GOODYEAR TIRE & RUBBER CO /OH/
Form 10-Q
July 31, 2012

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, 2012
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 filerþ	Accelerated filero	Non-accelerated filero (Do not check if a smaller reporting company)	Smaller reporting companyo

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, 2012:	244,728,951

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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)	2012	2011	2012	2011
Net Sales	$5,150	$5,620	$10,683	$11,022
Cost of Goods Sold	4,141	4,572	8,748	9,033
Selling, Administrative and General Expense	697	753	1,359	1,421
Rationalizations (Note 2)	26	46	41	55
Interest Expense	83	81	184	155
Other Expense (Note 3)	37	48	129	52
Income before Income Taxes	166	120	222	306
United States and Foreign Taxes (Note 4)	63	64	111	126
Net Income	103	56	111	180
Less: Minority Shareholders' Net Income	11	9	23	30
Goodyear Net Income	92	47	88	150
Less: Preferred Stock Dividends	7	7	15	7
Goodyear Net Income available to Common Shareholders	$85	$40	$73	$143
Goodyear Net Income available to Common Shareholders — Per Share of Common Stock				
Basic	$0.35	$0.16	$0.30	$0.58
Weighted Average Shares Outstanding (Note 5)	245	244	244	244
Diluted	$0.33	$0.16	$0.30	$0.57
Weighted Average Shares Outstanding (Note 5)	281	247	246	262

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)	2012	2011	2012	2011
Net Income	$103	$56	$111	$180
Other Comprehensive Income (Loss):				
Foreign currency translation, net of tax of $0 and $0 in 2012 ($(1) and $0 in 2011)	(124)	53	(21)	147
Defined benefit plans:				
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost, net of tax of $2 and $4 in 2012 ($(1) and $2 in 2011)	51	43	106	83
Decrease in net actuarial losses, net of tax of $7 and $7 in 2012 ($1 and $1 in 2011)	27	1	25	4
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 2012 ($1 and $1 in 2011)	—	13	—	13
Prior service cost from plan amendments, net of tax of $(2) and $(2) in 2012 ($0 and $0 in 2011)	(4)	—	(4)	—
Deferred derivative gains (losses), net of tax of $0 and $0 in 2012 ($0 and $0 in 2011)	10	(5)	2	(14)
Reclassification adjustment for amounts recognized in income, net of tax of $(2) and $(2) in 2012 ($0 and $0 in 2011)	(1)	2	(2)	2
Unrealized investment gains (losses), net of tax of $0 and $0 in 2012 ($0 and $0 in 2011)	(2)	6	3	5
Other Comprehensive Income (Loss)	(43)	113	109	240
Comprehensive Income	60	169	220	420
Less: Comprehensive Income (Loss) Attributable to Minority Shareholders	(24)	20	16	79
Goodyear Comprehensive Income	$84	$149	$204	$341

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, except share data)	June 30, 2012	December 31, 2011
Assets:		
Current Assets:		
Cash and Cash Equivalents	$2,156	$2,772
Accounts Receivable, less Allowance — $97 ($97 in 2011)	3,174	2,849
Inventories:		
Raw Materials	904	937
Work in Process	188	186
Finished Products	2,848	2,733
	3,940	3,856
Prepaid Expenses and Other Current Assets	379	335
Total Current Assets	9,649	9,812
Goodwill	644	654
Intangible Assets	154	157
Deferred Income Taxes	138	145
Other Assets	517	486
Property, Plant and Equipment, less Accumulated Depreciation — $8,692 ($8,629 in 2011)	6,499	6,375
Total Assets	$17,601	$17,629
Liabilities:		
Current Liabilities:		
Accounts Payable-Trade	$3,324	$3,668
Compensation and Benefits (Notes 9 and 10)	719	799
Other Current Liabilities	1,102	1,050
Notes Payable and Overdrafts (Note 7)	168	256
Long Term Debt and Capital Leases due Within One Year (Note 7)	107	156
Total Current Liabilities	5,420	5,929
Long Term Debt and Capital Leases (Note 7)	5,395	4,789
Compensation and Benefits (Notes 9 and 10)	3,732	4,002
Deferred and Other Noncurrent Income Taxes	244	244
Other Long Term Liabilities	998	1,041
Total Liabilities	15,789	16,005
Commitments and Contingent Liabilities (Note 11)		
Minority Shareholders' Equity (Note 1)	602	607
Shareholders' Equity:		
Goodyear Shareholders' Equity:		
Preferred Stock, no par value: (Note 12)		
Authorized, 50 million shares, Outstanding shares — 10 million (10 million in 2011), liquidation preference $50 per share	500	500
Common Stock, no par value:		
	245	245

Authorized, 450 million shares, Outstanding shares —245 million (245 million in 2011) after deducting 6 million treasury shares (6 million in 2011)		
Capital Surplus	2,812	2,808
Retained Earnings	1,260	1,187
Accumulated Other Comprehensive Loss	(3,870)	(3,991)
Goodyear Shareholders' Equity	947	749
Minority Shareholders' Equity — Nonredeemable	263	268
Total Shareholders' Equity	1,210	1,017
Total Liabilities and Shareholders' Equity	$17,601	$17,629

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, 2012	2011
Cash Flows from Operating Activities:		
Net Income	$111	$180
Adjustments to reconcile net income to cash flows from operating activities:		
Depreciation and amortization	337	374
Amortization and write-off of debt issuance costs	60	24
Net rationalization charges (Note 2)	41	55
Net gains on asset sales (Note 3)	(17)	(13)
Pension contributions and direct payments	(227)	(106)
Rationalization payments	(48)	(26)
Customer prepayments and government grants	51	14
Insurance proceeds	39	—
Changes in operating assets and liabilities, net of asset acquisitions and dispositions:		
Accounts receivable	(377)	(701)
Inventories	(116)	(960)
Accounts payable — trade	(275)	405
Compensation and benefits	15	166
Other current liabilities	5	(28)
Other assets and liabilities	(50)	(53)
Total Cash Flows from Operating Activities	(451)	(669)
Cash Flows from Investing Activities:		
Capital expenditures	(490)	(532)
Asset dispositions (Note 3)	9	100
Increase in restricted cash	(18)	(51)
Other transactions	(13)	—
Total Cash Flows from Investing Activities	(512)	(483)
Cash Flows from Financing Activities:		
Short term debt and overdrafts incurred	34	64
Short term debt and overdrafts paid	(42)	(54)
Long term debt incurred	2,266	1,890
Long term debt paid	(1,810)	(1,432)
Proceeds from issuance of preferred stock (Note 12)	—	485
Preferred stock dividends paid (Note 12)	(15)	—
Common stock issued (Note 10)	—	7
Transactions with minority interests in subsidiaries	(27)	(14)
Debt related costs and other transactions	(63)	(19)
Total Cash Flows from Financing Activities	343	927
Effect of exchange rate changes on cash and cash equivalents	4	24
Net Change in Cash and Cash Equivalents	(616)	(201)
Cash and Cash Equivalents at Beginning of the Period	2,772	2,005
Cash and Cash Equivalents at End of the Period	$2,156	$1,804

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

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

NOTE 1. ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared by The Goodyear Tire & Rubber Company (the “Company,” “Goodyear,” “we,” “us” or “our”) in accordance with Securities and Exchange Commission rules a regulations and 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, 2011 (the “2011 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 six months ended June 30, 2012 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2012.

Recently Issued Accounting Standards

In December 2011, the Financial Accounting Standards Board ("FASB") issued an accounting standards update requiring new disclosures about financial instruments and derivative instruments that are either offset by or subject to an enforceable master netting arrangement or similar agreement. The standards update is effective for fiscal years beginning after December 15, 2012. We are currently evaluating the impact of adopting this standard on our consolidated financial statements.

In July 2012, the FASB issued an accounting standards update with new guidance on annual impairment testing of indefinite-lived intangible assets. The standards update allows an entity to first assess qualitative factors to determine if it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If based on its qualitative assessment an entity concludes it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount, quantitative impairment testing is required. However, if an entity concludes otherwise, quantitative impairment testing is not required. The standards update is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. We are currently evaluating the impact of adopting this standard.

