

GOODYEAR TIRE & RUBBER CO /OH/

Form 10-Q/A

August 03, 2004

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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 June 30, 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

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 June 30, 2003:

175,309,525

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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 June 30, 2003 (the Form 10-Q/A) includes unaudited restated consolidated financial statements as of June 30, 2003 and for the three and six month periods ended June 30, 2003 and 2002, and an audited restated consolidated balance sheet as of December 31, 2002. The accompanying restated consolidated financial statements, including the notes thereto, 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 first and third quarters of 2003 and the comparable interim periods in 2002 are presented in the Company's Quarterly Reports on Form 10-Q/A for the quarterly periods ended March 31, 2003 and September 30, 2003.

Refer to Note 1A, Restatement, for further information on the restatement impact for the second quarter and six months ended June 30, 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.

This Form 10-Q/A has not been updated for changes in events, estimates or other developments subsequent to July 30, 2003, the date of filing of the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 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.

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

(In millions, except per share)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
NET SALES	\$3,753.3	\$3,490.8	\$7,299.1	\$6,810.0
Cost of Goods Sold	3,038.8	2,796.0	6,001.6	5,551.4
Selling, Administrative and General Expense	594.0	554.9	1,165.3	1,081.9
Rationalizations (Note 2)	15.4		76.1	
Interest Expense	82.4	59.6	140.8	120.6
Other (Income) and Expense (Note 3)	29.4	20.5	73.0	40.3
Foreign Currency Exchange	18.1	(6.1)	19.0	7.7
Equity in (Earnings) Losses of Affiliates	0.9	1.9	4.3	7.7
Minority Interest in Net Income (Loss) of Subsidiaries	13.3	15.5	23.5	28.9
Income (Loss) before Income Taxes	(39.0)	48.5	(204.5)	(28.5)
United States and Foreign Taxes on Income (Loss)	14.0	23.8	45.0	5.8
NET INCOME (LOSS)	\$ (53.0)	\$ 24.7	(249.5)	(34.3)
Retained Earnings at Beginning of Period			1,782.5	3,089.3
CASH DIVIDENDS			(39.2)	(39.2)
Retained Earnings at End of Period			\$1,533.0	\$3,015.8
NET INCOME (LOSS) PER SHARE OF COMMON STOCK BASIC	\$ (0.30)	\$ 0.15	\$ (1.42)	\$ (0.21)

Average Shares Outstanding (Note 4)	175.3	163.3	175.3	163.2
NET INCOME (LOSS) PER SHARE OF COMMON STOCK DILUTED	\$ (0.30)	\$ 0.15	\$ (1.42)	\$ (0.21)
	_____	_____	_____	_____
Average Shares Outstanding (Note 4)	175.3	164.3	175.3	163.2
CASH DIVIDENDS PER SHARE	\$ _____	\$ 0.12	\$ _____	\$ 0.24
	_____	_____	_____	_____

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

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

(In millions)	Restated June 30, 2003	December 31, 2002
Assets:		
Current Assets:		
Cash and cash equivalents	\$ 1,144.1	\$ 918.1
Restricted cash (Note 1)	32.4	
Short term securities		24.3
Accounts and notes receivable, less allowance \$111.9 (\$102.1 in 2002) (Note 5)	2,585.4	1,438.1
Inventories:		
Raw materials	476.5	459.2
Work in process	114.9	97.4
Finished products	2,033.7	1,789.6
	<hr/>	<hr/>
	2,625.1	2,346.2
Prepaid expenses and other current assets	284.6	453.7
	<hr/>	<hr/>
Total Current Assets	6,671.6	5,180.4
Long Term Accounts and Notes Receivable	317.8	242.8
Investments in and Advances to Affiliates	146.9	139.2
Other Assets	74.6	253.0
Goodwill	601.7	602.6
Other Intangible Assets	171.2	161.4
Prepaid and Deferred Pension Costs	917.8	911.2
Deferred Charges	500.2	391.9
Properties and Plants, less accumulated depreciation \$6,958.8 (\$6,572.5 in 2002)	5,234.2	5,156.2
	<hr/>	<hr/>
Total Assets	\$14,636.0	\$13,038.7
	<hr/>	<hr/>
Liabilities:		
Current Liabilities:		
Accounts payable-trade	\$ 1,553.7	\$ 1,515.4
Compensation and benefits	930.4	913.6
Other current liabilities	447.2	512.3
United States and foreign taxes	458.6	358.2
Notes payable (Note 7)	129.4	283.4
Long term debt due within one year (Note 7)	42.4	369.8

Total Current Liabilities	3,561.7	3,952.7
Long Term Debt and Capital Leases (Note 7)	4,853.3	2,989.8
Compensation and Benefits	4,604.9	4,497.3
Other Long Term Liabilities	635.4	615.7
Minority Equity in Subsidiaries	772.8	727.8
Total Liabilities	14,428.1	12,783.3
Commitments and Contingent Liabilities (Note 8)		
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	1,390.2	1,390.1
Retained Earnings	1,533.0	1,782.5
Accumulated Other Comprehensive Income (Loss)	(2,890.6)	(3,092.5)
Total Shareholders Equity	207.9	255.4
Total Liabilities and Shareholders Equity	\$14,636.0	\$13,038.7

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

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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			(249.5)		
Foreign currency translation				201.8	
Minimum pension liability				(21.1)	
Unrealized investment gain				9.6	
Deferred derivative gain				11.6	
Total comprehensive loss					(47.6)
Common stock issued from treasury:					
Stock compensation plans		0.1			0.1
Balance at June 30, 2003 as restated	\$175.3	\$1,390.2	\$1,533.0	\$(2,890.6)	\$ 207.9

	Restated June 30, 2003	December 31, 2002
Accumulated Other Comprehensive (Income) Loss		
Foreign currency translation adjustment	\$(1,189.1)	\$(1,390.9)
Minimum pension liability adjustment	(1,694.6)	(1,673.5)
Unrealized investment gain (loss)	0.3	(9.3)
Deferred derivative loss	(7.2)	(18.8)
Total	\$(2,890.6)	\$(3,092.5)

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

Restated

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net Income (Loss)	\$ (53.0)	\$ 24.7	\$ (249.5)	\$ (34.3)
Other Comprehensive income (loss):				
Foreign currency translation	139.9	65.1	201.8	43.4
Minimum pension liability	(23.6)	(4.1)	(21.1)	(3.4)
Deferred derivative gain	3.9	50.7	21.7	41.3
Tax on deferred derivative gain		(19.3)		(15.7)
Reclassification adjustment for amounts recognized in income	5.8	(50.7)	(8.1)	(41.5)
Tax on derivative reclassification adjustment	(2.2)	19.3	(2.0)	15.8
Unrealized investment gain	10.9	3.9	9.6	3.9
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Comprehensive Income (Loss)	\$ 81.7	\$ 89.6	\$ (47.6)	\$ 9.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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

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

(In millions)	Restated	
	Six Months Ended June 30,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$ (249.5)	\$ (34.3)
Adjustments to reconcile net loss to cash flows from operating activities:		
Depreciation and amortization	302.7	303.0
Rationalizations (Note 2)	21.1	
Asset sales (Note 3)	5.1	(0.8)
Net cash flows from sale of accounts receivable (Note 5)	(647.2)	12.3
Changes in operating assets and liabilities, net of asset acquisitions and dispositions:		
Accounts and notes receivable	(403.2)	(215.3)
Inventories	(191.3)	(27.6)
Accounts payable trade	59.1	73.2
Other assets and liabilities	235.9	(57.1)
	(617.8)	87.7
Total adjustments	(617.8)	87.7
TOTAL CASH FLOWS FROM OPERATING ACTIVITIES	(867.3)	53.4
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(183.4)	(172.7)
Short term securities acquired		(36.2)
Short term securities redeemed	26.0	
Asset dispositions (Note 6)	84.9	1.1
Asset acquisitions (Note 6)	(71.2)	(38.9)
Other transactions	101.4	(39.4)
	(42.3)	(286.1)
TOTAL CASH FLOWS FROM INVESTING ACTIVITIES	(42.3)	(286.1)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Short term debt incurred	408.6	74.7
Short term debt paid	(658.0)	(31.4)
Long term debt incurred	2,920.2	3.5
Long term debt paid	(1,441.1)	(32.3)
Common stock issued	0.1	2.4
Dividends paid to Sumitomo	(15.7)	(6.2)
Dividends paid to Goodyear shareholders		(39.2)
Debt issuance costs	(104.1)	

Increase in restricted cash (Note 1)	(32.4)	
Other transactions	27.9	
	<u> </u>	<u> </u>
TOTAL CASH FLOWS FROM FINANCING ACTIVITIES	1,105.5	(28.5)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	30.1	(13.9)
	<u> </u>	<u> </u>
Net Change in Cash and Cash Equivalents	226.0	(275.1)
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	\$ 1,144.1	\$ 678.5
	<u> </u>	<u> </u>

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

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**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

The accompanying unaudited 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 financial position, results of operations and cash flows for the periods presented. The preparation of financial 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 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, 2003 (the 2003 10-K).

