

GOODYEAR TIRE & RUBBER CO /OH/

Form 10-Q/A

June 18, 2004

Table of Contents

**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 March 31, 2003

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 [ü]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ü] 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 March 31, 2003: 175,309,002

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

ITEM 1. RESTATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS

CONSOLIDATED BALANCE SHEET

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO FINANCIAL STATEMENTS

**ITEM 2. RESTATED MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS**

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

ITEM 4. CONTROLS AND PROCEDURES

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

SIGNATURES

INDEX OF EXHIBITS

EX-12 Computation-Ratio of Earnings:Fixed Charges

EX-31.1 302 Certification - CEO

EX-31.2 302 Certification - CFO

EX-32.1 906 Certification - CEO/CFO

Table of Contents

EXPLANATORY NOTE

This Amendment No. 1 to The Goodyear Tire & Rubber Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003 (Form 10-Q/A) includes unaudited restated consolidated financial statements as of and for the three months ended March 31, 2003 and 2002, and an audited restated consolidated balance sheet as of December 31, 2002. The accompanying restated consolidated financial statements, including the notes to the accompanying restated consolidated financial statements, have been revised to reflect the restatement.

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, 2003 (the 2003 Form 10-K) filed on May 19, 2004, its consolidated balance sheet as of December 31, 2002, and consolidated statements of operations, cash flows, comprehensive income and shareholders' equity for the years ended December 31, 2002 and 2001. The restatement also affected periods prior to 2001. Note 2 to the financial statements included in the 2003 Form 10-K shows the impact of the restatement adjustments to retained earnings as of January 1, 2001, to reflect the impact of the restatement on periods prior to 2001. For information on the impact of the restatement on the years 2000 and 1999, reference is made to Item 6. Selected Financial Data in the Company's 2003 Form 10-K. In addition, the restatement impacts the first three quarters of 2003. The restated amounts for the second and third quarters of 2003 and the comparable interim periods in 2002 will be presented in the Company's Quarterly Reports on Form 10-Q/A for the quarterly periods ended June 30, 2003 and September 30, 2003, which will be filed as expeditiously as possible following the filing of the Form 10-Q for the quarterly period ended March 31, 2004.

Refer to Note 1A, Restatement for further information on the restatement impact for the first quarter of 2003.

For further discussion, see Item 8. Financial Statements Note 2. Restatement in the Company's 2003 Form 10-K, which discloses the nature of the restatement adjustments and shows the impact of the restatement adjustments on net loss and the cumulative impact of the adjustments on the Consolidated Statement of Operations and Consolidated Balance Sheet for each annual period on a restated basis.

This Form 10-Q/A amends and restates Items 1, 2, 3 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 Amendment No. 1 to the Company's Quarterly Report on Form 10-Q/A for prior periods and prior period comparisons reflect the balances and amounts on a restated basis.

Table of Contents

This Form 10-Q/A has not been updated for changes in events, estimates or other developments subsequent to April 30, 2003, the date of filing of the Quarterly Report on Form 10-Q for the period ended March 31, 2003. For a discussion of these subsequent events and developments as well as revisions to prior estimates please refer to the Company's 2003 Form 10-K filed on May 19, 2004.

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. RESTATED FINANCIAL STATEMENTS.**

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS AND RETAINED EARNINGS
(Unaudited)

| | Restated | |
|---|---|------------------|
| | Three Months Ended March 31, | |
| | 2003 | 2002 |
| (In millions, except per share) | | |
| NET SALES | \$3,545.8 | \$3,319.2 |
| Cost of Goods Sold | 2,962.8 | 2,755.4 |
| Selling, Administrative and General Expense | 571.3 | 527.0 |
| Rationalizations (Note 2) | 60.7 | |
| Interest Expense | 58.4 | 61.0 |
| Other (Income) and Expense (Note 3) | 43.6 | 19.8 |
| Foreign Currency Exchange | 0.9 | 13.8 |
| Equity in (Earnings) Losses of Affiliates | 3.4 | 5.8 |
| Minority Interest in Net Income of Subsidiaries | 10.2 | 13.4 |
| | <hr/> | <hr/> |
| Loss before Income Taxes (Benefit) | (165.5) | (77.0) |
| United States and Foreign Taxes (Benefit) on Loss | 31.0 | (18.0) |
| | <hr/> | <hr/> |
| NET LOSS | \$ (196.5) | \$ (59.0) |
| Retained Earnings at Beginning of Period | 1,782.5 | 3,089.3 |
| CASH DIVIDENDS | | (19.7) |
| | <hr/> | <hr/> |
| Retained Earnings at End of Period | \$1,586.0 | \$3,010.6 |
| | <hr/> | <hr/> |
| NET LOSS PER SHARE OF COMMON STOCK BASIC | \$ (1.12) | \$ (0.36) |
| | <hr/> | <hr/> |
| Average Shares Outstanding (Note 4) | 175.3 | 163.2 |

