting Standards Board is considering or has issued for future adoption several projects which may result in the modification of accounting standards affecting the Company, including standards relating to revenue recognition, financial instruments, leasing and others. Any such changes could have a negative impact on the Company's financial statements.

The Company is facing risks relating to enactment of healthcare legislation.

The Company is facing risks emanating from the enactment of legislation by the U.S. government, including the Patient Protection and Affordable Care Act and the related Healthcare and Education Reconciliation Act, which are collectively referred to as healthcare legislation. The future of this major legislation and any replacement is now in question and the ultimate cost and the potentially adverse impact to the Company and its employees cannot be quantified at this time.

## Item 1B. UNRESOLVED STAFF COMMENTS

None.

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## Item 2. PROPERTIES

As shown in the following table, at December 31, 2016, the Company maintained 54 manufacturing facilities, distribution centers, retail stores, technical centers and office facilities worldwide. A majority of the manufacturing facilities are wholly-owned by the Company. Some manufacturing, distribution and office facilities are leased.

| | Americas Tire Operations | | International Tire Operations | | |
|---|---|---|---|---|---|
| Type of Facility | North America | Latin America | Europe | Asia | Total |
| Manufacturing | 4 | 1 * | 2 | 2 * | 9 |
| Distribution centers | 10 | 1 | 7 | 2 | 20 |
| Retail stores | 3 | — | — | — | 3 |
| Technical centers and offices | 7 | 4 | 7 | 4 | 22 |
| Total | 24 | 6 | 16 | 8 | 54 |

*This includes a manufacturing facility that is a joint venture.

The Company believes its properties have been adequately maintained, generally are in good condition and are suitable and adequate to meet the demands of each segment's business.

## Item 3. LEGAL PROCEEDINGS

The Company is a defendant in various judicial proceedings arising in the ordinary course of business. A significant portion of these proceedings are product liability cases in which individuals involved in motor vehicle accidents seek damages resulting from allegedly defective tires manufactured by the Company. After reviewing all of these proceedings, and taking into account all relevant factors concerning them, the Company does not believe that any liabilities resulting from these proceedings are reasonably likely to have a material adverse effect on its liquidity, financial condition or results of operations in excess of amounts recorded at December 31, 2016. In the future, such costs could have a materially greater impact on the consolidated results of operations and financial position of the Company than in the past.

Stockholder Derivative Litigation

On February 24, March 6, and April 17, 2014, purported stockholders of the Company filed derivative actions on behalf of the Company in the U.S. District Court for the Northern District of Ohio and the U.S. District Court for the District of Delaware against certain officers and employees and the then current members of the Company's board of directors. The lawsuits were transferred to the U.S. District Court for the District of Delaware and consolidated under the caption Fitzgerald v. Armes, et al., No. 1:14-cv-479 (D. Del.). The Company was named as a nominal defendant in the lawsuits, and the lawsuits sought recovery for the benefit of the Company. The plaintiffs alleged that the defendants breached their fiduciary duties to the Company by issuing allegedly misleading disclosures in connection with the terminated merger transaction and that the defendants violated Section 14(a) of the Securities Exchange Act of 1934 by means of the same allegedly misleading disclosures. The plaintiffs also asserted claims for waste of corporate assets, unjust enrichment, "gross mismanagement" and "abuse of control." The complaints sought, among other things, unspecified money damages from the defendants, injunctive relief and an award of attorney's fees. A purported stockholder of the Company also submitted a demand to the Company's board of directors that it cause the Company to bring claims against certain of the Company's officers and directors for the matters alleged in the stockholder derivative lawsuits; following an investigation, the board of directors determined that the actions requested in the demand were not in the Company's interests and accordingly rejected the demand. On November 30, 2016, the derivative lawsuit plaintiffs voluntarily dismissed the cases.

The Company regularly reviews the probable outcome of outstanding legal proceedings, the expenses expected to be incurred, the availability and limits of the insurance coverage, and accrues for such legal proceedings at the time a loss is probable and the amount of the loss can be estimated.

## Item 4. MINE SAFETY DISCLOSURES

None.

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PART II

## Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

(a) Market information

Cooper Tire & Rubber Company common stock is traded on the New York Stock Exchange under the symbol CTB. The following table sets forth, for the periods indicated, the high and low sales prices of the common stock as reported in the consolidated reporting system for the New York Stock Exchange Composite Transactions:

| | High | Low |
|---|---|---|
| Year Ended December 31, 2016 | | |
| First Quarter | $40.75 | $32.58 |
| Second Quarter | 38.12 | 29.29 |
| Third Quarter | 38.16 | 29.43 |
| Fourth Quarter | 40.21 | 33.50 |

| | High | Low |
|---|---|---|
| Year Ended December 31, 2015 | | |
| First Quarter | $42.86 | $32.51 |
| Second Quarter | 43.94 | 33.52 |
| Third Quarter | 41.74 | 31.18 |
| Fourth Quarter | 43.40 | 37.59 |

Five-Year Stockholder Return Comparison

The SEC requires that the Company include in its annual report to stockholders a line graph presentation comparing cumulative five-year stockholder returns on an indexed basis with the Standard & Poor’s (“S&P”) Stock Index and either a published industry or line-of-business index or an index of peer companies selected by the Company. In 1993, the Company chose what is now the S&P 500 Auto Parts & Equipment Index as the most appropriate of the nationally recognized industry standards and has used that index for its stockholder return comparisons in all of its annual reports since that time.

The following chart assumes three hypothetical $100 investments on December 31, 2011, and shows the cumulative values at the end of each succeeding year resulting from appreciation or depreciation in the stock market price, assuming dividend reinvestment.

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Total Return To Shareholders
(Includes reinvestment of dividends)

| | ANNUAL RETURN PERCENTAGE | | | | |
|---|---|---|---|---|---|
| | Year Ended December 31, | | | | |
| Company / Index | 2012 | 2013 | 2014 | 2015 | 2016 |
| Cooper Tire & Rubber Company | 85.24 | (3.70 ) | 46.24 | 10.41 | 3.87 |
| S&P 500 Index | 16.00 | 32.39 | 13.69 | 1.38 | 11.96 |
| S&P 500 Auto Parts & Equipment | 4.45 | 64.76 | 3.68 | (5.65 ) | (2.20 ) |

| | Base Period | INDEXED RETURNS | | | | |
|---|---|---|---|---|---|---|
| | | Year Ended December 31, | | | | |
| Company / Index | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
| Cooper Tire & Rubber Company | $100.00 | $185.24 | $178.39 | $260.88 | $288.05 | $299.20 |
| S&P 500 Index | 100.00 | 116.00 | 153.57 | 174.60 | 177.01 | 198.18 |
| S&P 500 Auto Parts & Equipment | 100.00 | 104.45 | 172.09 | 178.41 | 168.33 | 164.62 |

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(b) Holders

The number of holders of record at December 31, 2016 was 1,817.

(c) Dividends

The Company has paid consecutive quarterly dividends on its common stock since 1973. Future dividends will depend upon the Company's earnings, financial condition and other factors. Additional information on the Company's liquidity and capital resources can be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Company's retained earnings are available for the payment of cash dividends and the purchases of the Company's shares. Quarterly dividends per common share for the most recent two years were as follows:

| | 2016 | | 2015 |
|---|---|---|---|
| March 31 | $0.105 | March 27 | $0.105 |
| June 30 | 0.105 | June 29 | 0.105 |
| September 30 | 0.105 | September 28 | 0.105 |
| December 29 | 0.105 | December 29 | 0.105 |
| Total: | $0.420 | Total: | $0.420 |

(d) Issuer purchases of equity securities

The following table sets forth a summary of the Company's purchases during the quarter ended December 31, 2016 of equity securities registered by the Company pursuant to Section 12 of the Securities Exchange Act of 1934:

| Period(1)(2) | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Public Announced Plans or Programs | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| October 1, 2016 through October 31, 2016 | 229,880 | $ 37.31 | 229,880 | $ 126,625 |
| November 1, 2016 through November 30, 2016 | 230,055 | $ 36.65 | 230,055 | $ 118,201 |
| December 1, 2016 through December 31, 2016 | 218,220 | $ 38.98 | 218,220 | $ 109,702 |
| Total | 678,155 | | 678,155 | |

(1) On February 20, 2015, the Board of Directors authorized a program to repurchase up to $200,000, excluding commissions, of the Company's common stock through December 31, 2016 (the "Repurchase Program"). On February 19, 2016, the Board of Directors increased the amount under and expanded the duration of the Repurchase Program (as amended, the "February 2016 Repurchase Program"). The February 2016 Repurchase Program amended and superseded the Repurchase Program and allowed the Company to repurchase up to $200,000, excluding commissions, of the Company's common stock from February 22, 2016 through December 31, 2017. The approximately $73,654 remaining under the Repurchase Program as of February 19, 2016 was included in the $200,000 maximum amount authorized by the February 2016 Repurchase Program. No other changes were made. The February 2016 Repurchase Program did not obligate the Company to acquire any specific number of shares and could be suspended or discontinued at any time without notice. Under the February 2016 Repurchase Program, shares could have been repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

(2) On February 16, 2017, the Board of Directors increased the amount under and expanded the duration of the February 2016 Repurchase Program (as amended, the "February 2017 Repurchase Program"). The February 2017 Repurchase Program amended and superseded the February 2016 Repurchase Program and allows the Company to repurchase up to $300,000, excluding commissions, of the Company's common stock through December 31, 2019. The remaining authorization under the February 2016 Repurchase Program as of February 16, 2017 is included in

the $300,000 maximum amount authorized by the February 2017 Repurchase Program. No other changes were made.

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Item 6. SELECTED FINANCIAL DATA
(Dollar amounts in thousands except per share amounts)

| | 2016 | 2015 | 2014 (a) | 2013 | 2012 |
|---|---|---|---|---|---|
| Net sales | $2,924,869 | $2,972,901 | $3,424,809 | $3,439,233 | $4,200,836 |
| Operating profit | $384,387 | $354,480 | $300,458 | $240,714 | $396,962 |
| Income before income taxes | $367,093 | $334,028 | $348,519 | $212,971 | $368,450 |
| Net income attributable to Cooper Tire & Rubber Company | $248,381 | $212,766 | $213,578 | $111,013 | $220,371 |
| Basic earnings per share: | | | | | |
| Net income attributable to Cooper Tire & Rubber Company common stockholders | 4.56 | 3.73 | 3.48 | 1.75 | 3.52 |
| Diluted earnings per share: | | | | | |
| Net income attributable to Cooper Tire & Rubber Company common stockholders | 4.51 | 3.69 | 3.42 | 1.73 | 3.49 |
| Dividends per share | $0.42 | $0.42 | $0.42 | $0.42 | $0.42 |
| Weighted average shares outstanding (000s): | | | | | |
| Basic | 54,480 | 57,012 | 61,402 | 63,327 | 62,561 |
| Diluted | 55,090 | 57,623 | 62,401 | 64,282 | 63,224 |
| Property, plant and equipment, net | $864,227 | $795,198 | $740,203 | $974,269 | $929,255 |
| Total assets | $2,619,395 | $2,436,176 | $2,488,937 | $2,737,070 | $2,799,999 |
| Long-term debt | $297,094 | $296,412 | $297,937 | $319,882 | $334,981 |
| Total equity | $1,130,236 | $1,017,611 | $884,261 | $1,157,625 | $908,416 |
| Capital expenditures | $175,437 | $182,544 | $145,041 | $180,448 | $187,336 |
| Depreciation and amortization | $130,257 | $121,408 | $139,166 | $134,751 | $128,916 |
| Number of employees | 10,540 | 9,119 | 8,881 | 13,280 | 13,550 |

(a) The Company sold its ownership interest in CCT during the fourth quarter of 2014. Results include a gain on sale of interest in subsidiary of $77,471. Income tax expense on the gain on sale of interest in subsidiary was $21,767.

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## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Business of the Company

The Company specializes in the design, manufacture, marketing and sales of passenger car, light truck, medium truck, motorcycle and racing tires. The Company’s products are sold globally, primarily 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.

The Company faces both general industry and company-specific challenges. These include volatile raw material costs, increasing product complexity and pressure from competitors who, in some cases, are larger companies with greater financial resources. To address these challenges and position the Company for future success, the Company continues to execute towards strategic imperatives outlined in its Strategic Plan. The three strategic imperatives outlined in the Strategic Plan are building a sustainable cost competitive position, driving top-line profitable growth and building organizational capabilities and enablers to support strategic goals.

In recent years, the Company expanded operations in what are considered lower-cost countries. These initiatives include the Cooper Kunshan Tire manufacturing operation in the PRC, the former CCT joint venture in the PRC (in which the Company sold its ownership interest in November 2014), a joint venture manufacturing operation in Mexico, a manufacturing facility in Serbia and the purchase of a majority interest in the GRT joint venture manufacturing operation in the PRC in December 2016. Products from these operations provide a lower-cost source of tires for existing markets and have been used to expand the Company’s market share in Mexico, Eastern Europe and the PRC. Through a variety of other projects, the Company also has improved the competitiveness of its manufacturing operations in the United States.

On June 12, 2013, the Company and wholly owned subsidiaries of Apollo Tyres Ltd. (the “Apollo Entities”) announced the execution of an Agreement and Plan of Merger under which a wholly-owned subsidiary of the Apollo entities was to acquire the Company in an all-cash transaction valued at approximately $2.5 billion. On December 30, 2013, the Company terminated the Agreement and Plan of Merger.

On July 13, 2013, workers at CCT began a temporary work stoppage related to concerns regarding the then-pending merger between the Apollo Entities and the Company. On August 17, 2013, those workers returned to work on a limited basis to manufacture only non-Cooper-branded products, but took other disruptive actions, including denying access to certain representatives of the Company and withholding certain business and financial information. Subsequent to the merger agreement termination, representatives of the Company regained access to the CCT facilities, including business and financial information, and the operation resumed production of Cooper-branded products. On January 29, 2014, the Company entered into an agreement with Chengshan Group Company Ltd. (“Chengshan”) and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd. regarding CCT that, among other matters, provided Chengshan, with certain conditions and exceptions, a limited contractual right to either (i) purchase the Company’s 65 percent equity interest in CCT or (ii) sell its 35 percent equity interest in CCT to the Company. In October 2014, the Company received the required documentation from Chengshan indicating its intent to exercise its call option under the CCT Agreement. On November 26, 2014, the Chinese State Administration for Industry & Commerce issued a new business license for CCT and on November 30, 2014, the Company completed the sale of its 65 percent ownership interest in CCT to Prairie Investment Limited, a wholly owned subsidiary of Chengshan. In connection with the sale, the Company signed off-take agreements under which CCT will continue to produce Cooper-branded products, including medium truck tires, through mid-2018.

On January 4, 2016, the Company announced that it had entered into an agreement to purchase a majority of China-based Qingdao Ge Rui Da Rubber Co., Ltd. After the transaction closing on December 1, 2016, the Company owns 65 percent of the entity. Based on the Company's ownership percentage and corresponding control of voting rights, the results of GRT and 100 percent of its assets and liabilities are consolidated from the date of the transaction. GRT is expected to serve as a global source of truck and bus radial tire production for the Company. Passenger car radial tires may also be manufactured at the facility in the future.