Restricted Cash

The Company will from time to time maintain balances on deposit at various financial institutions primarily as collateral for borrowings incurred by various subsidiaries. The availability of these balances is restricted to the extent of the borrowings. At June 30, 2003, cash balances totaling \$32.4 million were subject to such restrictions.

Rationalizations

The Company 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, among other things, 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. SFAS 146 changes 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.

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THE GOODYEAR TIRE & RUBBER COMPANY AND SUBSIDIARIES
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(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 June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss) as reported	\$(53.0)	\$24.7	\$(249.5)	\$(34.3)
Add: Stock-based compensation expense (income) included in net income (loss) (net of tax)	0.3	(0.9)		(3.5)
Deduct: Stock-based compensation expense calculated using the fair value method (net of tax)	(7.0)	(7.7)	(13.4)	(13.7)
Net income (loss) as adjusted	<u>\$(59.7)</u>	<u>\$16.1</u>	<u>\$(262.9)</u>	<u>\$(51.5)</u>
Net income (loss) per share:				
Basic as reported	\$(0.30)	\$0.15	\$ (1.42)	\$(0.21)
as adjusted	(0.34)	0.10	(1.50)	(0.32)
Diluted as reported	\$(0.30)	\$0.15	\$ (1.42)	\$(0.21)
as adjusted	(0.34)	0.10	(1.50)	(0.32)

Reclassification

Certain items previously reported in specific financial statement captions have been reclassified to conform to the current 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 June 30, 2003 (the Form 10-Q). The restatement also affects the three- and six-month periods ended June 30, 2002. The adjustments increased the net loss by \$12.6 million for the six-month period ended June 30, 2003. For the six-month period ended June 30, 2002, the net loss was unchanged by the restatement adjustments. The adjustments reduced the net loss by \$20.6 million for the quarter ended June 30, 2003 and decreased the net income by \$4.2 million for the quarter ended June 30, 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 statements of operations, cash flows, and shareholders' equity 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 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. Form 10-Q/As have been filed for the quarterly periods ended March 31, 2003 and September 30, 2003. 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 second quarters of 2003 and 2002. Accordingly, this footnote discusses the restatement adjustments related only to the second quarters and six months of 2003 and 2002.

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

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 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. 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 that the Company had discovered 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 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 reducing income (increasing loss) before tax by a total of \$4.5 million and \$6.5 million in the six-month periods ended June 30, 2003 and 2002, respectively. Adjustments increasing the loss in the quarter ended June 30, 2003 and reducing income in the quarter ended June 30, 2002 before tax of \$2.9 million and \$4.3 million, respectively, were recorded. These adjustments resulted from the overseas special accounting investigation, the

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

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 \$2.1 million and \$4.4 million before tax in the six months ended June 30, 2003 and 2002, respectively, were included in the restatement as a result of the special accounting investigation overseas. For the quarters ended June 30, 2003 and 2002, income was reduced by \$0.9 million and \$3.4 million before tax, respectively. 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.

The workers' compensation adjustments reduced income \$2.4 million and \$3.3 million before tax in the six months ended June 30, 2003 and 2002, respectively. For the three months ended June 30, 2003 and 2002, income was reduced by \$2.0 million and \$1.6 million before tax, 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 increasing income by \$1.2 million before tax were recorded related to these accounts in the six months ended June 30, 2002, including \$0.7 million in the second quarter of 2002.

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

(In millions, all amounts before tax)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
(Income) Expense				
Accruals and deferred expenses - Europe and Asia	\$ 0.9	\$ 0.6	\$ 2.2	\$ 1.6
Deferred income - Europe		2.8	(0.1)	2.8
Workers' compensation	2.0	1.6	2.4	3.3
Accruals and deferred expenses - Chile		(0.7)		(1.2)

—	—	—	—
\$ 2.9	\$ 4.3	\$ 4.5	\$ 6.5
—	—	—	—

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

Account Reconciliations. This category includes before tax adjustments reducing income by \$6.8 million and increasing income by \$12.3 million in the six months ended June 30, 2003 and 2002, respectively, resulting from the failure to either reconcile accounts or resolve certain reconciliation issues in a timely manner. For the quarters ended June 30, 2003 and 2002, before tax income was increased by \$20.9 million and \$2.9 million, respectively. 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.

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. Expenses of \$1.5 million and \$0.1 million are included in the six months ended June 30, 2003 and 2002, respectively, for Interplant adjustments. For both the quarters ended June 30, 2003 and 2002, Interplant adjustments reducing income by \$0.2 million were recorded. 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, \$18.0 million and \$2.1 million are included in the six months ended June 30, 2003 and 2002, respectively, for EPD adjustments. For the quarters ended June 30, 2003 and 2002, EPD adjustments increasing income by \$1.0 million and \$0.7 million, respectively, were recorded. 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. \$1.7 million and \$1.6 million are included in the six months ended June 30, 2003 and 2002, respectively, for these adjustments. For the quarters ended June 30, 2003 and 2002, fixed asset adjustments reducing income by \$1.1 million and \$0.5 million, respectively, were recorded.

- D. *General and Product Liability.* The expense for general and product claims increased \$2.0 million for the six months ended June 30, 2003 related to the timing of the recognition of certain liabilities for Entran II claims.

In addition, net adjustments totaling \$6.3 million were recorded in Other Comprehensive Income ("OCI") through June 30, 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 \$6.5 million charge to currency translation, with an offsetting credit to long-term assets. This

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adjustment affected the period from January 1, 2003 to June 30, 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 \$0.5 million and \$8.6 million before tax is included in the six months ended June 30, 2003 and 2002, respectively, for out-of-period adjustments. For the quarters ended June 30, 2003 and 2002, out-of-period adjustments reducing income by \$0.2 million and increasing income by \$5.8 million, respectively, were recorded.

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 \$8.7 million and \$7.8 million in the six months ended June 30, 2003 and 2002, respectively. For the quarters ended June 30, 2003 and 2002, discount rate adjustments reducing income by \$4.4 million and \$4.1 million, respectively, were recorded. 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. Likewise, these adjustments impacted OCI at June 30, 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 \$1.7 million and \$1.3 million before tax is included in the six months ended June 30, 2003 and 2002, respectively, for Chemical Products segment adjustments. Expense of \$0.7 million and \$1.0 million before tax is included in the quarters ended June 30, 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.

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

(In millions, except per share)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income (loss) as originally reported	\$(73.6)	\$ 28.9	\$(236.9)	\$(34.3)
Adjustments (pretax):				
Accounting Irregularities	(2.9)	(4.3)	(4.5)	(6.5)
Account Reconciliations	20.9	2.9	(6.8)	12.3
Out-of-Period	(0.2)	5.8	0.5	8.6
Discount Rate Adjustments	(4.4)	(4.1)	(8.7)	(7.8)
Chemical Products Segment	(0.7)	(1.0)	1.7	1.3
	12.7	(0.7)	(17.8)	7.9
Total adjustments (pretax)	12.7	(0.7)	(17.8)	7.9
Tax effect of restatement adjustments	3.7	(0.1)	1.0	1.8
Tax adjustments	4.2	(3.4)	4.2	(9.7)
	7.9	(3.5)	5.2	(7.9)
Total taxes	7.9	(3.5)	5.2	(7.9)
	20.6	(4.2)	(12.6)	
Total net adjustments	20.6	(4.2)	(12.6)	
Net income (loss) as restated	\$(53.0)	\$ 24.7	\$(249.5)	\$(34.3)
Per Share of Common Stock:				
Net income (loss) Basic as originally reported	\$(0.42)	\$ 0.18	\$ (1.35)	\$(0.21)
Effect of net adjustments	0.12	(0.03)	(0.07)	—
Net income (loss) Basic as restated	\$(0.30)	\$ 0.15	\$ (1.42)	\$(0.21)
Net income (loss) Diluted as originally reported	\$(0.42)	\$ 0.18	\$ (1.35)	\$(0.21)
Effect of net adjustments	0.12	(0.03)	(0.07)	—

Net income (loss) Diluted as restated	<u>\$ (0.30)</u>	<u>\$ 0.15</u>	<u>\$ (1.42)</u>	<u>\$ (0.21)</u>
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The following tables set forth the effects of the restatement adjustments discussed above on the Consolidated Statement of Operations for the three- and six-month periods ended June 30, 2003 and 2002.

