GOODYEAR TIRE & RUBBER CO /OH/
Form 10-Q
July 30, 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 June 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)	44316-0001 (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 (Do not check if a smaller reporting company)	Smaller reporting company o

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 June 30, 2014:	275,312,681

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share amounts)	2014	2013	2014	2013
Net Sales	$4,656	$4,894	$9,125	$9,747
Cost of Goods Sold	3,532	3,846	7,050	7,786
Selling, Administrative and General Expense	698	691	1,365	1,336
Rationalizations (Note 2)	24	13	65	20
Interest Expense	102	102	207	187
Other (Income) Expense (Note 3)	8	(14)	176	112
Income before Income Taxes	292	256	262	306
United States and Foreign Taxes (Note 4)	60	63	68	82
Net Income	232	193	194	224
Less: Minority Shareholders' Net Income	19	5	32	3
Goodyear Net Income	213	188	162	221
Less: Preferred Stock Dividends	—	7	7	15
Goodyear Net Income available to Common Shareholders	$213	$181	$155	$206
Goodyear Net Income available to Common Shareholders — Per Share of Common Stock				
Basic	$0.77	$0.74	$0.59	$0.84
Weighted Average Shares Outstanding (Note 5)	276	246	262	246
Diluted	$0.76	$0.67	$0.58	$0.79
Weighted Average Shares Outstanding (Note 5)	281	282	281	281
Cash Dividends Declared Per Common Share	$0.05	—	$0.10	$—

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2014	2013	2014	2013
Net Income	$232	$193	$194	$224
Other Comprehensive Income:				
Foreign currency translation, net of tax of $0 and $0 in 2014 ($0 and $0 in 2013)	21	(98)	15	(155)
Reclassification adjustment for amounts recognized in income, net of tax of $0 and $0 in 2014 ($0 and $0 in 2013)	(2)	—	(2)	1
Defined benefit plans:				
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost, net of tax of $1 and $3 in 2014 ($3 and $7 in 2013)	25	59	57	120
Decrease in net actuarial losses, net of tax of $3 and $3 in 2014 ($2 and $2 in 2013)	5	27	24	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	42	1
Deferred derivative gains (losses), net of tax of $(1) and $(1) in 2014 ($1 and $1 in 2013)	1	2	(1)	6
Reclassification adjustment for amounts recognized in income, net of tax of $0 and $0 in 2014 ($1 and $1 in 2013)	—	1	1	1
Unrealized investment gains (losses), net of tax of $0 and $0 in 2014 ($0 and $0 in 2013)	6	(2)	1	15
Other Comprehensive Income (Loss)	56	(10)	137	113
Comprehensive Income	288	183	331	337
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	22	2	51	(13)
Goodyear Comprehensive Income	$266	$181	$280	$350

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)	June 30, 2014	December 31, 2013
Assets:		
Current Assets:		
Cash and Cash Equivalents	$1,637	$2,996
Accounts Receivable, less Allowance — $98 ($99 in 2013)	2,841	2,435
Inventories:		
Raw Materials	638	592
Work in Process	165	164
Finished Products	2,327	2,060
	3,130	2,816
Prepaid Expenses and Other Current Assets	430	397
Total Current Assets	8,038	8,644
Goodwill	663	668
Intangible Assets	137	138
Deferred Income Taxes	131	157
Other Assets	648	600
Property, Plant and Equipment, less Accumulated Depreciation — $9,373 ($9,158 in 2013)	7,325	7,320
Total Assets	$16,942	$17,527
Liabilities:		
Current Liabilities:		
Accounts Payable-Trade	$3,097	$3,097
Compensation and Benefits (Notes 9 and 10)	763	758
Other Current Liabilities	1,080	1,083
Notes Payable and Overdrafts (Note 7)	7	14
Long Term Debt and Capital Leases due Within One Year (Note 7)	78	73
Total Current Liabilities	5,025	5,025
Long Term Debt and Capital Leases (Note 7)	6,677	6,162
Compensation and Benefits (Notes 9 and 10)	1,369	2,673
Deferred and Other Noncurrent Income Taxes	255	256
Other Long Term Liabilities	934	966
Total Liabilities	14,260	15,082
Commitments and Contingent Liabilities (Note 11)		
Minority Shareholders' Equity (Note 1)	613	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	3,293	2,847

Retained Earnings	2,087	1,958
Accumulated Other Comprehensive Loss	(3,830)	(3,947)
Goodyear Shareholders’ Equity	1,825	1,606
Minority Shareholders’ Equity — Nonredeemable	244	262
Total Shareholders’ Equity	2,069	1,868
Total Liabilities and Shareholders’ Equity	$16,942	$17,527