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 (“MD&A”) presents information related to the consolidated results of the operations of the Company, a discussion of past results of the Company’s

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segments, future outlook for the Company and information concerning the liquidity, capital resources and critical accounting policies of the Company. The Company's future results may differ materially from those indicated in the forward-looking statements, including for the reasons noted in the Risk Factors in Item 1A.

Consolidated Results of Operations

(Dollar amounts in thousands except per share amounts)

| | 2016 | Change | 2015 | Change | 2014 |
|---|---|---|---|---|---|
| Net Sales | | | | | |
| Americas Tire | $2,600,323 | (3.1 )% | $2,684,754 | 3.8 % | $2,585,484 |
| International Tire | 464,003 | 2.7 % | 451,879 | (60.4)% | 1,140,826 |
| Eliminations | (139,457 ) | 14.8 % | (163,732 ) | 45.7 % | (301,501 ) |
| Net sales | 2,924,869 | (1.6 )% | 2,972,901 | (13.2)% | 3,424,809 |
| Operating profit (loss): | | | | | |
| Americas Tire | 439,941 | 4.0 % | 422,929 | 53.9 % | 274,837 |
| International Tire | 5,998 | n/m | (19,133 ) | n/m | 74,566 |
| Unallocated corporate charges | (60,308 ) | 15.2 % | (52,342 ) | 7.0 % | (48,930 ) |
| Eliminations | (1,244 ) | n/m | 3,026 | n/m | (15 ) |
| Operating profit | 384,387 | 8.4 % | 354,480 | 18.0 % | 300,458 |
| Interest expense | (26,604 ) | 11.7 % | (23,820 ) | (15.3)% | (28,138 ) |
| Interest income | 4,378 | 98.0 % | 2,211 | 47.4 % | 1,500 |
| Gain on sale of interest in subsidiary | — | n/m | — | n/m | 77,471 |
| Other non-operating income (expense) | 4,932 | n/m | 1,157 | n/m | (2,772 ) |
| Income before income taxes | 367,093 | 9.9 % | 334,028 | (4.2 )% | 348,519 |
| Provision for income taxes | 115,799 | (2.1 )% | 118,224 | 5.8 % | 111,697 |
| Net income | 251,294 | 16.4 % | 215,804 | (8.9 )% | 236,822 |
| Net income attributable to noncontrolling shareholders' interests | 2,913 | (4.1 )% | 3,038 | (86.9)% | 23,244 |
| Net income attributable to Cooper Tire & Rubber Company | $248,381 | 16.7 % | $212,766 | (0.4 )% | $213,578 |
| Basic earnings per share | $4.56 | 22.3 % | $3.73 | 7.2 % | $3.48 |
| Diluted earnings per share | $4.51 | 22.2 % | $3.69 | 7.9 % | $3.42 |

n/m – not meaningful

2016 versus 2015

Consolidated net sales for the year ended December 31, 2016 were $2,925 million, a decrease of $48 million from 2015. The Company experienced less favorable pricing and mix ($77 million), which was offset by higher unit volumes ($78 million) compared with 2015. The unfavorable pricing and mix was primarily due to net price reductions related to lower raw material costs. Currency impacts were unfavorable ($49 million) compared with 2015.

The Company recorded operating profit of $384 million in 2016, an increase of $30 million compared with 2015. The Company experienced favorable raw material costs inclusive of tariffs, including preliminary truck and bus tire duties, net of price and mix ($48 million) and higher unit volumes ($9 million), partially offset by a pension settlement charge ($12 million) in 2016. Manufacturing costs increased ($21 million) compared to 2015, primarily as a result of higher costs related to the greater complexity of manufacturing more higher value, higher margin tires in the Americas. Product liability charges decreased ($13 million) compared with 2015. Selling, general and administrative costs decreased ($7 million) and other operating costs increased ($14 million), including unfavorable currency impacts, compared with 2015.

In 2016, in order to reduce the size and potential future volatility of the Company's domestic defined benefit pension plan obligations, the Company offered certain plan participants with deferred vested benefits the opportunity to make a one-time election to receive a lump sum distribution of their benefits. Based on participants that accepted the offer, the company paid

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$23 million of lump sum distributions from plan assets in the third quarter of 2016, which resulted in a non-cash settlement charge ($11 million) in the third quarter of 2016 included within unallocated corporate charges. An additional non-cash settlement charge ($1 million) was incurred in the fourth quarter as a result of normal course settlements. Additional information related to the Company's accounting for the pension settlement charges appears in the Notes to the Consolidated Financial Statements.

During the first three quarters of 2016, the Company experienced lower costs for certain of its principal raw materials compared with 2015. Raw material costs in the fourth quarter of 2016 were flat to the prior year, and began to increase sharply at the end of 2016. The principal raw materials for the Company include natural rubber, synthetic rubber, carbon black, chemicals and steel reinforcement components. Approximately 65 percent of the Company’s raw materials are petroleum-based. Substantially all U.S. inventories have been valued using the LIFO method of inventory costing, which accelerates the impact to cost of goods sold from changes to raw material prices.

The Company strives to assure raw material and energy supply and to obtain the most favorable pricing possible. For natural rubber and natural gas, procurement is managed through a combination of buying forward of production requirements and utilizing the spot market. For other principal materials, procurement arrangements include supply agreements that may contain formula-based pricing based on commodity indices, multi-year agreements or spot purchase contracts. While the Company uses these arrangements to satisfy normal manufacturing demands, the pricing volatility in these commodities contributes to the difficulty in managing the costs of raw materials.

Product liability expense decreased $13 million to $65 million in 2016 as compared to 2015. The decrease in the expense compared to the prior year is the result of claim settlements and adjustments to existing reserves based on the Company’s quarterly comprehensive review of outstanding claims. Additional information related to the Company’s accounting for product liability costs appears in the Notes to the Consolidated Financial Statements.

Selling, general, and administrative expenses were $256 million in 2016 (8.7 percent of net sales) and $263 million in 2015 (8.8 percent of net sales). The reduction in selling, general and administrative expenses was driven primarily by decreased incentive compensation.

Interest expense increased $3 million compared with 2015. Interest income increased $2 million compared to 2015. Other income increased $4 million compared with 2015, primarily due to foreign currency forward contracts.

For the year ended December 31, 2016, the Company recorded an income tax expense of $116 million (effective rate of 31.5 percent) compared with $118 million (effective rate of 35.4 percent) in 2015. Worldwide tax expense is impacted significantly by the mix of earnings between US and international jurisdictions with lower tax rates, partially offset by losses in jurisdictions with no tax benefit due to valuation allowances. The effective tax rate decreased due to a more favorable mix of foreign earnings in lower rate jurisdictions. Discrete tax amounts for 2016 were unfavorable compared with the prior year because 2015 included increased research and development credits and higher amounts for the lapse of statutes related to uncertain tax positions.

Net income attributable to noncontrolling shareholders’ interests was comparable to 2015.

The effects of inflation did not have a material effect on the results of operations of the Company in 2016.

2015 versus 2014

Consolidated net sales for 2015 were $2,973 million, a decrease of $452 million from 2014. The absence of CCT resulted in decreased sales during 2015 ($546 million). Excluding CCT, unit volumes increased ($194 million), which was partially offset by less favorable pricing and mix ($73 million) and unfavorable exchange rates ($27 million) compared with 2014.

The Company recorded operating profit of $354 million in 2015, an increase of $54 million compared with 2014. The absence of CCT reduced operating profit by $78 million. Excluding CCT, lower raw material costs net of price ($183 million) and higher unit volumes ($32 million) were partially offset by higher product liability charges ($2 million). Excluding CCT, manufacturing costs increased ($44 million) compared to 2014, primarily as a result of the reconfiguration of the Company's U.S. manufacturing plants to increase production of higher value, higher margin products, coupled with higher costs related to pension, incentive based compensation and technical spending. Excluding CCT, selling, general, and administrative costs increased ($20 million) and other operating costs increased ($17 million), including unfavorable currency impacts, compared with 2014.

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Product liability expenses totaled $79 million and $77 million in 2015 and 2014, respectively. The increase in the expense compared to the prior year is the result of claim settlements and adjustments to existing reserves based on the Company's quarterly comprehensive review of outstanding claims.

Selling, general, and administrative expenses were $263 million in 2015 (8.8 percent of net sales) and $272 million in 2014 (8.0 percent of net sales). The absence of CCT reduced selling, general and administrative expenses by $29 million in 2015. Excluding CCT, the increase in selling, general, and administrative expenses was driven primarily by increased incentive based compensation, partially offset by decreases in the accruals for stock-based liabilities.

Interest expense decreased $4 million compared with 2014 due primarily to the absence of CCT. Interest income remained comparable to 2014.

In 2014, the Company recorded income of $77 million as a result of the gain on the sale of the CCT operations. The gain represents the net of the cash received for the sale of CCT compared to the net asset carrying value of CCT in the Company's books as of the sale date.

Other income increased $4 million compared with 2014, primarily due to foreign currency forward contracts

For the year ended December 31, 2015, the Company recorded an income tax expense of $118 million (effective rate of 35.4 percent) compared with $112 million (effective rate of 32.0 percent) in 2014. The 2014 amounts include tax expense of $22 million on the gain on the sale of the CCT operations of $77 million. Tax expense for 2015 increased from the prior year primarily due to increased pretax earnings in the United States.

Net income attributable to noncontrolling shareholders' interests decreased $20 million as a result of the absence of CCT.

The effects of inflation did not have a material effect on the results of operations of the Company in 2015.

Segment Operating Results

The Company has four segments under ASC 280:

- North America, composed of the Company's operations in the U.S. and Canada;
- Latin America, composed of the Company's operations in Mexico, Central America and South America;
- Europe; and
- Asia.

North America and Latin America meet the criteria for aggregation in accordance with ASC 280, as they are similar in their production and distribution processes and exhibit similar economic characteristics. The aggregated North America and Latin America segments are presented as “Americas Tire Operations” in the segment disclosure.

Both the Asia and Europe segments have been determined to be individually immaterial, as they do not meet the quantitative requirements for segment disclosure under ASC 280. In accordance with ASC 280, information about operating segments that are not reportable shall be combined and disclosed in an all other category separate from other reconciling items. As a result, these two segments have been combined in the segment operating results discussion. The results of the combined Asia and Europe segments are presented as “International Tire Operations.”

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Americas Tire Operations Segment

(Dollar amounts in thousands)

| | 2016 | Change | 2015 | Change | 2014 |
|---|---|---|---|---|---|
| Sales | $2,600,323 | (3.1)% | $2,684,754 | 3.8% | $2,585,484 |
| Operating profit | $439,941 | 4.0% | $422,929 | 53.9% | $274,837 |
| Operating margin | 16.9% | 1.1 points | 15.8% | 5.2 points | 10.6% |
| Total unit sales change | | (0.2)% | | 4.3% | |
| United States replacement market unit shipment changes: | | | | | |
| Passenger tires | | | | | |
| Segment | | (3.3)% | | 2.0% | |
| RMA members | | (2.3)% | | 4.0% | |
| Total Industry | | 1.2% | | (0.2)% | |
| Light truck tires | | | | | |
| Segment | | (0.2)% | | 10.6% | |
| RMA members | | 4.2% | | 7.9% | |
| Total Industry | | 9.4% | | 1.6% | |
| Total light vehicle tires | | | | | |
| Segment | | (2.5)% | | 3.9% | |
| RMA members | | (1.5)% | | 4.5% | |
| Total Industry | | 2.2% | | 0.1% | |

The source of this information is the Rubber Manufacturers Association ("RMA") and internal sources.

Overview

The Americas Tire Operations segment is the aggregation of the Company's North America and Latin America operating segments. The Americas Tire Operations segment manufactures and markets passenger car and light truck tires, primarily for sale in the U.S. replacement market. The segment also has a joint venture manufacturing operation in Mexico, COOCSA, which supplies passenger car tires to the U.S., Mexican, Central American and South American markets. The segment also distributes tires for racing, medium trucks and motorcycles. The racing and motorcycle tires are manufactured in the Company's European Operations segment and by others. The medium truck tires are sourced predominantly through an off-take agreement that was entered into with CCT, the Company's former joint venture, which is now known as Prinx Chengshan (Shandong) Tire Company Ltd. 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 currently sell its products directly to end users, except through three Company-owned retail stores. The segment sells a limited number of tires to OEMs.

2016 versus 2015

Sales

Net sales of the Americas Tire Operations segment decreased $84 million, or 3.1 percent, from 2015. The decrease in sales was a result of unfavorable pricing and mix ($57 million), unfavorable exchange rates ($22 million) and decreased unit volumes ($5 million). The unfavorable pricing and mix was primarily due to net price reductions related to lower raw material costs. Unit shipments for the segment decreased 0.2 percent in 2016 compared with 2015. In the U.S., the segment's unit shipments of total light vehicle tires decreased 2.5 percent in 2016 compared with 2015. This decrease compares with a 1.5 percent decrease in total light vehicle tire shipments experienced by the RMA, and a 2.2 percent increase in total light vehicle tire shipments experienced for the total industry, which includes an estimate for non-RMA members. The decline in U.S. unit volume in 2016, which was driven by reduced private label shipments, was largely offset by increased unit volume in Latin America.

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Operating Profit

Operating profit for the segment increased $17 million to $440 million in 2016. The segment experienced favorable raw material costs inclusive of tariffs, including preliminary truck and bus tire duties, net of price and mix ($36 million), lower product liability expense ($13 million) and decreased selling, general, and administrative costs ($1 million) compared to 2015. These were partially offset by lower unit volumes ($3 million). Manufacturing costs increased ($21 million) compared with 2015, including costs related to the greater complexity of manufacturing higher value, higher margin tires in North America. Other operating costs were unfavorable ($9 million) compared with 2015.

The segment's internally calculated raw material index of 138.8 for the year ended December 31, 2016 was a decrease of 9.8 percent from 2015.

2015 versus 2014

Sales

Net sales of the Americas Tire Operations segment increased $99 million, or 3.8 percent, from 2014. The increase in sales was a result of increased unit volumes ($110 million), partially offset by unfavorable pricing and mix ($11 million). Unit shipments for the segment increased 4.3 percent in 2015 compared with 2014. In the U.S., the segment's unit shipments of total light vehicle tires increased 3.9 percent in 2015 compared with 2014. This increase compares with a 4.5 percent increase in total light vehicle shipments experienced by the RMA, and a 0.1 percent increase in total light vehicle shipments experienced for the total industry, which includes an estimate for non-RMA members. The increased volume in 2015 was driven by higher unit sales of light truck and SUV tires, as well as passenger car tires.