(In millions, except per share)	Three Months Ended June 30, 2003		Three Months Ended June 30, 2002	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Net Sales	\$3,758.2	\$3,753.3	\$3,478.8	\$3,490.8
Cost of Goods Sold	3,051.0	3,038.8	2,787.4	2,796.0
Selling, Administrative and General Expense	596.5	594.0	553.4	554.9
Rationalizations	17.6	15.4		
Interest Expense	82.0	82.4	59.6	59.6
Other (Income) and Expense	26.6	29.4	17.9	20.5
Foreign Currency Exchange	19.7	18.1	(6.1)	(6.1)
Equity in (Earnings) Losses of Affiliates	4.4	0.9	1.4	1.9
Minority Interest	12.1	13.3	16.0	15.5
	(51.7)	(39.0)	49.2	48.5
Income (Loss) before Income Taxes				
U.S. and Foreign Taxes on Income (Loss)	21.9	14.0	20.3	23.8
	\$ (73.6)	\$ (53.0)	\$ 28.9	\$ 24.7
Net Income (Loss)				
Net Income (Loss) per share Basic	\$ (0.42)	\$ (0.30)	\$ 0.18	\$ 0.15
Average Shares Outstanding	175.3	175.3	163.3	163.3
Net Income (Loss) per share Diluted	\$ (0.42)	\$ (0.30)	\$ 0.18	\$ 0.15
Average Shares Outstanding	175.3	175.3	164.3	164.3
(In millions, except per share)	Six Months Ended June 30, 2003		Six Months Ended June 30, 2002	
	As Originally Reported	As Restated	As Originally Reported	As Restated
Net Sales	\$7,303.7	\$7,299.1	\$6,790.0	\$6,810.0
Cost of Goods Sold	5,975.4	6,001.6	5,548.5	5,551.4

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Selling, Administrative and General				
Expense	1,170.4	1,165.3	1,078.5	1,081.9
Rationalizations	85.8	76.1		
Interest Expense	139.8	140.8	120.6	120.6
Other (Income) and Expense	69.5	73.0	36.1	40.3
Foreign Currency Exchange	19.1	19.0	7.2	7.7
Equity in (Earnings) Losses of Affiliates	6.9	4.3	6.0	7.7
Minority Interest	23.5	23.5	29.5	28.9
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Loss before Income Taxes	(186.7)	(204.5)	(36.4)	(28.5)
U.S. and Foreign Taxes on Income (Loss)	50.2	45.0	(2.1)	5.8
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Loss	\$ (236.9)	\$ (249.5)	\$ (34.3)	\$ (34.3)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Loss per share Basic	\$ (1.35)	\$ (1.42)	\$ (0.21)	\$ (0.21)
Average Shares Outstanding	175.3	175.3	163.2	163.2
Net Loss per share Diluted	\$ (1.35)	\$ (1.42)	\$ (0.21)	\$ (0.21)
Average Shares Outstanding	175.3	175.3	163.2	163.2

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The following table sets forth the effects of the restatement adjustments discussed above on the Consolidated Balance Sheet at June 30, 2003.

(In millions)	June 30, 2003	
	As Previously Reported	As Restated
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 1,182.8	\$ 1,144.1
Restricted cash		32.4
Accounts and notes receivable, less allowance \$111.9 (\$109.9 as previously reported)	2,608.0	2,585.4
Inventories:		
Raw materials	466.2	476.5
Work in process	110.8	114.9
Finished products	2,065.7	2,033.7
	<u>2,642.7</u>	<u>2,625.1</u>
Prepaid expenses and other current assets	306.8	284.6
	<u>6,740.3</u>	<u>6,671.6</u>
Total Current Assets	6,740.3	6,671.6
Long Term Accounts and Notes Receivable	315.9	317.8
Investments in and Advances to Affiliates	146.7	146.9
Other Assets	76.6	74.6
Goodwill and Other Intangible Assets	784.4	772.9
Prepaid and Deferred Pension Costs	924.7	917.8
Deferred Charges	501.1	500.2
Properties and Plants, less accumulated depreciation \$6,958.8 (\$6,956.2 as previously reported)	5,251.0	5,234.2
	<u>14,740.7</u>	<u>14,636.0</u>
TOTAL ASSETS	\$14,740.7	\$14,636.0
LIABILITIES:		
Current Liabilities:		
Accounts payable-trade	\$ 1,525.4	\$ 1,553.7
Compensation and benefits	965.9	930.4
Other current liabilities	427.0	447.2

United States and foreign taxes	466.7	458.6
Notes payable	129.4	129.4
Long term debt due within one year	42.3	42.4
	<u> </u>	<u> </u>
Total Current Liabilities	3,556.7	3,561.7
Long Term Debt and Capital Leases	4,851.0	4,853.3
Compensation and Benefits	4,309.4	4,604.9
Other Long Term Liabilities	624.2	635.4
Minority Equity in Subsidiaries	788.2	772.8
	<u> </u>	<u> </u>
TOTAL LIABILITIES	14,129.5	14,428.1
Commitments and Contingent Liabilities		
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 after deducting 20.4		
treasury shares	175.3	175.3
Capital Surplus	1,390.4	1,390.2
Retained Earnings	1,770.2	1,533.0
Accumulated Other Comprehensive Income (Loss)	(2,724.7)	(2,890.6)
	<u> </u>	<u> </u>
TOTAL SHAREHOLDERS EQUITY	611.2	207.9
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$14,740.7	\$14,636.0
	<u> </u>	<u> </u>

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NOTE 2. RATIONALIZATIONS

To maintain global competitiveness, Goodyear has implemented rationalization actions over the past several years for the purpose of reducing excess capacity, eliminating redundancies and reducing costs.

2003 Program

(In millions)	Restated		
	Associate- related Costs	Other Than Associate- related Costs	Total
First quarter charge	\$ 60.3	\$ 0.4	\$ 60.7
Second quarter charge	16.4	0.8	17.2
Incurred	(44.3)	(1.1)	(45.4)
Reversed	—	(0.1)	(0.1)
Accrual balance at June 30, 2003	\$ 32.4	\$ —	\$ 32.4

Goodyear recorded a net rationalization charge totaling \$76.1 million (as restated) (\$69.2 million after tax or \$0.39 per share (as restated)) during the first and second quarters of 2003, which included reversals of \$1.8 million (as restated) (\$1.4 million after tax or \$0.01 per share (as restated)) for reserves from rationalization actions no longer needed for their originally intended purposes and new charges of \$77.9 million (as restated) (\$70.6 million after tax or \$0.40 per share (as restated)). The second quarter net rationalization charge of \$15.4 million (as restated) (\$11.5 million after tax or \$0.06 per share (as restated)) included new charges of \$17.2 million (as restated) (\$12.9 million after tax or \$0.07 per share (as restated)) and reversals of \$1.8 million (as restated) (\$1.4 million after tax or \$0.01 per share (as restated)). The 2003 rationalization actions consist of research and development, retail, manufacturing and administrative consolidations in North America, Europe and Latin America. Of the \$77.9 million (as restated) charge, \$56.8 million (as restated) related to future cash outflows, primarily associate severance costs, and the remainder primarily represented non-cash pension curtailment charges. All of the \$17.2 million (as restated) second quarter charge related to future cash outflows. Goodyear plans to complete these actions during the first half of 2004.

Under the above programs, Goodyear provided for the release of approximately 1,300 research and development, retail, manufacturing and administrative associates in Europe, the United States and Latin America. During the first half of 2003, \$44.3 million (as restated) was incurred in associate-related costs, including \$20.0 million (as restated) during the second quarter of 2003.

Other than associate-related costs were for outplacement services and moving expenses. Goodyear incurred \$1.1 million (as restated) of other than associate-related costs during the first half of 2003, including \$0.8 million (as

restated) during the second quarter of 2003.

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The following table summarizes, by segment, the total amounts recorded in the six-month period ended June 30, 2003, and the total costs incurred in the three- and six-month periods ended June 30, 2003:

(In millions)	Restated		
	Recorded	Amount incurred for the three months ended June 30, 2003	Amount incurred for the six months ended June 30, 2003
North American Tire	\$48.5	\$ 13.6	\$ 36.6
European Union Tire	18.8	2.1	3.0
Latin American Tire	5.5	1.9	1.9
Engineered Products	3.2	1.9	2.2
Corporate	1.9	1.3	1.7
	\$77.9	\$ 20.8	\$ 45.4

The amounts recorded above include all costs expected to be incurred in connection with these activities with the exception of European Union Tire, which will incur approximately \$1 million of additional restructuring costs in the second half of 2003.

