

GOODYEAR TIRE & RUBBER CO /OH/
Form 10-Q
October 29, 2014

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

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended September 30, 2014
Commission File Number: 1-1927

THE GOODYEAR TIRE & RUBBER COMPANY
(Exact Name of Registrant as Specified in Its Charter)
Ohio
(State or Other Jurisdiction of
Incorporation or Organization)

34-0253240
(I.R.S. Employer
Identification No.)

200 Innovation Way, Akron, Ohio
(Address of Principal Executive Offices)
(330) 796-2121
(Registrant's Telephone Number, Including Area Code)

44316-0001
(Zip Code)

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

Yes No

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

Yes No

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

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

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

Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Number of Shares of Common Stock,
Without Par Value, Outstanding at September 30,
2014: 274,562,504

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

(In millions, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net Sales	\$4,657	\$5,002	\$13,782	\$14,749
Cost of Goods Sold	3,516	3,946	10,566	11,732
Selling, Administrative and General Expense	653	686	2,018	2,022
Rationalizations (Note 2)	15	21	80	41
Interest Expense	108	100	315	287
Other Expense (Note 3)	66	—	242	112
Income before Income Taxes	299	249	561	555
United States and Foreign Taxes (Note 4)	100	54	168	136
Net Income	199	195	393	419
Less: Minority Shareholders' Net Income	38	22	70	25
Goodyear Net Income	161	173	323	394
Less: Preferred Stock Dividends	—	7	7	22
Goodyear Net Income available to Common Shareholders	\$161	\$166	\$316	\$372
Goodyear Net Income available to Common Shareholders — Per Share of Common Stock				
Basic	\$0.58	\$0.67	\$1.18	\$1.51
Weighted Average Shares Outstanding (Note 5)	275	246	266	246
Diluted	\$0.58	\$0.62	\$1.15	\$1.43
Weighted Average Shares Outstanding (Note 5)	279	278	280	276
Cash Dividends Declared Per Common Share	\$0.06	0.05	\$0.16	\$0.05

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

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

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net Income	\$ 199	\$ 195	\$ 393	\$ 419
Other Comprehensive Income:				
Foreign currency translation, net of tax of \$0 and \$0 in 2014 (\$0 and \$0 in 2013)	(185)	39	(170)	(116)
Reclassification adjustment for amounts recognized in income, net of tax of \$0 and \$0 in 2014 (\$0 and \$0 in 2013)	4	—	2	1
Defined benefit plans:				
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost, net of tax of \$2 and \$5 in 2014 (\$1 and \$8 in 2013)	25	54	82	174
Decrease in net actuarial losses, net of tax of \$0 and \$3 in 2014 (\$0 and \$2 in 2013)	6	—	30	124
Immediate recognition of prior service cost and unrecognized gains and losses due to curtailments, settlements, and divestitures, net of tax of \$0 and \$0 in 2014 (\$0 and \$0 in 2013)	1	1	43	2
Prior service credit (cost) from plan amendments, net of tax of \$0 and \$0 in 2014 (\$0 and \$0 in 2013)	(1)	—	(1)	—
Deferred derivative gains (losses), net of tax of \$1 and \$0 in 2014 (\$0 and \$1 in 2013)	11	(5)	10	1
Reclassification adjustment for amounts recognized in income, net of tax of \$0 and \$0 in 2014 (\$0 and \$1 in 2013)	—	1	1	2
Unrealized investment gains (losses), net of tax of \$0 and \$0 in 2014 (\$0 and \$0 in 2013)	(1)	(3)	—	12
Other Comprehensive Income (Loss)	(140)	87	(3)	200
Comprehensive Income	59	282	390	619
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	(13)	41	38	28
Goodyear Comprehensive Income	\$ 72	\$ 241	\$ 352	\$ 591

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

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions)