Operating Profit

Operating profit for the segment increased $148 million to $423 million in 2015. Lower raw material costs net of price ($190 million) and higher unit volumes ($23 million) were partially offset by higher product liability expense ($2 million). Manufacturing costs increased ($37 million) compared with 2014 primarily as a result of the reconfiguration of the Company's U.S. manufacturing plants to increase production of higher value, higher margin products, coupled with higher costs related to pension, incentive based compensation and technical spending. Selling, general and administrative costs increased ($19 million) compared with 2014, primarily due to increased incentive based compensation. Other operating costs were unfavorable ($7 million) compared with 2014.

The segment's internally calculated raw material index of 153.8 for the year ended December 31, 2015 was a decrease of 21.0 percent from 2014.

International Tire Operations Segment

(Dollar amounts in thousands)

| | 2016 | Change | 2015 | Change | 2014 |
|---|---|---|---|---|---|
| Sales | $464,003 | 2.7 % | $451,879 | (60.4 )% | $1,140,826 |
| Operating profit (loss) | $5,998 | n/m | $(19,133 ) | n/m | $74,566 |
| Operating margin | 1.3 % | 5.5 points | (4.2 )% | (10.7) points | 6.5 % |
| Total unit sales change | | 6.9 % | | (43.1 )% | |

n/m – not meaningful

Overview

The International Tire Operations segment is the combination of the Asia and Europe operating segments. The European segment has operations in the U.K. and Serbia. The U.K. entity manufactures and markets passenger car, light truck, motorcycle and racing tires and tire retread material for domestic and global markets. The Serbian entity manufactures light vehicle tires primarily for the European markets and for export. The Asian operations are located in the PRC. In the PRC, Cooper Kunshan Tire manufactures light vehicle tires both for the Chinese domestic market and for export to markets outside of the PRC. On December 1, 2016, the Company acquired 65 percent ownership of GRT, a joint venture manufacturing

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facility located in the PRC. GRT is expected to serve as a global source of truck and bus radial tire production for the Company. The segment also had another joint venture in the PRC, CCT, which manufactured and marketed radial and bias medium truck tires as well as passenger car and light truck tires for domestic and global markets. The Company sold its ownership interest in this joint venture in November 2014, and the Company now procures these tires under off-take agreements through mid-2018 from this entity. The majority of the tires manufactured by the segments are sold in the replacement market, with a growing portion also sold to OEMs.

2016 versus 2015

Sales

Net sales of the International Tire Operations segment increased $12 million, or 2.7 percent, from 2015. The segment experienced increased unit volumes ($32 million) and favorable price and mix ($7 million), which were partially offset by unfavorable exchange rates ($27 million) compared with 2015. Unit volume was higher in China due to increased sales in the domestic market for both original equipment and replacement tires, which offset the decline in exports to the United States. Unit volume increased in Europe based on higher European market sales along with an increase of exports to the United States.

Operating Profit

Operating profit for the segment increased $25 million to an operating profit of $6 million in 2016. The segment experienced favorable raw material costs net of price and mix ($23 million), decreased selling, general and administrative expenses ($1 million), and increased unit volumes ($5 million) compared to 2015. Other costs ($4 million), including unfavorable currency impacts, increased compared with 2015.

2015 versus 2014

Sales

Net sales of the International Tire Operations segment decreased $689 million, or 60.4 percent, from 2014. The absence of CCT for the entire year resulted in decreased unit volumes in 2015 ($642 million). Excluding CCT, the segment experienced increased unit volumes in both Asia and Europe ($32 million), which were more than offset by less favorable pricing and mix ($52 million) and unfavorable exchange rates ($27 million) compared with 2014. Unit volume was higher in China due to increased sales in the domestic market, including original equipment tires, which offset the decline in exports to the United States. Unit volume increased in Europe based on higher year over year sales of winter tires along with an increase of exports to the United States.

Operating Profit

Operating profit for the segment decreased $94 million to an operating loss of $19 million in 2015. The absence of CCT reduced operating profit by $78 million. Excluding CCT, unfavorable raw material costs net of price and mix ($9 million) and higher manufacturing costs ($7 million) were partially offset by higher unit volumes in both Asia and Europe ($7 million) and reduced selling, general, and administrative expenses ($2 million). Excluding CCT, other costs ($9 million), including unfavorable currency impacts, increased compared with 2014.

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Outlook for the Company
In 2017, the Company expects unit volume growth in each of its four segments.

Raw material costs are volatile and difficult to project, but the Company's latest forecast indicates raw material costs to be up approximately 25 percent year over year in the first half of 2017, with slight sequential increases for the balance of the year.
The Company expects full year 2017 operating margin to be at the high end of the Company’s previously announced mid-term target of 8 to 10 percent. Total Company operating margin is expected to be around the low end of the 8 to 10 percent range in the first half of 2017, and to exceed 10 percent in the second half of the year. The Company also expects the International Operations segment to continue to improve operating profit in 2017, inclusive of the recently acquired majority interest in GRT.
The Company expects 2017 capital expenditures to range between $220 million and $250 million.
The full year 2017 effective tax rate is expected to be in a range of 30 to 33 percent.
Liquidity and Capital Resources
Sources and uses of cash in operating activities
Net cash provided by operating activities of continuing operations was $310 million in 2016. During 2016, net income provided $251 million and other non-cash charges totaled $199 million. Changes in working capital consumed $140 million.
Net cash provided by operating activities of continuing operations was $300 million in 2015. During 2015, net income provided $216 million and other non-cash charges totaled $154 million. Changes in working capital accounts consumed $70 million.
Net cash provided by operating activities of continuing operations was $319 million in 2014. During 2014, net income provided $237 million and other non-cash charges totaled $97 million, including $56 million related to the gain on the sale of the Company’s ownership interest in CCT, net of tax. Changes in working capital accounts consumed $15 million.
Source and uses of cash in investing activities
Net cash used in investing activities reflect capital expenditures of $175 million, $183 million and $145 million in 2016, 2015 and 2014, respectively.
During the fourth quarter of 2016, the Company invested $6 million to purchase 65 percent of GRT, net of $8 million of cash acquired. The Company received $171 million from the sale of its ownership interest in CCT in 2014.
The Company’s capital expenditure commitments at December 31, 2016 were $33 million and are included in the “Unconditional purchase” line of the Contractual Obligations table, which appears later in this section.
Sources and uses of cash in financing activities
The Company repurchased $108 million and $109 million of its common stock in 2016 and 2015, respectively, as part of the Company’s share repurchase program authorized by the Board of Directors. In 2014, the Company entered into a $200 million accelerated share repurchase program (the “ASR program”) with a major financial institution to repurchase shares of the Company’s common stock, which is reflected as the $200 million of cash used in financing activities in the Company's 2014 Consolidated Statement of Cash Flows. During 2014, the Company borrowed funds on its domestic credit lines to partially fund the ASR program and $40 million remained outstanding at December 31, 2014. During 2015, the Company repaid $41 million of short-term debt, including the repayment of $40 million of borrowings on its domestic credit lines. The Company repaid $1 million, $3 million and $36 million of maturing long-term debt in 2016, 2015 and 2014, respectively.
Dividends paid on the Company’s common shares were $23 million, $24 million and $26 million in 2016, 2015 and 2014, respectively. The Company has maintained a quarterly dividend of 10.5 cents per share in each quarter during the three years ended December 31, 2016. The Company also paid $8 million in dividends to noncontrolling shareholders in the CCT and COOCSA joint ventures in 2014. Dividends paid to the noncontrolling shareholder in COOCSA were $1 million in each of 2016 and 2015.
During 2016, stock options were exercised to acquire 166,434 shares of common stock with a cash impact of $4 million, including $274 thousand of excess tax benefits on equity instruments. During 2015, stock options were

exercised to acquire 1,025,699 shares of common stock with a cash impact of $24 million, including $4 million of excess tax benefits on equity



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instruments. During 2014, stock options were exercised to acquire 245,745 shares of common stock with a cash impact of $3 million, including $1 million of excess tax benefits on equity instruments.

Available cash, credit facilities and contractual commitments

At December 31, 2016, the Company had cash and cash equivalents of $504 million.

Domestically, the Company has a revolving credit facility with a consortium of banks that provides up to $400 million based on available collateral, including a $110 million letter of credit subfacility, and expires in May 2020. The Company also has an accounts receivable securitization facility with a borrowing limit of up to $150 million, based on available collateral, which expires in May 2018.

These credit facilities are undrawn, other than to secure letters of credit, at December 31, 2016. The Company's additional borrowing capacity under these facilities, net of amounts used to back letters of credit and based on available collateral at December 31, 2016, was $519 million.

The Company's operations in Asia have annual renewable unsecured credit lines that provide up to $69 million of borrowings and do not contain significant financial covenants. The additional borrowing capacity on the Asian credit lines totaled $43 million at December 31, 2016.

The Company believes that its cash and cash equivalent balances along with available cash from operating cash flows and credit facilities will be adequate to fund its typical needs, including working capital requirements, projected capital expenditures, including its portion of capital expenditures in its partially-owned subsidiaries, and dividend and share repurchase goals. The Company also believes it has access to additional funds from capital markets to fund potential strategic initiatives. The entire amount of short-term notes payable outstanding at December 31, 2016 is debt of consolidated subsidiaries. The Company expects its subsidiaries to refinance or pay these amounts within the next twelve months.

The Company's cash requirements relating to contractual obligations at December 31, 2016 are summarized in the following table:

| (Dollar amounts in thousands) | Payment Due by Period | | | | | | |
|---|---|---|---|---|---|---|---|
| Contractual Obligations | Total | 2017 | 2018 | 2019 | 2020 | 2021 | After 2021 |
| Long-term debt | $290,458 | $— | $— | $173,578 | $— | $— | $116,880 |
| Capital lease obligations and other | 9,883 | 2,421 | 1,489 | 910 | — | 5,063 | — |
| Interest on debt and capital lease obligations | 134,405 | 23,127 | 23,127 | 23,127 | 9,241 | 8,994 | 46,789 |
| Operating leases | 86,937 | 23,746 | 19,311 | 15,978 | 13,110 | 7,214 | 7,578 |
| Notes payable (a) | 26,286 | 26,286 | — | — | — | — | — |
| Purchase obligations (b) | 214,274 | 178,244 | 36,030 | — | — | — | — |
| Postretirement benefits other than pensions (c) | 262,275 | 15,048 | 15,419 | 15,778 | 16,321 | 16,518 | 183,191 |
| Pensions (d) | 286,152 | 45,000 | 45,000 | 45,000 | 45,000 | 45,000 | 61,152 |
| Other obligations (e) | 43,470 | 12,078 | 7,032 | 4,144 | 1,570 | 317 | 18,329 |
| Total contractual cash obligations | $1,354,140 | $325,950 | $147,408 | $278,515 | $85,242 | $83,106 | $433,919 |

(a) Financing obtained from financial institutions in the PRC to support the Company's operations there.

(b) Purchase commitments for capital expenditures, medium truck tires and raw materials, principally natural rubber, made in the ordinary course of business.

(c) Represents benefit payments for postretirement benefits other than pension liabilities.

(d) Represents Company contributions to retirement trusts based on current assumptions.

(e) Includes stock-based liabilities, warranty reserve, deferred compensation, nonqualified benefit plans and other non-current liabilities.

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Credit agency ratings

Standard & Poor's has rated the Company's long-term corporate credit and senior unsecured debt at BB with a stable outlook. Moody's Investors Service has assigned a Ba3 corporate family rating and a B1 rating to senior unsecured debt with a stable outlook.

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 U.S. 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.

Product liability

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

The fact that the Company is a defendant in product liability lawsuits is not surprising given the current litigation climate, which is largely confined to the United States. However, the fact that the Company is subject to claims does not indicate that there is a quality issue with the Company's tires. The Company sells approximately 30 to 35 million passenger car, light truck, SUV, radial medium truck and motorcycle tires per year in North America. The Company estimates that approximately 300 million Company-produced tires – made up of thousands of different specifications – are still on the road in North America. While tire disablements do occur, it is the Company's and the tire industry's experience that the vast majority of tire failures relate to service-related conditions, which are entirely out of the Company's control – such as failure to maintain proper tire pressure, improper maintenance, improper repairs, road hazard and excessive speed.

The Company accrues costs for product 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 product 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 product liability claim is evaluated based on its specific facts and circumstances. A judgment is then made to determine the requirement for establishment or revision of an accrual for any potential liability. The liability

often cannot be determined with precision until the claim is resolved.

Pursuant to ASU 450 "Contingencies", the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average cost would not be meaningful since the product liability claims faced by the Company are unique and widely variable, and accordingly, the resolutions of those claims have an enormous amount of variability. The

costs have ranged from zero dollars to $33 million in one case with no "average" that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity and the settled claims history is maintained. Because of the speculative nature of litigation in the U.S., the Company does not believe a meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company's experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are settled at amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

The Company determines its reserves using the number of incidents expected during a year. During 2016, the Company increased its product liability reserve by $46 million. The addition of another year of self-insured incidents accounted for $49 million of this increase. Settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability decreased by $3 million.

During 2015, the Company increased its product liability reserve by $56 million. The addition of another year of self-insured incidents accounted for $49 million of this increase. Settlements and changes in the amount of reserves for cases where sufficient information is known to estimate a liability increased by $7 million.

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

During 2016, the Company paid $32 million and during 2015, the Company paid $71 million to resolve cases and claims. The Company's product liability reserve balance at December 31, 2016 totaled $177 million (current portion of $58 million). At December 31, 2015 the Company's product liability reserve balance totaled $164 million (current portion of $74 million).

The product 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. Legal costs are expensed as incurred and product liability insurance premiums are amortized over coverage periods.

Product liability expenses totaled $65 million, $79 million and $77 million in 2016, 2015 and 2014, respectively.

Income Taxes

The Company is required to make certain estimates and judgments to determine income tax expense for financial statement purposes. The more critical estimates and judgments include assessing uncertain tax positions and measuring unrecognized tax benefits, determining whether deferred tax assets will be realized and whether foreign earnings will be indefinitely reinvested. Changes to these estimates may result in an increase or decrease to tax expense in subsequent periods.

The calculation of tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in a multitude of jurisdictions across the Company's global operations. The Company applies the rules under ASC 740-10 in its Accounting for Uncertainty in Income Taxes for uncertain tax positions using a "more likely than not" recognition threshold. Pursuant to these rules, the Company will initially recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits of the tax position, that such a position will be sustained upon examination by the relevant tax authorities. If the tax benefit meets the "more likely than not" threshold, the measurement of the tax benefit will be based on the Company's estimate of the ultimate amount to be sustained if audited by the taxing authority. The Company recognizes tax liabilities in accordance with ASC 740-10 and adjusts these liabilities when judgment changes as a result of the evaluation of new information not previously available. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is reasonably possible that the ultimate resolution of these unrecognized tax benefits may result in a payment that is materially different from the current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period in which new information is available.

The Company’s liability for unrecognized tax benefits, exclusive of interest, totaled approximately $3 million at December 31, 2016. In accordance with Company policy, certain liabilities relating to 2012 were released following the lapse of statutes for both U.S. federal and state jurisdictions. The unrecognized tax benefits at December 31, 2016 relate to uncertain tax positions in tax years 2012 through 2016.

