GOODYEAR TIRE & RUBBER CO /OH/
Form 10-Q
October 28, 2010

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, 2010
Commission File Number: 1-1927
THE GOODYEAR TIRE & RUBBER COMPANY
(Exact Name of Registrant as Specified in Its Charter)

Ohio	**34-0253240**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1144 East Market Street, Akron, Ohio	**44316-0001**
(Address of Principal Executive Offices)	(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Number of Shares of Common Stock, Without Par Value, Outstanding at September 30, 2010:	242,913,365

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions, except per share amounts)	**2010**	**2009**	**2010**	**2009**
NET SALES	**$ 4,962**	**$ 4,385**	**$ 13,760**	**$ 11,864**
Cost of Goods Sold	4,120	3,523	11,262	10,095
Selling, Administrative and General Expense	640	617	1,915	1,764
Rationalizations (Note 2)	8	16	16	207
Interest Expense	90	85	241	228
Other Expense (Note 3)	62	4	173	66
Income (Loss) before Income Taxes	42	140	153	(496)
United States and Foreign Taxes	55	38	151	3
Net (Loss) Income	(13)	102	2	(499)
Less: Minority Shareholders Net Income (Loss)	7	30	41	(17)
Goodyear Net (Loss) Income	**$ (20)**	**$ 72**	**$ (39)**	**$ (482)**
Goodyear Net (Loss) Income Per Share				
Basic	**$ (0.08)**	$ 0.30	**$ (0.16)**	$ (2.00)
Weighted Average Shares Outstanding (Note 4)	242	242	242	241
Diluted	**$ (0.08)**	$ 0.30	**$ (0.16)**	$ (2.00)
Weighted Average Shares Outstanding (Note 4)	242	245	242	241

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

Table of Contents

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

(In millions)		September 30, 2010		December 31, 2009
Assets:				
Current Assets:				
Cash and Cash Equivalents	$	1,665	$	1,922
Accounts Receivable, less Allowance $112 ($110 in 2009)		3,461		2,540
Inventories:				
Raw Materials		723		483
Work in Process		165		138
Finished Products		2,105		1,822
		2,993		2,443
Prepaid Expenses and Other Current Assets		284		320
Total Current Assets		**8,403**		**7,225**
Goodwill		691		706
Intangible Assets		163		164
Deferred Income Taxes		71		43
Other Assets		459		429
Property, Plant and Equipment less Accumulated Depreciation $8,810 ($8,626 in 2009)		5,869		5,843
Total Assets	**$**	**15,656**	**$**	**14,410**
Liabilities:				
Current Liabilities:				
Accounts Payable-Trade	$	2,813	$	2,278
Compensation and Benefits (Note 8)		727		635
Other Current Liabilities		1,015		844
Notes Payable and Overdrafts (Note 6)		259		224
Long Term Debt and Capital Leases due Within One Year (Note 6)		118		114
Total Current Liabilities		**4,932**		**4,095**
Long Term Debt and Capital Leases (Note 6)		4,595		4,182
Compensation and Benefits (Note 8)		3,398		3,526
Deferred and Other Noncurrent Income Taxes		252		235
Other Long Term Liabilities		760		793
Total Liabilities		**13,937**		**12,831**
Commitments and Contingent Liabilities (Note 9)				
Minority Shareholders Equity (Note 1)		592		593

Shareholders Equity:				
Goodyear Shareholders Equity:				
Preferred Stock, no par value:				
Authorized, 50 shares, unissued				
Common Stock, no par value:				
Authorized, 450 shares, Outstanding shares 243 (242 in 2009) after deducting 8 treasury shares (9 in 2009)		243		242
Capital Surplus		2,799		2,783
Retained Earnings		1,043		1,082
Accumulated Other Comprehensive Loss		(3,226)		(3,372)
Goodyear Shareholders Equity		**859**		**735**
Minority Shareholders Equity Nonredeemable		268		251
Total Shareholders Equity		**1,127**		**986**
Total Liabilities and Shareholders Equity	**$**	**15,656**	**$**	**14,410**