	September 30, 2014	December 31, 2013
Assets:		
Current Assets:		
Cash and Cash Equivalents	\$ 1,744	\$ 2,996
Accounts Receivable, less Allowance — \$96 (\$99 in 2013)	3,021	2,435
Inventories:		
Raw Materials	584	592
Work in Process	161	164
Finished Products	2,179	2,060
	2,924	2,816
Prepaid Expenses and Other Current Assets	358	397
Total Current Assets	8,047	8,644
Goodwill	623	668
Intangible Assets	135	138
Deferred Income Taxes	105	157
Other Assets	654	600
Property, Plant and Equipment, less Accumulated Depreciation — \$9,189 (\$9,158 in 2013)	7,092	7,320
Total Assets	\$ 16,656	\$ 17,527
Liabilities:		
Current Liabilities:		
Accounts Payable-Trade	\$ 2,827	\$ 3,097
Compensation and Benefits (Notes 9 and 10)	774	758
Other Current Liabilities	1,036	1,083
Notes Payable and Overdrafts (Note 7)	38	14
Long Term Debt and Capital Leases due Within One Year (Note 7)	98	73
Total Current Liabilities	4,773	5,025
Long Term Debt and Capital Leases (Note 7)	6,719	6,162
Compensation and Benefits (Notes 9 and 10)	1,307	2,673
Deferred and Other Noncurrent Income Taxes	243	256
Other Long Term Liabilities	916	966
Total Liabilities	13,958	15,082
Commitments and Contingent Liabilities (Note 11)		
Minority Shareholders' Equity (Note 1)	595	577
Shareholders' Equity:		
Goodyear Shareholders' Equity:		
Preferred Stock, no par value: (Note 12)		
Authorized, 50 million shares, Outstanding shares — none in 2014 (10 million in 2013), liquidation preference \$50 per share	—	500
Common Stock, no par value:		
Authorized, 450 million shares, Outstanding shares — 275 million (248 million in 2013), after deducting 3 million treasury shares (3 million in 2013)	275	248
Capital Surplus	3,275	2,847

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Retained Earnings	2,231	1,958
Accumulated Other Comprehensive Loss	(3,919) (3,947
Goodyear Shareholders' Equity	1,862	1,606
Minority Shareholders' Equity — Nonredeemable	241	262
Total Shareholders' Equity	2,103	1,868
Total Liabilities and Shareholders' Equity	\$16,656	\$17,527

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

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

(Unaudited)

(In millions)

	Nine Months Ended September 30,	
	2014	2013
Cash Flows from Operating Activities:		
Net Income	\$393	\$419
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and Amortization	553	539
Amortization and Write-Off of Debt Issuance Costs	12	13
Deferred Income Taxes	61	3
Net Pension Curtailments and Settlements	39	—
Net Rationalization Charges (Note 2)	80	41
Rationalization Payments	(169)	(60)
Net (Gains) Losses on Asset Sales (Note 3)	4	(6)
Pension Contributions and Direct Payments	(1,292)	(1,072)
Net Venezuela Currency Remeasurement Loss (Note 3)	155	115
Customer Prepayments and Government Grants	5	32
Insurance Proceeds	4	17
Changes in Operating Assets and Liabilities, Net of Asset Acquisitions and Dispositions:		
Accounts Receivable	(675)	(728)
Inventories	(226)	249
Accounts Payable — Trade	(69)	(26)
Compensation and Benefits	103	215
Other Current Liabilities	(5)	(12)
Other Assets and Liabilities	88	(37)
Total Cash Flows from Operating Activities	(939)	(298)
Cash Flows from Investing Activities:		
Capital Expenditures	(634)	(734)
Asset Dispositions (Note 3)	6	8
Decrease in Restricted Cash	6	3
Short Term Securities Acquired	(72)	(89)
Short Term Securities Redeemed	82	81
Other Transactions	7	6
Total Cash Flows from Investing Activities	(605)	(725)
Cash Flows from Financing Activities:		
Short Term Debt and Overdrafts Incurred	52	30
Short Term Debt and Overdrafts Paid	(24)	(89)
Long Term Debt Incurred	1,739	2,152
Long Term Debt Paid	(1,054)	(660)
Common Stock Issued	41	16
Common Stock Repurchased (Note 12)	(97)	(1)
Common Stock Dividends Paid (Note 12)	(43)	—
Preferred Stock Dividends Paid (Note 12)	(15)	(22)
Transactions with Minority Interests in Subsidiaries	(36)	(10)
Debt Related Costs and Other Transactions	—	(16)
Total Cash Flows from Financing Activities	563	1,400

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Effect of Exchange Rate Changes on Cash and Cash Equivalents	(271) (158)
Net Change in Cash and Cash Equivalents	(1,252) 219	
Cash and Cash Equivalents at Beginning of the Period	2,996	2,281	
Cash and Cash Equivalents at End of the Period	\$1,744	\$2,500	

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

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

NOTE 1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by The Goodyear Tire & Rubber Company (the "Company," "Goodyear," "we," "us" or "our") in accordance with Securities and Exchange Commission rules and regulations and generally accepted accounting principles in the United States of America ("US GAAP") and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to present fairly the financial position, results of operations and cash flows for the periods presented. The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Form 10-K").