The Company must assess the likelihood that it will be able to recover its deferred tax assets. Deferred income taxes arise from temporary differences between the tax and financial statement recognition of revenue and expense. In evaluating the Company’s ability to recover deferred tax assets within the jurisdiction from which they arise, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax-planning strategies and results of recent operations. In projecting future taxable income, the Company begins with historical

results adjusted for the results of discontinued operations and changes in accounting policies, and incorporates assumptions including the amount of future state, federal and foreign pretax operating income, the reversal of temporary differences and the implementation of feasible and prudent tax-planning strategies. These assumptions require significant judgment about the forecasts of future taxable income and are consistent with the plans and estimates the Company uses to manage the underlying businesses. In evaluating the objective evidence that historical results provide, the Company considers three years of cumulative operating income (loss).

The Company continues to maintain a valuation allowance against a portion of its U.S. and non-U.S. deferred tax asset position at December 31, 2016, as it cannot assure the utilization of these assets before they expire. In the U.S., the Company has offset a portion of its deferred tax asset relating primarily to a loss carryforward by a valuation allowance of $2 million. In addition, the Company has recorded valuation allowances of $18 million relating primarily to non-U.S. net operating losses for a total valuation allowance of $20 million. In conjunction with the Company's ongoing review of its actual results and anticipated future earnings, the Company will continue to reassess the possibility of releasing all or part of the valuation allowances currently in place when they are deemed to be realizable.

The Company generally considers the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future domestic cash generation will be sufficient to meet future domestic cash needs. In the event that the Company plans to repatriate foreign earnings, the income tax provision would be adjusted in the period it is determined that the earnings will no longer be indefinitely invested outside the United States. The Company has not recorded a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on approximately $596 million of these undistributed earnings. 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, plus the uncertainty in estimating the impacts of future exchange rates.

Impairment of long-lived assets

The Company's long-lived assets include property, plant and equipment and other assets that are intangible. 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 of the assets exceed the fair values of the assets, an impairment charge is recognized for the difference.

The Company assesses the potential impairment of its 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, an impairment charge equal to that excess is recorded.

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 U.S. and the U.K. and other postretirement benefit liabilities in the U.S. 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 benefit 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 investment advisors and 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 discounted the expected pension disbursements over the next one hundred years using spot rates from a high quality corporate bond yield curve and computed a single equivalent rate. Based upon this analysis, the Company used a discount rate of 3.90 percent to measure its U.S. pension liabilities at December 31, 2016, which is lower than the 4.20 percent used at December 31, 2015. Similarly, the Company discounted the expected disbursements of its other

postretirement benefit liabilities and based upon this analysis, the Company used a discount rate of 3.95 percent to measure its other postretirement liabilities at December 31, 2016, which is lower than the 4.20 percent used at December 31, 2015. A similar analysis was completed in the U.K. and the Company decreased the discount rate used to measure its U.K. pension liabilities to 2.65 percent at December 31, 2016 from 3.85 percent at December 31, 2015. The rate of future compensation increases is used to determine the future benefits to be paid for employees, since 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 typically tied to profitability. Effective July 1, 2009, the Company froze the Spectrum (salaried employees) Pension Plan in the U.S., so the future compensation assumption is not applicable to valuing this liability. Effective April 6, 2012, the Company amended the Cooper Avon Pension Plan to freeze all future pension benefits, so the future compensation assumption is not applicable to valuing this liability.

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 strategy is to match assets to the cash flows of the pension obligations. The Company's current asset allocation for U.S. plans' assets is 63 percent in equity securities, 36 percent in debt securities and 1 percent in cash. The Company's current asset allocation for U.K. plan assets is 18 percent in equity securities, 68 percent in bonds and 14 percent in other investments. Equity security investments are structured to achieve a 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 and may be adjusted based on a review 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 actual return on U.S. pension plans' assets was a gain of approximately 7.09 percent in 2016 compared to an asset gain of approximately 0.13 percent in 2015. The actual return on U.K. pension plan assets was a gain of approximately 25.18 percent in 2016 compared to an asset loss of 0.26 percent in 2015. The Company's estimate for the expected long-term return on its U.S. plan assets used to derive 2016 and 2015 pension expense was 7.00 percent. The expected long-term return on U.K. plan assets used to derive the 2016 and 2015 pension expense was 4.00 percent and 3.85 percent, respectively.

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 and other postretirement liabilities, decreases and increases in the discount rate and the rate of future compensation increases and differences between actuarial assumptions and actual experience totaling $532 million at December 31, 2016. These amounts are being amortized in accordance with the corridor amortization requirements of U.S. GAAP over periods ranging from 8 years to 10 years. Amortization of these net deferred losses was $44 million in 2016 and $47 million in 2015.

The Company has implemented household caps on the amounts of retiree medical benefits it will provide to certain retirees in the U.S. 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.

In accordance with U.S. GAAP, the Company recognizes 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 and the net unrecognized actuarial losses and unrecognized prior service costs in the consolidated balance sheets. The unrecognized actuarial losses and unrecognized prior service costs (components of cumulative other comprehensive loss in the stockholders' equity section of the balance sheet) will be subsequently recognized as net periodic benefit 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.

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## 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 decrease in interest rates by ten percent of the actual rates would have adversely affected the fair value of the Company’s fixed-rate, long-term debt by approximately $8 million and $10 million at December 31, 2016 and December 31, 2015, respectively. An increase in interest rates by ten percent of the actual 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 in foreign currencies, the Company first nets the exposures to take advantage of natural offsets. Then, 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, 2016 and 2015.

The Company enters into 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.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
CONSOLIDATED STATEMENTS OF INCOME
(Dollar amounts in thousands except per share amounts)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net sales | $2,924,869 | $2,972,901 | $3,424,809 |
| Cost of products sold | 2,272,519 | 2,355,451 | 2,852,051 |
| Gross profit | 652,350 | 617,450 | 572,758 |
| Selling, general and administrative expense | 255,701 | 262,970 | 272,300 |
| Pension settlement charges | 12,262 | — | — |
| Operating profit | 384,387 | 354,480 | 300,458 |
| Interest expense | (26,604) | (23,820) | (28,138) |
| Interest income | 4,378 | 2,211 | 1,500 |
| Gain on sale of interest in subsidiary | — | — | 77,471 |
| Other non-operating income (expense) | 4,932 | 1,157 | (2,772) |
| Income before income taxes | 367,093 | 334,028 | 348,519 |
| Provision for income taxes | 115,799 | 118,224 | 111,697 |
| Net income | 251,294 | 215,804 | 236,822 |
| Net income attributable to noncontrolling shareholders' interests | 2,913 | 3,038 | 23,244 |
| Net income attributable to Cooper Tire & Rubber Company | $248,381 | $212,766 | $213,578 |
| Basic earnings per share: | | | |
| Net income attributable to Cooper Tire & Rubber Company common stockholders | $4.56 | $3.73 | $3.48 |
| Diluted earnings per share: | | | |
| Net income attributable to Cooper Tire & Rubber Company common stockholders | $4.51 | $3.69 | $3.42 |

See Notes to Consolidated Financial Statements, pages 39 to 71.

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CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollar amounts in thousands except per share amounts)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net income | $251,294 | $215,804 | $236,822 |
| Other comprehensive (loss) income | | | |
| Foreign currency translation adjustments | (57,954) | (35,320) | (54,896) |
| Financial instruments | | | |
| Change in the fair value of derivatives | (2,371) | (2,319) | 5,321 |
| Income tax benefit (provision) on derivative instruments | 884 | 1,011 | (2,174) |
| Financial instruments, net of tax | (1,487) | (1,308) | 3,147 |
| Postretirement benefit plans | | | |
| Amortization of actuarial loss | 43,624 | 46,736 | 36,473 |
| Amortization of prior service credit | (566) | (566) | (566) |
| Actuarial (loss) gain | (39,689) | 23,597 | (165,357) |
| Pension settlement charges | 12,262 | — | — |
| Income tax (provision) benefit on postretirement benefit plans | (9,299) | (23,410) | 50,317 |
| Foreign currency translation effect | 13,152 | 6,879 | 6,005 |
| Postretirement benefit plans, net of tax | 19,484 | 53,236 | (73,128) |
| Other comprehensive (loss) income | (39,957) | 16,608 | (124,877) |
| Comprehensive income | 211,337 | 232,412 | 111,945 |
| Less comprehensive (loss) income attributable to noncontrolling shareholders' interests | (1,660) | (1,189) | 18,949 |
| Comprehensive income attributable to Cooper Tire & Rubber Company | $212,997 | $233,601 | $92,996 |

See Notes to Consolidated Financial Statements, pages 39 to 71.

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CONSOLIDATED BALANCE SHEETS
(Dollar amounts in thousands)

| | December 31, 2016 | 2015 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $ 504,423 | $ 505,157 |
| Notes receivable | 7,485 | 8,750 |
| Accounts receivable, less allowances of $7,290 at 2016 and $7,533 at 2015 | 409,913 | 371,757 |
| Inventories at lower of cost or market: | | |
| Finished goods | 338,887 | 297,967 |
| Work in process | 29,922 | 26,666 |
| Raw materials and supplies | 101,342 | 87,928 |
| | 470,151 | 412,561 |
| Other current assets | 28,546 | 36,405 |
| Total current assets | 1,420,518 | 1,334,630 |
| Property, plant and equipment: | | |
| Land and land improvements | 47,767 | 49,782 |
| Buildings | 282,960 | 277,034 |
| Machinery and equipment | 1,742,449 | 1,637,637 |
| Molds, cores and rings | 224,662 | 236,370 |
| | 2,297,838 | 2,200,823 |
| Less: Accumulated depreciation | 1,433,611 | 1,405,625 |
| Property, plant and equipment, net | 864,227 | 795,198 |
| Goodwill | 52,705 | 18,851 |
| Intangibles, net of accumulated amortization of $77,321 at 2016 and $62,274 at 2015 | 140,751 | 133,490 |
| Restricted cash | 1,327 | 802 |
| Deferred income tax assets | 133,879 | 136,310 |
| Other assets | 5,988 | 16,895 |
| Total assets | $ 2,619,395 | $ 2,436,176 |

See Notes to Consolidated Financial Statements, pages 39 to 71.

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

| | December 31, 2016 | December 31, 2015 |
|---|---|---|
| Liabilities and Equity | | |
| Current liabilities: | | |
| Notes payable | $26,286 | $12,437 |
| Accounts payable | 282,416 | 215,850 |
| Accrued liabilities | 183,804 | 199,368 |
| Income taxes payable | 5,887 | 4,748 |
| Current portion of long-term debt | 2,421 | 600 |
| Total current liabilities | 500,814 | 433,003 |
| Long-term debt | 297,094 | 296,412 |
| Postretirement benefits other than pensions | 247,227 | 249,650 |
| Pension benefits | 285,852 | 304,621 |
| Other long-term liabilities | 156,924 | 132,594 |
| Deferred income tax liabilities | 1,248 | 2,285 |
| Equity: | | |
| Preferred stock, $1 par value; 5,000,000 shares authorized; none issued | | |
| Common stock, $1 par value; 300,000,000 shares authorized; 87,850,292 shares issued at 2016 and at 2015 | 87,850 | 87,850 |
| Capital in excess of par value | 25,876 | 16,306 |
| Retained earnings | 2,321,424 | 2,095,923 |
| Accumulated other comprehensive loss | (545,151) | (509,767) |
| | 1,889,999 | 1,690,312 |
| Less: common shares in treasury at cost (34,850,512 at 2016 and 32,017,754 at 2015) | (813,985) | (711,064) |
| Total parent stockholders’ equity | 1,076,014 | 979,248 |
| Noncontrolling shareholders’ interests in consolidated subsidiaries | 54,222 | 38,363 |
| Total equity | 1,130,236 | 1,017,611 |
| Total liabilities and equity | $2,619,395 | $2,436,176 |

See Notes to Consolidated Financial Statements, pages 39 to 71.

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

| | | Total Equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Redeemable Noncontrolling Shareholder's Interest | Common Stock $1 Par Value | Capital in Excess of Par Value | Retained Earnings | Cumulative Other Comprehensive Income (Loss) | Common Shares in Treasury | Total Parent Stockholders' Equity | Noncontrolling Shareholders' Interests in Consolidated Subsidiaries | Total |
| Balance at December 31, 2013 | $ — | $87,850 | $4,433 | $1,741,611 | $(410,020) | $(433,008) | $990,866 | $166,759 | $1,157,625 |
| Reclassification of redeemable noncontrolling shareholder interest | 152,250 | — | (3,838) | (24,447) | — | — | (28,285) | (123,965) | (152,250) |
| Net income | 19,266 | — | — | 213,578 | — | — | 213,578 | 3,978 | 217,556 |
| Other comprehensive loss | (562) | — | — | — | (120,582) | — | (120,582) | (3,733) | (124,315) |
| Comprehensive income (loss) | 18,704 | — | — | 213,578 | (120,582) | — | 92,996 | 245 | 93,241 |
| Dividends payable to noncontrolling shareholder | (5,243) | — | — | — | — | — | — | (2,570) | (2,570) |
| Sale of interest in subsidiary | (165,711) | — | — | — | — | — | — | — | — |
| Accelerated share repurchase program | — | — | (2,010) | (37,990) | — | (160,000) | (200,000) | — | (200,000) |
| Stock compensation plans, including tax benefit of $1,268 | — | — | 7,157 | (88) | — | 6,684 | 13,753 | — | 13,753 |
| Cash dividends - $0.42 per share | — | — | — | (25,538) | — | — | (25,538) | — | (25,538) |
| Balance at December 31, 2014 | — | 87,850 | 5,742 | 1,867,126 | (530,602) | (586,324) | 843,792 | 40,469 | 884,261 |
| Net income | — | — | — | 212,766 | — | — | 212,766 | 3,038 | 215,804 |
| Other comprehensive income (loss) | — | — | — | — | 20,835 | — | 20,835 | (4,227) | 16,608 |
| Comprehensive income (loss) | — | — | — | 212,766 | 20,835 | — | 233,601 | (1,189) | 232,412 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Dividends payable to noncontrolling shareholder | — | — | — | — | — | — | — | (917 ) | (917 ) |
| Accelerated share repurchase program | — | — | 2,010 | 37,990 | — | (40,000 ) | — | — | — |
| Share repurchase program | — | — | — | — | — | (108,821 ) | (108,821 ) | — | (108,821 ) |
| Stock compensation plans, including tax benefit of $4,323 | — | — | 8,554 | 1,921 | — | 24,081 | 34,556 | — | 34,556 |
| Cash dividends - $0.42 per share | — | — | — | (23,880 ) | — | — | (23,880 ) | — | (23,880 ) |
| Balance at December 31, 2015 | — | 87,850 | 16,306 | 2,095,923 | (509,767 ) | (711,064 ) | 979,248 | 38,363 | 1,017,611 |
| Net income | — | — | — | 248,381 | — | — | 248,381 | 2,913 | 251,294 |
| Other comprehensive loss | — | — | — | — | (35,384 ) | — | (35,384 ) | (4,573 ) | (39,957 ) |
| Comprehensive income (loss) | — | — | — | 248,381 | (35,384 ) | — | 212,997 | (1,660 ) | 211,337 |
| Dividends payable to noncontrolling shareholder | — | — | — | — | — | — | — | (804 ) | (804 ) |
| Acquisition of business | — | — | — | — | — | — | — | 18,323 | 18,323 |
| Share repurchase program | — | — | — | — | — | (107,999 ) | (107,999 ) | — | (107,999 ) |
| Stock compensation plans, including tax benefit of $274 | — | — | 9,570 | (52 ) | — | 5,078 | 14,596 | — | 14,596 |
| Cash dividends - $0.42 per share | — | — | — | (22,828 ) | — | — | (22,828 ) | — | (22,828 ) |
| Balance at December 31, 2016 | $ — | $87,850 | $25,876 | $2,321,424 | $(545,151 ) | $(813,985 ) | $1,076,014 | $54,222 | $1,130,236 |

See Notes to Consolidated Financial Statements, pages 39 to 71.