2002 Program

(In millions)	Restated		
	Associate- related Costs	Other Than Associate- related Costs	Total
Charge	\$ 19.5	\$ 7.0	\$ 26.5
Incurred	(2.7)	(2.9)	(5.6)
Reversed	(0.2)		(0.2)
	16.6	4.1	20.7
Accrual balance at December 31, 2002	(13.2)	(1.9)	(15.1)

	\$ 3.4	\$ 2.2	\$ 5.6
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Goodyear recorded a net rationalization charge totaling \$10.4 million (as restated) (\$12.1 million after tax or \$0.07 per share (as restated)) in 2002, which included reversals of \$16.1 million (as restated) (\$12.7 million after tax or \$0.07 per share (as restated)) for reserves from rationalization actions no longer needed for their originally intended purposes and new charges of \$26.5 million (\$23.0 million after tax or \$0.14 per share). The 2002 rationalization actions consisted of a manufacturing facility consolidation in Europe, the closure of a mold manufacturing facility and a plant consolidation in the United States, and administrative consolidations. Goodyear plans to complete these actions during 2003.

Under the above programs, Goodyear provided for the release of approximately 1,000 manufacturing and administrative associates in Europe and the United States. During the first half of 2003, approximately 450 associates were released, including approximately 270 associates in the second quarter of 2003. Goodyear incurred \$13.2 million of associate-related costs in the first half of 2003, including \$3.1 million during the second quarter of 2003.

Rationalization costs, other than associate-related costs, totaled \$7.0 million (as restated). These costs were primarily for the writeoff of equipment taken out of service in the Engineered Products and North American Tire Segments and noncancellable lease costs. Goodyear incurred \$1.9 million of other than associate-related costs during the first half of 2003, including \$0.4 million during the second quarter of 2003, primarily for ongoing noncancellable lease costs.

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Fourth Quarter 2001 Program

(In millions)	Restated		
	Associate- related Costs	Other Than Associate- related Costs	Total
Charge	\$ 53.1	\$ 83.1	\$ 136.2
Incurrd	(1.6)	(44.1)	(45.7)
	51.5	39.0	90.5
Accrual balance at December 31, 2001			
Incurrd	(41.0)	(4.9)	(45.9)
Reversed	(5.4)	(10.5)	(15.9)
	5.1	23.6	28.7
Accrual balance at December 31, 2002			
Incurrd	(2.9)	(1.6)	(4.5)
Reversed	(0.1)	(1.6)	(1.7)
	2.1	20.4	22.5
Accrual balance at June 30, 2003			

Goodyear recorded a net rationalization charge totaling \$136.2 million (as restated) (\$107.5 million after tax or \$0.65 per share (as restated)) in the fourth quarter of 2001. These actions were in response to continued competitive market conditions and worldwide economic uncertainty. Goodyear plans to complete these actions during the fourth quarter of 2003 with the exception of ongoing noncancellable lease payments. Reversals of prior year reserves no longer needed for their originally intended purposes totaling \$4.1 million were recorded during 2001.

Under the above programs, Goodyear provided for the release of approximately 2,200 associates around the world, primarily production and administrative associates. During the first half of 2003, approximately 70 associates were released, including approximately 10 associates in the second quarter of 2003. Goodyear incurred \$2.9 million of associate-related costs in the first half of 2003, including \$1.1 million during the second quarter of 2003. The reversal of \$0.1 million is primarily the result of lower than initially estimated associate-related payments.

Rationalization costs, other than associate-related costs, totaling \$83.1 million (as restated) were recorded. These costs were primarily for the writeoff of \$41.6 million (as restated) of tire production equipment taken out of service, principally related to the closure of a tire manufacturing facility in the Asia Tire Segment, and noncancellable lease costs. Goodyear incurred \$1.6 million of other than associate-related costs during the first half of 2003, including

\$0.9 million during the second quarter of 2003, primarily for noncancellable lease costs. The reversals of \$1.6 million are primarily the result of lower than initially estimated lease cancellation fees in the European Union.

NOTE 3. OTHER (INCOME) AND EXPENSE

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Asset sales	\$ 14.4	\$ (1.1)	\$ 13.0	\$ (1.1)
Interest income	(6.6)	(4.5)	(11.8)	(6.6)
Financing fees and financial instruments	25.1	12.0	53.1	23.0
General & product liability discontinued products	(9.1)	8.4	10.0	14.4
Miscellaneous	5.6	5.7	8.7	10.6
	\$ 29.4	\$ 20.5	\$ 73.0	\$ 40.3

Other (Income) and Expense for the first six months of 2003 included a loss of \$17.6 million (\$8.9 million after tax or \$0.05 per share) on the sale of 20,833,000 shares of

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Sumitomo Rubber Industries, Ltd. (SRI) and a gain of \$4.6 million (as restated) (\$3.8 million after tax or \$0.02 per share (as restated)) resulting from the sale of land in the Asia Tire Segment and the sale of assets in the European Union Tire Segment. Other (Income) and Expense for the second quarter of 2003 included a loss of \$17.8 million (as restated) (\$9.0 million after tax or \$0.05 per share (as restated)) on the sale of the SRI shares and the sale of assets in the European Union Tire Segment and a gain of \$3.4 million (as restated) (\$2.8 million after tax or \$0.02 per share (as restated)) on the sale of land in the Asia Tire Segment and the sale of assets in the European Union Tire Segment. Other (Income) and Expense in 2002 included a gain of \$1.1 million (as restated) (\$0.8 million after tax or \$0.00 per share (as restated)) on the sale of assets in the European Union Tire Segment.

Financing fees and financial instruments increased due to the costs incurred in connection with the restructuring and refinancing of the Company's bank credit and receivables securitization facilities. Refer to Note 7, Financing Arrangements, for further information about the restructuring and refinancing.

General & product liability discontinued products includes charges for claims against Goodyear related to asbestos personal injury claims and for other products no longer manufactured by the Company. Goodyear reclassified such charges from Selling, Administrative and General Expense (SAG) to Other (Income) and Expense during the second quarter of 2003, due to the non-operational nature of these claims. Charges for general and product liabilities related to ongoing operations continue to be recorded as SAG. Goodyear recorded charges for General & product liability-discontinued products totaling \$92.7 million (as restated) for the second quarter of 2003 and \$113.6 million (as restated) for the first six months of 2003. These charges primarily related to a proposed settlement for Entran II claims and asbestos personal injury claims. Also during the second quarter of 2003, Goodyear recorded a receivable of \$101.8 million, primarily from its excess liability insurance carriers related to General & product liability-discontinued products. This receivable reflects, in part, coverage of General & product liability-discontinued products for which Goodyear incurred charges prior to the second quarter of 2003. Refer to Note 8, Commitments and Contingent Liabilities, for further information about general and product liabilities.

NOTE 4. PER SHARE OF COMMON STOCK

Basic earnings per share has been computed based on the average number of common shares outstanding. The following table presents the number of incremental weighted average shares used in computing diluted per share amounts:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Average shares outstanding basic	175.3	163.3	175.3	163.2
Potential common stock stock options	—	1.0	—	—
Average shares outstanding diluted	175.3	164.3	175.3	163.2

For all periods presented, average shares outstanding-diluted excludes the effect of stock options with exercise prices that were greater than the average market price of the Company's common shares, as the effect would have been antidilutive. Had the Company recognized net income for the six month period ended June 30, 2002, average shares outstanding-diluted would have been increased by 1.7 million shares of potential common stock associated with stock options.

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NOTE 5. ACCOUNTS RECEIVABLE

Prior to April 1, 2003, Goodyear maintained a program for the continuous sale of substantially all of its domestic trade accounts receivable to Wingfoot A/R LLC, a wholly-owned limited liability subsidiary company that was a bankruptcy-remote special purpose entity. The results of operations and financial position of Wingfoot A/R LLC were not included in the consolidated financial statements of Goodyear as provided by Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. This program was terminated on April 1, 2003. Accordingly, accounts receivable sold under this program are now recognized on Goodyear's Consolidated Balance Sheet, and the related subordinated note receivable and investment in the equity of Wingfoot A/R LLC were derecognized. Goodyear's consolidated debt increased by \$577.5 million and Wingfoot A/R LLC transferred cash to Goodyear totaling \$32.2 million. This cash represented collections of accounts receivable which had not yet been reinvested in additional Goodyear receivables prior to the termination of the program.