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

-2-

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Net (Loss) Income	$ (13)	$ 102	$ 2	$ (499)
Other Comprehensive Income (Loss):				
Foreign currency translation, net of tax of $0 and $1 in 2010 ($0 and $0 in 2009)	279	154	28	202
Reclassification adjustment for amounts recognized in income, net of tax of $0 in all periods		(17)		(17)
Defined benefit plans:				
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost, net of tax of $14 and $19 in 2010 ($21 and $38 in 2009)	28	25	110	101
Decrease (increase) in net actuarial losses, net of tax of $1 and $1 in 2010 ($12 and $12 in 2009)	2	9	(11)	(30)
Immediate recognition of prior service cost and unrecognized gains and losses due to curtailments and settlements, net of tax of $0 and $0 in 2010 ($0 and $1 in 2009)		4	1	7
Unrealized investment gains, net of tax of $0 in all periods	2	5	3	3
Comprehensive Income (Loss)	**298**	**282**	**133**	**(233)**
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	92	70	26	16
Comprehensive Income (Loss) Attributable to Goodyear Shareholders	**$ 206**	**$ 212**	**$ 107**	**$ (249)**

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

Table of Contents

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

(In millions)	Nine Months Ended September 30, 2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss) Income	**$ 2**	**$ (499)**
Adjustments to reconcile net (loss) income to cash flows from operating activities:		
Depreciation and amortization	487	471
Amortization and write-off of debt issuance costs	22	14
Net rationalization charges (Note 2)	16	207
Net (gains) losses on asset sales (Note 3)	(26)	33
Pension contributions and direct payments	(248)	(304)
Rationalization payments	(49)	(183)
Venezuela currency devaluation (Note 3)	110	
Changes in operating assets and liabilities, net of asset acquisitions and dispositions:		
Accounts receivable	(858)	(419)
Inventories	(547)	1,160
Accounts payable trade	599	(454)
Compensation and benefits	333	312
Other current liabilities	202	82
Other assets and liabilities	40	9
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	**83**	**429**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(618)	(502)
Asset dispositions (Note 3)	20	40
Increase in restricted cash	(2)	(98)
Return of investment in The Reserve Primary Fund	26	40
Other transactions		3
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	**(574)**	**(517)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term debt and overdrafts incurred	94	87
Short term debt and overdrafts paid	(64)	(181)
Long term debt incurred	1,625	1,998
Long term debt paid	(1,229)	(1,142)
Common stock issued	1	2
Debt related costs and other transactions	(31)	(24)
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	**396**	**740**
Effect of exchange rate changes on cash and cash equivalents (Note 3)	(162)	44

Net Change in Cash and Cash Equivalents	**(257)**	**696**
Cash and Cash Equivalents at Beginning of the Period	1,922	1,894
Cash and Cash Equivalents at End of the Period	**$ 1,665**	**$ 2,590**

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

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 rul regulations 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 accounting principles generally accepted in the United States of America 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, 2009 (the 2009 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 or a bankruptcy of Goodyear. 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, 2010 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2010.

Recently Adopted Accounting Standards

Effective January 1, 2010, we adopted a new standard pertaining to the consolidation of variable interest entities that required us to determine whether a variable interest gives the Company a controlling financial interest in a variable interest entity. This standard also requires an ongoing reassessment of the primary beneficiary of the variable interest entity and eliminates the quantitative approach previously required for determining whether an entity is the primary beneficiary. The adoption of this standard did not have a material impact on our consolidated financial statements.

Effective January 1, 2010 we also adopted a new standard pertaining to accounting for transfers of financial assets that removed the concept of a qualifying special-purpose entity from accounting for transfers and servicing of financial assets and extinguishment of liabilities. This standard also clarified the requirements for transfers of financial assets that are eligible for sale accounting. The adoption of this standard did not have a material impact on our consolidated financial statements.

Reclassifications

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 to reduce associate headcount. The net rationalization charges included in Income (Loss) before Income Taxes are as follows:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
(In millions)	**2010**	**2009**	**2010**	**2009**
New charges	$ 8	$ 23	$ 35	$ 221
Reversals		(7)	(19)	(14)
	$ 8	**$ 16**	**$ 16**	**$ 207**

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

The following table shows the roll-forward of our liability between periods:

(In millions)	**Associate-Related Costs**	**Other Costs**	**Total**
Balance at December 31, 2009	$ 120	$ 25	$ 145
Charges	15	20	35
Incurred	(31)	(22)	(53)
Reversed to the statement of operations	(15)	(4)	(19)
Balance at September 30, 2010	**$ 89**	**$ 19**	**$ 108**

The rationalization actions taken in 2010 were initiated to reduce our cost structure. North American Tire initiated actions related to the consolidation of multiple warehouses to further improve our supply chain and Asia Pacific Tire initiated the closure of a high-cost tire manufacturing facility in Taipei, Taiwan.

During the third quarter of 2010, net rationalization charges of $8 million were recorded. New charges of $8 million were comprised of $4 million for plans initiated in 2010 and $4 million for plans initiated primarily in 2009. These charges consist of $4 million for associate severance costs and $4 million for other exit and non-cancelable lease costs. Substantially all of the new charges relate to future cash outflows.