Recently Adopted Accounting Standards

Effective January 1, 2012, we adopted an accounting standards update with new guidance on fair value measurement and disclosure requirements. This standard provides guidance on the application of fair value accounting where it is already required or permitted by other standards. This standard also requires additional disclosures related to transfers of financial instruments within the fair value hierarchy and quantitative and qualitative disclosures related to significant unobservable inputs. The adoption of this standard did not have a material impact on our consolidated financial statements.

Effective January 1, 2012, we adopted accounting standards updates with guidance on the presentation of other comprehensive income. These standards require an entity to either present components of net income and other comprehensive income in one continuous statement or in two separate but consecutive statements. Accordingly, we have presented net income and other comprehensive income in two consecutive statements.

Reclassifications and Adjustments

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current presentation. In the first quarter of 2012, we recorded an out of period adjustment of $13 million of additional

interest expense to correct capitalized interest recorded in prior periods.

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

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 net rationalization charges included in Income before Income Taxes are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
New charges	$27	$46	$43	$57
Reversals	(1)	—	(2)	(2)
	$26	$46	$41	$55

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

(In millions)	Associate-Related Costs	Other Costs	Total
Balance at December 31, 2011	$166	$18	$184
2012 Charges	23	20	43
Incurred	(34)	(16)	(50)
Reversed to the statement of operations	(1)	(1)	(2)
Balance at June 30, 2012	$154	$21	$175

During the second quarter of 2012, net rationalization charges of $26 million were recorded. New charges of $27 million were comprised of $11 million for plans initiated in 2012, consisting of $6 million of associate severance costs and $5 million for other exit and non-cancelable lease costs, and $16 million for plans initiated in prior years, consisting of $10 million of associate severance and other related costs and $6 million of other exit and non-cancelable lease costs, mainly due to the July 2011 closure of our Union City, Tennessee manufacturing facility. Substantially all of the new charges relate to future cash outflows. The net charges in 2012 also included the reversal of $1 million of charges for actions no longer needed for their originally intended purposes.

During the first six months of 2012, net rationalization charges of $41 million were recorded. New charges of $43 million were comprised of $18 million for plans initiated in 2012, consisting of $11 million of associate severance costs and $7 million for other exit and non-cancelable lease costs, and $25 million for plans initiated in prior years, consisting of $11 million of associate severance and other related costs and $14 million of other exit and non-cancelable lease costs, mainly due to the July 2011 closure of our Union City, Tennessee manufacturing facility. Substantially all of the new charges relate to future cash outflows. The net charges in the first six months of 2012 also included the reversal of $2 million of charges for actions no longer needed for their originally intended purposes.

Approximately 700 associates will be released under 2012 plans, of which approximately 300 associates have been released as of June 30, 2012.

In the first six months of 2012, $34 million was incurred for associate severance payments, including a favorable impact of $3 million of foreign currency translation, and $16 million was incurred for other exit and non-cancelable lease costs.

The accrual balance of $175 million at June 30, 2012 consists of $154 million for associate severance costs that are expected to be substantially utilized within the next 12 months and $21 million primarily for other exit and non-cancelable lease costs. At June 30, 2012, $94 million and $32 million, respectively, of the accrual balance relates to plans associated with the announced discontinuation of consumer tire production at one of our facilities in Amiens,

France and the closure of our Union City, Tennessee manufacturing facility.
Accelerated depreciation charges of $4 million and $6 million were recorded in cost of goods sold (“CGS”) in the three and six months ended June 30, 2012, respectively, and were related primarily to property and equipment in our Dalian, China manufacturing facility.
In the second quarter of 2011, net rationalization charges of $46 million were recorded. New charges of $46 million were comprised of $11 million for plans initiated in 2011, consisting of $10 million of associate severance costs and $1 million for other exit and

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

non-cancelable lease costs, and $35 million for plans initiated in prior years, consisting of $29 million for associate severance costs and $6 million for other exit and non-cancelable lease costs. Substantially all of these charges related to future cash outflows.

For the first six months of 2011, net rationalization charges of $55 million were recorded. New charges of $57 million were comprised of $12 million for plans initiated in 2011, consisting of $11 million of associate severance costs and $1 million for other exit and non-cancelable lease costs, and $45 million for plans initiated in prior years, consisting of $30 million for associate severance costs and $15 million of other exit and non-cancelable lease costs, mainly due to the July 2011 closure of our Union City, Tennessee manufacturing facility. Substantially all of these charges related to future cash outflows. The net charges in the first six months of 2011 also included the reversal of $2 million of charges for actions no longer needed for their originally intended purposes. Approximately 500 associates will be released under plans initiated in 2011, of which approximately 200 associates have been released as of June 30, 2012. In addition, there are approximately 900 associates to be released under prior year plans, primarily related to the discontinuation of consumer tire production at one of our facilities in Amiens, France.

Asset write-offs and accelerated depreciation charges of $25 million and $34 million were recorded in CGS in the three and six months ended June 30, 2011, respectively, and were primarily related to property and equipment in our Union City, Tennessee manufacturing facility.

NOTE 3. OTHER (INCOME) AND EXPENSE

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions) (Income) Expense	2012	2011	2012	2011
Financing fees and financial instruments	$34	$63	$129	$72
Net foreign currency exchange losses	6	6	17	9
Royalty income	(10)	(11)	(19)	(20)
Interest income	(4)	(3)	(8)	(6)
Net gains on asset sales	(13)	(11)	(17)	(13)
General and product liability — discontinued products	—	3	2	8
Miscellaneous	24	1	25	2
	$37	$48	$129	$52

Financing fees were $34 million in the second quarter of 2012, compared to $63 million in the second quarter of 2011. The second quarter of 2012 included $24 million of debt issuance costs primarily related to the amendment and restatement of our U.S. second lien term loan facility. The second quarter of 2011 included $53 million of charges related to the redemption of $350 million in aggregate principal amount of our outstanding 10.5% senior notes due 2016, of which $37 million related to cash premiums paid on the redemption and $16 million related to the write-off of deferred financing fees and unamortized discount. Financing fees were $129 million in the first six months of 2012, compared to $72 million in the first six months of 2011. Financing fees in 2012 also included $86 million of first quarter charges related to the redemption of $650 million in aggregate principal amount of our outstanding 10.5% senior notes due 2016, of which $59 million related to cash premiums paid on the redemption and $27 million related to the write-off of unamortized discount and deferred financing fees. Financing fees in 2011 included the previously mentioned second quarter charges. Financing fees and financial instruments consists of the amortization of deferred financing fees, commitment fees and other charges incurred in connection with financing transactions.

Net foreign currency exchange losses were $6 million in the second quarter of 2012 and the second quarter of 2011. Foreign currency exchange losses in the first six months of 2012 were $17 million, compared to $9 million in the first

six months of 2011. Foreign currency exchange in all periods reflects net gains and losses resulting from the effect of exchange rate changes on various foreign currency transactions worldwide.

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

Net gains on asset sales were $13 million in the second quarter of 2012, compared to net gains on asset sales of $11 million in the second quarter of 2011. Net gains on asset sales were $17 million in the first six months of 2012, compared to net gains on asset sales of $13 million in the first six months of 2011. Net gains on asset sales in 2012 included second quarter gains on the sale of a minority interest in a retail business in Europe, Middle East and Africa Tire ("EMEA") and the sale of certain assets related to our bias truck tire business in Latin American Tire, and a first quarter gain on the sale of property in North American Tire. Net gains on asset sales in 2011 included second quarter gains on the sale of the farm tire business in Latin American Tire and the recognition of a deferred gain from the sale of property in North American Tire.

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 $2 million and $6 million of expense related to asbestos claims in the second quarter 2012 and 2011, respectively. In addition, we recorded $2 million and $3 million of income related to probable insurance recoveries in the second quarter of 2012 and 2011, respectively. We recorded $6 million and $11 million of expense related to asbestos claims in the first six months of 2012 and 2011, respectively. In addition, we recorded $4 million and $5 million of income related to probable insurance recoveries in the first six months of 2012 and 2011, respectively.