The following table presents certain cash flows related to this program:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Proceeds from collections reinvested in previous securitizations	\$	\$1,451.8	\$1,089.1	\$2,904.4
Servicing fees received		1.5	1.2	2.9
Reimbursement for rebates and discounts issued		28.4	28.2	52.9
Cash used for termination of program		545.3	545.3	

International subsidiaries of Goodyear have established accounts receivable continuous sales programs whereunder these subsidiaries may receive proceeds from the sale of certain of their receivables to affiliates of certain banks. These subsidiaries retained servicing responsibilities. At June 30, 2003, the value in U.S. dollars of which these international subsidiaries may borrow is approximately \$169.6 million. The following table presents certain cash flows related to these programs:

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Proceeds from collections reinvested in previous securitizations	\$336.6	\$523.7	\$906.6	\$1,015.9
Reimbursement for rebates and discounts issued	16.2	8.8	44.3	21.5

In addition, various other international subsidiaries of Goodyear sold certain of their trade receivables at June 30, 2003 and December 31, 2002. The total amount of financing provided from all domestic and international agreements worldwide was \$296.8 million at June 30, 2003, compared to \$916.1 million at December 31, 2002. Included in the \$296.8 million at June 30, 2003 were receivable financing programs totaling \$127.2 million that did not utilize a special purpose entity.

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NOTE 6. INVESTMENTS

On April 8, 2003, the Company sold 20,833,000 shares of SRI for approximately \$83 million. Goodyear had acquired a 10% ownership of SRI as part of the 1999 global alliance between the two companies. Goodyear now holds approximately 1.5% of SRI's outstanding shares.

On April 18, 2003, the Company transferred its 80% ownership of Sava Tires Joint Venture Holding d.o.o. (Sava Tire), a tire manufacturing subsidiary in Slovenia, to Goodyear Dunlop Tires Europe B.V. (GDTE) for \$282.3 million. Goodyear owns 75% of GDTE. As a result of this transaction, Goodyear now indirectly owns 60% of Sava Tire.

On April 28, 2003, the Company purchased Arkansas Best Corporation's 19% ownership interest in Wingfoot Commercial Tire Systems, LLC, a joint venture company formed by Goodyear and Arkansas Best Corporation to sell and service commercial truck tires, provide retread services and conduct related business, for approximately \$71 million.

NOTE 7. FINANCING ARRANGEMENTS

Goodyear had credit arrangements of \$5.83 billion available at June 30, 2003, of which \$442.1 million were unused.

Short Term Debt and Financing Arrangements

At June 30, 2003, Goodyear had short term committed and uncommitted credit arrangements totaling \$405.0 million, of which \$275.6 million were unused. These arrangements are available to the Company or certain of its international subsidiaries through various domestic and international banks at quoted market interest rates. There are no commitment fees associated with these arrangements. The Company has \$30 million of cash on deposit to support \$27 million of short term committed credit.

Goodyear had outstanding debt obligations, which by their terms are due within one year, amounting to \$171.8 million (as restated) at June 30, 2003, compared to \$653.2 million at December 31, 2002. Current maturities of long term debt represented \$42.4 million (as restated) of this total, with a weighted average interest rate of 5.74% at June 30, 2003 (\$369.8 million and 7.83% at December 31, 2002, respectively). The remaining \$129.4 million was short term debt of international subsidiaries, with a weighted average interest rate of 6.38% at June 30, 2003 (\$283.4 million and 5.31% at December 31, 2002, respectively).

Long Term Debt and Financing Arrangements

At June 30, 2003, Goodyear had long term credit arrangements totaling \$5.43 billion, of which \$166.5 million were unused.

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The following table presents long term debt at June 30, 2003 and December 31, 2002:

(In millions)	Restated 2003	2002
5.375% Swiss franc bond due 2006	\$ 116.3	\$ 114.0
6.375% Euro Notes due 2005	456.6	418.8
Notes:		
8 1/8% due 2003		300.0
6 5/8% due 2006	270.7	269.2
8 1/2% due 2007	300.0	300.0
6 3/8% due 2008	99.8	99.8
7 6/7% due 2011	650.0	650.0
7% due 2028	149.0	149.0
Bank term loans due 2005 and 2006 (at December 31, 2002, due 2004 and 2005)	1,783.3	850.0
Revolving credit facilities due 2005 and 2006	902.0	
Other domestic and international debt	101.3	145.0
	<hr/>	<hr/>
	4,829.0	3,295.8
Capital lease obligations	66.7	63.8
	<hr/>	<hr/>
	4,895.7	3,359.6
Less portion due within one year	42.4	369.8
	<hr/>	<hr/>
	\$4,853.3	\$2,989.8
	<hr/>	<hr/>

At June 30, 2003, the fair value of Goodyear's long term fixed rate debt amounted to \$1.86 billion, compared to its carrying amount of \$2.17 billion. At December 31, 2002, the fair value of Goodyear's long term fixed rate debt amounted to \$2.10 billion, compared to its carrying amount of \$2.48 billion. The carrying value difference was attributable primarily to the payment at maturity of the 8 1/8% bonds in March 2003. The fair value was estimated using quoted market prices or discounted future cash flows. The fair value of \$200 million of the 6 5/8% Notes due 2006 was hedged by interest rate contracts at June 30, 2003 (\$250 million at December 31, 2002). The fair value of Goodyear's variable rate debt approximated its carrying amount at June 30, 2003 and December 31, 2002.

The Swiss franc bond, Euro Notes and related interest payments on each were fully hedged against currency exposure at June 30, 2003 and December 31, 2002.

The Notes and Euro Notes have an aggregate face amount of \$1.91 billion and are reported net of unamortized discounts aggregating \$1.9 million (\$2.17 billion and \$2.2 million, respectively, at December 31, 2002).

At June 30, 2003, the bank term loans due 2005 and 2006 were comprised of \$1.78 billion of variable rate agreements based upon LIBOR plus a fixed spread, bearing interest at a weighted average rate of 5.24% per annum, of which the interest rate on \$325.0 million principal amount of bank term loans due 2005 and 2006 was hedged by interest rate contracts. At December 31, 2002, the bank term loans due 2004 and 2005 are comprised of \$850.0 million of variable rate agreements based upon LIBOR plus a fixed spread bearing interest at a weighted average rate of 3.82% per annum, of which the interest rate on \$325 million principal amount of bank term loans due 2004 and 2005 was hedged by interest rate contracts. There were no domestic short term bank borrowings outstanding at June 30, 2003 or December 31, 2002.

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At June 30, 2003, borrowings under the revolving credit facilities due 2005 and 2006 were comprised of \$902.0 million of variable rate agreements based upon LIBOR plus a fixed spread bearing interest at a weighted average rate of 5.20% per annum.

Other domestic and international debt consisted of fixed and floating rate loans denominated in U.S. dollars and other currencies and maturing in 2003-2012. The weighted average interest rate in effect under these loans was 5.88% at June 30, 2003, compared to 6.15% at December 31, 2002.

On April 1, 2003, the Company completed a comprehensive restructuring and refinancing of its bank credit and receivables securitization facilities. After completing the restructuring and refinancing, the Company replaced a total of \$2,938 million in finance facilities with a total of \$3,345 million of finance facilities including:

\$750 million Senior Secured U.S. Revolving Credit Facility due April 2005;

\$645 million Senior Secured U.S. Term Facility due April 2005;

\$650 million Senior Secured European Facilities due April 2005; and

\$1.30 billion Senior Secured Asset-Backed Facilities due March 2006.

The Company had \$166.5 million of unused available committed credit under the new facilities as of June 30, 2003.

With the exception of approximately \$700 million in domestic accounts receivable securitizations and \$63 million in Canadian accounts receivable securitizations, each of the replaced finance facilities was unsecured. As of June 30, 2003, international subsidiaries had \$296.8 million of available borrowings under non-domestic accounts receivable securitization facilities.

The total fees and expenses incurred in 2003 for the restructuring and refinancing were \$118.4 million. In addition, the Company will pay a termination fee on the senior secured asset-backed facilities at termination estimated to be equal to 100 basis points of the aggregate principal amount. Of these costs, \$14.4 million was charged against income in the first quarter of 2003 and the remainder will be charged against income over the term of the agreements.

The accounts receivable and debt that are subject to the new \$1.30 billion asset-backed facilities are included on Goodyear's consolidated balance sheet at June 30, 2003. Accounts receivable subject to the terminated \$763 million domestic and Canadian accounts receivable programs were not included on the consolidated balance sheet at December 31, 2002.