We are a party to shareholder agreements concerning certain of our less-than-wholly-owned consolidated subsidiaries. Under the terms of certain of these agreements, the minority shareholders have the right to require us to purchase their ownership interests in the respective subsidiaries if there is a change in control of Goodyear, a bankruptcy of Goodyear, or other circumstances. Accordingly, we have reported the minority equity in those subsidiaries outside of shareholders' equity.

Operating results for the three and nine months ended September 30, 2014 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2014.

Recently Issued Accounting Standards

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

In May 2014, the FASB issued an accounting standards update with new guidance on recognizing revenue from contracts with customers. The standards update outlines a single comprehensive model for entities to utilize to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that will be received in exchange for the goods and services. Additional disclosures will also be required to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The standards update is effective for fiscal years beginning after December 15, 2016, and early adoption is not permitted. We are currently evaluating the impact of adopting this standards update on our consolidated financial statements.

In April 2014, the FASB issued an accounting standards update providing new guidance on the requirements for reporting a discontinued operation. The standards update allows only those disposals representing a strategic shift in operations with a major effect on the entity's operations and financial results to be reported as a discontinued operation. It also allows companies to have significant continuing involvement and continuing cash flows with the discontinued operations. Additional disclosures are also required for discontinued operations and individually material disposal transactions that do not meet the definition of a discontinued operation. The standards update is effective for fiscal years beginning after December 15, 2014. We will adopt this standards update, as required, beginning with the first quarter of 2015. The adoption of this standards update affects presentation only and, as such, is not expected to

have a material impact on our consolidated financial statements.

Recently Adopted Accounting Standards

Effective January 1, 2014, we adopted an accounting standards update requiring the presentation of an unrecognized tax benefit in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. This net presentation is required unless a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date or the tax law of the jurisdiction does not require, and the entity does not intend to use, the deferred tax asset to settle any additional income tax that would result from the disallowance of the unrecognized tax benefit. The adoption of this standards update did not have a material impact on our consolidated financial statements.

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

Effective January 1, 2014, we adopted an accounting standards update providing guidance with respect to the release of cumulative translation adjustments into net income when a parent sells either a part or all of its investment in a foreign entity. The standards update also requires the release of cumulative translation adjustments when a company no longer holds a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity, and provides guidance for the acquisition in stages of a controlling interest in a foreign entity. The adoption of this standards update did not impact our consolidated financial statements.

Effective January 1, 2014, we adopted an accounting standards update requiring an entity to record obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The adoption of this standards update did not impact our consolidated financial statements.

Reclassifications and Adjustments

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current presentation.

NOTE 2. COSTS ASSOCIATED WITH RATIONALIZATION PROGRAMS

In order to maintain our global competitiveness, we have implemented rationalization actions over the past several years to reduce high-cost manufacturing capacity and associate headcount. The following table shows the roll-forward of our liability between periods:

(In millions)	Associate- Related Costs	Other Exit and Non-cancelable Lease Costs	Total
Balance at December 31, 2013	\$232	\$5	\$237
2014 Charges (1)	65	42	107
Reversed to the Statements of Operations	(5	) —	(5)
Incurred, Net of Foreign Currency Translation of \$(14) million and \$0 million, respectively	(152	) (38)	(190)
Balance at September 30, 2014	\$140	\$9	\$149

(1) Charges in the first nine months of 2014 of \$107 million exclude \$22 million of pension curtailment gains recorded in Rationalizations in the Statement of Operations.

Significant rationalization actions initiated in 2014 consisted primarily of manufacturing headcount reductions related to Europe, Middle East and Africa's ("EMEA") plans to improve operating efficiency. In addition, EMEA, Latin America and Asia Pacific also initiated plans to reduce selling, administrative and general ("SAG") headcount. The accrual balance of \$149 million at September 30, 2014 is expected to be substantially utilized within the next 12 months and includes \$103 million related to the plan to exit the farm tire business in EMEA and the closure of one of our manufacturing facilities in Amiens, France.