Royalty income is derived primarily from licensing arrangements related to divested businesses. Interest income consists primarily of amounts earned on cash deposits. Miscellaneous in 2012 includes a second quarter charge of $20 million related to labor claims in EMEA.

NOTE 4. INCOME TAXES

In the second quarter of 2012, we recorded tax expense of $63 million on income before income taxes of $166 million. For the first six months of 2012, we recorded tax expense of $111 million on income before income taxes of $222 million. Income tax expense for the first six months of 2012 was unfavorably impacted by $6 million due primarily to the settlement of prior tax years. We record taxes based on overall estimated annual effective tax rates. The difference between our effective tax rate and the U.S. statutory rate was primarily attributable to continuing to maintain a full valuation allowance against our net deferred tax assets in certain international subsidiaries.

In the second quarter of 2011, we recorded tax expense of $64 million on income before income taxes of $120 million. For the first six months of 2011, we recorded tax expense of $126 million on income before income taxes of $306 million. Income tax expense for the first six months of 2011 was unfavorably impacted by $18 million due primarily to the settlement of prior tax years and to increased tax reserves as a result of negative tax court rulings in a foreign jurisdiction.

At January 1, 2012, we had unrecognized tax benefits of $90 million that, if recognized, would have a favorable impact on our tax expense of $84 million. We had accrued interest of $24 million as of January 1, 2012. If not favorably settled, $23 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 unrecognized tax benefits may change during the next 12 months. However, we do not expect changes during the next 12 months to have a significant impact on our financial position or results of operations.

Generally, years beginning after 2006 are still open to examination by foreign taxing authorities, including in Germany. In the United States, we are open to examination for 2011.

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)	2012	2011	2012	2011
Earnings per share — basic:				
Goodyear net income	$92	$47	$88	$150
Less: Preferred stock dividends	7	7	15	7
Goodyear net income available to common shareholders	$85	$40	$73	$143
Weighted average shares outstanding	245	244	244	244
Earnings per common share — basic	$0.35	$0.16	$0.30	$0.58
Earnings per share — diluted:				
Goodyear net income	$92	$47	$88	$150
Less: Preferred stock dividends	—	7	15	—
Goodyear net income available to common shareholders	$92	$40	$73	$150
Weighted average shares outstanding	245	244	244	244
Dilutive effect of mandatory convertible preferred stock	34	—	—	15
Dilutive effect of stock options and other dilutive securities	2	3	2	3
Weighted average shares outstanding — diluted	281	247	246	262
Earnings per common share — diluted	$0.33	$0.16	$0.30	$0.57

Weighted average shares outstanding - diluted for the six months ended June 30, 2012 excludes the effect of approximately 34 million equivalent shares related to the mandatory convertible preferred stock as their inclusion would have been anti-dilutive. In addition, Goodyear net income used to compute earnings per common share - diluted for the six months ended June 30, 2012 is reduced by $15 million of preferred stock dividends since the inclusion of the related shares of preferred stock would have been anti-dilutive. Additionally, weighted average shares outstanding - diluted for the three and six months ended June 30, 2012 excludes approximately 11 million equivalent shares related to options with exercise prices greater than the average market price of our common shares (i.e., “underwater” options).

Weighted average shares outstanding - diluted for the three months ended June 30, 2011 excludes the effect of approximately 30 million equivalent shares related to the mandatory convertible preferred stock as their inclusion would have been anti-dilutive. In addition, Goodyear net income used to compute earnings per common share - diluted for the three months ended June 30, 2011 is reduced by $7 million of preferred stock dividends since the inclusion of the related shares of preferred stock would have been anti-dilutive. Additionally, weighted average shares outstanding - diluted for the three and six months ended June 30, 2011 excludes approximately 6 million and 7 million

equivalent shares, respectively, related to options with exercise prices greater than the average market price of our common shares (i.e., “underwater” options).

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)	2012	2011	2012	2011
Sales:				
North American Tire	$2,451	$2,411	$4,948	$4,718
Europe, Middle East and Africa Tire	1,596	1,943	3,534	3,902
Latin American Tire	503	640	1,024	1,225
Asia Pacific Tire	600	626	1,177	1,177
Net Sales	$5,150	$5,620	$10,683	$11,022
Segment Operating Income:				
North American Tire	$188	$137	$268	$177
Europe, Middle East and Africa Tire	19	126	109	279
Latin American Tire	58	54	113	121
Asia Pacific Tire	71	65	138	132
Total Segment Operating Income	336	382	628	709
Less:				
Rationalizations	26	46	41	55
Interest expense	83	81	184	155
Other expense	37	48	129	52
Asset write-offs and accelerated depreciation	4	25	6	34
Corporate incentive compensation plans	15	21	22	35
Pension curtailments/settlements	—	11	—	11
Intercompany profit elimination	(9)	2	1	11
Retained expenses of divested operations	5	11	9	15
Other	9	17	14	35
Income before Income Taxes	$166	$120	$222	$306

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

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	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Rationalizations:				
North American Tire	$13	$34	$19	$40
Europe, Middle East and Africa Tire	5	6	10	7
Latin American Tire	—	—	2	—
Asia Pacific Tire	8	6	10	8
Total Segment Rationalizations	$26	$46	41	55
Net (Gains) Losses on Asset Sales:				
North American Tire	$(2)	$(5)	$(4)	$(5)
Europe, Middle East and Africa Tire	(7)	(1)	(8)	(2)
Latin American Tire	(3)	(3)	(3)	(4)
Total Segment Asset Sales	(12)	(9)	(15)	(11)
Corporate	(1)	(2)	(2)	(2)
	$(13)	$(11)	$(17)	$(13)
Asset Write-offs and Accelerated Depreciation:				
North American Tire	$—	$24	$—	$32
Asia Pacific Tire	4	1	6	2
Total Segment Asset Write-offs and Accelerated Depreciation	$4	$25	$6	$34

NOTE 7. FINANCING ARRANGEMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

At June 30, 2012, we had total credit arrangements of $8,549 million, of which $2,496 million were unused. At that date, 45% of our debt was at variable interest rates averaging 5.24%.

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

At June 30, 2012, we had short term committed and uncommitted credit arrangements totaling $585 million, of which $417 million were unused. These arrangements are available primarily to certain of our international subsidiaries through various banks at quoted market interest rates. There are no commitment fees associated with these arrangements.

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The following table presents amounts due within one year:

(In millions)	June 30, 2012		December 31, 2011	
Notes payable and overdrafts	$168		$256	
Weighted average interest rate	5.55	%	5.56	%
Long term debt and capital leases due within one year				
Other domestic and international debt (including capital leases)	$107		$156	
Weighted average interest rate	8.67	%	10.78	%
Total obligations due within one year	$275		$412	

Long Term Debt and Capital Leases and Financing Arrangements
At June 30, 2012, we had long term credit arrangements totaling $7,964 million, of which $2,079 million were unused.
The following table presents long term debt and capital leases, net of unamortized discounts, and interest rates:

	June 30, 2012			December 31, 2011		
(In millions)	Amount	Interest Rate		Amount	Interest Rate	
Notes:						
10.5% due 2016	$—			$631		
6.75% Euro Notes due 2019	317			324		
8.25% due 2020	994			994		
8.75% due 2020	265			264		
7% due 2022	700			—		
7% due 2028	149			149		
Credit Facilities:						
$2.0 billion first lien revolving credit facility due 2017	—	—		—	—	
$1.2 billion second lien term loan facility due 2019	1,194	4.75	%	1,200	1.93	%
€400 million revolving credit facility due 2016	292	2.85	%	—	—	
Pan-European accounts receivable facility due 2015	395	3.20	%	393	3.91	%
Chinese credit facilities	469	6.50	%	389	5.80	%
Other domestic and international debt[1]	694	8.67	%	570	10.00	%
	5,469			4,914		
Capital lease obligations	33			31		
	5,502			4,945		
Less portion due within one year	(107	)		(156	)	
	$5,395			$4,789		

(1) Interest rates are weighted average interest rates.