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

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

(In millions)	Six Months Ended June 30, 2014	2013
Cash Flows from Operating Activities:		
Net Income	$194	$224
Adjustments to Reconcile Net Income to Cash Flows from Operating Activities:		
Depreciation and Amortization	371	357
Amortization and Write-Off of Debt Issuance Costs	10	8
Net Pension Curtailments and Settlements	39	—
Net Rationalization Charges (Note 2)	65	20
Rationalization Payments	(119)	(43)
Net Gains on Asset Sales (Note 3)	(3)	(3)
Pension Contributions and Direct Payments	(1,257)	(993)
Net Venezuela Currency Remeasurement Loss (Note 3)	157	115
Customer Prepayments and Government Grants	4	29
Insurance Proceeds	4	17
Changes in Operating Assets and Liabilities, Net of Asset Acquisitions and Dispositions:		
Accounts Receivable	(376)	(391)
Inventories	(318)	22
Accounts Payable — Trade	86	148
Compensation and Benefits	35	46
Other Current Liabilities	(26)	(38)
Other Assets and Liabilities	—	20
Total Cash Flows from Operating Activities	(1,134)	(462)
Cash Flows from Investing Activities:		
Capital Expenditures	(441)	(493)
Asset Dispositions (Note 3)	5	7
Decrease (Increase) in Restricted Cash	3	(8)
Short Term Securities Acquired	(41)	(60)
Short Term Securities Redeemed	46	48
Other Transactions	7	4
Total Cash Flows from Investing Activities	(421)	(502)
Cash Flows from Financing Activities:		
Short Term Debt and Overdrafts Incurred	18	29
Short Term Debt and Overdrafts Paid	(24)	(51)
Long Term Debt Incurred	1,314	2,115
Long Term Debt Paid	(823)	(639)
Common Stock Issued	31	5
Common Stock Repurchased (Note 12)	(65)	—
Common Stock Dividends Paid (Note 12)	(26)	—
Preferred Stock Dividends Paid (Note 12)	(15)	(15)
Transactions with Minority Interests in Subsidiaries	(34)	(8)
Debt Related Costs and Other Transactions	—	(16)
Total Cash Flows from Financing Activities	376	1,420
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(180)	(173)

Net Change in Cash and Cash Equivalents	(1,359)	283
Cash and Cash Equivalents at Beginning of the Period	2,996	2,281
Cash and Cash Equivalents at End of the Period	$1,637	$2,564

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 rules a regulations and generally accepted accounting principles in the United States of America ("US GAAP") and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to 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 six months ended June 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 May 2014, the Financial Accounting Standards Board (“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.

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.

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

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)	59	33	92
Reversed to the Statements of Operations	(5)	—	(5)
Incurred, Net of Foreign Currency Translation	(95)	(28)	(123)
Balance at June 30, 2014	$191	$10	$201

(1) Charges in the first six months of 2014 of $92 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 $201 million at June 30, 2014 is expected to be substantially utilized within the next 12 months and includes $153 million related to the plan to exit the farm tire business and close one of our manufacturing facilities in Amiens, France.

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

	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Current Year Plans				
Associate Severance and Other Related Costs	$5	$5	$9	$5
Other Exit and Non-Cancelable Lease Costs	—	—	1	—
Current Year Plans - Net Charges	$5	$5	$10	$5
Prior Year Plans				
Associate Severance and Other Related Costs	$10	$6	$45	$6
Pension Curtailment Gain	(2)	—	(22)	—
Other Exit and Non-Cancelable Lease Costs	11	2	32	9
Prior Year Plans - Net Charges	19	8	55	15
Total Net Charges	$24	$13	$65	$20
Asset Write-off and Accelerated Depreciation Charges	$2	$5	$3	$10

Substantially all of the new charges for the three and six months ended June 30, 2014 and 2013 related to future cash outflows. Net prior year plan charges for the three and six months ended June 30, 2014 of $19 million and $55 million, respectively, include charges of $14 million and $64 million, respectively, for associate severance and idle plant costs, partially offset by a pension curtailment gain of $2 million and $22 million, respectively, related to the closure of one of our manufacturing facilities in Amiens, France. Net charges for the three and six months ended June 30, 2014 included reversals of $2 million and $5 million, respectively, and net charges for the three and six months ended June 30, 2013 included reversals of $4 million and $7 million, respectively, for actions no longer needed for their originally intended purposes.