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollar amounts in thousands)

| | Year Ended December 31, 2016 | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Operating activities: | | | |
| Net income | $251,294 | $215,804 | $236,822 |
| Adjustments to reconcile net income to net cash provided by operations: | | | |
| Depreciation and amortization | 130,257 | 121,408 | 139,166 |
| Deferred income taxes | (12,350) | 25,034 | 3,629 |
| Stock-based compensation | 13,570 | 14,919 | 9,047 |
| Change in LIFO reserve | 11,990 | (53,108) | (35,205) |
| Amortization of unrecognized postretirement benefits | 43,058 | 46,170 | 35,907 |
| Pension settlement charges | 12,262 | — | — |
| Gain on sale of interest in subsidiary, net of tax | — | — | (55,704) |
| Changes in operating assets and liabilities of continuing operations, net of effect of sale of interest in subsidiary: | | | |
| Accounts and notes receivable | (45,674) | (15,155) | (64,636) |
| Inventories | (77,872) | 51,864 | (524) |
| Other current assets | 3,831 | (931) | (2,162) |
| Accounts payable | 13,128 | (42,068) | 67,734 |
| Accrued liabilities | (23,489) | 21,719 | 25,943 |
| Other items | (10,210) | (85,342) | (40,933) |
| Net cash provided by operating activities | 309,795 | 300,314 | 319,084 |
| Investing activities: | | | |
| Additions to property, plant and equipment and capitalized software | (175,437) | (182,544) | (145,041) |
| Acquisition of business, net of cash acquired | (5,928) | — | — |
| Proceeds from sale of interest in subsidiary, net of cash sold | — | — | 170,711 |
| Proceeds from the sale of assets | 337 | 1,651 | 1,248 |
| Net cash (used in) provided by investing activities | (181,028) | (180,893) | 26,918 |
| Financing activities: | | | |
| Net (payments on) issuances of short-term debt | 10,019 | (41,303) | 55,447 |
| Additions to long-term debt | — | — | 15,634 |
| Repayments of long-term debt | (935) | (3,125) | (35,715) |
| Payment of financing fees | — | (2,586) | — |
| Repurchase of common stock | (107,999) | (108,821) | (200,000) |
| Payment of dividends to noncontrolling shareholders | (804) | (917) | (7,813) |
| Payment of dividends | (22,828) | (23,880) | (25,538) |
| Issuance of common shares and excess tax benefits on options | 4,224 | 23,965 | 3,230 |
| Net cash used in financing activities | (118,323) | (156,667) | (194,755) |
| Effects of exchange rate changes on cash of continuing operations | (11,178) | (9,249) | 2,674 |
| Changes in cash and cash equivalents | (734) | (46,495) | 153,921 |
| Cash and cash equivalents at beginning of year | 505,157 | 551,652 | 397,731 |
| Cash and cash equivalents at end of year | $504,423 | $505,157 | $551,652 |

See Notes to Consolidated Financial Statements, pages 39 to 71.

Notes to Consolidated Financial Statements
(Dollar amounts in thousands except per share amounts)
Note 1 – Significant Accounting Policies
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 Company consolidates into its financial statements the accounts of the Company, all wholly-owned subsidiaries, and any partially-owned subsidiary that the Company has the ability to control. Control generally equates to ownership percentage, whereby investments that are more than 50-percent owned are consolidated, investments in subsidiaries of 50 percent or less but greater than 20-percent are accounted for using the equity method, and investments in subsidiaries of 20 percent or less are accounted for using the cost method. The Company does not consolidate any entity for which it has a variable interest based solely on power to direct the activities and significant participation in the entity's expected results that would not otherwise be consolidated based on control through voting interests. Further, the Company's joint ventures are businesses established and maintained in connection with the Company's operating strategy.
Cash and cash equivalents – 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 principal 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 $504,423 and $505,157 at December 31, 2016 and December 31, 2015, respectively. The majority of the cash and cash equivalents were invested in eligible financial instruments in excess of amounts insured by the Federal Deposit Insurance Corporation and, therefore, subject to credit risk. Management believes that the probability of losses related to credit risk on investments classified as cash and cash equivalents is remote.
Notes receivable – The Company has received bank secured notes from certain of its customers in the PRC to settle trade accounts receivable. These notes generally have maturities of six months or less and are redeemable at the bank of issuance. The Company evaluates the credit risk of the issuing bank prior to accepting a bank secured note from a customer. Management believes that the probability of material losses related to credit risk on notes receivable is remote.
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 throughout the year. The evaluation includes historical trends in collections and write-offs, management's judgment of the probability of collecting specific 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 LIFO method for substantially all U.S. inventories. Costs of other inventories have been determined by the FIFO and average cost methods. Inventories include direct material, direct labor, and applicable manufacturing and engineering overhead costs.

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

| | |
|---|---|
| Land improvements | 10 to 20 years |
| Buildings | 10 to 40 years |
| Machinery and equipment | 5 to 14 years |
| Molds, cores and rings | 2 to 10 years |

The Company capitalizes certain internal and external costs incurred to acquire or develop internal-use software. Capitalized software costs are amortized over the estimated useful life of the software, which ranges from three years to 12 years.

Intangibles with definite lives include trademarks, technology and intellectual property which are amortized over their remaining useful lives, which range from two years to 12 years. Land use rights are amortized over their remaining useful lives, which range from 39 years to 46 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 indefinite-lived intangibles are assessed for potential impairment at least annually or when events or circumstances indicate impairment may have occurred.

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

| (Number of shares and dollar amounts in thousands except per share amounts) | 2016 | 2015 | 2014 |
|---|---|---|---|
| Numerator | | | |
| Numerator for basic and diluted earnings per share - income from continuing operations available to common stockholders | $248,381 | $212,766 | $213,578 |
| Denominator | | | |
| Denominator for basic earnings per share - weighted average shares outstanding | 54,480 | 57,012 | 61,402 |
| Effect of dilutive securities - stock options and other stock units | 610 | 611 | 999 |
| Denominator for diluted earnings per share - adjusted weighted average shares outstanding | 55,090 | 57,623 | 62,401 |
| Basic earnings per share: | | | |
| Net income attributable to Cooper Tire & Rubber Company common stockholders | $4.56 | $3.73 | $3.48 |
| Diluted earnings per share: | | | |
| Net income attributable to Cooper Tire & Rubber Company common stockholders | $4.51 | $3.69 | $3.42 |

At December 31, 2016, 2015 and 2014 all options to purchase shares of the Company's common stock were included in the computation of diluted earnings per share as the options' exercise prices were less than the average market price of the common shares.

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 offsets fair value amounts recognized on the Consolidated Balance Sheets for derivative financial instruments executed with the same counter-party.

The Company uses foreign currency forward contracts as hedges of the fair value of certain non-U.S. dollar denominated net asset and liability positions. 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, the effective portion of the change in fair value of 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 assesses hedge effectiveness quarterly. In doing so, 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 Statements of Income in the period in which the ineffectiveness occurs.

The Company is exposed to price risk related to forecasted purchases of certain commodities that are used as raw materials, principally natural rubber. Accordingly, it uses commodity contracts with forward pricing. These contracts generally qualify for the normal purchase exception under guidance for derivative instruments and hedging activities, and therefore are not subject to its provisions.

Income taxes – Income tax expense is based on reported earnings or losses 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. Taxable income may differ from earnings 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 generally are not recorded on the majority of undistributed earnings of international subsidiaries based on the Company's intention that these earnings will continue to be reinvested. The Company measures for the current tax impact of the earnings of international subsidiaries it intends to distribute in a future period and records the tax impact if the amount is material.

Product liability – The Company accrues costs for product 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 product liability claim is evaluated based on its specific facts and circumstances. A judgment is then made to determine the requirement for establishment or revision of an accrual for any potential liability. The liability often cannot be determined with precision until the claim is resolved.

Pursuant to ASU 450 "Contingencies", the Company accrues the minimum liability for each known claim when the estimated outcome is a range of possible loss and no one amount within that range is more likely than another. The Company uses a range of losses because an average settlement cost would not be meaningful since the product liability claims faced by the Company are unique and widely variable. Each of the product liability claims faced by the Company generally involves different types of tires and circumstances surrounding the accident such as different applications, vehicles, speeds, road conditions, weather conditions, driver error, tire repair and maintenance practices, service life conditions, as well as different jurisdictions and different injuries. In addition, in many of the Company's product liability lawsuits the plaintiff alleges that his or her harm was caused by one or more co-defendants who acted independently of the Company. Accordingly, both the claims asserted and the resolutions of those claims have an enormous amount of variability. The costs have ranged from zero dollars to $33 million in one case with no "average" that is meaningful. No specific accrual is made for individual unasserted claims or for premature claims, asserted claims where the minimum information needed to evaluate the probability of a liability is not yet known. However, an accrual for such claims based, in part, on management's expectations for future litigation activity and the settled claims history is maintained. Because of the speculative nature of litigation in the U.S., the Company does not believe a

meaningful aggregate range of potential loss for asserted and unasserted claims can be determined. The Company's experience has demonstrated that its estimates have been reasonably accurate and, on average, cases are settled at amounts close to the reserves established. However, it is possible an individual claim from time to time may result in an aberration from the norm and could have a material impact.

The product 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. Legal costs are expensed as incurred and product liability insurance premiums are amortized over coverage periods.

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Advertising expense – Expenses incurred for advertising include production and media and are generally expensed when incurred. Costs associated with dealer-earned cooperative advertising are recorded as a reduction of revenue component of Net sales at the time of sale. Advertising expense for 2016, 2015 and 2014 was $53,715, $53,007 and $57,439, respectively.

Stock-based compensation – The Company's incentive compensation plans allow the Company to grant awards to employees in the form of stock options, stock awards, restricted stock units, stock appreciation rights, performance stock units, dividend equivalents and other awards. Compensation related to these awards is determined based on the fair value on the date of grant and is amortized to expense over the vesting period. If awards can be settled in cash, these awards are recorded as liabilities and marked to market. See Note 13 – Stock-Based Compensation for additional information.

Warranties – Warranties are provided on the sale of certain of the Company's products, and an accrual for estimated future claims is recorded at the time revenue is recognized. Tire replacement under most of the warranties the Company offers is on a prorated basis. The Company provides for the estimated cost of product warranties based primarily on historical return rates, estimates of the eligible tire population and the value of tires to be replaced. The following table summarizes the activity in the Company's product warranty liabilities which are recorded in Accrued liabilities and Other long-term liabilities on the Company's Consolidated Balance Sheets:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Reserve at beginning of year | 12,339 | 14,005 | 30,853 |
| Additions | 8,349 | 9,122 | 17,413 |
| Payments | (10,054) | (10,788) | (19,112) |
| Decrease due to sale of interest in subsidiary | — | — | (15,149) |
| Reserve at December 31 | 10,634 | 12,339 | 14,005 |

The CCT portion of the warranty accrual consisted of a reserve of $16,807 and $0 at December 31, 2013 and 2014, respectively; additions to the reserve of $6,813 for 2014, through the date of sale; and payments of $8,471 for 2014, through the date of sale.

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 as a reduction to revenue 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 $55,534, $51,793 and $56,848 during 2016, 2015 and 2014, respectively.

Related Party Transactions – The Company's CCT joint venture paid $15 of interest to the noncontrolling shareholder in 2014. The CCT joint venture also paid $32,918 to the noncontrolling shareholder primarily for the purchase of utilities during 2014. The Company's COOCSA joint venture paid $33,774, $26,598 and $27,573 in 2016, 2015 and 2014, respectively, to an employment services company in Mexico owned in part by members of the joint venture workforce. COOCSA also recorded sales of $6,335, $6,555 and $6,159 to the noncontrolling shareholder in 2016, 2015 and 2014, respectively.

Recent Accounting Pronouncements

Each change to U.S. GAAP is established by the Financial Accounting Standards Board ("FASB") in the form of an accounting standards update ("ASU") to the FASB's Accounting Standards Codification ("ASC").

The Company considers the applicability and impact of all ASUs. ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial statements.

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Accounting Pronouncements – To be adopted

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which will supersede most current revenue recognition guidance, including industry-specific guidance. The core principle is that an entity will recognize revenue to depict the transfer of goods or services to customers in an amount that the entity expects to be entitled to in exchange for those goods or services. The standard provides a five-step model to determine when and how revenue is recognized. Other major provisions of the standard include capitalization of certain contract costs, consideration of time value of money in the transaction price, and allowing estimates of variable consideration to be recognized before contingencies are resolved in certain circumstances. The standard also requires enhanced disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. In July 2015, the FASB approved the deferral of the new standard's effective date by one year. The new standard is effective for annual reporting periods beginning after December 15, 2017. In 2016, the FASB issued several amendments to the standard, which provide clarification, additional guidance, practical expedients, technical corrections and other improvements to ASU 2014-09.

The guidance permits two methods of adoption: the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application.

The Company has substantially completed its evaluation of significant contracts and the review of its current accounting policies and practices to identify potential differences that would result from applying the requirements of the new standard to the Company's revenue contracts. In addition, the Company has identified, and is in the process of implementing, appropriate changes to business processes, systems and controls to support recognition and disclosure under the new standard.

The Company expects to adopt the new revenue standard in the first quarter of 2018 applying the modified retrospective transition method. The Company does not expect the adoption of the new revenue standard to have a material impact on the amount and timing of revenue recognized in the Company's consolidated financial statements.

Inventory

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in, first-out and the retail inventory method. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company will adopt the new standard in the first quarter of 2017. The new standard will not have a material impact on the Company's consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases," which requires balance sheet recognition of lease liabilities and right-of-use assets for most leases having terms of twelve months or longer. Application of the standard, which should be applied using a modified retrospective approach, is required for the annual and interim periods beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the impact the new standard will have on its consolidated financial statements.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which requires all excess tax benefits or deficiencies to be recognized as income tax expense or benefit in the income statement. In addition, excess tax benefits should be classified along with other income tax cash flows as an operating activity in the statement of cash flows. Application of the standard is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact the

new standard will have on its consolidated financial statements.