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NOTES

$700 million 7% Senior Notes due 2022

On February 28, 2012, we issued $700 million aggregate principal amount of 7% senior notes due 2022. These notes were sold at 100% of the principal amount and will mature on May 15, 2022. These notes are unsecured senior obligations and are guaranteed by our U.S. and Canadian subsidiaries that also guarantee our obligations under our senior secured credit facilities described below.

We have the option to redeem these notes, in whole or in part, at any time on or after May 15, 2017 at a redemption price of 103.5%, 102.333%, 101.167% and 100% during the 12-month periods commencing on May 15, 2017, 2018, 2019, and 2020 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to May 15, 2017, we may redeem these notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date. In addition, prior to May 15, 2015, we may redeem up to 35% of the original aggregate principal amount of these notes from the net cash proceeds of certain equity offerings at a redemption price equal to 107% of the principal amount plus accrued and unpaid interest to the redemption date.

The terms of the indenture for these notes, among other things, limit our ability and the ability of certain of our subsidiaries to (i) incur additional debt or issue redeemable preferred stock, (ii) pay dividends, or make certain other restricted payments or investments, (iii) incur liens, (iv) sell assets, (v) incur restrictions on the ability of our subsidiaries to pay dividends to us, (vi) enter into affiliate transactions, (vii) engage in sale and leaseback transactions, and (viii) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets. These covenants are subject to significant exceptions and qualifications. For example, if these notes are assigned an investment grade rating by Moody's and Standard & Poor's and no default has occurred or is continuing, certain covenants will be suspended. The indenture has customary defaults, including a cross-default to material indebtedness of Goodyear and our subsidiaries.

Redemption of 10.5% Senior Notes due 2016

On March 29, 2012, we redeemed $650 million in aggregate principal amount of our outstanding 10.5% senior notes due 2016 at an aggregate redemption price of $709 million, including a $59 million prepayment premium, plus accrued and unpaid interest to the redemption date. We also recorded $27 million of expense for the write-off of unamortized discounts and deferred financing fees as a result of the redemption.

CREDIT FACILITIES

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

On April 19, 2012, we amended and restated our U.S. first lien revolving credit facility. Significant changes to the first lien revolving credit facility include the extension of the maturity to 2017 and an increase of the available commitments from $1.5 billion to $2.0 billion. Loans under this facility initially bear interest at LIBOR plus 150 basis points, based on our current liquidity as described below.

Our amended and restated first lien revolving credit facility is available in the form of loans or letters of credit, with letter of credit availability limited to $800 million. Subject to the consent of the lenders whose commitments are to be increased, we may request that the facility be increased by up to $250 million. Our obligations under the facility are guaranteed by most of our wholly-owned U.S. and Canadian subsidiaries. Our obligations under the facility and our subsidiaries' obligations under the related guarantees are secured by first priority security interests in collateral that includes, subject to certain exceptions:

- U.S. and Canadian accounts receivable and inventory;
- certain of our U.S. manufacturing facilities;
-

equity interests in our U.S. subsidiaries and up to 65% of the equity interests in our directly owned foreign subsidiaries, excluding Goodyear Dunlop Tires Europe B.V. ("GDTE") and its subsidiaries; and

- substantially all other tangible and intangible assets, including equipment, contract rights and intellectual property.

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Availability under the facility is subject to a borrowing base, which is based on eligible accounts receivable and inventory of The Goodyear Tire & Rubber Company and certain of its U.S. and Canadian subsidiaries, after adjusting for customary factors that are subject to modification from time to time by the administrative agent or the majority lenders at their discretion (not to be exercised unreasonably). Modifications are based on the results of periodic collateral and borrowing base evaluations and appraisals. To the extent that our eligible accounts receivable and inventory decline, our borrowing base will decrease and the availability under the facility may decrease below $2.0 billion. In addition, if the amount of outstanding borrowings and letters of credit under the facility exceeds the borrowing base, we are required to prepay borrowings and/or cash collateralize letters of credit sufficient to eliminate the excess. As of June 30, 2012, our borrowing base, and therefore our availability, under this facility was $135 million below the facility's stated amount of $2.0 billion.

The facility, which matures on April 30, 2017, contains certain covenants that, among other things, limit our ability and the ability of certain of our subsidiaries (i) to incur additional debt or issue redeemable preferred stock, (ii) pay dividends, or make certain other restricted payments or investments, (iii) incur liens, (iv) sell assets, (v) incur restrictions on the ability of our subsidiaries to pay dividends to us, (vi) enter into affiliate transactions, (vii) engage in sale and leaseback transactions, and (viii) consolidate, merge, sell or otherwise dispose of all or substantially all of our assets. These covenants are subject to significant exceptions and qualifications. In addition, in the event that the availability under the facility plus the aggregate amount of our Available Cash is less than $200 million, we will not be permitted to allow our ratio of EBITDA to Consolidated Interest Expense to be less than 2.0 to 1.0 for any period of four consecutive fiscal quarters. “Available Cash,” “EBITDA” and “Consolidated Interest Expense” have the meanings given them in the facility.

The facility has customary representations and warranties including, as a condition to borrowing, that all such representations and warranties are true and correct, in all material respects, on the date of the borrowing, including representations as to no material adverse change in our financial condition since December 31, 2011. The facility also has customary defaults, including a cross-default to material indebtedness of Goodyear and our subsidiaries.

If Available Cash (as defined in the facility) plus the availability under the facility is greater than $1.0 billion, amounts drawn under the facility will bear interest, at our option, at (i) 150 basis points over LIBOR or (ii) 50 basis points over an alternative base rate (the higher of the prime rate, the federal funds rate plus 50 basis points or LIBOR plus 100 basis points), and undrawn amounts under the facility will be subject to an annual commitment fee of 37.5 basis points. If Available Cash plus the availability under the facility is equal to or less than $1.0 billion, then amounts drawn under the facility will bear interest, at our option, at (i) 175 basis points over LIBOR or (ii) 75 basis points over an alternative base rate, and undrawn amounts under the facility will be subject to an annual commitment fee of 25 basis points.

At June 30, 2012, we had no borrowings and $408 million of letters of credit issued under the revolving credit facility. At December 31, 2011, we had no borrowings and $407 million of letters of credit issued under the revolving credit facility.

$1.2 billion Amended and Restated Second Lien Term Loan Facility due 2019

On April 19, 2012, we also amended and restated our U.S. second lien term loan facility, including the extension of the maturity to 2019. The term loan bears interest at LIBOR plus 375 basis points, subject to a minimum LIBOR rate of 100 basis points. In addition, the amended and restated second lien term loan was issued with an original issue discount of 200 basis points and is subject to a call protection premium of 100 basis points if any specified repricing event occurs prior to April 19, 2013.

Our amended and restated second lien term loan facility may be increased by up to $300 million at our request, subject to the consent of the lenders making such additional term loans. Our obligations under this facility are guaranteed by most of our wholly-owned U.S. and Canadian subsidiaries and are secured by second priority security interests in the same collateral securing the $2.0 billion first lien revolving credit facility. The facility, which matures on April 30,

2019, contains covenants, representations, warranties and defaults similar to those in the $2.0 billion first lien revolving credit facility. In addition, if our Pro Forma Senior Secured Leverage Ratio (the ratio of Consolidated Net Secured Indebtedness to EBITDA) for any period of four consecutive fiscal quarters is greater than 3.0 to 1.0, before we may use cash proceeds from certain asset sales to repay any junior lien, senior unsecured or subordinated indebtedness, we must first offer to use such cash proceeds to prepay borrowings under the second lien term loan facility. “Pro Forma Senior Secured Leverage Ratio,” “Consolidated Net Secured Indebtedness” and “EBITDA” have the meanings given them in the facility. Loans under this facility bear interest, at our option, at (i) 375 basis points over LIBOR (subject to a minimum LIBOR rate of 100 basis points) or (ii) 275 basis points over an alternative base rate (the higher of the prime rate, the federal funds rate plus 50 basis points or LIBOR plus 100 basis points).
At June 30, 2012 and December 31, 2011, this facility was fully drawn.