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
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Approximately 200 associates will be released under plans initiated in 2014, of which approximately 100 associates have been released as of June 30, 2014. In the first six months of 2014, approximately 1,300 associates were released under plans initiated in prior years, primarily related to the plan to exit the farm tire business in EMEA and close one of our manufacturing facilities in Amiens, France. In total, approximately 400 associates remain to be released under rationalization plans. We believe that some former associates of the closed Amiens, France manufacturing facility may assert wrongful termination or other claims against us. We are currently unable to estimate the number and amount of any claims that may ultimately be asserted against us, but intend to vigorously defend any such claims.
Accelerated depreciation charges for the three and six months ended June 30, 2014 related to property and equipment in one of our manufacturing facilities in the United Kingdom ("U.K.") and for the three and six months ended June 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”).

NOTE 3. OTHER (INCOME) EXPENSE

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2014	2013	2014	2013
Net foreign currency exchange (gains) losses	$(2)	$(5)	$151	$118
Financing fees and financial instruments	15	14	29	27
Interest income	(13)	(7)	(19)	(12)
Royalty income	(9)	(19)	(18)	(29)
General and product liability — discontinued products	11	5	17	8
Net (gains) losses on asset sales	(5)	(5)	(3)	(3)
Miscellaneous	11	3	19	3
	$8	$(14)	$176	$112

Net foreign currency exchange gains in the second quarter of 2014 were $2 million, compared to net gains of $5 million in the second quarter of 2013. Net losses in the first six months of 2014 and 2013 were $151 million and $118 million, respectively, which included a net remeasurement loss of $157 million and $115 million, respectively, resulting from the devaluation 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.
Effective February 13, 2013, Venezuela's official exchange rate changed from 4.3 to 6.3 bolivares fuertes to the U.S. dollar for substantially all goods. Effective January 24, 2014, Venezuela’s exchange rate applicable to the settlement of certain transactions, including payments of dividends and royalties, changed to an auction-based floating rate, the Complementary System of Foreign Currency Administration (“SICAD I”) rate, which was 11.4 and 10.6 bolivares fuertes to the U.S. dollar at January 24, 2014 and June 30, 2014, respectively. The official exchange rate for imports of essential goods, such as certain raw materials needed for the production of tires, remained at 6.3 bolivares fuertes to the U.S. dollar; however, the previously existing subsidy exchange rate of 4.3 bolivares fuertes to the U.S. dollar was eliminated and, accordingly, we derecognized $11 million of previously recognized subsidy receivables as part of the $157 million remeasurement loss.
We are required to remeasure our bolivar-denominated monetary assets and liabilities at the rate expected to be available for future dividend remittances by our Venezuelan subsidiary. We expect that future remittances of dividends by our Venezuelan subsidiary will be transacted at the SICAD I rate and, therefore, we recorded a remeasurement loss of $157 million using the SICAD I rate of 11.4 bolivares fuertes to the U.S. dollar as of January 24, 2014. We also recorded a subsidy receivable at that date of $50 million related to certain U.S. dollar-denominated payables that are expected to be settled at the official exchange rate of 6.3 bolivares fuertes to the U.S. dollar for

essential goods, based on ongoing approvals for importation of such goods. At June 30, 2014, the subsidy receivable was $52 million. A portion of this subsidy will reduce cost of goods sold in periods when the related inventory is sold. The SICAD I rate has fluctuated since January 24, 2014 and was 10.6 bolivares fuertes to the U.S. dollar at June 30, 2014 and, accordingly, we have recognized a net foreign currency exchange gain of $15 million resulting from the decrease in the SICAD I rate from January 24, 2014 to June 30, 2014. All bolivar-denominated monetary assets and liabilities were remeasured at 10.6 and 6.3 bolivares fuertes to the U.S. dollar at June 30, 2014 and December 31, 2013, respectively.

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
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Interest income in the second quarter of 2014 was $13 million, compared to interest income of $7 million in the second quarter of 2013. Interest income in the second quarter of 2014 included $9 million earned on the settlement of indirect tax claims in Latin America.

Royalty income in the second quarter of 2014 was $9 million, compared to royalty income of $19 million in the second quarter of 2013. Royalty income for the three and six months ended June 30, 2013 included a one-time royalty of $8 million related to chemical operations. Royalty income is derived primarily from licensing arrangements related to divested businesses.

Miscellaneous expense in the three and six months ended June 30, 2014 included charges of $10 million and $17 million, respectively, and in the three and six months ended June 30, 2013 included charges of $5 million, for labor claims related to a previously closed facility in EMEA.

Also included in Other (Income) Expense are financing fees and financial instruments expense consisting of the amortization of deferred financing fees, commitment fees and charges incurred in connection with financing transactions; and general and product liability — discontinued products which includes charges for claims against us related primarily to asbestos personal injury claims, net of probable insurance recoveries.