During the first nine months of 2010, net rationalization charges of $16 million were recorded. New charges of $35 million were comprised of $14 million for plans initiated in 2010, consisting of $11 million for associate severance and pension costs and $3 million for other exit and non-cancelable lease costs, and $21 million for plans initiated primarily in 2009, consisting of $4 million for associate severance costs and $17 million for other exit and non-cancelable lease costs. Substantially all of the new charges relate to future cash outflows. The net charges in 2010 also included the reversal of $19 million of reserves for actions no longer needed for their originally-intended purposes. Approximately 400 associates will be released under 2010 plans of which approximately 300 have been released as of September 30, 2010.

In the first nine months of 2010, $31 million was incurred for associate severance payments and pension costs, and $22 million was incurred for non-cancelable lease and other exit costs.

The accrual balance of $108 million at September 30, 2010 consists of $89 million for associate severance costs that are expected to be substantially utilized within the next twelve months and $19 million primarily for long term non-cancelable lease costs.

Asset write-offs and accelerated depreciation charges of $4 million and $13 million were recorded in cost of goods sold (CGS) in the three and nine months ended September 30, 2010, respectively, and were related primarily to the closure of our Taiwan facility.

In the third quarter of 2009, net rationalization charges of $16 million were recorded. New charges of $23 million were comprised of $12 million for plans initiated in 2009 and $11 million for plans initiated in 2008 and prior years. New charges for the 2009 plans were primarily for associate severance costs which require future cash outflows. New charges for the 2008 and prior year plans include $6 million related to associate severance costs and $5 million primarily for other exit and non-cancelable lease costs. These amounts include $3 million related to future cash outflows and $8 million for other non-cash exit costs, including $6 million for pension settlements. The third quarter of 2009 includes the reversal of $7 million of reserves for actions no longer needed for their originally-intended purposes.

For the first nine months of 2009, $207 million of net charges were recorded. New charges of $221 million were comprised of $188 million for plans initiated in 2009 and $33 million for plans initiated in 2008 and prior years. New charges for the 2009 plans were primarily for associate severance costs which require future cash outflows. The first nine months of 2009 included the reversal of $14 million of reserves for actions no longer needed for their originally-intended purposes. Approximately 4,000 associates will be released under 2009 plans of which approximately 3,400 have been released as of September 30, 2010. The $33 million of new charges for 2008 and prior year plans consisted of $19 million of associate-related costs and $14 million primarily for other exit and non-cancelable lease costs. These amounts include $22 million related to future cash outflows and $11 million for other non-cash exit costs, including $8 million for pension settlements and curtailments.

Table of Contents

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

Asset write-offs and accelerated depreciation charges of $18 million and $40 million were recorded in CGS in the three and nine months ended September 30, 2009, respectively, and primarily related to the closure of our Las Pinas, Philippines and Somerton, Australia tire manufacturing facilities and the discontinuation of a line of tires at one of our plants in North America.

NOTE 3. OTHER EXPENSE

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions) (Income) Expense	**2010**	**2009**	**2010**	**2009**
Net foreign currency exchange (gains) losses	$ 5	$ (6)	$ 126	$ 1
Financing fees and financial instruments	63	9	83	30
Net (gains) losses on asset sales	(2)	(7)	(26)	33
Royalty income	(7)	(7)	(22)	(22)
Interest income	(3)	(4)	(8)	(11)
General and product liability discontinued products (Note 9)	3	1	14	9
Subsidiary liquidation loss		18		18
Miscellaneous	3		6	8
	$ 62	**$ 4**	**$ 173**	**$ 66**

Net foreign currency exchange losses in the third quarter of 2010 were $5 million, compared to $6 million of gains in the third quarter of 2009. Foreign currency exchange reflected net gains and losses resulting from the effect of exchange rate changes on various foreign currency transactions worldwide. Foreign currency exchange losses in the first nine months of 2010 were $126 million, compared to $1 million in the first nine months of 2009. Losses in 2010 included a first quarter loss of $110 million resulting from the January 8, 2010 devaluation of the Venezuelan bolivar fuerte against the U.S. dollar and the establishment of a two-tier exchange structure for essential and non-essential goods. For essential goods the official exchange rate is 2.6 bolivares fuertes to the U.S. dollar and for non-essential goods the official exchange rate is 4.3 bolivares fuertes to the U.S. dollar.