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€400 million Amended and Restated Senior Secured European Revolving Credit Facility due 2016

Our amended and restated €400 million European revolving credit facility consists of (i) a €100 million German tranche that is available only to Goodyear Dunlop Tires Germany GmbH (the "German borrower") and (ii) a €300 million all-borrower tranche that is available to GDTE, the German borrower and certain of GDTE's other subsidiaries. Up to €50 million in letters of credit are available for issuance under the all-borrower tranche.

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

The facility has customary representations and warranties including, as a condition to borrowing, that all such representations and warranties are true and correct, in all material respects, on the date of the borrowing, including representations as to no material adverse change in our financial condition since December 31, 2010. The facility also has customary defaults, including a cross-default to material indebtedness of Goodyear and our subsidiaries.

At June 30, 2012, there were $127 million (€100 million) of borrowings outstanding under the German tranche and $165 million (€130 million) outstanding under the all-borrower tranche. At December 31, 2011, there were no borrowings under the revolving credit facility. Letters of credit issued under the all-borrower tranche totaled $8 million (€6 million) at June 30, 2012 and December 31, 2011.

International Accounts Receivable Securitization Facilities (On-Balance Sheet)

GDTE and certain of its subsidiaries are parties to a pan-European accounts receivable securitization facility that provides up to €450 million of funding and expires in 2015. Utilization under this facility is based on current available receivable balances. The facility is subject to customary annual renewal of back-up liquidity commitments.

The facility involves an ongoing daily sale of substantially all of the trade accounts receivable of certain GDTE subsidiaries to a bankruptcy-remote French company controlled by one of the liquidity banks in the facility. These subsidiaries retain servicing responsibilities. At June 30, 2012 and December 31, 2011, the amount available, and fully utilized under this program, totaled $395 million (€312 million) and $393 million (€303 million), respectively. The program did not qualify for sale accounting, and accordingly, these amounts are included in Long term debt and capital leases.

In addition to the pan-European accounts receivable securitization facility discussed above, subsidiaries in Australia have an accounts receivable securitization program totaling $79 million and $75 million at June 30, 2012 and December 31, 2011, respectively. The receivables sold under this program also serve as collateral for the related facility. We retain the risk of loss related to these receivables in the event of non-payment. These amounts are included in Long term debt and capital leases at June 30, 2012 as this facility was renegotiated in the second quarter of 2012. These amounts are included in Notes payable and overdrafts at December 31, 2011.

For a description of the collateral securing the European revolving credit facility and the pan-European accounts receivable facility as well as the covenants applicable to them, refer to the Note to the Consolidated Financial Statements No. 15, Financing Arrangements and Derivative Financial Instruments, in our 2011 Form 10-K.

Accounts Receivable Factoring Facilities (Off-Balance Sheet)

Various subsidiaries sold certain of their trade receivables under off-balance sheet programs. For these programs, we have concluded that there is generally no risk of loss to us from non-payment of the sold receivables. At June 30, 2012, the gross amount of receivables sold was $239 million, compared to $190 million at December 31, 2011.

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Other Foreign Credit Facilities
Our Chinese subsidiary has two financing agreements in China. At June 30, 2012, these non-revolving credit facilities had total unused availability of 667 million renminbi ($106 million) and can only be used to finance the relocation and expansion of our manufacturing facility in China. The facilities contain covenants relating to our Chinese subsidiary and have customary representations and warranties and defaults relating to our Chinese subsidiary's ability to perform its obligations under the facilities. One of the facilities (with 642 million renminbi of unused availability at June 30, 2012) matures in 2018 and principal amortization begins in 2015. There were $265 million and $199 million of borrowings outstanding under this facility at June 30, 2012 and December 31, 2011, respectively. The other facility (with 25 million renminbi of unused availability at June 30, 2012) matures in 2019 and principal amortization begins in 2015. There were $204 million and $190 million of borrowings outstanding under this facility at June 30, 2012 and December 31, 2011, respectively. Restricted cash of $27 million and $9 million was related to funds obtained under these credit facilities at June 30, 2012 and December 31, 2011, respectively.
OTHER DOMESTIC DEBT
Global and North American Tire Headquarters
On April 13, 2011, we entered into agreements for the construction of a new Global and North American Tire Headquarters facility in Akron, Ohio. We concurrently entered into an agreement to occupy the facility under a 27-year lease, including the two-year construction period, with multiple renewal options available at our discretion. In addition, on October 31, 2011, we entered into similar agreements for the construction and lease of a new parking deck adjacent to the Headquarters facility. Due to our continuing involvement with the financing during construction of the Headquarters facility and the parking deck, we will record a non-cash increase to fixed assets and financing liabilities on our Consolidated Balance Sheet as costs are incurred during the construction period. The total cost of the project is expected to be $200 million, of which approximately $60 million will be funded by government financing and incentives. The total financing liability is expected to approximate $140 million, of which $85 million has been recorded in long term debt and capital leases at June 30, 2012.
Debt Maturities
Updates to our debt maturities in our 2011 Form 10-K are provided below and reflect the issuance of our 7% senior notes due 2022, the redemption of our 10.5% senior notes due 2016 and the amendment and restatement of our $1.2 billion second lien term loan.

(In millions)	2012	2013	2014	2015	2016
U.S.	$13	$4	$—	$—	—
International	143	90	42	490	322
	$156	$94	$42	$490	$322

DERIVATIVE FINANCIAL INSTRUMENTS
We utilize derivative financial instrument contracts and nonderivative instruments to manage interest rate, foreign exchange and commodity price risks. We have established a control environment that includes policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. We do not hold or issue derivative financial instruments for trading purposes.
Foreign Currency Contracts
We will enter into foreign currency contracts in order to manage the impact of changes in foreign exchange rates on our consolidated results of operations and future foreign currency-denominated cash flows. These contracts reduce exposure to currency movements affecting existing foreign currency-denominated assets, liabilities, firm commitments and forecasted transactions resulting primarily from trade purchases and sales, equipment acquisitions, intercompany loans and royalty agreements. Contracts hedging short term trade receivables and payables normally have no hedging designation.

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

(In millions)	June 30, 2012	December 31, 2011
Fair Values — asset (liability):		
Accounts receivable	$19	$26
Other assets	—	—
Other current liabilities	(12)	(5)
Other long term liabilities	—	(1)

At June 30, 2012 and December 31, 2011, these outstanding foreign currency derivatives had notional amounts of $1,049 million and $1,056 million, respectively, and were primarily related to intercompany loans. Other Expense included net transaction gains of $21 million and losses of $3 million for the three and six months ended June 30, 2012, respectively, compared to net transaction losses of $4 million and $39 million for the three and six months ended June 30, 2011, respectively, on foreign currency derivatives. These amounts were substantially offset in Other Expense by the effect of changing exchange rates on the underlying currency exposures.
The following table presents fair values for foreign currency contracts designated as cash flow hedging instruments:

(In millions)	June 30, 2012	December 31, 2011
Fair Values — asset (liability):		
Accounts receivable	$6	$11
Other current liabilities	—	—

At June 30, 2012 and December 31, 2011, these outstanding foreign currency derivatives had notional amounts of $161 million and $171 million, respectively, and primarily related to intercompany transactions.