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Note 2 – GRT Acquisition

On January 4, 2016, the Company announced that it had entered into an agreement to purchase a majority of China-based GRT. In the first quarter of 2016, the Company made a down payment in the amount of $5,929 for this transaction in accordance with the purchase agreement. The down payment was fully refundable in the event that the transaction did not close and did not provide the Company with any power to direct the activities of the existing GRT entity prior to the transaction closing. After the transaction closed on December 1, 2016, the Company owns 65 percent of GRT. Based on the Company's ownership percentage and corresponding control of voting rights, the results of GRT and 100 percent of its assets and liabilities are consolidated from the date of the transaction. GRT is expected to serve as a global source of truck and bus radial tire production for the Company. Passenger car radial tires may also be manufactured at the facility in the future.

The down payment of $5,929, as well as an additional $8,090 at the time of closing, were paid to the non-controlling shareholder of GRT, resulting in the Company attaining 56.2 percent ownership interest of GRT. In December 2016, the Company contributed an additional $35,842 to GRT to purchase additional shares issued by GRT, as well as to fund working capital requirements. Subsequent to the December contribution, the Company owns 65.0 percent of GRT. The Company will contribute $35,846 to GRT in 2017 to fund working capital requirements. In total, the Company will have invested $85,745 related to GRT, with $14,019 paid directly to a third party and the remainder invested in GRT.

The GRT acquisition has been accounted for as a purchase transaction. The total consideration has been allocated to the assets acquired, liabilities assumed and noncontrolling shareholder interest based on their respective fair values at December 1, 2016. The excess purchase price over the estimated fair value of the net assets acquired has been allocated to goodwill. Goodwill consists of anticipated growth opportunities for GRT and is recorded in the Asia Operations segment. Goodwill is not deductible for federal income tax purposes.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed. The amounts are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed on December 1, 2016, translated into U.S. dollars at the exchange rate on that date. The preliminary allocations of the fair value of the GRT acquisition will be finalized when the valuation is completed.

| | December 1, 2016 |
|---|---|
| Assets | |
| Cash | $ 8,091 |
| Accounts receivable | 2,844 |
| Notes receivable | 3,050 |
| Inventory | 7,983 |
| Other current assets | 981 |
| Property, plant & equipment | 46,712 |
| Intangible assets | 7,412 |
| Other long-term assets | 289 |
| Goodwill | 33,861 |
| | |
| Liabilities | |
| Accounts payable | (61,570 ) |
| Notes payable | (10,122 ) |
| Accrued liabilities | (2,866 ) |
| Long-term debt | (3,383 ) |
| Other long-term liabilities | (940 ) |
| | 32,342 |
| Noncontrolling shareholder interest | (18,323 ) |

| Cooper Tire & Rubber Company consideration | $ 14,019 |
|---|---|

The Company has determined that the nonrecurring fair value measurements related to each of these assets and liabilities rely primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available and, as such, reside within Level 3 of the fair value hierarchy as defined in Footnote 9.

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The Company utilized a third party to assist in the fair value determination of certain components of the preliminary purchase price allocation, namely Property, plant and equipment and the non-controlling shareholder interest. Changes to these allocations may occur as additional information becomes available. The valuation of Property, plant and equipment was developed using primarily the cost approach. The fair value of the non-controlling shareholder interest was determined based upon internal and external inputs considering various relevant market transactions and discounted cash flow valuation methods, among other factors.

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

Note 3 – CCT Agreements

On January 29, 2014, the Company entered into an agreement (the "CCT Agreement") with Chengshan Group Company Ltd. ("Chengshan") and The Union of Cooper Chengshan (Shandong) Tire Company Co., Ltd. (the "Union") regarding CCT that, among other matters, provided Chengshan, with certain conditions and exceptions, a limited contractual right to either (i) purchase the Company's 65 percent equity interest in CCT for 65 percent of the Option Price (as defined below) or (ii) sell its 35 percent equity interest in CCT to the Company for 35 percent of the Option Price. In the event Chengshan elected not to exercise its right to purchase the Company's equity interest or sell its interest in CCT to the Company, the Company had the right to purchase Chengshan's 35 percent equity interest in CCT for 35 percent of the Option Price subject to certain conditions. In the event neither Chengshan nor the Company exercised their respective options prior to their expiration, the agreement allowed for continuation of the joint venture as then structured.

The "Option Price" under the CCT Agreement was defined as the greater of (i) the fair market value of CCT on a stand-alone basis, which value would not take into consideration the value of the trademarks and technologies licensed by the Company to CCT, as determined by an internationally recognized valuation firm (the "CCT valuation") and (ii) $435,000.

Under the terms of the CCT Agreement, once the Option Price was determined, the noncontrolling shareholder had 45 days to elect to either purchase the Company's 65 percent ownership interest in CCT for 65 percent of the Option Price or sell to the Company its 35 percent ownership interest in CCT at 35 percent of the Option Price, or do neither. If the noncontrolling shareholder did not exercise these options, the options would expire and the Company would have the right to purchase the noncontrolling shareholder's 35 percent ownership interest in CCT at 35 percent of the Option Price. The CCT Agreement provided that, if the CCT valuation was not provided on or before August 11, 2014 (as such date may be extended, the "Option Commencement Deadline"), the options of both parties would terminate and be of no effect unless the Company, at its sole discretion, elected to extend the deadline for the CCT valuation. On August 11, 2014, the Company extended the Option Commencement Deadline from August 11, 2014 to August 14, 2014 to allow the parties to finalize the Option Agreement, as defined below, and related matters.

As contemplated by the CCT Agreement, on August 14, 2014, the Company, Cooper Tire Investment Holding (Barbados) Ltd., a wholly owned subsidiary of the Company, Chengshan and Prairie Investment Limited ("Prairie"), a wholly owned subsidiary of Chengshan, entered into an option agreement (the "Option Agreement"). The Option Agreement further extended the Option Commencement Deadline until August 24, 2014. Furthermore, the Option Agreement, among other matters, set forth the details for exercising the options under the CCT Agreement and effecting the transactions pursuant thereto.

The CCT Agreement and the Option Agreement were separate and in addition to the purchase, sale, transfer, right of first refusal and other protective rights set forth in the then existing joint venture agreement between the Company and Chengshan with respect to CCT, which continued to be in effect and fully operational.

The Company determined the CCT Agreement constituted an accounting extinguishment and new issuance of the Chengshan Group's equity interest in CCT. In accordance with ASC 810, "Consolidation", changes in a parent's interest while the parent retains its controlling financial interest in its subsidiary shall be accounted for as equity transactions. Therefore, gains and losses were not recorded in the Consolidated Statement of Income as a result of the CCT Agreement. The Company was required to measure the noncontrolling shareholder interest at fair value as of January 29, 2014, the transaction date (the "Transaction Date Assessment").

The measurement of the noncontrolling shareholder interest as of the transaction date related to the CCT Agreement was determined by assessing CCT as an ongoing component of the Company's operations. The CCT Agreement Transaction Date Assessment was not meant to be representative of the fair market value of CCT as a stand-alone entity as defined by the CCT Agreement. Further, the Transaction Date Assessment also considered specific discounts attributable to a noncontrolling shareholder interest, including discounts for lack of control of the entity and lack of marketability. Any adjustment to the

noncontrolling shareholder interest as a result of the Transaction Date Assessment was to be offset by a reduction to Capital in excess of par value, to the extent available, with any remaining amount treated as a reduction in Retained earnings.

In addition, because the CCT Agreement provided put and call options to the noncontrolling shareholder interest owner, these options were measured at fair value (the "Options Assessment"). Adjustments to the carrying value of the noncontrolling shareholder interest as a result of the Options Assessment were to be treated like a dividend to the noncontrolling shareholder interest owner. Any adjustment to the noncontrolling shareholder interest as a result of the Options Assessment was to be offset by a reduction to Retained earnings and reflected in the computation of earnings per share available to the Company's common stockholders.

Further, as a result of the CCT Agreement, during the term of its put option rights, the noncontrolling shareholder interest in CCT had redemption features that were not within the control of the Company. Accordingly, the noncontrolling shareholder interest in CCT was recorded outside of total equity during the interim period between the CCT Agreement and eventual date of sale as described below. If the Transaction Date Assessment and Options Assessment resulted in a noncontrolling shareholder interest that was less than 35 percent of the minimum Option Price, ASC 480, "Distinguishing Liabilities from Equity", required that the noncontrolling shareholder interest be adjusted to 35 percent of the minimum Option Price.

The Company's CCT Agreement Transaction Date Assessment, in accordance with the appropriate accounting guidance, resulted in an adjustment to the redeemable noncontrolling shareholder interest of $28,285, increasing the total noncontrolling shareholder interest to $152,250. The Options Assessment did not result in any further adjustment to the redeemable noncontrolling shareholder interest. The redeemable noncontrolling shareholder interest was classified outside of permanent equity on the Company's Consolidated Balance Sheet, in accordance with the authoritative accounting guidance.

On August 24, 2014, the CCT valuation was completed by an internationally recognized valuation firm. The CCT valuation amount was approximately $437,700. As contemplated by the CCT Agreement, the CCT Valuation amount was to be used as the Option Price, as it was greater than $435,000. Subsequent to the Transaction Date Assessment, in accordance with ASC 480, the carrying value of the redeemable noncontrolling shareholder interest was evaluated to determine if the redemption value as of the reporting date exceeded the carrying value. At September 30, 2014, no adjustment to the redeemable noncontrolling shareholder interest was required as the carrying value of $168,435 was greater than the redemption value of $153,206, which was 35 percent of the CCT valuation amount of $437,700.

The Company determined that the recurring fair value measurements related to CCT relied primarily on Company-specific inputs and the Company's assumptions about the use of the assets and settlements of liabilities, as observable inputs were not available and, as such, resided within Level 3 of the fair value hierarchy as defined in Note 9 – Fair Value of Financial Instruments. The Company utilized third parties to assist in the determination of the fair value of CCT based upon internal and external inputs considering various relevant market transactions, discounted cash flow valuation methods and probability weighting, among other factors.

In October 2014, the Company received the required documentation from the noncontrolling shareholder interest owner indicating its intent to exercise its call option under the CCT Agreement. On November 26, 2014, the Chinese State Administration for Industry & Commerce issued a new business license for CCT and on November 30, 2014, the Company completed the sale of its 65 percent ownership interest in CCT to Prairie, all in accordance with the previously described Option Agreement between the Company and Chengshan, referred to as the "Sale." In connection with the Sale, the name of CCT was changed to Prinx Chengshan (Shandong) Tire Company Ltd. Under the terms of the CCT Agreement, the Company received approximately $262,000, in cash, net of taxes and including dividends. The sale of CCT resulted in a gain on sale, net of tax, of $55,704. Subsequent to the Sale, the Company continues to have off-take rights, with CCT agreeing to produce Cooper branded products until mid-2018.

The Company evaluated the Sale to determine if it met the discontinued operations criteria in accordance with ASC 205 "Presentation of Financial Statements". Based upon the Company's significant continuing involvement in the operations of CCT through the off-take agreements, the Sale was not deemed to meet the discontinued operations criteria. CCT was presented in the Consolidated Financial Statements of the Company through the Sale date.

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The following table reflects the results of CCT included in the Company's Consolidated Statements of Income for the year ended December 31:

| | 2014 |
|---|---|
| Net Sales | |
| External Customers | $545,850 |
| Intercompany | 121,142 |
| | $666,992 |
| Operating Profit | $77,529 |
| Net income attributable to Cooper Tire & Rubber Company | $38,037 |

Note 4 – Inventories

Inventory costs are determined using the LIFO method for substantially all U.S. inventories. The current cost of the U.S. inventories under the FIFO method was $409,034 and $361,779 at December 31, 2016 and 2015, respectively. These FIFO values have been reduced by approximately $85,113 and $73,123 at December 31, 2016 and 2015, respectively, to arrive at the LIFO value reported on the Consolidated Balance Sheets. The remaining inventories have been valued under the FIFO or average cost methods. All inventories are stated at the lower of cost or market.

Note 5 - Goodwill and Intangibles

Goodwill is recorded in the segment where it was generated by acquisitions. Goodwill in the amount of $33,861 and $18,851 was recorded in 2016 and 2011 respectively as a result of acquisitions. See Note 2 - GRT Acquisition for a discussion of the goodwill recorded during 2016. There have been no other changes to the value of goodwill since 2011. Goodwill prior to 2011 was zero. 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 2014, the Company wrote off the intangible assets of CCT in connection with the sale of its interest in the subsidiary. In 2014, the Company also wrote off approximately $13,636 of fully amortized intangible assets determined to no longer hold value. During the fourth quarter of 2016, the Company completed its annual goodwill and intangible asset impairment tests and no impairment was indicated.

The following table presents intangible assets and accumulated amortization balances as of December 31, 2015 and 2016:

| | December 31, 2016 | | | December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Definite-lived: | | | | | | |
| Capitalized software costs | 185,539 | (65,719) | 119,820 | 170,764 | (52,375) | 118,389 |
| Land use rights | 10,386 | (1,642) | 8,744 | 3,266 | (578) | 2,688 |
| Trademarks and tradenames | 8,800 | (7,094) | 1,706 | 8,800 | (6,641) | 2,159 |
| Other | 3,530 | (2,866) | 664 | 3,117 | (2,680) | 437 |
| | 208,255 | (77,321) | 130,934 | 185,947 | (62,274) | 123,673 |
| Indefinite-lived: | | | | | | |
| Trademarks | 9,817 | — | 9,817 | 9,817 | — | 9,817 |
| | $218,072 | $ (77,321) | $140,751 | $195,764 | $ (62,274) | $133,490 |

Estimated amortization expense over the next five years is as follows: 2017 - $15,137, 2018 - $14,792, 2019 - $14,386, 2020 - $14,287 and 2021 - $13,787.