Effective January 1, 2010, Venezuela s economy was considered to be highly inflationary under U.S. generally accepted accounting principles since it experienced a rate of general inflation in excess of 100% over the latest three year period, based upon the blended Consumer Price Index and National Consumer Price Index. Accordingly, the U.S. dollar was determined to be the functional currency of our Venezuelan subsidiary. All gains and losses resulting from the remeasurement of its financial statements are determined using official exchange rates and are reported in Other Expense.

The $110 million foreign currency exchange loss primarily consisted of a $157 million remeasurement loss on bolivar-denominated net monetary assets and liabilities including deferred taxes at the time of the devaluation. The loss was primarily related to cash deposits in Venezuela that were remeasured at the official exchange rate applicable to non-essential goods, and was partially offset by $47 million related to U.S. dollar-denominated payables that will be settled at the official exchange rate applicable to essential goods. Nonmonetary assets and liabilities, which consisted primarily of inventory and property, plant and equipment, were translated at historical rates.

Increased financing fees in the third quarter of 2010 primarily related to the redemption of $973 million of long term debt. The increase included a $50 million cash premium paid on the redemption and $6 million of financing fees which were written off. Financing fees and financial instruments expense also includes the amortization of deferred financing fees, commitment fees and other charges incurred in connection with financing transactions.

Net gains on asset sales were $2 million in the third quarter of 2010, compared to $7 million in the third quarter of 2009. Net gains on asset sales were $26 million in the first nine months of 2010, compared to net losses on asset sales of $33 million in the first nine months of 2009. Net gains on asset sales in 2010 included a first quarter gain on the sale of land in Thailand and a second quarter gain on the recognition of a deferred gain from the sale of a warehouse in Guatemala in 2008. The net gains in the third quarter of 2009 related primarily to the sale of property in Luxembourg and the net losses in the first nine months of 2009 were due primarily to the sale of certain of our properties in Akron, Ohio that comprise our current headquarters to Industrial Realty Group (IRG) in connection with the development of a proposed new headquarters in Akron, Ohio. Prior to the sale, the facilities remained classified as held and used. Due to significant uncertainties related to the completion of the transaction resulting from prevailing conditions in the credit markets and the ability of IRG to obtain

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

financing, we concluded the sale was not probable and, accordingly, did not write down the facilities to their net realizable value. The headquarters properties were corporate facilities that did not have identifiable cash flows that were largely independent of other assets and liabilities and, accordingly, were tested for impairment at the total company level. No impairment was indicated as a result of that testing.

Royalty income is derived primarily from licensing arrangements related to divested businesses. Interest income consisted primarily of amounts earned on cash deposits. General and product liability discontinued products includes charges for claims against us related primarily to asbestos personal injury claims, net of probable insurance recoveries. We recorded $6 million and $3 million of expense related to asbestos claims in the third quarter of 2010 and 2009, respectively. In addition, we recorded $3 million of income related to probable insurance recoveries and a $1 million reduction of probable insurance recoveries in the third quarter of 2010 and 2009, respectively. We recorded $18 million and $16 million of expense related to asbestos claims in the first nine months of 2010 and 2009, respectively. In addition, we recorded $4 million of income related to probable insurance recoveries in both the first nine months of 2010 and 2009.

We liquidated our subsidiary in Guatemala in the third quarter of 2009 and recognized a loss of $18 million due primarily to the recognition of accumulated foreign currency translation losses.

NOTE 4. PER SHARE OF COMMON STOCK

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

The following table presents the number of incremental weighted average shares used in computing diluted per share amounts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	**2010**	**2009**	**2010**	**2009**
Weighted average shares outstanding basic	242	242	242	241
Stock options and other dilutive securities		3		
Weighted average shares outstanding diluted	242	245	242	241

Weighted average shares outstanding diluted exclude the effects of approximately 4 million equivalent shares for both the three and nine months ended September 30, 2010 and 6 million equivalent shares for the nine months ended September 30, 2009, related to options with exercise prices less than the average market price of our common shares (i.e., in-the-money options), as their inclusion would have been anti-dilutive due to the Goodyear net loss.

Additionally, weighted average shares outstanding diluted excluded approximately 12 million equivalent shares for both the three and nine months ended September 30, 2010 and excluded approximately 11 million and 13 million equivalent shares for the three and nine months ended September 30, 2009, respectively, related to options with exercise prices greater than the average market price of our common shares (i.e. underwater options).

Table of Contents

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

NOTE 5. FAIR VALUE MEASUREMENTS

The following table presents information about assets and liabilities recorded at fair value on the Consolidated Balance Sheet at September 30, 2010 and December 31, 2009:

	Total Carrying	Quoted Prices in Active Markets for