

GOODYEAR TIRE & RUBBER CO /OH/

Form 10-Q/A

April 28, 2005

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q/A**

**(Amendment No. 1)**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Quarterly Period Ended September 30, 2004**

**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.)

**1144 East Market Street, 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, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐

No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐

No ☐

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

Number of Shares of Common Stock, Without Par Value, Outstanding at September 30, 2004:	175,373,802
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**EXPLANATORY NOTE**

This Amendment No. 1 to The Goodyear Tire & Rubber Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 (the "Form 10-Q/A") includes unaudited, restated consolidated financial statements as of September 30, 2004 and for the three and nine month periods ended September 30, 2004 and 2003, and a restated consolidated balance sheet as of December 31, 2003. The accompanying restated consolidated financial statements, including the notes thereto, have been revised to reflect the restatement adjustments.

The Goodyear Tire & Rubber Company (the "Company") has restated, by means of its Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 Form 10-K") filed on March 16, 2005, its consolidated balance sheet as of December 31, 2003, and consolidated statements of income, cash flows, and shareholders' equity (deficit) for the years ended December 31, 2003 and 2002. Quarterly financial information for 2004 and 2003 was also affected by the restatement as well as 2002 and prior periods. Note 2 to the consolidated financial statements included in the 2004 Form 10-K shows the impact of the restatement adjustments on periods prior to 2002. The restated amounts for the three and nine months ended September 30, 2004 and the comparable interim periods in 2003 are presented in this Form 10-Q/A. The restated amounts for the first and second quarters of 2004 and the comparable interim periods in 2003 are presented in the Company's Quarterly Reports on Form 10-Q/A for the quarterly periods ended March 31, 2004 and June 30, 2004.

Refer to Note 1A, "Restatement," in this Form 10-Q/A for further information on the restatement impact for the three and nine months ended September 30, 2004 and 2003. Refer also to Note 2, "Restatement" in the Company's 2004 Form 10-K, for additional discussion on the nature of the restatement adjustments, the impact of the restatement adjustments on net income (loss) and the cumulative impact of the adjustments on the Consolidated Statement of Income and Consolidated Balance Sheet for each annual period.

This Form 10-Q/A amends and restates Items 1, 2 and 4 of Part I and Item 6 of Part II of the original Form 10-Q as well as the information set forth under "Forward-Looking Information" "Safe Harbor Statement," and no other information included in the original Form 10-Q is amended hereby.

All referenced amounts in this Form 10-Q/A for prior periods and prior period comparisons reflect the balances and amounts on a restated basis, as applicable.

Except as otherwise described in Item 4 of Part I and "Forward-Looking Information" "Safe Harbor Statement," this Form 10-Q/A has not been updated for changes in events, estimates or other developments subsequent to November 9, 2004, the date of the original filing of the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004. For a discussion of subsequent events and developments as well as revisions to prior estimates, please refer to the Company's filings with the Securities and Exchange Commission subsequent to November 9, 2004.

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

	Restated			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
<i>(Dollars in millions, except per share amounts)</i>				
<b>NET SALES</b>	<b>\$ 4,714.2</b>	<b>\$ 3,906.7</b>	<b>\$ 13,535.5</b>	<b>\$ 11,207.3</b>
Cost of Goods Sold	3,767.3	3,195.6	10,835.9	9,200.3
Selling, Administrative and General Expense	699.8	586.0	2,073.2	1,753.9
Rationalizations (Note 2)	28.8	54.3	62.6	130.4
Interest Expense	95.7	78.9	268.3	219.7
Other (Income) and Expense (Note 3)	28.6	90.2	108.2	164.4
Foreign Currency Exchange Loss	10.6	10.9	14.5	31.3
Equity in (Earnings) Losses of Affiliates	(2.1)	0.5	(5.8)	6.7
Minority Interest in Net Income of Subsidiaries	18.7	8.7	43.4	30.8
Income (Loss) before Income Taxes	66.8	(118.4)	135.2	(330.2)
United States and Foreign Taxes on Income (Loss)	28.3	1.9	145.0	50.2
<b>NET INCOME (LOSS)</b>	<b>\$ 38.5</b>	<b>\$ (120.3)</b>	<b>\$ (9.8)</b>	<b>\$ (380.4)</b>
<b>NET INCOME (LOSS) PER SHARE OF COMMON STOCK BASIC</b>	<b>\$ 0.22</b>	<b>\$ (0.69)</b>	<b>\$ (0.06)</b>	<b>\$ (2.17)</b>
Average Shares Outstanding (Note 4)	175.4	175.3	175.3	175.3
<b>NET INCOME (LOSS) PER SHARE OF COMMON STOCK DILUTED</b>	<b>\$ 0.20</b>	<b>\$ (0.69)</b>	<b>\$ (0.06)</b>	<b>\$ (2.17)</b>
Average Shares Outstanding (Note 4)	206.9	175.3	175.3	175.3