| | | |
|---|------------------|------------------|
| NET LOSS PER SHARE OF COMMON STOCK DILUTED | \$ (1.12) | \$ (0.36) |
| | _____ | _____ |
| Average Shares Outstanding (Note 4) | 175.3 | 163.2 |
| CASH DIVIDENDS PER SHARE | \$ | \$ 0.12 |
| | _____ | _____ |

The accompanying notes are an integral part of this financial statement.

Table of Contents

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

| | Restated | |
|--|--------------------------------------|------------------------------|
| | March 31, 2003 | December 31, 2002 |
| (In millions) | | |
| Assets: | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 685.1 | \$ 918.1 |
| Restricted cash (Note 1) | 35.0 | |
| Short term securities | | 24.3 |
| Accounts and notes receivable, less allowance (Note 5) | \$104.9 (\$102.1 in 2002) 1,764.7 | 1,438.1 |
| Inventories | | |
| Raw materials | 482.7 | 459.2 |
| Work in process | 116.2 | 97.4 |
| Finished products | 1,911.1 | 1,789.6 |
| | <hr/> | <hr/> |
| | 2,510.0 | 2,346.2 |
| Prepaid expenses and other current assets | 387.9 | 453.7 |
| | <hr/> | <hr/> |
| Total Current Assets | 5,382.7 | 5,180.4 |
| Long Term Accounts and Notes Receivable | 235.6 | 242.8 |
| Investments in and Advances to Affiliates | 140.9 | 139.2 |
| Other Assets | 252.4 | 253.0 |
| Goodwill and Other Intangible Assets | 764.8 | 764.0 |
| Prepaid and Deferred Pension Costs | 905.5 | 913.4 |
| Deferred Charges | 386.3 | 389.7 |
| Properties and Plants, less accumulated depreciation - \$6,751.5 (\$6,572.5 in 2002) | 5,178.3 | 5,156.2 |
| | <hr/> | <hr/> |
| TOTAL ASSETS | \$13,246.5 | \$13,038.7 |
| | <hr/> | <hr/> |
| Liabilities: | | |
| Current Liabilities: | | |
| Accounts payable-trade | \$ 1,564.0 | \$ 1,515.4 |
| Compensation and benefits | 926.5 | 913.6 |
| Other current liabilities | 495.6 | 512.3 |
| United States and foreign taxes | 491.3 | 358.2 |
| Notes payable | 165.1 | 283.4 |
| Long term debt due within one year | 59.6 | 369.8 |

| | | |
|---|-------------------|-------------------|
| Total Current Liabilities | 3,702.1 | 3,952.7 |
| Long Term Debt and Capital Leases | 3,604.4 | 2,989.8 |
| Compensation and Benefits | 4,524.9 | 4,497.3 |
| Other Long Term Liabilities | 532.7 | 615.7 |
| Minority Equity in Subsidiaries | 756.3 | 727.8 |
| | <hr/> | <hr/> |
| Total Liabilities | 13,120.4 | 12,783.3 |
| Commitments and Contingent Liabilities (Note 6) | | |
| Shareholders Equity: | | |
| Preferred Stock, no par value: | | |
| Authorized, 50.0 shares, unissued | | |
| Common Stock, no par value: | | |
| Authorized, 300.0 shares | | |
| Outstanding shares - 175.3 (175.3 in 2002) | | |
| after deducting 20.4 treasury shares (20.4 in 2002) | 175.3 | 175.3 |
| Capital Surplus | 1,390.1 | 1,390.1 |
| Retained Earnings | 1,586.0 | 1,782.5 |
| Accumulated Other Comprehensive Income (Loss) | (3,025.3) | (3,092.5) |
| | <hr/> | <hr/> |
| Total Shareholders Equity | 126.1 | 255.4 |
| | <hr/> | <hr/> |
| Total Liabilities and Shareholders Equity | \$13,246.5 | \$13,038.7 |
| | <hr/> | <hr/> |

The accompanying notes are an integral part of this financial statement.