\$750 Million Senior Secured U.S. Revolving Credit Facility

The Company's amended and restated senior secured \$750 million revolving credit facility is with domestic and international banks and financial institutions and provides for borrowing up to the \$750 million commitment at any time until April 30, 2005. Up to \$600 million of the facility is available for the issuance of letters of credit. Under the facility, as of June 30, 2003, there were borrowings of \$295.0 million and \$381.5 million in letters of credit issued. The Company pays an annual commitment fee of 75 basis points on the undrawn portion of the commitment under the U.S. revolving credit facility.

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\$645 Million Senior Secured U.S. Term Facility

As of June 30, 2003, domestic and international banks and other entities were participants in the U.S. term facility and the balance due on the facility was \$583.3 million due to a partial pay down of the balance during the second quarter. The U.S. term facility matures on April 30, 2005.

The Company may obtain loans under the U.S. revolving credit facility and the U.S. term facility (collectively, the U.S. facilities) bearing interest at LIBOR plus 400 basis points or an alternative base rate (the higher of JPMorgan s prime rate or the federal funds rate plus 50 basis points) plus 300 basis points. If loans under the \$645 million term facility remain outstanding on April 30, 2004, fees equal to 100 basis points (or 75 basis points if such facility has been reduced to not more than \$200 million) shall be paid to each lender on its ratable portion of the facility amount under the U.S. facilities.

The collateral pledged under the U.S. facilities includes:

subject to certain exceptions, all of the capital stock of the Company s domestic subsidiaries and 65% of the capital stock of its foreign subsidiaries;

perfected first-priority security interests in and mortgages on certain property, plant and equipment with a book value of at least \$1.00 billion;

perfected first-priority security interests in and mortgages on substantially all of Goodyear s other tangible and intangible assets including real property, equipment, contract rights and intellectual property; and

perfected second-priority security interests in all accounts receivable and inventory pledged as security under the Company s \$1.30 billion senior secured asset-backed facilities, cash and cash accounts, and 65% of the capital stock of Goodyear Finance Holding S.A.

The indentures for the Company s Swiss franc denominated bonds limit its ability to use its domestic tire and automotive parts manufacturing facilities as collateral for secured debt without triggering a requirement that bond holders be secured on an equal and ratable basis. The manufacturing facilities indicated above will be pledged to ratably secure the Company s Swiss franc denominated bonds to the extent required under the applicable indenture. However, the aggregate amount collateralized by these manufacturing facilities will be limited to 15% of the Company s shareholders equity, in order that the security interests granted to the lenders under the restructured facilities will not be required to be shared with the holders of indebtedness outstanding under the Company s other existing bond indentures.

The U.S. facilities contain certain covenants that, among other things, limit the Company s ability to incur additional secured indebtedness (including a limit, subject to certain exceptions, of \$275 million in accounts receivable transactions which is computed using the exchange rate as of the first day of the quarter), make investments, and sell assets beyond specified limits. The facilities prohibit Goodyear from paying dividends on its common stock. Goodyear must also maintain a minimum consolidated net worth (as such term is defined in the U.S. facilities) of at least \$2.80 billion and \$2.50 billion for quarters ending in 2003 and 2004, respectively, and \$2.00 billion for the quarter ending March 31, 2005. Goodyear also is not permitted to fall below a ratio of 2.25 to 1.00 of consolidated EBITDA to consolidated interest expense (as such terms are defined in the U.S. facilities) for any period of four consecutive fiscal quarters. In addition, Goodyear s ratio of consolidated senior secured indebtedness to

consolidated EBITDA (as such terms are defined in the U.S. facilities) is not permitted to be greater than 4.00 to 1.00 at any time.

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In addition, the U.S. term facility requires that any amount outstanding under the facility be prepaid with:

75% of the net cash proceeds of any asset sales or dispositions greater than \$5.0 million;

50% of net cash proceeds of any sale of the Engineered Products Segment; and

50% of the net cash proceeds of any debt or equity issuances.

Since April 1, 2003, the Company has used the proceeds of the sale of shares of SRI to pay down \$62.1 million of the U.S. term facility.

The U.S. facilities also limit the amount of capital expenditures the Company may make to \$360 million, \$500 million, and \$200 million in 2003, 2004 and 2005 (through April 30), respectively. The amounts of permitted capital expenditures may be increased by the amount of net proceeds retained by the Company from permitted asset sales and equity and debt issuances after application of the prepayment requirement in the U.S. term facility described above. As a result of the second quarter 2003 sale of 20,833,000 shares of SRI for approximately \$83 million discussed above, the capital expenditure limit for 2003 has increased from \$360 million to approximately \$381 million. In addition, to the extent the Company does not reach the limit of permitted capital expenditures in any given year, such shortfall may be carried over into the next year.

\$650 Million Senior Secured European Facilities

GDTE has entered into a \$250 million senior secured revolving credit facility and a \$400 million senior secured term loan facility (collectively, the European facilities). These facilities are with domestic and international banks and other financial institutions and mature on April 30, 2005. As of June 30, 2003, there were borrowings of \$250.0 million and \$400.0 million under the European revolving and term facilities, respectively.

GDTE pays an annual commitment fee of 75 basis points on the undrawn portion of the commitments under the European revolving facility. GDTE may obtain loans under the European facilities bearing interest at LIBOR plus 400 basis points or an alternative base rate (the higher of JPMorgan's prime rate or the federal funds rate plus 50 basis points) plus 300 basis points. If loans under the \$645 million U.S. term facility remain outstanding on April 30, 2004, fees equal to 100 basis points (or 75 basis points if such facility has been reduced to not more than \$200 million) shall be paid to each lender on its ratable portion of the facility amount under the term loan and the commitment amount under the revolving facility.

The collateral pledged under the European facilities includes:

all of the capital stock of Goodyear Finance Holding S.A. and certain subsidiaries of GDTE; and

a perfected first-priority interest in and mortgages on substantially all the tangible and intangible assets of GDTE in the United Kingdom, Luxembourg, France and Germany (and Slovenia if Sava Tire becomes a wholly-owned subsidiary of GDTE), including certain accounts receivable, inventory, real property, equipment, contract rights and cash and cash accounts, but excluding certain accounts receivable used in securitization programs.

Consistent with the covenants applicable to Goodyear in the U.S. facilities, the European facilities contain certain covenants applicable to GDTE and its subsidiaries which, among other things, limit GDTE's ability to incur additional indebtedness (including a limit of \$275 million in accounts receivable transactions which is

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computed using the exchange rate as of the first day of the quarter), make investments, sell assets beyond specified limits, pay dividends and make loans or advances to Goodyear companies that are not subsidiaries of GDTE. The European facilities also contain certain covenants applicable to the Company identical to those in the U.S. facilities. The European facilities also limit the amount of capital expenditures that GDTE may make to \$180 million, \$250 million and \$100 million in 2003, 2004 and 2005 (through April 30), respectively.

Subject to the provisions in the European facilities and agreements with Goodyear's joint venture partner, SRI (which include limitations on loans and advances from GDTE to Goodyear and a requirement that transactions with affiliates be consistent with past practices or on arms-length terms), GDTE is permitted to transfer funds to Goodyear.

Any amount outstanding under the term facility is required to be prepaid with:

75% of the net cash proceeds of all sales and dispositions of assets by GDTE and its subsidiaries greater than \$5 million; and

50% of the net cash proceeds of debt and equity issuances by GDTE and its subsidiaries.

The U.S. and European facilities can be used, if necessary, to fund ordinary course of business needs, to repay maturing debt, and for other needs as they arise.

\$1.30 Billion Senior Secured Asset-Backed Credit Facilities

The Company has also entered into senior secured asset-backed credit facilities in an aggregate principal amount of \$1.30 billion, consisting of a \$500 million revolving credit facility and an \$800 million term loan facility. As of June 30, 2003, there were borrowings of \$357.0 million and \$800.0 million under the revolving credit and term loan asset-backed facilities, respectively. These facilities may be increased to not more than \$1.60 billion through extensions of, or increases in, commitments by new or existing creditors. The facilities mature on March 31, 2006. Availability under the facilities is limited by a borrowing base equal to the sum of (a) 85% of adjusted eligible accounts receivable and (b) (i) if the effective advance rate for inventory is equal to or greater than 85% of the recovery rate (as determined by a third party appraisal) of such inventory, 85% of the recovery rate of such inventory, or (ii) if the effective advance rate for inventory is less than 85% of the recovery rate, (A) the sum of 35% of eligible raw materials, 65% of adjusted eligible finished goods relating to the North American Tire Segment, and 60% of adjusted eligible finished goods relating to the retail division, Engineered Products Segment and Chemical Products Segment minus (B) a rent reserve equal to three months' rent and warehouse charges at facilities where inventory is stored. The calculation of the borrowing base and reserves against inventory and accounts receivable included in the borrowing base are subject to adjustment from time to time by the administrative agent and the majority lenders in their discretion (not to be exercised unreasonably), based on the results of ongoing collateral and borrowing base evaluations and appraisals. Availability under the facilities is further limited by a \$50 million availability block. If at any time the amount of outstanding borrowings under the facilities exceeds the borrowing base, the Company will be required to prepay borrowings sufficient to eliminate the excess or maintain compensating deposits with the agent bank. The facilities are collateralized by a first-priority security interest in all accounts receivable and inventory of Goodyear and its domestic and Canadian subsidiaries (excluding accounts receivable and inventory related to the Company's North American joint venture with SRI). The facilities contain certain covenants which are materially the same as those in the U.S. facilities, with capital expenditures of \$500 million and \$150 million permitted in 2005 and 2006 (through March 31), respectively.