The following table presents the classification of changes in fair values of foreign currency contracts designated as cash flow hedging instruments (before tax and minority):

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions) (Income) Expense	2012	2011	2012	2011
Amounts deferred to Accumulated Other Comprehensive Loss ("AOCL")	$(10)	$5	$(2)	$14
Amount of deferred (gain) loss reclassified from AOCL into CGS	(3)	2	(4)	2
Amounts excluded from effectiveness testing	—	—	—	—

The estimated net amount of the deferred gains on June 30, 2012 that is expected to be reclassified to earnings within the next twelve months is $12 million.
The counterparties to our foreign currency contracts were considered by us to be substantial and creditworthy financial institutions that are recognized market makers at the time we entered into those contracts. We seek to control our credit exposure to these counterparties by diversifying across multiple counterparties, by setting counterparty credit limits based on long term credit ratings and other indicators of counterparty credit risk such as credit default swap spreads, and by monitoring the financial strength of these counterparties on a regular basis. We also enter into master

netting agreements with counterparties when possible. By controlling and monitoring exposure to counterparties in this manner, we believe that we effectively manage the risk of loss due to nonperformance by a counterparty. However, the inability of a counterparty to fulfill its contractual obligations to us could have a material adverse effect on our liquidity, financial position or results of operations in the period in which it occurs.

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NOTE 8. FAIR VALUE MEASUREMENTS
The following table presents information about assets and liabilities recorded at fair value on the Consolidated Balance Sheet at June 30, 2012 and December 31, 2011:

	Total Carrying Value in the Consolidated Balance Sheet		Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)	
(In millions)	2012	2011	2012	2011	2012	2011	2012	2011
Assets:								
Investments	$48	$44	$48	$44	$—	$—	$—	$—
Foreign Exchange Contracts	25	37	—	—	25	37	—	—
Total Assets at Fair Value	$73	$81	$48	$44	$25	$37	$—	$—
Liabilities:								
Foreign Exchange Contracts	$12	$6	$—	$—	$12	$5	$—	$1
Total Liabilities at Fair Value	$12	$6	$—	$—	$12	$5	$—	$1

The following table presents supplemental fair value information about long term fixed rate and variable rate debt, excluding capital leases, classified as Level 1, at June 30, 2012 and December 31, 2011. The fair value was estimated using quoted market prices.

(In millions)	June 30, 2012	December 31, 2011
Fixed Rate Debt:		
Carrying amount — liability	$2,978	$2,843
Fair value — liability	3,057	2,891
Variable Rate Debt:		
Carrying amount — liability	$2,491	$2,071
Fair value — liability	2,432	2,029

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NOTE 9. PENSION, SAVINGS AND OTHER POSTRETIREMENT BENEFIT PLANS

We provide employees with defined benefit pension or defined contribution savings plans.
Defined benefit pension cost follows:

	U.S. Three Months Ended June 30,		U.S. Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Service cost — benefits earned during the period	$10	$10	$20	$21
Interest cost on projected benefit obligation	65	70	131	141
Expected return on plan assets	(75)	(76)	(150)	(153)
Amortization of: — prior service cost	6	6	12	12
— net losses	43	33	89	67
Net periodic pension cost	49	43	102	88
Curtailments/settlements/termination benefits	—	11	—	11
Total defined benefit pension cost	$49	$54	$102	$99

	Non-U.S. Three Months Ended June 30,		Non-U.S. Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Service cost — benefits earned during the period	$7	$8	$15	$16
Interest cost on projected benefit obligation	35	38	70	76
Expected return on plan assets	(29)	(33)	(59)	(66)
Amortization of: — prior service cost	1	1	1	1
— net losses	11	9	23	19
Net periodic pension cost	25	23	50	46
Curtailments/settlements/termination benefits	—	1	—	—
Total defined benefit pension cost	$25	$24	$50	$46

During the second quarter of 2011, we recognized a settlement charge of $11 million related to one of our U.S. pension plans. This settlement charge resulted from total lump sum payments through June 30, 2011 exceeding estimated annual service and interest cost for the plan.

We expect to contribute approximately $550 million to $600 million to our funded U.S. and non-U.S. pension plans in 2012. For the three and six months ended June 30, 2012, we contributed $27 million and $81 million, respectively, to our non-U.S. plans and for the three and six months ended June 30, 2012, we contributed $78 million and $129 million, respectively, to our U.S. plans.

The expense recognized for our contributions to defined contribution savings plans for the three months ended June 30, 2012 and 2011 was $23 million and $25 million, respectively, and $50 million and $51 million for the six months ended June 30, 2012 and 2011, respectively.

We provide certain U.S. employees and employees at certain non-U.S. subsidiaries with health care benefits or life insurance benefits upon retirement. Postretirement benefit cost for the three months ended June 30, 2012 and 2011 was $0 million and $2 million, respectively, and $3 million and $5 million for the six months ended June 30, 2012 and 2011, respectively.

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NOTE 10. STOCK COMPENSATION PLANS

Our Board of Directors granted 1.8 million stock options and 0.2 million performance share units during the six months ended June 30, 2012 under our 2008 Performance Plan. The 2008 Performance Plan will expire on April 8, 2018. The weighted average exercise price per share and weighted average fair value per share of the stock option grants during the six months ended June 30, 2012 were $12.94 and $6.37, respectively. We estimated the fair value of the stock options using the following assumptions in our Black-Scholes model:
Expected term: 6.25 years
Interest rate: 1.11%
Volatility: 50.74%
Dividend yield: Nil
We measure the fair value of grants of performance share units based primarily on the closing market price of a share of our common stock on the date of the grant, modified as appropriate to take into account the features of such grants. The weighted average fair value per share was $13.57 for grants made during the six months ended June 30, 2012.
We recognized stock-based compensation expense of $4 million and $5 million during the three and six months ended June 30, 2012, respectively. At June 30, 2012, unearned compensation cost related to the unvested portion of all stock-based awards was approximately $31 million and is expected to be recognized over the remaining vesting period of the respective grants, through June 2016. We recognized stock-based compensation expense of $6 million and $12 million during the three and six months ended June 30, 2011, respectively.

NOTE 11. COMMITMENTS AND CONTINGENT LIABILITIES

Environmental Matters

We have recorded liabilities totaling $47 million and $46 million at June 30, 2012 and December 31, 2011, respectively, for anticipated costs related to various environmental matters, primarily the remediation of numerous waste disposal sites and certain properties sold by us. Of these amounts, $10 million and $11 million was included in Other Current Liabilities at June 30, 2012 and December 31, 2011, respectively. The costs include legal and consulting fees, site studies, the design and implementation of remediation plans, post-remediation monitoring and related activities, and will be paid over several years. The amount of our ultimate liability in respect of these matters may be affected by several uncertainties, primarily the ultimate cost of required remediation and the extent to which other responsible parties contribute. We have limited potential insurance coverage for future environmental claims.

Workers' Compensation

We have recorded liabilities, on a discounted basis, totaling $309 million and $302 million for anticipated costs related to workers' compensation at June 30, 2012 and December 31, 2011, respectively. Of these amounts, $71 million and $63 million were included in Current Liabilities as part of Compensation and Benefits at June 30, 2012 and December 31, 2011, respectively. The costs include an estimate of expected settlements on pending claims, defense costs and a provision for claims incurred but not reported. These estimates are based on our assessment of potential liability using an analysis of available information with respect to pending claims, historical experience, and current cost trends. The amount of our ultimate liability in respect of these matters may differ from these estimates. We periodically, and at least annually, update our loss development factors based on actuarial analyses. At June 30, 2012 and December 31, 2011, the liability was discounted using a risk-free rate of return.

General and Product Liability and Other Litigation

We have recorded liabilities totaling $305 million and $293 million, including related legal fees expected to be incurred, for potential product liability and other tort claims presently asserted against us at June 30, 2012 and December 31, 2011, respectively. Of these amounts, $43 million and $40 million were included in Other Current Liabilities at June 30, 2012 and December 31, 2011, respectively. The amounts recorded were estimated based on an assessment of potential liability using an analysis of available information with respect to pending claims, historical

experience and, where available, recent and current trends. The amount of our ultimate liability in respect of these matters may differ from these estimates.

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Asbestos. We are a defendant in numerous lawsuits alleging various asbestos-related personal injuries purported to result from alleged exposure to asbestos in certain products manufactured by us or present in certain of our facilities. Typically, these lawsuits have been brought against multiple defendants in state and Federal courts. To date, we have disposed of approximately 103,300 claims by defending and obtaining the dismissal thereof or by entering into a settlement. The sum of our accrued asbestos-related liability and gross payments to date, including legal costs, by us and our insurers totaled approximately $392 million through June 30, 2012 and $388 million through December 31, 2011.