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

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

(In millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Current Year Plans				
Associate Severance and Other Related Costs	\$8	\$11	\$17	\$16
Other Exit and Non-Cancelable Lease Costs	—	2	1	2
Current Year Plans - Net Charges	\$8	\$13	\$18	\$18
Prior Year Plans				
Associate Severance and Other Related Costs	\$(2)	\$3	\$43	\$9
Pension Curtailment Gain	—	—	(22)	—
Other Exit and Non-Cancelable Lease Costs	9	5	41	14
Prior Year Plans - Net Charges	7	8	62	23
Total Net Charges	\$15	\$21	\$80	\$41
Asset Write-off and Accelerated Depreciation Charges	\$—	\$5	\$3	\$15

Substantially all of the new charges for the three and nine months ended September 30, 2014 and 2013 related to future cash outflows. Net prior year plan charges for the three months ended September 30, 2014 of \$7 million include a net credit of \$(2) million primarily related to associate severance and idle plant costs related to the closure of one of our manufacturing facilities in Amiens, France, resulting from the impact of changes in tax laws and revised estimates. Net prior year plan charges for the nine months ended September 30, 2014 of \$62 million include charges of \$63 million for associate severance and idle plant costs, partially offset by a pension curtailment gain of \$22 million, related to the closure of one of our manufacturing facilities in Amiens, France. Net charges for the nine months ended September 30, 2014 included reversals of \$5 million, and net charges for the three and nine months ended September 30, 2013 included reversals of \$4 million and \$11 million, respectively, for actions no longer needed for their originally intended purposes.

Approximately 200 associates will be released under plans initiated in 2014, of which approximately 100 associates have been released as of September 30, 2014. In the first nine months of 2014, approximately 1,400 associates were released under plans initiated in prior years, primarily related to the plan to exit the farm tire business in EMEA and the closure of one of our manufacturing facilities in Amiens, France. In total, approximately 400 associates remain to be released under rationalization plans. At September 30, 2014, approximately 600 former associates of the closed Amiens, France manufacturing facility have asserted wrongful termination or other claims against us. We are currently unable to estimate the number and amount of the claims that may ultimately be asserted against us, but intend to vigorously defend any such claims.

Accelerated depreciation charges for the three and nine months ended September 30, 2014 related to property and equipment in one of our manufacturing facilities in the U.K. Accelerated depreciation charges for the three and nine months ended September 30, 2013 related primarily to property and equipment in one of our manufacturing facilities in Amiens, France. Accelerated depreciation charges for all periods were recorded in cost of goods sold ("CGS").

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

NOTE 3. OTHER EXPENSE

(In millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net foreign currency exchange (gains) losses	\$31	\$(2)	) \$182	\$116
Financing fees and financial instruments	17	14	46	41
Royalty income	(9	) (10	) (27	) (39
Interest income	(4	) (6	) (23	) (18
General and product liability — discontinued products	4	4	21	12
Net (gains) losses on asset sales	7	(3	) 4	(6
Miscellaneous	20	3	39	6
	\$66	\$—	\$242	\$112

Net foreign currency exchange losses in the three months ended September 30, 2014 were \$31 million, primarily in Venezuela, compared to net gains of \$2 million in the three months ended September 30, 2013. Net foreign currency exchange losses in the three months ended September 30, 2014 included a net remeasurement loss of \$5 million in Venezuela resulting from the derecognition of a portion of the subsidy receivable established on January 24, 2014, as discussed below, and a reduction of \$7 million of foreign currency exchange losses previously recorded as part of the \$157 million first quarter 2014 Venezuelan remeasurement loss. As described in Note 4, Income Taxes, in the third quarter of 2014 we established valuation allowances on the net deferred tax assets of our Venezuelan and Brazilian subsidiaries, and accordingly, reduced \$7 million of previously recorded foreign currency exchange losses related to deferred tax assets of our Venezuelan subsidiary. Net losses in the nine months ended September 30, 2014 and 2013 were \$182 million and \$116 million, respectively, which included net remeasurement losses of \$155 million and \$115 million, respectively, resulting from devaluations of the Venezuelan bolivar fuerte against the U.S. dollar. Foreign currency exchange also reflects net gains and losses resulting from the effect of exchange rate changes on various foreign currency transactions worldwide.