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

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

	<b>September</b>	<b>Restated</b>
	<b>30,</b>	<b>December</b>
	<b>2004</b>	<b>31,</b>
		<b>2003</b>
<i>(In millions)</i>		
<b>Assets:</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 1,603.8	\$ 1,546.3
Restricted cash (Note 1)	85.6	23.9
Accounts and notes receivable, less allowance \$138.4 (as restated) (\$128.9 (as restated) in 2003)	3,596.6	2,616.3
Inventories:		
Raw materials	518.0	458.8
Work in process	144.4	112.0
Finished products	2,020.4	1,896.9
	2,682.8	2,467.7
Prepaid expenses and other current assets	247.5	305.4
<b>Total Current Assets</b>	<b>8,216.3</b>	<b>6,959.6</b>
Long-term Accounts and Notes Receivable	250.3	275.7
Investments in and Advances to Affiliates	30.4	184.2
Other Assets	80.1	71.5
Goodwill	682.2	658.2
Other Intangible Assets	147.6	150.4
Deferred Income Tax	70.6	70.5
Deferred Pension Costs	874.8	869.9
Deferred Charges	248.9	255.9
Properties and Plants, less accumulated depreciation \$7,412.5 (as restated) (\$7,252.7 (as restated) in 2003)	5,173.1	5,205.2
<b>Total Assets</b>	<b>\$ 15,774.3</b>	<b>\$ 14,701.1</b>
<b>Liabilities:</b>		
<b>Current Liabilities:</b>		
Accounts payable-trade	\$ 1,710.3	\$ 1,562.8
Compensation and benefits	1,070.3	987.6
Other current liabilities	489.8	585.2
United States and foreign taxes	367.0	270.7
Notes payable (Note 5)	242.0	146.7
Long term debt and capital leases due within one year (Note 5)	1,209.0	113.5
<b>Total Current Liabilities</b>	<b>5,088.4</b>	<b>3,666.5</b>

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Long term Debt and Capital Leases (Note 5)	4,209.5	4,825.8
Compensation and Benefits	4,741.1	4,541.7
Deferred and Other Noncurrent Income Taxes	353.4	380.6
Other Long term Liabilities	612.8	464.7
Minority Equity in Subsidiaries	816.9	854.0

<b>Total Liabilities</b>	<b>15,822.1</b>	<b>14,733.3</b>
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Commitments and Contingent Liabilities (Note 7)

**Shareholders Deficit:**

Preferred Stock, no par value:

Authorized, 50.0 shares, unissued

Common Stock, no par value:

Authorized, 300.0 shares, Outstanding shares 175.4 (175.3 in 2003) after deducting

20.3 treasury shares (20.4 in 2003)

	175.4	175.3
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Capital Surplus	1,390.5	1,390.2
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Retained Earnings	945.3	955.1
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Accumulated Other Comprehensive Loss	(2,559.0)	(2,552.8)
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<b>Total Shareholders Deficit</b>	<b>(47.8)</b>	<b>(32.2)</b>
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<b>Total Liabilities and Shareholders Deficit</b>	<b>\$ 15,774.3</b>	<b>\$ 14,701.1</b>
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*The accompanying notes are an integral part of these consolidated financial statements .*