Table of Contents

THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY
(Unaudited)

| (In millions) | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Shareholders Equity |
|--|-----------------|--------------------|----------------------|--|---------------------------------|
| Balance at December 31, 2002 | \$175.3 | \$1,390.1 | \$1,782.5 | \$(3,092.5) | \$ 255.4 |
| Comprehensive income (loss) for 2003: | | | | | |
| Net loss | | | (196.5) | | |
| Foreign currency translation | | | | 61.9 | |
| Minimum pension liability | | | | 2.5 | |
| Unrealized investment loss | | | | (1.3) | |
| Deferred derivative gain | | | | 4.1 | |
| Total comprehensive loss | | | | | (129.3) |
| Balance at March 31, 2003 as restated | \$175.3 | \$1,390.1 | \$1,586.0 | \$(3,025.3) | \$ 126.1 |

| | Restated | |
|--|--------------------|----------------------|
| | March 31, 2003 | December 31, 2002 |
| Accumulated Other Comprehensive Income (Loss) | | |
| Foreign currency translation adjustment | \$(1,329.0) | \$(1,390.9) |
| Minimum pension liability adjustment | (1,671.0) | (1,673.5) |
| Unrealized investment loss | (10.6) | (9.3) |
| Deferred derivative loss | (14.7) | (18.8) |
| Total | \$(3,025.3) | \$(3,092.5) |

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

Restated

Three Months Ended

| (In millions) | March 31, | |
|--|------------------|-----------------|
| | 2003 | 2002 |
| Net Loss | \$(196.5) | \$(59.0) |
| Other comprehensive income (loss): | | |
| Foreign currency translation | 61.9 | (21.7) |
| Minimum pension liability | 2.5 | 0.7 |
| Deferred derivative gain (loss) | 17.8 | (9.4) |
| Tax on deferred derivative gain (loss) | | 3.6 |
| Reclassification adjustment for amounts recognized in income | (13.9) | 9.2 |
| Tax on derivative reclassification adjustment | 0.2 | (3.5) |
| Unrealized investment loss | (1.3) | |
| Comprehensive Loss | \$(129.3) | \$(80.1) |

The accompanying notes are an integral part of this financial statement.

Table of Contents

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

| (In millions) | Restated | |
|--|---|-------------------|
| | Three Months Ended March 31, | |
| | 2003 | 2002 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | \$(196.5) | \$ (59.0) |
| Adjustments to reconcile net loss to cash flows from operating activities: | | |
| Depreciation and amortization | 148.2 | 147.0 |
| Rationalizations (Note 2) | 21.1 | |
| Asset sales (Note 3) | (1.0) | |
| Net cash flows from sale of accounts receivable (Note 5) | (71.6) | (57.1) |
| Changes in operating assets and liabilities, net of asset acquisitions and dispositions: | | |
| Accounts and notes receivable | (227.0) | (217.0) |
| Inventories | (133.1) | 37.1 |
| Accounts payable trade | 87.2 | 7.7 |
| Other assets and liabilities | 144.5 | (95.6) |
| | <u> </u> | <u> </u> |
| Total adjustments | (31.7) | (177.9) |
| | <u> </u> | <u> </u> |
| TOTAL CASH FLOWS FROM OPERATING ACTIVITIES | (228.2) | (236.9) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures | (97.0) | (75.6) |
| Short term securities redeemed | 25.2 | |
| Asset dispositions | 0.5 | |
| Other transactions | 7.9 | (20.1) |
| | <u> </u> | <u> </u> |
| TOTAL CASH FLOWS FROM INVESTING ACTIVITIES | (63.4) | (95.7) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Short term debt incurred | 696.1 | 23.6 |
| Short term debt paid | (280.1) | 32.9 |
| Long term debt incurred | 10.3 | 0.9 |
| Long term debt paid | (331.8) | (7.6) |
| Common stock issued | | 2.3 |

| | | |
|--|-------------------|-------------------|
| Dividends paid to Goodyear shareholders | | (19.7) |
| Debt issuance costs | (12.7) | |
| Increase in restricted cash | (35.0) | |
| Other transactions | 3.6 | |
| | <u> </u> | <u> </u> |
| TOTAL CASH FLOWS FROM FINANCING ACTIVITIES | 50.4 | 32.4 |
| Effect of Exchange Rate Changes on Cash and Cash Equivalents | 8.2 | (6.3) |
| | <u> </u> | <u> </u> |
| Net Change in Cash and Cash Equivalents | (233.0) | (306.5) |
| Cash and Cash Equivalents at Beginning of the Period | 918.1 | 953.6 |
| | <u> </u> | <u> </u> |
| Cash and Cash Equivalents at End of the Period | \$ 685.1 | \$ 647.1 |
| | <u> </u> | <u> </u> |

The accompanying notes are an integral part of this financial statement.