A summary of recent approximate asbestos claims activity follows. Because claims are often filed and disposed of by dismissal or settlement in large numbers, the amount and timing of settlements and the number of open claims during a particular period can fluctuate significantly. The passage of tort reform laws and creation of deferred dockets for non-malignancy claims in several states has contributed to a decline in the number of claims filed in recent years.

	Six Months Ended	Year Ended
(Dollars in millions)	June 30, 2012	December 31, 2011
Pending claims, beginning of period	78,500	83,700
New claims filed	1,050	2,200
Claims settled/dismissed	(5,200)	(7,400)
Pending claims, end of period	74,350	78,500
Payments (1)	$4	$23

(1) Represents amount spent by us and our insurers on asbestos litigation defense and claim resolution.

We periodically, and at least annually, review our existing reserves for pending claims, including a reasonable estimate of the liability associated with unasserted asbestos claims, and estimate our receivables from probable insurance recoveries. We had recorded gross liabilities for both asserted and unasserted claims, inclusive of defense costs, totaling $136 million and $138 million at June 30, 2012 and December 31, 2011, respectively. At June 30, 2012, we estimate that it is reasonably possible that our gross liabilities, net of our estimate for probable insurance recoveries, could exceed our recorded amounts by approximately $10 million.

We recorded a receivable related to asbestos claims of $69 million and $67 million as of June 30, 2012 and December 31, 2011, respectively. We expect that approximately 50% of asbestos claim related losses would be recoverable through insurance through the period covered by the estimated liability. Of these amounts, $9 million and $8 million was included in Current Assets as part of Accounts Receivable at June 30, 2012 and December 31, 2011, respectively. The recorded receivable consists of an amount we expect to collect under coverage-in-place agreements with certain primary carriers as well as an amount we believe is probable of recovery from certain of our excess coverage insurance carriers.

We believe that, at June 30, 2012, we had approximately $160 million in limits of excess level policies potentially applicable to indemnity and defense costs for asbestos products claims. We also had coverage under certain primary policies for indemnity and defense costs for asbestos products claims under remaining aggregate limits, as well as coverage for indemnity and defense costs for asbestos premises claims on a per occurrence basis, pursuant to coverage-in-place agreements at June 30, 2012.

With respect to both asserted and unasserted claims, it is reasonably possible that we may incur a material amount of cost in excess of the current reserve; however, such amounts cannot be reasonably estimated. Coverage under insurance policies is subject to varying characteristics of asbestos claims including, but not limited to, the type of

claim (premise vs. product exposure), alleged date of first exposure to our products or premises and disease alleged. Depending upon the nature of these characteristics, as well as the resolution of certain legal issues, some portion of the insurance may not be accessible by us.

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Other Actions. We are currently a party to various claims and legal proceedings in addition to those noted above. If management believes that a loss arising from these matters is probable and can reasonably be estimated, we record the amount of the loss, or the minimum estimated liability when the loss is estimated using a range, and no point within the range is more probable than another. As additional information becomes available, any potential liability related to these matters is assessed and the estimates are revised, if necessary. Based on currently available information, management believes that the ultimate outcome of these matters, individually and in the aggregate, will not have a material adverse effect on our financial position or overall trends in results of operations. However, litigation is subject to inherent uncertainties, and unfavorable rulings could occur. An unfavorable ruling could include monetary damages or an injunction prohibiting us from selling one or more products. If an unfavorable ruling were to occur, there exists the possibility of a material adverse impact on the financial position and results of operations of the period in which the ruling occurs, or in future periods.

Income Tax and Other Tax Matters

The calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax regulations. We recognize liabilities for anticipated tax audit issues based on our estimate of whether, and the extent to which, additional taxes will be due. If we ultimately determine that payment of these amounts is unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine that the liability is no longer necessary. We also recognize income tax benefits to the extent that it is more likely than not that our positions will be sustained when challenged by the taxing authorities. We derecognize income tax benefits when based on new information we determine that it is no longer more likely than not that our position will be sustained. To the extent we prevail in matters for which liabilities have been established, or determine we need to derecognize tax benefits recorded in prior periods, our results of operations and effective tax rate in a given period could be materially affected. An unfavorable tax settlement would require use of our cash, and lead to recognition of expense to the extent the settlement amount exceeds recorded liabilities and, in the case of an income tax settlement, result in an increase in our effective tax rate in the period of resolution. A favorable tax settlement would be recognized as a reduction of expense to the extent the settlement amount is lower than recorded liabilities and, in the case of an income tax settlement, would result in a reduction in our effective tax rate in the period of resolution.

While the Company applies consistent transfer pricing policies and practices globally, supports transfer prices through economic studies, seeks advance pricing agreements and joint audits to the extent possible and believes its transfer prices to be appropriate, such transfer prices, and related interpretations of tax laws, are occasionally challenged by various taxing authorities globally. We have received various tax assessments challenging our interpretations of applicable tax laws in various jurisdictions. Although we believe we have complied with applicable tax laws, have strong positions and defenses and have historically been successful in defending such claims, our results of operations could be materially adversely affected in the case we are unsuccessful in the defense of existing or future claims.

In September 2011, the State of Sao Paulo, Brazil issued an assessment to us for allegedly improperly taking tax credits for value-added taxes paid to a supplier of natural rubber during the period from January 2006 to August 2008. The assessment, including interest and penalties, totaled 92 million Brazilian real (approximately $46 million). We received similar assessments from the State of Sao Paulo, Brazil in December 2010 for allegedly improperly taking tax credits for value-added taxes paid to other suppliers of natural rubber during the period from January 2006 to October 2009. These assessments, including interest and penalties, totaled 88 million Brazilian real (approximately $43 million). We have filed responses contesting all of the assessments and are defending these matters. In the event we are unsuccessful in defending one or more of these assessments, our results of operations could be materially affected.

Guarantees

We have off-balance sheet financial guarantees written and other commitments totaling approximately $83 million at June 30, 2012, compared to $105 million at December 31, 2011, primarily related to our obligations in connection with the financing of the construction of our new Global and North American Tire Headquarters facility. In addition, we will from time to time issue guarantees to financial institutions or other entities on behalf of certain of our affiliates, lessors or customers. Normally there is no separate premium received by us as consideration for the issuance of guarantees. We also generally do not require collateral in connection with the issuance of these guarantees. If our performance under these guarantees is triggered by non-payment or another specified event, we would be obligated to make payment to the financial institution or the other entity, and would typically have recourse to the affiliate, lessor or customer. The guarantees expire at various times through 2023. We are unable to estimate the extent to which our affiliates', lessors' or customers' assets would be adequate to recover any payments made by us under the related guarantees.

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NOTE 12. MANDATORY CONVERTIBLE PREFERRED STOCK

On March 31, 2011, we issued 10,000,000 shares of our 5.875% mandatory convertible preferred stock, without par value and with an initial liquidation preference of $50.00 per share, at a price of $50.00 per share. Quarterly dividends on each share of the mandatory convertible preferred stock will accrue at a rate of 5.875% per year on the initial liquidation preference of $50.00 per share. Dividends will accrue and accumulate from the date of issuance and, to the extent that we are legally permitted to pay a dividend and the Board of Directors declares a dividend payable, we will pay dividends in cash on January 1, April 1, July 1 and October 1 of each year, commencing on July 1, 2011 and ending on April 1, 2014.

Unless converted earlier, each share of the mandatory convertible preferred stock will automatically convert on April 1, 2014 into between 2.7454 and 3.4317 shares of common stock, depending on the market value of our common stock for the 20 consecutive trading day period ending on the third trading day prior to April 1, 2014, subject to customary anti-dilution adjustments. At any time prior to April 1, 2014, holders may elect to convert shares of the mandatory convertible preferred stock at the minimum conversion rate of 2.7454 shares of common stock, subject to customary anti-dilution adjustments.