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

	Restated			
	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
<i>(In millions)</i>	2004	2003	2004	2003
<b>Net Income (Loss)</b>	<b>\$ 38.5</b>	<b>\$ (120.3)</b>	<b>\$ (9.8)</b>	<b>\$ (380.4)</b>
Other Comprehensive Income (Loss):				
Foreign currency translation gain (loss)	81.7	33.7	(22.0)	244.2
Minimum pension liability	(4.5)	(26.3)	(2.8)	(47.3)
Deferred derivative gain	3.6	5.7	2.3	27.4
Reclassification adjustment for amounts recognized in Income	(2.4)	(2.9)	5.5	(11.0)
Tax on derivative reclassification adjustment			(3.6)	(2.0)
Unrealized investment gain	2.3	1.8	14.4	11.4
<b>Comprehensive Income (Loss)</b>	<b>\$ 119.2</b>	<b>\$ (108.3)</b>	<b>\$ (16.0)</b>	<b>\$ (157.7)</b>

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

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

	<b>Restated</b>	
	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2004</b>	<b>2003</b>
<i>(In millions)</i>		
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
<b>Net Loss</b>	<b>\$ (9.8)</b>	<b>\$ (380.4)</b>
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	460.8	459.9
Rationalizations (Note 2)	32.0	33.3
Asset sales (Note 3)	(4.3)	12.1
Fire loss deductible expense (Note 3)	11.6	
Net cash flows from sale of accounts receivable	45.3	(794.7)
Changes in operating assets and liabilities, net of asset acquisitions and dispositions:		
Accounts and notes receivable	(940.4)	(499.7)
Inventories	(56.2)	(54.6)
Accounts payable trade	(32.8)	(52.0)
Pension contributions	(119.4)	(54.6)
Prepaid expenses and other current assets	63.3	175.8
Compensation and benefits	360.9	93.2
United States and foreign taxes	75.9	125.4
Other assets and liabilities	114.3	85.0
Total adjustments	11.0	(470.9)
<b>TOTAL CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>1.2</b>	<b>(851.3)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(278.3)	(266.3)
Short-term securities redeemed		26.1
Asset dispositions	13.9	87.5
Acquisitions	(61.8)	(71.2)
Other transactions	35.9	82.9
<b>TOTAL CASH FLOWS FROM INVESTING ACTIVITIES</b>	<b>(290.3)</b>	<b>(141.0)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Short-term debt incurred	162.5	318.3
Short-term debt paid	(105.8)	(487.1)
Long-term debt incurred	1,740.9	2,912.6
Long-term debt paid	(1,312.7)	(1,575.8)
Common stock issued	0.3	0.1

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Dividends paid to Sumitomo Rubber Industries, LTD.	(13.0)	(15.7)
Debt issuance costs	(45.1)	(104.1)
Increase in restricted cash	(61.7)	(6.0)
Other transactions		27.9
<b>TOTAL CASH FLOWS FROM FINANCING ACTIVITIES</b>	<b>365.4</b>	<b>1,070.2</b>
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(18.8)	34.4
<b>Net Change in Cash and Cash Equivalents</b>	<b>57.5</b>	<b>112.3</b>
Cash and Cash Equivalents at Beginning of the Period	1,546.3	919.8
<b>Cash and Cash Equivalents at End of the Period</b>	<b>\$ 1,603.8</b>	<b>\$ 1,032.1</b>

*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)**

*All per share amounts in these Notes to Consolidated Financial Statements are diluted unless otherwise indicated.*

**NOTE 1. ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited, restated consolidated financial statements have been prepared in accordance with Form 10-Q instructions and in the opinion of management contain all adjustments (including normal recurring adjustments) necessary to present fairly the consolidated financial position, results of operations and cash flows for the periods presented. The preparation of statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. These restated interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (the "2004 10-K"). Refer to Note 1A, Restatement, for further discussion.

Operating results for the three and nine months ended September 30, 2004 are not necessarily indicative of the results expected in subsequent quarters or for the year ending December 31, 2004.