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Note 6 - Accrued Liabilities

Accrued liabilities at December 31 were as follows:

| | 2016 | 2015 |
|---|---|---|
| Payroll and employee related | $74,920 | $80,633 |
| Product liability | 58,054 | 74,018 |
| Other postretirement benefits | 15,048 | 15,929 |
| Advertising | 14,281 | 12,351 |
| Warranty | 5,699 | 6,311 |
| Other | 15,802 | 10,126 |
| Accrued liabilities | $183,804 | $199,368 |

Note 7 - Income Taxes

Components of income from continuing operations before income taxes and noncontrolling shareholders' interests were as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| United States | $319,156 | $314,263 | $165,888 |
| Foreign | 47,937 | 19,765 | 182,631 |
| Total | $367,093 | $334,028 | $348,519 |

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Current: | | | |
| Federal | $100,714 | $67,405 | $46,270 |
| State and local | 12,445 | 12,837 | 8,678 |
| Foreign | 14,990 | 12,948 | 53,120 |
| | 128,149 | 93,190 | 108,068 |
| Deferred: | | | |
| Federal | (6,730) | 23,466 | 5,282 |
| State and local | (763) | 5,157 | 82 |
| Foreign | (4,857) | (3,589) | (1,735) |
| | (12,350) | 25,034 | 3,629 |
| | $115,799 | $118,224 | $111,697 |

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

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| Income tax provision at 35% | $128,483 | $116,910 | $121,982 |
| Expiration of capital loss carryforward | — | 18,376 | — |
| Valuation allowance | (2,441) | (18,200) | 1,382 |
| State and local income tax, net of federal income tax effect | 8,693 | 12,321 | 7,123 |
| Domestic manufacturing deduction | (9,870) | (6,580) | (3,745) |
| U.S. tax credits | (3,013) | (3,186) | (1,455) |
| Tax law or rate change | 794 | 2,383 | — |
| Difference in effective tax rates of international operations | (4,900) | (932) | (35,095) |
| Other - net | (1,947) | (2,868) | (262) |
| Tax on gain from sale of CCT | — | — | 21,767 |
| Provision for income taxes | $115,799 | $118,224 | $111,697 |

Payments for income taxes in 2016, 2015 and 2014, net of refunds, were $131,001, $76,206 and $63,390, 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:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets: | | |
| Postretirement and other employee benefits | $191,099 | $197,657 |
| Product liability | 67,528 | 61,456 |
| Net operating loss, capital loss, and tax credit carryforwards | 15,274 | 11,187 |
| All other items | 48,718 | 45,747 |
| Total deferred tax assets | 322,619 | 316,047 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | (160,075) | (156,520) |
| All other items | (9,685) | (10,399) |
| Total deferred tax liabilities | (169,760) | (166,919) |
| | 152,859 | 149,128 |
| Valuation allowances | (20,228) | (15,103) |
| Net deferred tax asset | $132,631 | $134,025 |

At December 31, 2016, the Company has foreign tax losses of $59,115 available for carryforward. The Company has $2,162 of U.S. federal tax credits and $254 of state tax credits available for carryforward. Valuation allowances have been provided for those items for which, based upon an assessment, it is more likely than not that some portion may not be realized. The U.S. federal and state tax attributes will expire from 2017 through 2027.

The Company applies the rules under ASC 740-10 in its Accounting for Uncertainty in Income Taxes for uncertain tax positions using a "more likely than not" recognition threshold. Pursuant to these rules, the Company will initially recognize the financial statement effects of a tax position when it is more likely than not, based on the technical merits of the tax position, that such a position will be sustained upon examination by the relevant tax authorities. If the tax benefit meets the "more likely than not" threshold, the measurement of the tax benefit will be based on the Company's estimate of the largest amount that meets the more likely than not recognition threshold. The Company's unrecognized tax benefits, exclusive of interest, totaled approximately $3,197 at December 31, 2016, as itemized in the tabular roll forward below. The unrecognized tax benefits at December 31, 2016 relate to uncertain tax positions in tax years 2012 through 2016. Based upon the outcome of tax examinations, judicial proceedings, or expiration of statutes of limitations, it is reasonably possible that the ultimate resolution of these unrecognized tax benefits may result in a

payment that is materially different from the current estimate of the tax liabilities.

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| | Unrecognized Tax Benefits |
|---|---|
| Balance at December 31, 2013 | $ 5,878 |
| Additions for tax positions of the current year | 230 |
| Additions for tax positions of prior years | 2,206 |
| Balance at December 31, 2014 | 8,314 |
| Settlements for tax positions of prior years | (367) |
| Additions for tax positions of prior years | 1,151 |
| Reductions for tax positions of prior years | (942) |
| Statute lapses | (2,313) |
| Balance at December 31, 2015 | 5,843 |
| Settlements for tax positions of prior years | (518) |
| Additions for tax positions of the current year | 714 |
| Additions for tax positions of prior years | 1,518 |
| Statute lapses | (4,360) |
| Balance at December 31, 2016 | $ 3,197 |

Of this amount, the effective rate would change upon the recognition of approximately $3,197 of these unrecognized tax benefits. The Company accrued, through the tax provision, approximately $(347) of benefit on interest reduction for 2016 and $63 and $261 of interest expense for 2015 and 2014, respectively. At December 31, 2016, the Company has $141 of interest accrued as an ASC 740-10 reserve.

The Company generally considers the earnings of certain non-U.S. subsidiaries to be indefinitely invested outside the United States. In the event that the Company plans to repatriate foreign earnings, the income tax provision would be adjusted in the period it is determined that the earnings will no longer be indefinitely invested outside the United States. The Company has not recorded a deferred tax liability related to the U.S. federal and state income taxes and foreign withholding taxes on approximately $596,216 of these undistributed earnings. 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, plus the uncertainty in estimating the impacts of future exchange rates.

The Company operates in multiple jurisdictions throughout the world. The Company has effectively settled U.S. federal tax examinations for years before 2013 and state and local examinations for years before 2012, with limited exceptions. Furthermore, the Company's non-U.S. subsidiaries are generally no longer subject to income tax examinations in major foreign taxing jurisdictions for years prior to 2008. The income tax returns of certain of our subsidiaries in various jurisdictions are currently under examination and it is possible that these examinations will conclude within the next twelve months. However, it is not possible to estimate net increases or decreases to the Company's unrecognized tax benefits during the next twelve months.

Note 8 – Debt

On May 27, 2015, the Company entered into a revolving credit facility with a consortium of banks that provides up to $400,000 based on available collateral, including a $110,000 letter of credit subfacility, and expires in May 2020. The Company may elect to increase the commitments under the revolving credit facility or incur one or more tranches of term loans in an aggregate amount of up to $100,000, subject to the satisfaction of certain conditions. The Company may elect to add certain foreign subsidiaries as additional borrowers under the Credit Agreement (the "Foreign Borrowers"), subject to the satisfaction of certain conditions.

All of the indebtedness of the Company and any Foreign Subsidiary Borrowers under the $400,000 revolving credit facility is guaranteed by certain of the Company's domestic subsidiaries and secured by substantially all of the assets of the Company and the domestic guarantors, subject to certain limitations. All of the indebtedness of any Foreign Subsidiary Borrower under the $400,000 revolving credit facility will be guaranteed by the Company and all wholly-owned foreign subsidiaries of the Foreign Subsidiary Borrower that reside in the same jurisdiction, subject to certain limitations, and secured by substantially all of the assets of the Company, the Foreign Borrowers and the guarantors.

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Borrowings under the revolving credit facility bear interest at a rate per annum equal to, at the Company's option, either (i) the base rate plus the applicable margin or (ii) the relevant adjusted LIBOR for an interest period of one, two, three or six months (as selected by the Company), or such other period of time approved by the lenders, plus the applicable margin.

The revolving credit facility contains certain customary non-financial covenants. In addition, the revolving credit facility contains financial covenants that require the Company to maintain a net leverage ratio and interest coverage ratio in accordance with the limits set forth therein.

On May 27, 2015, the Company amended its accounts receivable securitization facility, reducing the borrowing limit from $175,000 to $150,000 and extending the maturity until May 2018. Pursuant to the terms of the facility, the Company is permitted to sell 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 accounts receivable securitization facility has no significant financial covenants until available credit is less than specified amounts.

There were no borrowings under the revolving credit facility or the accounts receivable securitization facility at December 31, 2016 and 2015, respectively. Amounts used to secure letters of credit totaled $21,800 and $37,400 at December 31, 2016 and 2015, respectively. The Company's additional borrowing capacity, net of amounts used to back letters of credit and based on eligible collateral through use of its credit facility with its bank group and its accounts receivable securitization facility at December 31, 2016, was $519,000.

The Company's consolidated operations in Asia have renewable unsecured credit lines that provide up to $69,200 of borrowings and do not contain financial covenants. The additional borrowing capacity on the Asian credit lines, based on eligible collateral and the short-term notes payable, totaled $42,900 at December 31, 2016.

In 2010, Industrial Revenue Bonds (IRBs) were issued by the City of Texarkana to finance the design, equipping, construction and start-up of the expansion of the Texarkana manufacturing facility in return for real estate and equipment located at the Company's Texarkana tire manufacturing plant. Because the assets related to the expansion provide security for the bonds issued by the City of Texarkana, the City retains title to the assets which in turn provides a 100 percent property tax exemption to the Company. However, the Company has recorded the property in its Consolidated Balance Sheets, along with a capital lease obligation to repay the proceeds of the IRB because the arrangement is cancelable at any time at the Company's request. The Company has also purchased the IRBs and therefore is the bondholder as well as the borrower/lessee of the property purchased with the IRB proceeds. The capital lease obligation and IRB asset are recorded net in the Consolidated Balance Sheets. At December 31, 2015 and 2016, the assets and liabilities associated with these City of Texarkana IRBs were $20,000.

The following table summarizes the long-term debt of the Company at December 31, 2016 and 2015. There were no secured notes outstanding as of December 31, 2016. Except for the capitalized leases and other, the long-term debt is due in an aggregate principal payment on the due date:

| | 2016 | 2015 |
|---|---|---|
| Parent company | | |
| 8% unsecured notes due December 2019 | $173,578 | $173,578 |
| 7.625% unsecured notes due March 2027 | 116,880 | 116,880 |
| Capitalized leases and other | 9,883 | 7,463 |
| | 300,341 | 297,921 |
| Less: unamortized debt issuance costs | 826 | 909 |
| | 299,515 | 297,012 |
| Less: current maturities | 2,421 | 600 |
| | $297,094 | $296,412 |

Over the next five years, the Company has payments related to the above debt of: 2017 - $2,421, 2018 - $1,489, 2019 - $174,488, 2020 - $0 and 2021 - $0. In addition, at December 31, 2016, the Company had short-term notes payable of $26,286 due in 2017 consisting of funds borrowed by the Company’s operations in the PRC. At December 31, 2015, the Company had short-term notes payable of $12,437 due in 2016 consisting of funds borrowed by the Company's operations in the PRC. The

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weighted average interest rate of the short-term notes payable at December 31, 2016 and 2015 was 4.26 percent and 2.18 percent, respectively.

Interest paid on debt during 2016, 2015 and 2014 was $28,842, $27,560 and $30,346, respectively. The amount of interest capitalized was $3,016, $4,473 and $1,878 during 2016, 2015 and 2014, respectively.

Note 9 - Fair Value Measurements

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 derivative financial instruments include fair value and cash flow hedges of foreign currency exposures. The change in values of the fair value foreign currency hedges offsets exchange rate fluctuations on the foreign currency-denominated intercompany loans and obligations. The Company presently hedges exposures in the Euro, Canadian dollar, British pound sterling, Swiss franc, Swedish krona, Norwegian krone, Mexican peso and Chinese yuan generally for transactions expected to occur within the next 12 months. The notional amount of these foreign currency derivative instruments at December 31, 2016 and 2015 was $89,414 and $68,732, respectively. The counterparties to each of these agreements are major commercial banks.

The Company uses non-designated foreign currency forward contracts to hedge its net foreign currency monetary assets and liabilities primarily resulting from non-functional currency denominated receivables and payables of certain U.S. and foreign entities.

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, the effective portion of the change in fair value of such forward contracts (approximately $1,029 and $3,400 as of December 31, 2016 and 2015, respectively) are recorded as a separate component of stockholders' equity in the accompanying consolidated balance sheets and reclassified into earnings as the hedged transactions occur.

The Company assesses hedge effectiveness, prospectively and retrospectively, based on regression of the change in foreign currency exchange rates. Time value of money is included in effectiveness testing. The Company measures ineffectiveness on a trade by trade basis, using the hypothetical derivative method. Any hedge ineffectiveness is recorded in the Consolidated Statements of Income in the period in which the ineffectiveness occurs.

The derivative instruments are subject to master netting arrangements with the counterparties to the contracts. The following table presents the location and amounts of derivative instrument fair values in the Consolidated Balance Sheets:

| | Year Ended December 31, | |
|---|---|---|
| Assets/(Liabilities) | 2016 | 2015 |
| Designated as hedging instruments: | | |
| Gross amounts recognized | $ — | $ 3,559 |
| Gross amounts offset | 1,029 | (35) |
| Net amounts | 1,029 | 3,524 |
| Not designated as hedging instruments: | | |
| Gross amounts recognized | 109 | 174 |
| Gross amounts offset | (76) | — |
| Net amounts | 33 | 174 |
| Other current assets | $ 1,062 | $ 3,698 |

The following table presents the location and amount of gains and losses on derivative instruments in the Consolidated Statements of Income:

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| Derivatives Designated as Cash Flow Hedges | Year Ended December 31, 2016 | 2015 | 2014 |
|---|---|---|---|
| Amount of (loss) gain recognized in Other comprehensive income on derivatives (Effective Portion) | $(2,471) | $11,127 | $9,020 |
| Amount of gain reclassified from Accumulated other comprehensive loss into Income (Effective Portion) | 100 | (13,446) | 3,699 |
| Amount of Gain (Loss) Recognized in Income on Derivatives (Ineffective Portion) | — | (136) | (188) |

| Derivatives not Designated as Hedging Instruments | Location of Gain (Loss) Recognized in Income on Derivatives | Amount of Gain (Loss) Recognized in Income on Derivatives Year Ended December 31, 2016 | 2015 | 2014 |
|---|---|---|---|---|
| Foreign exchange contracts | Other non-operating income (expense) | $ (156) | $ 174 | $ 121 |

For effective designated foreign exchange hedges of forecasted sales and purchases, the Company reclassifies the gain (loss) from Other Comprehensive Income into Net Sales and the ineffective portion is recorded directly into Other non-operating income (expense).

The Company has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into the three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within the different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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

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

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

a. Quoted prices for similar assets or liabilities in active markets;
b. Quoted prices for identical or similar assets or liabilities in non-active markets;
c. Pricing models whose inputs are observable for substantially the full term of the asset or liability; and
d. Pricing models whose inputs are derived principally from or corroborated by observable market data through correlation or other means for substantially the full term of the asset or liability.

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

The valuation of foreign exchange forward contracts was determined using widely accepted valuation techniques. This analysis reflected the contractual terms of the derivatives, including the period to maturity, and used observable market-based inputs, including forward points. The Company incorporated credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives utilize Level 3 inputs, such as current credit ratings, to evaluate the likelihood of default by itself and its counterparties. However, as of December 31, 2016 and December 31, 2015, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative

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positions and determined that the credit valuation adjustments were not significant to the overall valuation of its derivatives. As a result, the Company determined that its derivative valuations in their entirety were to be classified in Level 2 of the fair value hierarchy.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015:

| | December 31, 2016 | | | |
|---|---|---|---|---|
| | Total Assets (Liabilities) | Quoted Prices in Active Markets for Identical Assets Level (1) | Significant Other Observable Inputs Level (2) | Significant Unobservable Inputs Level (3) |
| Foreign Exchange Contracts | $1,062 | $ — | $ 1,062 | $ — |
| Stock-based Liabilities | $(20,336) | $ (20,336) | $ — | $ — |

| | December 31, 2015 | | | |
|---|---|---|---|---|
| | Total Assets (Liabilities) | Quoted Prices in Active Markets for Identical Assets Level (1) | Significant Other Observable Inputs Level (2) | Significant Unobservable Inputs Level (3) |
| Foreign Exchange Contracts | $3,698 | $ — | $ 3,698 | $ — |
| Stock-based Liabilities | $(18,057) | $ (18,057) | $ — | $ — |

There were no assets or liabilities classified as Level 3 in 2016 or 2015.