Table of Contents

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

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

NOTE 1. ACCOUNTING POLICIES

Adjustments

All adjustments, including all normal recurring adjustments, necessary for a fair statement of the results of these unaudited interim periods have been included.

These restated consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (the 2003 10-K).

Restricted Cash

The Company will from time to time maintain balances on deposit at various financial institutions as collateral for borrowings incurred by various subsidiaries. The availability of these balances is restricted to the extent of the borrowings. At March 31, 2003, cash balances totaling approximately \$35 million were subject to such restrictions.

Rationalizations

Goodyear adopted Statement of Financial Accounting Standards No. 146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities, effective for all exit or disposal activities initiated after December 31, 2002. SFAS 146 requires that liabilities for costs associated with exit or disposal activities be recognized when the liabilities are incurred, rather than when an entity commits to an exit plan. The new rules change the timing of liability and expense recognition related to exit or disposal activities, but not the ultimate amount of such expenses. Refer to Note 2.

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 the 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.

Table of Contents

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

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

| (In millions, except per share) | Restated | |
|---|---|-----------------|
| | Three Months Ended March 31, | |
| | 2003 | 2002 |
| Net loss as reported | \$(196.5) | \$(59.0) |
| Add: Stock-based compensation expense (income) included in net loss (net of tax) | (0.3) | (2.6) |
| Deduct: Stock-based compensation expense calculated using the fair value method (net of tax) | (6.4) | (6.0) |
| Net loss as adjusted | <u>\$(203.2)</u> | <u>\$(67.6)</u> |
| Net loss per share: | | |
| Basic - as reported | \$ (1.12) | \$(0.36) |
| - as adjusted | (1.16) | (0.41) |
| Diluted - as reported | \$ (1.12) | \$(0.36) |
| - as adjusted | (1.16) | (0.41) |

Reclassification

Certain items previously reported in specific financial statement captions have been reclassified to conform to the 2003 presentation.

NOTE 1A. RESTATEMENT

The financial statements have been restated in order to reflect certain adjustments to Goodyear's financial statements for 2003 as previously reported in Goodyear's Quarterly Report on Form 10-Q for the quarter ended March 31, 2003 (the Form 10-Q). The restatement also affects the three-month period ended March 31, 2002. The adjustments increased the net loss by \$33.2 million for the three-month period ended March 31, 2003, and decreased the net loss by \$4.2 million for the three-month period ended March 31, 2002. The restated financial information has been prepared by management and reflects all adjustments known to management.

The Company has 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 for the years ended December 31, 2002 and 2001. The restatement also affects periods prior to 2001. In addition, the Company's 2003 and 2002 quarterly financial information has 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. The Forms 10-Q/A for the quarterly periods ended June 30, 2003 and September 30, 2003 will be filed as expeditiously as possible following the filing of the Form 10-Q for the quarterly period ended March 31, 2004. Refer to Note 2, Restatement and supplementary data in the 2003 10-K for further discussion of the restatement including the adjustments recorded in annual and quarterly periods other than the first quarters of 2003 and 2002. Accordingly, this footnote discusses the restatement adjustments related only to the first quarters of 2003 and 2002.

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

Table of Contents

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

adjustments that were recorded in the second quarter and needed to be recorded in the third quarter of 2003 arising out of account reconciliations. Based on an assessment of the impact of the adjustments, management and the Audit Committee decided to restate the Company's previously issued financial statements on 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 or monitor certain conditions with respect to certain general ledger accounts collectively resulted in a material weakness in internal controls that required strengthening.

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 resulting in the understatement of workers' compensation liability and related to 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 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.

The Form 10-K for the year ended December 31, 2003 also includes 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 reducing income before tax by a total of \$1.6 million and \$2.2 million in the three months ending March 31, 2003 and 2002, respectively. These adjustments resulted from the overseas special accounting investigation, the understatement of the Company's liability for workers' compensation payments, and certain adjustments in Chile, including the correction of the valuation of real estate received in payment for trade accounts receivable.