**Consolidation of Variable Interest Entities**

In January 2003, the Financial Accounting Standards Board (the "FASB") issued Interpretation No. 46, "Consolidation of Variable Interest Entities" an Interpretation of ARB No. 51, as amended by FASB Interpretation No. 46 (revised December 2003) (collectively, "FIN 46"). FIN 46 requires companies to consolidate, at fair value, the assets, liabilities and results of operations of variable interest entities (VIEs) in which the equity investment at risk is not sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties or in which they hold a controlling financial interest through means other than the majority ownership of voting equity. Controlling financial interests typically are present when a company either 1) has the direct or indirect ability to make decisions about the VIE's activities, 2) holds an obligation to absorb expected losses of a VIE, or 3) is entitled to receive the expected residual returns of a VIE. FIN 46 became effective immediately for all VIEs created after January 31, 2003, and required certain disclosures in financial statements issued after January 31, 2003, about the nature, purpose, size and activities of all VIEs covered by its provisions, and their maximum exposure to loss. FIN 46 also required companies to consolidate VIEs created before February 1, 2003, in financial statements for periods ending after June 15, 2003. During 2003, the FASB delayed the required implementation date of FIN 46 for entities that are not special purpose entities (SPEs) until the first reporting period ending after March 15, 2004.

The Company applied the provisions of FIN 46, effective July 1, 2003, to those VIEs representing lease-financing arrangements with SPEs. The Company is a party to lease agreements with several unrelated SPEs that are VIEs as defined by FIN 46. The agreements are related to certain North American distribution facilities and certain corporate aircraft. The assets, liabilities and results of operations of these SPEs were consolidated in the third quarter of 2003.

The Company had evaluated the impact of FIN 46 for entities that are not SPEs and deferred, until the first quarter of 2004, the application of FIN 46 to two previously unconsolidated investments; South Pacific Tyres (SPT), a tire manufacturer, marketer and exporter of tires in Australia and New Zealand, and T&WA, a wheel mounting operation in the United States which ships to original equipment manufacturers. The Company consolidated these investments effective January 1, 2004. This consolidation was treated as a non-cash transaction on the Consolidated Statements of

Cash Flows with the exception of approximately \$24 million of cash and cash equivalents from SPT and T&WA which is included in other assets and liabilities in the operating activities section of the statement. The consolidation of SPT and T&WA resulted in an increase in total assets of approximately \$371 million (as restated) and total liabilities of approximately \$373 million (as restated). Net sales for both SPT and T&WA of approximately \$315 million and \$896 million were included in Goodyear's total consolidated net sales for the third quarter and first nine months of 2004, respectively. Income before income taxes for both SPT and T&WA was approximately \$6 million (as restated) for the first nine months of 2004. In connection with the consolidation of SPT and T&WA during the first quarter of 2004,

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

Goodyear recorded approximately \$5 million of goodwill. This increase in goodwill was partially offset by approximately \$2 million of translation adjustments.

Goodyear and certain of its subsidiaries guarantee certain debt obligations of SPT and T&WA. Goodyear, Goodyear Australia PTY Limited, a wholly-owned subsidiary of Goodyear, and certain subsidiaries of Goodyear Australia Limited PTY guarantee SPT's obligations under credit facilities in the amount of \$74.0 million. The guarantees are unsecured. The SPT credit facilities are secured by certain subsidiaries of SPT. As of September 30, 2004, the carrying amount of the secured assets of these certain subsidiaries was \$213.5 million, consisting primarily of accounts receivable, inventory and fixed assets. Goodyear guarantees an industrial revenue bond obligation of T&WA in the amount of \$6.7 million. The guarantee is unsecured.

**Restricted Cash**

Restricted cash includes insurance proceeds related to Entran II litigation as well as cash deposited in support of trade agreements and performance bonds, and historically has included cash deposited in support of borrowings incurred by subsidiaries. Refer to Note 7, Commitments and Contingent Liabilities, for further information about Entran II claims. At September 30, 2004, cash balances totaling \$85.6 million were subject to such restrictions, compared to \$23.9 million at December 31, 2003.