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Terminated or Amended Facilities

Until April 1, 2003, the Company was a party to two revolving credit facilities, consisting of a \$750 million five-year revolving credit facility and a \$575 million 364-day revolving credit facility. The Company was also a party to an \$800 million term loan agreement, a \$50 million term loan agreement, a \$700 million accounts receivable facility with respect to its domestic trade accounts receivable and an aggregate of \$346 million of non-domestic accounts receivable facilities. With the exception of (i) \$275 million of the non-domestic accounts receivable facilities, which remained in place as of April 1, 2003, and (ii) the \$750 million five-year revolving credit facility, which was amended and restated, each of these arrangements was terminated as of April 1, 2003, in connection with the restructuring and refinancing.

Refer to Note 5 for further information on the accounts receivable facilities.

Debt Maturities

The annual aggregate maturities of long term debt and capital leases for the five years subsequent to June 30, 2003 are presented below. Maturities of debt supported by the availability of the revolving credit agreements have been reported on the basis that the commitments to lend under these agreements will be terminated effective at the end of their current terms.

(In millions)	Restated				
	Twelve Months Ended June 30,				
	2004	2005	2006	2007	2008
Debt incurred under or supported by revolving credit agreements	\$	\$ 545.0	\$ 357.0	\$	\$
Other	42.4	1,449.3	965.5	576.1	106.5
	\$42.4	\$1,994.3	\$1,322.5	\$576.1	\$106.5

NOTE 8. COMMITMENTS AND CONTINGENT LIABILITIES

At June 30, 2003, Goodyear had binding commitments for raw materials and investments in land, buildings and equipment of \$328.2 million (as restated), and off-balance-sheet financial guarantees written and other commitments totaling \$73.8 million.

Warranty

At June 30, 2003, Goodyear recorded, in other current liabilities, \$11.8 million (as restated) (\$11.0 million (as restated) at December 31, 2002) for potential claims under warranties offered by the Company. Tire replacement under most of the warranties offered by Goodyear is on a prorated basis. Warranty reserves are based on past claims experience, sales history and other considerations. The amount of Goodyear's ultimate liability in respect of these matters may differ from these estimates.

The following table presents changes in the warranty reserve during the first six months of 2003:

(In millions)	Restated 2003
Balance at December 31, 2002	\$ 11.0
Settlements made during the period	(6.9)
Additional accrual for warranties issued during the period	7.7
	<hr/>
Balance at June 30, 2003	\$ 11.8
	<hr/>

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Environmental Matters

Goodyear had recorded liabilities totaling \$55.2 million at June 30, 2003 and \$53.5 million at December 31, 2002 for anticipated costs related to various environmental matters, primarily the remediation of numerous waste disposal sites and certain properties sold by Goodyear. Of these amounts, \$22.9 million and \$21.4 million were included in Other current liabilities at June 30, 2003 and December 31, 2002, 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 Goodyear's 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.

Workers Compensation

Goodyear had recorded liabilities, on a discounted basis, totaling \$161.9 million (as restated) and \$152.4 million for anticipated costs related to workers' compensation at June 30, 2003 and December 31, 2002, respectively. Of these amounts, \$76.2 million (as restated) and \$66.4 million were included in Current Liabilities as part of Compensation and benefits at June 30, 2003 and December 31, 2002, 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 Goodyear's assessment of potential liability using an analysis of available information with respect to pending claims, historical experience, and current cost trends. The amount of Goodyear's ultimate liability in respect of these matters may differ from these estimates.

General and Product Liability and Other Litigation

Goodyear recorded liabilities totaling \$356.7 million (as restated) at June 30, 2003, and \$240.7 million at December 31, 2002, for potential product liability and other tort claims, including related legal fees expected to be incurred, presently asserted against Goodyear. Of these amounts, \$87.7 million (as restated) and \$75.4 million were included in Other current liabilities at June 30, 2003 and December 31, 2002, respectively. Where the amount recorded reflects an estimate of the liability, this estimate was determined on the basis of 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. Goodyear does not believe that it is possible at the present time to reasonably estimate certain categories of liabilities detailed below and, accordingly, the amount recorded for potential product liability and other tort claims does not represent an overall estimate of Goodyear's liability for these items. The ultimate resolution of these matters may result in Goodyear recording additional liability.

Goodyear maintains primary and excess liability insurance coverage with respect to general and product liabilities. Goodyear does not record assets with respect to such policies until it determines that recovery is probable and it can reasonably estimate the amount of a particular recovery. With respect to general and product liability related insurance recoveries, Goodyear recorded assets at June 30, 2003, and December 31, 2002, which it expects to collect under coverage-in-place agreements with certain primary carriers. At June 30, 2003, Goodyear also recorded an amount it believes is probable of recovery from certain of its excess coverage insurance carriers.

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Goodyear has policies and coverage-in-place agreements with certain of its primary insurance carriers that cover a portion of estimated indemnity payments and legal fees in respect of pending general and product claims. At the end of the second quarter of 2003, Goodyear had allocated to currently pending claims previously accrued amounts available under policies with its primary insurance carriers.

Prior to the second quarter of 2003, Goodyear did not record any assets for expected recoveries from excess carriers in respect of certain general and product liability matters. Goodyear has asserted claims against certain of these excess carriers for indemnity and defense of general and product claims against Goodyear. After consultation with its outside legal counselors and giving consideration to relevant factors including the ongoing legal proceedings with certain of its excess coverage insurance carriers, their financial viability, their legal obligations and other pertinent facts, Goodyear determined an amount it expects is probable of recovery from such carriers. Accordingly, Goodyear recorded a receivable in Accounts and Notes Receivable on its Consolidated Balance Sheet at June 30, 2003. The receivable recorded in the second quarter of 2003 represents an estimate of recovery relating to potential general and product liabilities for which Goodyear incurred charges prior to, as well as during, the second quarter. As Goodyear establishes reserves for liabilities in respect of general and product claims made in future periods, Goodyear expects to record an asset for probable recoveries from excess carriers in respect of a portion of such liabilities.

Goodyear is a defendant in numerous lawsuits involving, at June 30, 2003, approximately 110,600 claimants (approximately 100,600 claimants at December 31, 2002) alleging various asbestos related personal injuries purported to result from alleged exposure to asbestos in certain rubber encapsulated products manufactured by Goodyear in the past or to asbestos in certain Goodyear facilities. Typically, these lawsuits have been brought against multiple defendants in state and Federal courts. In the past, Goodyear has disposed of approximately 22,600 cases by defending and obtaining the dismissal thereof or by entering into a settlement.

A summary of approximate asbestos claims activity in recent years 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 from period to period.

(Dollars in millions)	Six Months Ended	Year Ended December 31,	
	June 30, 2003	2002	2001
Pending claims, beginning of period	100,600	64,500	58,500
New claims filed	17,700	39,800	17,100
Claims settled/dismissed	(7,700)	(3,700)	(11,100)
	<u>110,600</u>	<u>100,600</u>	<u>64,500</u>
Pending claims, end of period	110,600	100,600	64,500
	<u>110,600</u>	<u>100,600</u>	<u>64,500</u>
Payments (1)	\$ 11.2	\$ 18.8	\$ 14.4
	<u>\$ 11.2</u>	<u>\$ 18.8</u>	<u>\$ 14.4</u>

(1) Amount spent on asbestos litigation defense and claim resolution before recovery of insurance proceeds.