NOTE 4. INCOME TAXES

In the second quarter of 2014, we recorded tax expense of $60 million on income before income taxes of $292 million. For the first six months of 2014, we recorded tax expense of $68 million on income before income taxes of $262 million. In the second quarter of 2013, we recorded tax expense of $63 million on income before income taxes of $256 million. Income tax expense in the second quarter of 2013 was unfavorably impacted by a $5 million adjustment related to prior years and a $3 million settlement of a foreign tax audit. For the first six months of 2013, we recorded tax expense of $82 million on income before income taxes of $306 million. Income tax expense for the first six months of 2013 was favorably impacted by $4 million due primarily to newly enacted law changes exceeding the discrete items noted above.

We record taxes based on overall estimated annual effective tax rates. In addition to the discrete items related to 2013 noted above, the differences between our effective tax rate and the U.S. statutory rate in both years were primarily attributable to charges that are not deductible for tax purposes related to the devaluation of the bolivar fuerte in Venezuela and continuing to maintain a full valuation allowance on our U.S. and certain foreign deferred tax assets.

At January 1, 2014, our valuation allowance on our U.S. deferred tax assets was approximately $2,400 million. Each reporting period we assess available positive and negative evidence and estimate if sufficient future taxable income will be generated to utilize the existing deferred tax assets. Through 2012 our history of U.S. operating losses limited the weight we could apply to other subjective evidence such as our projections for future profitability. Recent positive evidence includes our profitable U.S. results for the last six quarters and full funding of our hourly U.S. pension plans in January 2014, which eliminates volatility in Other Comprehensive Income. This recent positive evidence provides us the opportunity to apply greater significance to our projections in assessing the need for a valuation allowance. We believe it is reasonably possible that sufficient positive evidence will exist during 2014 to release all or a significant portion of our valuation allowance on our U.S. deferred tax assets.

Our losses in various foreign taxing jurisdictions in recent periods represented sufficient negative evidence to require us to maintain a full valuation allowance against certain of our net deferred tax assets. However, it is reasonably possible that sufficient positive evidence required to release all, or a portion, of certain valuation allowances will exist within the next 12 months. This may result in a reduction of the valuation allowance by up to $105 million.

At January 1, 2014, we had unrecognized tax benefits of $88 million that if recognized, would have a favorable impact on our tax expense of $78 million. We had accrued interest of $16 million as of January 1, 2014. If not favorably settled, $32 million of the unrecognized tax benefits and all of the accrued interest would require the use of our cash. It is reasonably possible that our total amount of unrecognized tax benefits may change during the next 12 months. However, we do not expect these changes to have a significant impact on our financial position or results of operations.

Generally, years from 2008 onward are still open to examination by foreign taxing authorities. We are open to examination in Germany from 2006 onward and in the United States for 2013.

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

NOTE 5. EARNINGS PER SHARE

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions, except per share amounts)	2014	2013	2014	2013
Earnings per share — basic:				
Goodyear net income	$213	$188	$162	$221
Less: Preferred stock dividends	—	7	7	15
Goodyear net income available to common shareholders	$213	$181	$155	$206
Weighted average shares outstanding	276	246	262	246
Earnings per common share — basic	$0.77	$0.74	$0.59	$0.84
Earnings per share — diluted:				
Goodyear net income	$213	$188	$162	$221
Less: Preferred stock dividends	—	—	—	—
Goodyear net income available to common shareholders	$213	$188	$162	$221
Weighted average shares outstanding	276	246	262	246
Dilutive effect of mandatory convertible preferred stock	—	33	14	33
Dilutive effect of stock options and other dilutive securities	5	3	5	2
Weighted average shares outstanding — diluted	281	282	281	281
Earnings per common share — diluted	$0.76	$0.67	$0.58	$0.79

Weighted average shares outstanding - diluted for the three and six months ended June 30, 2014 excludes approximately 1 million and 2 million equivalent shares, respectively, and for the three and six months ended June 30, 2013 excludes approximately 5 million and 6 million equivalent shares, respectively, related to options with exercise prices greater than the average market price of our common shares (i.e., “underwater” options).

On April 1, 2014, all outstanding shares of mandatory convertible preferred stock automatically converted into 27,573,735 shares of common stock, net of fractional shares, at a conversion rate of 2.7574 shares of common stock per share of preferred stock.