Adjustments reducing income by a total of \$1.2 million and \$1.0 million before tax in the three months ended March 31, 2003 and 2002, 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

Table of Contents

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

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 before tax beyond the first quarter of 2003 that was improperly recognized in the first quarter of 2003.

The workers' compensation adjustments to reduce income totaled \$0.4 million and \$1.7 million before tax in the three months ended March 31, 2003 and 2002, 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.

In 2000, the Company received approximately 13 acres of land in Santiago, Chile, in payment for trade accounts receivable from one of its Chilean customers. At the time, the Company recorded the land based upon an inappropriate appraisal. In the first quarter of 2004, the Company had an additional appraisal performed that appropriately valued the land at a much lower value. The Audit Committee requested an investigation into the matter, and as a result, the Company recorded an adjustment to reduce the valuation of the land. The Company also identified other adjustments in Chile whereby accrual accounts were improperly adjusted between periods or expenses were improperly deferred. Adjustments of \$0.5 million before tax were recorded related to these accounts in the three months ended March 31, 2002.

A summary of the accounting irregularities adjustments and the time periods affected follows:

| (In millions, all amounts before tax) | Three Months Ended March 31, | |
|--|---|-------------|
| | 2003 | 2002 |
| Income (Expense) | | |
| Accruals and deferred expenses Europe and Asia | \$ 1.3 | \$ 1.0 |
| Deferred income Europe | (0.1) | |
| Workers' compensation | 0.4 | 1.7 |
| Accruals and deferred expenses Chile | | (0.5) |
| | <hr/> | <hr/> |
| | \$ 1.6 | \$ 2.2 |
| | <hr/> | <hr/> |

Account Reconciliations. This category includes adjustments reducing income totaling \$27.7 million before tax and increasing income \$9.4 million before tax in the three months ended March 31, 2003 and 2002, 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.

Table of Contents

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

The following categories represent a majority of the account reconciliation adjustments included in the restatement (all amounts are before tax unless otherwise noted):

- A. *Interplant.* Goodyear uses an internal system, the Interplant System, to track the procurement and transfer of fixed assets, raw materials and spare parts acquired or manufactured by Goodyear units in the United States for its foreign manufacturing locations. \$1.3 million of expense and \$0.1 million of income are included in the three months ended March 31, 2003 and 2002, respectively, for Interplant adjustments. The most significant items in this category are 1) fixed assets and inventory which were not properly relieved from the Interplant System when they were billed to the foreign manufacturing locations and accordingly now have to be expensed and 2) the correction of a failure to depreciate fixed assets.
- B. *Engineered Products (EPD).* It was not possible to allocate the amount of this adjustment to applicable periods and accordingly, Goodyear recorded substantially all of this adjustment in the first quarter of 2003. This adjustment includes the write-off of \$21.3 million consisting of \$3.7 million in intercompany accounts and \$17.6 million related to payables and other accounts. Of this amount, \$19.0 million and \$2.8 million are included in the three months ending March 31, 2003 and 2002, respectively, for EPD adjustments. Several factors relating to the Company's ERP systems implementation resulted in EPD's inability to locate or recreate account reconciliations for prior periods.
- C. *Fixed Assets.* The adjustments to other fixed assets related primarily to the understatement of depreciation expenses and the write-off of assets previously disposed. \$0.6 million and \$1.1 million are included in the three months ending March 31, 2003 and 2002, respectively, for these adjustments.
- D. *General and Product Liability.* The expense for general and product claims increased \$2.0 million for the three months ended March 31, 2003 related to the timing of the recognition of certain liabilities for Entran II claims. In addition, net adjustments totaling \$18.3 million were recorded in OCI through March 31, 2003. An adjustment was made to record an \$18 million charge to deferred derivative losses, with an offsetting credit to liabilities. This adjustment was associated with three interest rate swaps and a cross-currency contract for the period March 2001 through March 2003. An adjustment was also made to record a \$3.0 million charge to currency translation, with an offsetting credit to long-term assets. This adjustment affected the period from January 1, 2003 to March 31, 2003. These adjustments were identified in conjunction with the completion of account reconciliations.

Out-of-Period Adjustments. This category includes adjustments previously identified but deemed to be immaterial and recorded in the period the Company identified the error or in a subsequent period. Adjustments in this category change the timing of income and expense items that were previously recognized. Income of \$0.7 million and \$2.8 million before tax is included in the three months ending March 31, 2003 and 2002, respectively for out of period adjustments.