**Stock-Based Compensation**

The Company uses the intrinsic value method to measure compensation cost for stock-based compensation. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's common stock at the date of grant over the amount an employee must pay to acquire the stock. Compensation cost for stock appreciation rights and performance units is recorded based on the quoted market price of the Company's stock at the end of the reporting period. Refer to Note 4.

The following table presents the pro forma effect from using the fair value method to measure compensation cost:

	<b>Restated</b>			
	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
<i>(In millions, except per share amounts)</i>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
Net income (loss) as reported	\$ 38.5	\$ (120.3)	\$ (9.8)	\$ (380.4)
Add: Stock-based compensation expense included in net loss (net of tax)	1.7	0.5	2.4	0.5
Deduct: Stock-based compensation expense calculated using the fair value method (net of tax)	(5.2)	(7.2)	(12.8)	(20.6)
Net income (loss) as adjusted	\$ 35.0	\$ (127.0)	\$ (20.2)	\$ (400.5)
Net income (loss) per share:				
Basic as reported	\$ 0.22	\$ (0.69)	\$ (0.06)	\$ (2.17)

as adjusted	0.20	(0.72)	(0.12)	(2.28)
Diluted as reported	\$ 0.20	\$ (0.69)	\$ (0.06)	\$ (2.17)
as adjusted	0.19	(0.72)	(0.12)	(2.28)

**Reclassification**

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2004 presentation.

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

**NOTE 1A. RESTATEMENT**

The consolidated financial statements have been restated in order to reflect certain adjustments to Goodyear's financial statements for 2004 as previously reported in Goodyear's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004 filed on November 9, 2004. The restatement also affects the three and nine month periods ended September 30, 2003. All amounts are before tax unless otherwise noted.

Refer to Note 2, Restatement and Supplementary Data in the 2004 Form 10-K for further discussion of this restatement including the adjustments recorded in annual and quarterly periods other than the third quarter and first nine months of 2004 and 2003. Accordingly, this footnote discusses the restatement adjustments included in the 2004 and 2003 Forms 10-K related only to the three and nine months ended September 30, 2004 and 2003.

***Restatements Included in 2003 Form 10-K***

The Company had restated by means of its Annual Report on Form 10-K for the year ended December 31, 2003, filed on May 19, 2004, its consolidated balance sheet as of December 31, 2002, and consolidated statement of operations, cash flows and shareholders' equity (deficit) for the years ended December 31, 2002 and 2001. The restatement also affected periods prior to 2001. In addition, the Company's 2003 and 2002 quarterly financial information had been restated to reflect adjustments to the Company's previously reported financial information on Form 10-Q for the quarters ended March 31, 2003, June 30, 2003, and September 30, 2003. These adjustments increased the previously reported net loss by \$12.3 million and \$24.9 million for the three and nine month periods ended September 30, 2003, respectively.

The restatements initially arose out of an intensified effort to reconcile certain general ledger accounts in the second and third quarters of 2003. As a result of the Company's efforts to reconcile these accounts, the Company identified various adjustments that were recorded in the second quarter of 2003 and subsequently identified additional adjustments that needed to be recorded. Based on an assessment of the impact of the adjustments, management and the Audit Committee decided to restate the Company's previously issued consolidated financial statements in the Form 10-Q for the quarter ended September 30, 2003 and for prior periods. Following the identification of these adjustments, PricewaterhouseCoopers LLP (PwC) advised the Company in October 2003 that the failure to identify certain issues that had affected several years financial statements related to the monitoring and review of general ledger accounts collectively resulted in a material weakness in internal controls that required strengthening of procedures for account reconciliations.