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

NOTE 6. BUSINESS SEGMENTS

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2014	2013	2014	2013
Sales:				
North America	$2,044	$2,201	$3,923	$4,367
Europe, Middle East and Africa	1,580	1,577	3,256	3,184
Latin America	489	531	911	1,044
Asia Pacific	543	585	1,035	1,152
Net Sales	$4,656	$4,894	$9,125	$9,747
Segment Operating Income:				
North America	$208	$204	$364	$331
Europe, Middle East and Africa	117	51	227	82
Latin America	59	82	101	142
Asia Pacific	76	91	141	175
Total Segment Operating Income	460	428	833	730
Less:				
Rationalizations	24	13	65	20
Interest expense	102	102	207	187
Other (income) expense	8	(14)	176	112
Asset write-offs and accelerated depreciation	2	5	3	10
Corporate incentive compensation plans	19	35	46	45
Pension curtailments/settlements	—	—	33	—
Intercompany profit elimination	(4)	(3)	9	—
Retained expenses of divested operations	3	6	7	10
Other (1)	14	28	25	40
Income before Income Taxes	$292	$256	$262	$306

(1) For the three and six months ended June 30, 2014, Other includes the elimination of $5 million and $12 million, respectively, of royalty income attributable to the strategic business units, compared to $16 million and $23 million, respectively, for the three and six months ended June 30, 2013.

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Substantially all of the pension curtailment charges of $33 million for the six months ended June 30, 2014 noted above related to our North America strategic business unit ("SBU"); however, such costs were not included in North America segment operating income for purposes of management's assessment of SBU operating performance. In addition, rationalizations, as described in Note 2, Costs Associated with Rationalization Programs; net (gains) losses on asset sales, as described in Note 3, Other (Income) Expense; and asset write-offs and accelerated depreciation are not (credited) charged to the SBUs for performance evaluation purposes, but were attributable to the SBUs as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2014	2013	2014	2013
Rationalizations:				
North America	$—	$5	$(1)	$7
Europe, Middle East and Africa	20	3	58	6
Latin America	1	2	1	2
Asia Pacific	3	3	7	5
Total Segment Rationalizations	$24	$13	$65	$20
Net (Gains) Losses on Asset Sales:				
North America	$(1)	$(3)	$(1)	$(2)
Europe, Middle East and Africa	(2)	—	—	2
Latin America	—	1	—	—
Asia Pacific	—	(3)	—	(3)
Total Segment Asset Sales	$(3)	$(5)	$(1)	$(3)
Corporate	(2)	—	(2)	—
	$(5)	$(5)	$(3)	$(3)
Asset Write-offs and Accelerated Depreciation:				
Europe, Middle East and Africa	$2	$5	$3	$10
Total Segment Asset Write-offs and Accelerated Depreciation	$2	$5	$3	$10

NOTE 7. FINANCING ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

At June 30, 2014, we had total credit arrangements of $9,321 million, of which $2,236 million were unused. At that date, 39% of our debt was at variable interest rates averaging 5.47%.

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

At June 30, 2014, we had short term committed and uncommitted credit arrangements totaling $490 million, of which $483 million were unused. These arrangements are available primarily to certain of our foreign subsidiaries through various banks at quoted market interest rates.

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The following table presents amounts due within one year:

(In millions)	June 30, 2014	December 31, 2013
Notes payable and overdrafts	$7	$14
Weighted average interest rate	2.09 %	3.40 %
Long term debt and capital leases due within one year		
Other domestic and international debt (including capital leases)	$78	$73
Weighted average interest rate	5.59 %	6.91 %
Total obligations due within one year	$85	$87

Long Term Debt and Capital Leases and Financing Arrangements

At June 30, 2014, we had long term credit arrangements totaling $8,831 million, of which $1,753 million were unused.

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

	June 30, 2014		December 31, 2013	
(In millions)	Amount	Interest Rate	Amount	Interest Rate
Notes:				
6.75% Euro Notes due 2019	$342		$344	
8.25% due 2020	995		995	
8.75% due 2020	268		267	
6.5% due 2021	900		900	
7% due 2022	700		700	
7% due 2028	150		150	
Credit Facilities:				
$2.0 billion first lien revolving credit facility due 2017	—	—	—	—
$1.2 billion second lien term loan facility due 2019	1,195	4.75 %	1,195	4.75 %
€400 million revolving credit facility due 2016	314	2.53 %	—	—
Pan-European accounts receivable facility due 2015	351	2.95 %	207	3.19 %
Chinese credit facilities	533	5.96 %	537	5.86 %
Other foreign and domestic debt[1]	951	8.90 %	878	8.97 %
	6,699		6,173	
Capital lease obligations	56		62	
	6,755		6,235	
Less portion due within one year	(78)		(73)	
	$6,677			