The fair market value of Cash and cash equivalents, Notes receivable, Restricted cash, Notes payable and Current portion of long-term debt at December 31, 2016 and December 31, 2015 are equal to their corresponding carrying values as reported on the Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015, respectively. Each of these classes of assets and liabilities is classified as Level 1 within the fair value hierarchy.

The fair market value of Long-term debt is $331,941 and $323,522 at December 31, 2016 and December 31, 2015, respectively, and is classified within Level 1 of the fair value hierarchy. The carrying value of Long-term debt is $297,094 and $296,412 as reported on the Consolidated Balance Sheets as of December 31, 2016 and December 31, 2015, respectively.

Note 10 - Pensions and Postretirement Benefits Other than Pensions

The Company has a number of plans providing pension, retirement or profit-sharing benefits. These plans include defined benefit and defined contribution plans. The plans cover substantially all U.S. domestic employees. There are also plans that cover a significant number of employees in the U.K. and Germany. The Company has an unfunded, nonqualified supplemental retirement benefit plan in the U.S. 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 the U.S., the Company froze the pension benefits in its Spectrum (salaried employees) Plan in 2009. In 2012, the Company closed the U.S. pension plans for the bargaining units to new participants. Certain grandfathered participants in the bargaining unit plans continue to accrue pension benefits. Employees of certain of the Company's foreign operations in the U.K. and Germany are covered by either contributory or non-contributory trusteed pension plans. In 2012, the Company froze the benefits in the U.K. pension plan.

Participation in the Company's defined contribution plans is voluntary. The Company matches 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. Expense for those plans was $13,260, $14,236 and $12,510 for 2016, 2015 and 2014, respectively.

The Company currently provides retiree health care and life insurance benefits to a portion 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

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health care or life insurance coverage. The Company has reserved the right to modify or terminate certain of these salaried benefits at any time.

The Company has implemented household caps on the amounts of retiree medical benefits it will provide to certain 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.

In accordance with U.S. GAAP, the Company recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligation) of its pension and OPEB plans and the net unrecognized actuarial losses and unrecognized prior service costs in the Consolidated Balance Sheets. The unrecognized actuarial losses and unrecognized prior service costs (components of cumulative other comprehensive loss in the stockholders' equity section of the balance sheet) 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.

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The following table 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:

| | 2016 Pension Benefits | | | 2015 Pension Benefits | | | Other Postretirement Benefits | |
|---|---|---|---|---|---|---|---|---|
| | Domestic | International | Total | Domestic | International | Total | 2016 | 2015 |
| Change in benefit obligation: | | | | | | | | |
| Projected Benefit Obligation at beginning of year | $1,045,467 | $405,884 | $1,451,351 | $1,105,100 | $457,233 | $1,562,333 | $265,579 | $278,867 |
| Service cost - employer | 9,613 | 9 | 9,622 | 11,037 | 9 | 11,046 | 2,149 | 2,513 |
| Interest cost | 41,595 | 14,097 | 55,692 | 40,202 | 15,853 | 56,055 | 10,819 | 10,320 |
| Actuarial (gain)/loss | 26,618 | 81,180 | 107,798 | (52,663) | (27,763) | (80,426) | (5,760) | (13,726) |
| Benefits paid | (53,405) | (12,846) | (66,251) | (58,209) | (14,321) | (72,530) | (10,512) | (12,395) |
| Settlements | (29,390) | — | (29,390) | — | — | — | — | — |
| Foreign currency translation effect | — | (65,796) | (65,796) | — | (25,127) | (25,127) | — | — |
| Projected Benefit Obligation at December 31 | $1,040,498 | $422,528 | $1,463,026 | $1,045,467 | $405,884 | $1,451,351 | $262,275 | $265,579 |
| Change in plans' assets: | | | | | | | | |
| Fair value of plans' assets at beginning of year | $836,514 | $309,916 | $1,146,430 | $857,825 | $330,848 | $1,188,673 | $— | $— |
| Actual return on plans' assets | 59,310 | 77,711 | 137,021 | 1,095 | (746) | 349 | — | — |
| Employer contribution | 35,312 | 10,763 | 46,075 | 35,803 | 12,027 | 47,830 | — | — |
| Benefits paid | (53,405) | (12,846) | (66,251) | (58,209) | (14,321) | (72,530) | — | — |
| Settlements | (29,390) | — | (29,390) | — | — | — | — | — |
| Foreign currency translation effect | — | (57,011) | (57,011) | — | (17,892) | (17,892) | — | — |
| Fair value of plans' assets at December 31 | $848,341 | $328,533 | $1,176,874 | $836,514 | $309,916 | $1,146,430 | $— | $— |
| Funded status | $(192,157) | $(93,995) | $(286,152) | $(208,953) | $(95,968) | $(304,921) | $(262,275) | $(265,579) |

| Amounts recognized in the balance sheets: | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Accrued liabilities | $(300 ) | $— | $(300 ) | $(300 ) | $— | $(300 ) | $(15,048 ) | $(15,929 ) |
| Postretirement benefits other than pensions | — | — | — | — | — | — | $(247,227 ) | $(249,650 ) |
| Pension benefits | $(191,857 ) | $(93,995 ) | $(285,852 ) | $(208,653 ) | $(95,968 ) | $(304,621 ) | — | — |

Included in accumulated other comprehensive loss at December 31, 2016 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service credits of ($1,604) (($990) net of tax) and unrecognized actuarial losses of $534,060 ($472,693 net of tax).

Included in accumulated other comprehensive loss at December 31, 2015 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service credits of ($1,905) (($1,565) net of tax) and unrecognized actuarial losses of $569,639 ($492,752 net of tax).

The prior service credit and actuarial loss included in accumulated other comprehensive loss that are expected to be recognized in net periodic benefit cost during the fiscal year-ended December 31, 2017 are ($566) and $42,337, respectively.

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The accumulated benefit obligation for all defined benefit pension plans was $1,459,809 and $1,448,277 at December 31, 2016 and 2015, respectively.

In order to reduce the size and potential future volatility of the Company's domestic defined benefit pension plan obligations, the Company commenced an offer to approximately 1,200 former employees with deferred vested pension plan benefits. These former employees had the opportunity to make a one-time election to receive a lump-sum distribution of their benefits by the end of the third quarter of 2016. The vested benefit obligation associated with these former employees was approximately $42,000, equivalent to about 4 percent of the Company's benefit obligation for the domestic plans. Cash payments of $22,701 were made from plan assets in September 2016 to the former employees electing the lump-sum distribution. These payments represented a reduction of approximately 2 percent of the Company's benefit obligation for the domestic plans.

Due to the size of the lump-sum distribution, in accordance with U.S. GAAP, the Company was required to recognize non-cash settlement charges for all 2016 settlements. Based on the lump-sum distributions that were paid through the third quarter, the Company incurred a non-cash settlement charge of $11,462 in the third quarter of 2016. Additionally, based on the lump-sum distributions that were paid in the fourth quarter, the Company incurred a non-cash settlement charge of $800 in the fourth quarter. In total, cash payments of $29,390 were made from plan assets as part of settlement activity in 2016.

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

| | Pension Benefits | | Other Postretirement Benefits | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| All plans | | | | |
| Discount rate | 3.54% | 4.10% | 3.95% | 4.20% |
| Domestic plans | | | | |
| Discount rate | 3.90% | 4.20% | 3.95% | 4.20% |
| Foreign plans | | | | |
| Discount rate | 2.65% | 3.84% | — | — |

At December 31, 2016, the weighted average assumed annual rate of increase in the cost of medical benefits was 7.00 percent for 2017 trending linearly to 4.50 percent per annum in 2024.

| | Pension Benefits - Domestic | | | Pension Benefits - International | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Components of net periodic benefit cost: | | | | | | |
| Service cost | $9,613 | $11,037 | $9,760 | $9 | $9 | $8 |
| Interest cost | 41,595 | 40,202 | 42,842 | 14,097 | 15,853 | 19,620 |
| Expected return on plan assets | (57,438) | (55,299) | (52,543) | (11,322) | (12,421) | (19,977) |
| Amortization of actuarial loss | 38,490 | 39,514 | 28,021 | 5,134 | 7,222 | 8,452 |
| Effect of settlements | 12,262 | — | — | — | — | — |
| Net periodic benefit cost | $44,522 | $35,454 | $28,080 | $7,918 | $10,663 | $8,103 |

| | Other Post Retirement Benefits | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Components of net periodic benefit cost: | | | |
| Service cost | $2,149 | $2,513 | $2,404 |
| Interest cost | 10,819 | 10,320 | 11,305 |
| Amortization of prior service cost | (566) | (566) | (566) |
| Amortization of actuarial loss | — | — | — |
| Net periodic benefit cost | $12,402 | $12,267 | $13,143 |

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

| | Pension Benefits | | | Other Postretirement Benefits | | |
|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| All plans | | | | | | |
| Discount rate | 4.10% | 3.70% | 4.53% | 4.20 % | 3.80 % | 4.60 % |
| Expected return on plan assets | 6.16% | 6.12% | 6.91% | — % | — % | — % |
| Rate of compensation increase | — % | — % | — % | — % | — % | — % |
| Domestic plans | | | | | | |
| Discount rate | 4.20% | 3.75% | 4.55% | 4.20 % | 3.80 % | 4.60 % |
| Expected return on plan assets | 7.00% | 7.00% | 7.00% | — % | — % | — % |
| Foreign plans | | | | | | |
| Discount rate | 3.84% | 3.59% | 4.49% | — % | — % | — % |
| Expected return on plan assets | 3.99% | 3.84% | 6.66% | — % | — % | — % |
| Rate of compensation increase | — % | — % | — % | — % | — % | — % |

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, 2016 and 2015:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | 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 | $1,463,026 | $ 1,463,026 | $1,451,351 | $ 1,451,351 |
| Accumulated benefit obligation | 1,459,809 | 1,459,809 | 1,448,277 | 1,448,277 |
| Fair value of plan assets | 1,176,874 | 1,176,874 | 1,146,430 | 1,146,430 |

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 | $47 | $ (43 ) |
| Increase (decrease) in the postretirement benefit obligation | 1,201 | (1,087 ) |

The table below presents the Company's weighted average asset allocations for its domestic and U.K. pension plans' assets at December 31, 2016 and December 31, 2015 by asset category.

| | U.S. Plans | | U.K. Plan | |
|---|---|---|---|---|
| Asset Category | 2016 | 2015 | 2016 | 2015 |
| Equity securities | 63 % | 62 % | 18 % | 21 % |
| Debt securities | 36 | 38 | 68 | 70 |
| Other investments | 0 | 0 | 14 | 9 |
| Cash | 1 | 0 | 0 | 0 |
| Total | 100% | 100% | 100% | 100% |

The Company's asset allocation strategy is based on a combination of factors, including the profile of the pension liability, the timing of future cash requirements, and the level of invested assets available to meet plan obligations. The goal is to manage the assets in such a way that the cost and risk are managed through portfolio diversification which is designed to maximize returns consistent with levels of liquidity and investment risk that are prudent and reasonable. Rebalancing of asset portfolios

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occurs periodically if the mix differs from the target allocation. Equity security investments are structured to achieve a balance between growth and value stocks. The assets of the Company's pension plan in Germany consist of investments in German insurance contracts.

The fair market value of U.S. plan assets was $848,341 and $836,514 at December 31, 2016 and 2015, respectively. The fair market value of the U.K. plan assets was $326,833 and $308,132 at December 31, 2016 and 2015, respectively. The fair market value of the German pension plan assets was $1,700 and $1,784 at December 31, 2016 and 2015, respectively.

The table below classifies the assets of the U.S. and U.K. plans using the Fair Value Hierarchy described in Note 9 – Fair Value of Financial Instruments. Certain amounts for 2015 have been reclassified to conform to the current year presentation, including reclassifying $24,269 from Level 2 Fixed income securities to Level 1 Equity securities in the United States plans.

| | | Fair Value Hierarchy | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| December 31, 2016 | | | | |
| United States plans | | | | |
| Cash and cash equivalents | $8,491 | $8,491 | $— | $— |
| Equity securities | 531,939 | 184,690 | 347,249 | — |
| Fixed income securities | 307,911 | 138,988 | 168,923 | — |
| | $848,341 | $332,169 | $516,172 | $— |
| United Kingdom plan | | | | |
| Cash and cash equivalents | $1,078 | $1,078 | $— | $— |
| Equity securities | 60,185 | 60,185 | — | — |
| Fixed income securities | 220,974 | 220,974 | — | — |
| Other investments | 44,596 | — | 10,800 | 33,796 |
| | $326,833 | $282,237 | $10,800 | $33,796 |
| December 31, 2015 | | | | |
| United States plans | | | | |
| Cash and cash equivalents | $724 | $724 | $— | $— |
| Equity securities | 520,202 | 174,163 | 346,039 | — |
| Fixed income securities | 315,588 | 133,420 | 182,168 | — |
| | $836,514 | $308,307 | $528,207 | $— |
| United Kingdom plan | | | | |
| Cash and cash equivalents | $917 | $917 | $— | $— |
| Equity securities | 65,391 | 65,391 | — | — |
| Fixed income securities | 214,762 | 214,762 | — | — |
| Other investments | 27,062 | — | — | 27,062 |
| | $308,132 | $281,070 | $— | $27,062 |

Plan assets are measured at fair value. While the Company believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date. The Company's valuation methodologies used for the plan assets measured at fair value are as follows:

Cash and cash equivalents – Cash and cash equivalents include cash on deposit and investments in money market mutual funds that invest mainly in short-term instruments and cash, both of which are valued using a market approach.

Equity securities – Common, preferred, and foreign stocks are valued using a market approach at the closing price on their principal exchange and are included in Level 1 of the fair value hierarchy.

Fixed income securities – Corporate and foreign bonds are valued using a market approach at the closing price reported on the active market on which the individual securities are traded and are included in Level 1 of the fair value hierarchy.

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Collective trust funds – Collective trust funds are valued at the net asset value of units held at year end and are included in Level 2 of the fair value hierarchy. The various funds consist of either equity or fixed income investment portfolios with underlying investments held in U.S. and non-U.S. securities.

The fair market values of the Level 3 assets in the U.K. plan are determined by the fund manager using a discounted cash flow methodology. The future cash flows expected to be generated by the assets of the funds and made available to investors are estimated and then discounted back to the valuation date. The discount rate is derived by adding a risk premium to the risk-free interest rate applicable to the country in which the assets are located.

The following table details the activity in these investments for the years ended December 31, 2015