In December 2003, the Company discovered accounting irregularities in its European Union Tire business segment. The Audit Committee initiated a special investigation of these irregularities, and this investigation was subsequently expanded to other overseas locations. The investigations identified accounting irregularities primarily related to earnings management whereby accrual accounts were improperly adjusted between periods or expenses were improperly deferred. In the first and second quarters of 2004, the Company identified other adjustments. Some of these adjustments resulted from accounting irregularities including the understatement of workers' compensation liability and the valuation of real estate received in payment of trade accounts receivable in Chile. The Audit Committee also initiated an investigation into these adjustments. As a result of these investigations, management and the Audit Committee decided that a further restatement of our financial statements for 2003 and prior years was necessary.



In May 2004, PwC advised the Company that the circumstances it previously identified to the Company as collectively resulting in a material weakness had each individually become a material weakness. PwC advised the Company that this determination was due to the number of previously undetected errors that were attributable to the material weakness previously identified. A significant portion of these errors were detected by the Company. PwC further identified an additional material weakness resulting from intentional overrides of internal controls by those in authority, particularly related to the European Union Tire Segment and workers' compensation liability in the United States. These material weaknesses, if unaddressed, could result in material errors in the Company's financial statements. In addition, PwC advised the Company that it had identified as reportable conditions the Company's need to enhance certain finance personnel's knowledge of U.S. GAAP and internal controls and the need to enhance controls related to the establishment of bank accounts.

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

The restatement also included changes to the timing of certain previously recognized adjustments not arising from account reconciliations as well as other adjustments identified during the restatement process.

The adjustments resulting from the Company's initial restatement efforts, the special overseas accounting and workers' compensation investigations, and the 2003 year-end closing process are described as follows:

**Accounting Irregularities.** This category includes adjustments increasing income by \$4.9 million and \$0.4 million in the three and nine months ended September 30, 2003, respectively. These adjustments resulted from the overseas special accounting investigation and the understatement of the Company's liability for workers' compensation payments.

Adjustments increasing income by a total of \$6.6 million and \$4.5 million in the three and nine months ended September 30, 2003, respectively, were included in the restatement as a result of the special accounting investigation overseas. The majority of the adjustments addressed accrual accounts that were improperly adjusted between periods or expenses that were improperly deferred. These adjustments primarily related to accounts receivable, fixed assets, accounts payable-trade and other long-term liability accounts that were improperly adjusted. An adjustment was made to defer income of \$0.1 million beyond the first quarter of 2003 that was improperly recognized in the first quarter of 2003.

The workers' compensation adjustments reduced income by \$1.7 million and \$4.1 million in the three and nine months ended September 30, 2003, respectively. These adjustments resulted from an understatement of the Company's potential liability for estimated payments relating to workers' compensation claims by employees. In the first quarter of 2004, it was noted that claims arising from one of the Company's United States tire manufacturing plants were under-reserved. As a result, the Company, with the assistance of the outside administrator, reviewed approximately 85% of the open claims handled by this administrator at this plant as well as other facilities and determined that reserves needed to be increased to accurately value the claims. The under-reserving resulted in part from improper efforts to reduce, or restrict the amount of increase in, the reserves for certain workers' compensation claims leading to claims data in the Company's workers' compensation claims database that did not reflect the probable ultimate exposure to the Company.

A summary of the accounting irregularities adjustments that affected the three and nine months ended September 30, 2003 follows:

	<b>Three Months Ended September 30, 2003</b>	<b>Nine Months Ended September 30, 2003</b>
<i>(In millions)</i>		
(Income) Expense		
Accruals and deferred expenses — Europe and Asia	\$ (6.7)	\$ (4.5)
Deferred income — Europe	0.1	
Workers' compensation	1.7	4.1

\$ (4.9) \$ (0.4)

**Account Reconciliations.** This category includes adjustments decreasing income by \$10.5 million and \$17.3 million in the three and nine months ended September 30, 2003, respectively, resulting from the failure to either reconcile accounts or resolve certain reconciliation issues in a timely manner. The most significant adjustments in this category relate to certain reconciliations for accounts receivable, inventories, fixed assets, intercompany accounts, prepaid expenses and accounts payable-trade. Certain of these adjustments were associated with the integration of a new enterprise resource planning system (ERP) into the Company's accounting processes beginning in 1999.

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

The following categ