In the fourth quarter of 2011, the Company’s Board of Directors (or a duly authorized committee thereof) declared cash dividends of $7 million that were paid in the first quarter of 2012. In the first quarter of 2012, the Company’s Board of Directors (or a duly authorized committee thereof) declared cash dividends of $7 million that were paid in the second quarter of 2012. On June 4, 2012, the Company’s Board of Directors (or a duly authorized committee thereof) declared cash dividends of $0.7344 per share of mandatory convertible preferred stock or $7 million in the aggregate. The dividend was paid on July 2, 2012 to stockholders of record as of the close of business of June 15, 2012.

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NOTE 13. CHANGES IN SHAREHOLDERS' EQUITY

The following tables present the changes in shareholders' equity for the six months ended June 30, 2012 and 2011:

	June 30, 2012			June 30, 2011		
(In millions)	Goodyear Shareholders' Equity	Minority Shareholders' Equity – Nonredeemable	Total Shareholders' Equity	Goodyear Shareholders' Equity	Minority Shareholders' Equity – Nonredeemable	Total Shareholders' Equity
Balance at beginning of period	$749	$ 268	$1,017	$644	$ 277	$921
Purchase of subsidiary shares from minority interest	—	(18)	(18)	—	—	—
Comprehensive income:						
Net income	88	18	106	150	19	169
Foreign currency translation (net of tax of $0 in 2012 and $0 in 2011)	(12)	3	(9)	98	6	104
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost (net of tax of $4 in 2012 and $2 in 2011)	103	—	103	81	—	81
Decrease in net actuarial losses (net of tax of $7 in 2012 and $1 in 2011)	25	—	25	3	—	3
Immediate recognition of prior service cost and unrecognized gains and losses due to curtailments, settlements, and divestitures (net of tax of $0 in 2012 and $1 in 2011)	—	—	—	13	—	13
Prior service cost from plan amendments (net of tax of $(2) in 2012 and $0 in 2011)	(4)	—	(4)	—	—	—
Deferred derivative gains (losses) (net of tax of $0 in 2012 and $0 in 2011)	2	—	2	(11)	—	(11)
Reclassification adjustment for amounts recognized in income (net of tax of $(2) in 2012 and $0 in 2011)	(1)	—	(1)	2	—	2
Unrealized investment gains (net of tax of $0 in 2012 and $0 in 2011)	3	—	3	5	—	5
Other comprehensive income	116	3	119	191	6	197

Total comprehensive income	204	21	225	341	25	366
Dividends declared to minority shareholders	—	(8)	(8)	—	(19)	(19)
Stock-based compensation plans (Note 10)	9	—	9	6	—	6
Preferred stock issued, net of expenses	—	—	—	484	—	484
Preferred stock dividends declared	(15)	—	(15)	(7)	—	(7)
Common stock issued from treasury	—	—	—	7	—	7
Other	—	—	—	—	1	1
Balance at end of period	$947	$ 263	$1,210	$1,475	$ 284	$1,759

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The following table presents changes in Minority Equity presented outside of Shareholders' Equity:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2012	2011	2012	2011
Balance at beginning of period	$626	$628	$607	$584
Comprehensive income (loss):				
Net income	1	1	5	11
Foreign currency translation, net of tax of $0 and $0 in 2012 ($0 and $0 in 2011)	(29)	8	(12)	43
Amortization of prior service cost and unrecognized gains and losses included in total benefit cost, net of tax of $0 and $0 in 2012 ($0 and $0 in 2011)	1	1	3	2
Decrease in net actuarial losses, net of tax of $0 and $0 in 2012 ($0 and $0 in 2011)	1	1	—	1
Deferred derivative gains (losses), net of tax of $0 and $0 in 2012 ($0 and $0 in 2011)	3	(1)	—	(3)
Reclassification adjustment for amounts recognized in income, net of tax of $0 and $0 in 2012 ($0 and $0 in 2011)	(1)	—	(1)	—
Total comprehensive income (loss)	(24)	10	(5)	54
Balance at end of period	$602	$638	$602	$638

NOTE 14. CONSOLIDATING FINANCIAL INFORMATION

Certain of our subsidiaries have guaranteed our obligations under the $1.0 billion outstanding principal amount of 8.25% senior notes due 2020, the $282 million outstanding principal amount of 8.75% notes due 2020, and the $700 million outstanding principal amount of 7% senior notes due 2022 (collectively, the "notes"). The following presents the condensed consolidating financial information separately for:

(i) The Goodyear Tire & Rubber Company (the "Parent Company"), the issuer of the guaranteed obligations;
(ii) Guarantor subsidiaries, on a combined basis, as specified in the indentures related to Goodyear's obligations under the notes;
(iii) Non-guarantor subsidiaries, on a combined basis;
(iv) Consolidating entries and eliminations representing adjustments to (a) eliminate intercompany transactions between or among the Parent Company, the guarantor subsidiaries and the non-guarantor subsidiaries, (b) eliminate the investments in our subsidiaries, and (c) record consolidating entries; and
(v) The Goodyear Tire & Rubber Company and Subsidiaries on a consolidated basis.

Each guarantor subsidiary is 100% owned by the Parent Company at the date of each balance sheet presented. The notes are fully and unconditionally guaranteed on a joint and several basis by each guarantor subsidiary. The guarantees of the guarantor subsidiaries are subject to release in limited circumstances only upon the occurrence of certain customary conditions. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use by the Parent Company and guarantor subsidiaries of the equity method of accounting to reflect ownership interests in subsidiaries which are eliminated

upon consolidation. Changes in intercompany receivables and payables related to operations, such as intercompany sales or services charges, are included in cash flows from operating activities. Intercompany transactions reported as investing or financing activities include the sale of the capital stock of various subsidiaries, loans and other capital transactions between members of the consolidated group.

Certain non-guarantor subsidiaries of the Parent Company are limited in their ability to remit funds to it by means of dividends, advances or loans due to required foreign government and/or currency exchange board approvals or limitations in credit agreements or other debt instruments of those subsidiaries.

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	Consolidating Balance Sheet June 30, 2012				
(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Entries and Eliminations	Consolidated
Assets:					
Current Assets:					
Cash and Cash Equivalents	$885	$85	$ 1,186	$—	$2,156
Accounts Receivable	979	236	1,959	—	3,174
Accounts Receivable From Affiliates	—	591	272	(863)	—
Inventories	1,609	225	2,200	(94)	3,940
Prepaid Expenses and Other Current Assets	64	8	298	9	379
Total Current Assets	3,537	1,145	5,915	(948)	9,649
Goodwill	—	25	449	170	644
Intangible Assets	110	1	43	—	154
Deferred Income Taxes	—	72	66	—	138
Other Assets	240	48	229	—	517
Investments in Subsidiaries	4,194	340	4,403	(8,937)	—
Property, Plant and Equipment	2,171	154	4,134	40	6,499
Total Assets	$10,252	$1,785	$ 15,239	$(9,675)	$17,601
Liabilities:					
Current Liabilities:					
Accounts Payable-Trade	$851	$192	$ 2,281	$—	$3,324
Accounts Payable to Affiliates	863	—	—	(863)	—
Compensation and Benefits	355	31	334	(1)	719
Other Current Liabilities	360	47	710	(15)	1,102
Notes Payable and Overdrafts	—	—	168	—	168
Long Term Debt and Capital Leases Due Within One Year	9	—	98	—	107
Total Current Liabilities	2,438	270	3,591	(879)	5,420
Long Term Debt and Capital Leases	3,393	—	2,002	—	5,395
Compensation and Benefits	2,633	251	848	—	3,732
Deferred and Other Noncurrent Income Taxes	34	6	206	(2)	244
Other Long Term Liabilities	807	31	160	—	998
Total Liabilities	9,305	558	6,807	(881)	15,789
Commitments and Contingent Liabilities					
Minority Shareholders' Equity	—	—	403	199	602
Shareholders' Equity:					