Discount Rate Adjustments. In preparing the 2003 annual financial statements, the Company reassessed the estimate of the discount rate used in determining the net periodic benefit cost and benefit obligations of the Company's domestic pension, workers' compensation and other postretirement benefit plans. Consistent with that effort and the restatement process, the Company determined that it would be appropriate to make similar reassessments for discount rates for all periods presented. As a result, the discount rate was revised to 6.75%, 7.25% and 7.50% from 7.25%, 7.75% and 8.00% for 2003, 2002 and 2001, respectively. Income before tax was decreased by \$4.3

Table of Contents

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

million and \$3.7 million in the three months ended March 31, 2003 and 2002, respectively. This change also resulted in a charge to deferred pension costs in OCI totaling \$150.1 million for the years ended December 31, 2002 and 2001. Additionally, in 2002, the Company had established a valuation allowance against its net Federal and state deferred tax assets. Accordingly, this restatement includes a charge to income tax expense of \$81.2 million to provide a valuation allowance against the tax benefit included in the adjustment to OCI in 2001, and a charge to OCI of \$10.8 million to provide a valuation allowance against the tax benefit included in the adjustment to OCI in 2002. These adjustments similarly impacted OCI at March 31, 2003.

Chemical Products Segment. This category primarily includes adjustments identified as a result of a stand-alone audit conducted in 2003 of a portion of the Chemical Products business segment. The most significant adjustments in this category relate to the timing of the recognition of manufacturing variances to reflect the actual cost of inventories, the fair value adjustment of a hedge for natural gas, and the correction of intercompany profit elimination in inventory to eliminate selling and administrative expenses in inventory. Income of \$2.4 million and \$2.3 million before tax is included in the three months ended March 31, 2003 and 2002, respectively, for Chemical Products segment adjustments.

Tax Adjustments. Adjustments related to the correction of errors in the computation of deferred tax assets and liabilities were \$2.7 million and \$4.4 million in the three months ended March 31, 2003 and 2002, respectively.

Table of Contents

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

Effect of restatement adjustments on Goodyear's previously issued financial statements**Increase (decrease) in Income (loss)**

| (In millions, except per share) | Three Months Ended March 31, | |
|---|---|-------------|
| | 2003 | 2002 |
| Net loss as originally reported | \$(163.3) | \$(63.2) |
| Adjustments (pretax): | | |
| Accounting Irregularities | (1.6) | (2.2) |
| Account Reconciliations | (27.7) | 9.4 |
| Out-of-Period | 0.7 | 2.8 |
| Discount Rate Adjustments | (4.3) | (3.7) |
| Chemical Products Segment | 2.4 | 2.3 |
| | (30.5) | 8.6 |
| Total adjustments (pretax) | (30.5) | 8.6 |
| Tax effect of restatement adjustments | (2.7) | 1.9 |
| Tax adjustments | | (6.3) |
| | (2.7) | (4.4) |
| Total taxes | (2.7) | (4.4) |
| | (33.2) | 4.2 |
| Total net adjustments | (33.2) | 4.2 |
| Net loss as restated | \$(196.5) | \$(59.0) |
| Per Share of Common Stock: | | |
| Net loss Basic as originally reported | \$ (0.93) | \$(0.39) |
| Effect of net adjustments | (0.19) | 0.03 |
| | \$ (1.12) | \$(0.36) |
| Net loss Basic as restated | \$ (1.12) | \$(0.36) |
| Net loss Diluted as originally reported | \$ (0.93) | \$(0.39) |
| Effect of net adjustments | (0.19) | 0.03 |
| | \$ (1.12) | \$(0.36) |

| | | | |
|----------|---------------------|-----------|-----------|
| Net loss | Diluted as restated | \$ (1.12) | \$ (0.36) |
|----------|---------------------|-----------|-----------|

The following table sets forth the effects of the restatement adjustments discussed above on the Consolidated Statement of Operations for the three months ended March 31, 2003 and 2002.

| (In millions, except per share) | Three Months Ended March 31, 2003 | | Three Months Ended March 31, 2002 | |
|---------------------------------|--------------------------------------|----------------|--------------------------------------|----------------|
| | As Originally Reported | As Restated | As Originally Reported | As Restated |
| | Net Sales | \$3,545.5 | \$3,545.8 | \$3,311.2 |
| Cost of Goods | | | | |