The portion of the recorded liabilities for potential product liability and other tort claims relating to asbestos claims is based on pending claims only. The amount recorded reflects an estimate of the cost of defending and resolving pending claims, based on available information and our experience in disposing of asbestos claims in the past. Although the ultimate cost of disposing of pending asbestos claims and the future ability to recover from insurance carriers are uncertain, Goodyear believes that its reserve for pending asbestos claims, and the insurance assets recorded in respect of these claims, reflect reasonable and probable estimates of these amounts. Based on Goodyear's historical experience set forth above, Goodyear expects additional asbestos

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claims to be made, and additional liabilities to be incurred in respect of those claims. However, Goodyear does not believe that reasonable estimates can be determined for these liabilities, and no liability has been recorded for unknown asbestos claims. The estimate of the assets and liabilities related to asbestos claims and recovery is subject to numerous uncertainties, the ultimate outcome of which may result in significant changes to current estimates.

The Company is a defendant in seventeen class actions or potential class actions and four other civil actions in various Federal and state courts asserting non-asbestos property damage claims relating to Entran II, a rubber hose product that it supplied from 1989-1993 to Chiles Power Supply, Inc. (d/b/a Heatway Systems), a designer and seller of hydronic radiant heating systems in the United States. The plaintiffs in these actions are generally seeking recovery under various tort, contract and statutory causes of action, including breach of express warranty, breach of implied warranty of merchantability, breach of implied warranty of fitness for a particular purpose, negligence, strict liability and violation of state consumer protection statutes. The Company believes that Entran II hose is not defective and is vigorously defending all Entran II actions.

In addition to the actions referred to above, in 2002, two state courts in Colorado entered judgments against the Company in Entran II cases of \$22.7 million and \$1.3 million, respectively. The Company has appealed both of these judgments. No charge was recorded with respect to these judgments or any of the then pending Entran II claims through the first quarter of 2003 due to a history of favorable court judgments in Entran II actions and the Company's belief that the \$22.7 million and \$1.3 million verdicts were based on material errors of fact and law. In another action, on June 19, 2003, a jury in Colorado Federal court awarded a judgment against the Company of \$4.1 million. The Company intends to appeal this judgment.

Based on developments in Entran II litigation during the second quarter of 2003, Goodyear recorded a charge in Other (Income) and Expense for anticipated liabilities as part of General & product liability-discontinued products related to pending Entran II claims. The ultimate cost of disposing of Entran II claims is dependent upon a number of uncertainties, including any future judgments by courts in Entran II actions, the Company's ability to recover from its insurance carriers, the number and identification of potential claimants and the possibility of reaching a resolution with the Entran II claimants. As a result of these uncertainties, additional liabilities may arise for amounts in excess of the current reserve. These additional liabilities cannot now be reasonably estimated and could be material to the Company's consolidated financial position, results of operations and liquidity in future periods.

The Company is also a party to actions relating to alleged breaches of warranty or product defects relating to certain of Goodyear's Load Range D and E light truck tires.

Various other legal actions, claims and governmental investigations and proceedings covering a wide range of matters are pending against Goodyear and its subsidiaries. Management, after reviewing available information relating to such matters and consulting with Goodyear's General Counsel, has determined with respect to each such matter either that it is not reasonably possible that Goodyear has incurred any liability in respect thereof or that any liability ultimately incurred will not exceed the amount, if any, recorded at June 30, 2003, in respect thereof that would be material relative to the consolidated financial position, results of operations or liquidity of Goodyear. However, in the event of an unanticipated adverse final determination in respect of certain matters, Goodyear's consolidated financial

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position, results of operations or liquidity for the period in which such determination occurs could be materially affected.

Guarantees

The Company is a party to various agreements under which it has undertaken obligations resulting from the issuance of certain guarantees. The guarantees have been issued on behalf of the Company's affiliates or customers of the Company. The guaranteed party is typically a financial institution that has extended credit to these parties. Normally there is no separate premium received by the Company as consideration for the issuance of guarantees.

Customer Financing

At June 30, 2003, the Company had guarantees outstanding under which the maximum potential amount of payments totaled \$7.6 million, and which expire at various times through 2012.

Affiliate Financing

At June 30, 2003, the Company had guarantees outstanding under which the maximum potential amount of payments totaled \$18.0 million, and which expire at various times through 2011.

The Company holds a 50% equity interest in South Pacific Tyres (SPT), a partnership in Australia that manufactures and distributes tires. The terms of the partnership agreement provide that the Company is jointly and severally liable for all liabilities of the partnership. At June 30, 2003, SPT had debt totaling \$154.5 million, of which \$37.0 million was payable to Goodyear. The Company also owns, jointly and severally, all of the assets of the partnership.

The Company's percentage ownership of the net assets of the above affiliates is included on the Consolidated Balance Sheet as Investments in and Advances to Affiliates.

NOTE 9. BUSINESS SEGMENTS

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Sales:				
North American Tire	\$1,692.0	\$1,698.1	\$3,284.2	\$3,350.6
European Union Tire	961.4	810.7	1,889.7	1,556.7
Eastern Europe, Africa and Middle East Tire	268.6	193.2	496.0	367.7
Latin American Tire	258.3	254.0	490.0	499.7

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Asia Tire	149.1	134.7	289.8	256.3
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Tires	3,329.4	3,090.7	6,449.7	6,031.0
Engineered Products	299.0	303.9	590.9	587.0
Chemical Products	303.6	233.0	603.1	435.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Segment Sales	3,932.0	3,627.6	7,643.7	7,053.5
Inter-SBU Sales	(179.2)	(139.3)	(356.9)	(258.0)
Other	0.5	2.5	12.3	14.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net Sales	\$3,753.3	\$3,490.8	\$7,299.1	\$6,810.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Segment Operating Income (Loss):				
North American Tire	\$ (10.2)	\$ 34.5	\$ (76.7)	\$ (17.2)
European Union Tire	37.6	34.5	62.6	53.4
Eastern Europe, Africa and Middle East Tire	34.4	21.2	55.3	32.1
Latin American Tire	33.8	26.0	60.4	53.7
Asia Tire	12.7	12.2	25.9	20.2
Total Tires	108.3	128.4	127.5	142.2
Engineered Products	20.2	16.6	11.6	24.1
Chemical Products	20.6	17.5	52.0	39.9
Total Segment Operating Income	149.1	162.5	191.1	206.2
Rationalizations and asset sales	(29.8)	1.1	(89.1)	1.1
Interest expense	(82.4)	(59.6)	(140.8)	(120.6)
Foreign currency exchange	(18.1)	6.1	(19.0)	(7.7)
Minority interest in net income of subsidiaries	(13.3)	(15.5)	(23.5)	(28.9)
Inter-SBU income	(18.2)	(16.9)	(36.0)	(28.3)
Financing fees and financial instruments	(25.1)	(12.0)	(53.1)	(23.0)
Equity in earnings (losses) of corporate affiliates	(2.2)	(2.5)	(6.4)	(8.0)
General and product liability discontinued products	9.1	(8.4)	(10.0)	(14.4)
Other	(8.1)	(6.3)	(17.7)	(4.9)
Income (Loss) before Income Taxes	\$ (39.0)	\$ 48.5	\$ (204.5)	\$ (28.5)

Portions of items reported as Rationalizations and Other (Income) and Expense on the Consolidated Statement of Income were not charged to the strategic business units (SBU) for performance evaluation purposes, but were attributable to the SBUs as follows:

Restated

(In millions)	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Rationalizations:		
North American Tire	\$	\$ 48.5
European Union Tire	8.1	17.1
Eastern Europe, Africa and Middle East Tire	(0.1)	(0.1)
Latin American Tire	4.6	5.5
Asia Tire	—	—
Total Tires	12.6	71.0
Engineered Products	2.6	3.2
Chemical Products	—	—
Total Segments	15.2	74.2
Corporate	0.2	1.9
Total Rationalizations	\$15.4	\$ 76.1

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(In millions)	Restated	
	Three Months Ended June 30, 2003	Six Months Ended June 30, 2003
Other (Income) and Expense:		
North American Tire	\$	\$
European Union Tire	(1.1)	(2.5)
Eastern Europe, Africa and Middle East Tire		
Latin American Tire		
Asia Tire	(2.1)	(2.1)
	<u> </u>	<u> </u>
Total Tires	(3.2)	(4.6)
Engineered Products		
Chemical Products	<u> </u>	<u> </u>
Total Segments	(3.2)	(4.6)
Corporate	32.6	77.6
	<u> </u>	<u> </u>
Total Other (Income) and Expense	\$29.4	\$ 73.0
	<u> </u>	<u> </u>

Rationalizations and asset sales of \$1.1 million (as restated) for both the three- and six-month periods ended June 30, 2002 includes a gain of \$1.1 million (as restated) due to the sale of assets in the European Union Tire Segment.

NOTE 10. NON CONSOLIDATED OPERATIONS SOUTH PACIFIC TYRES

In addition to its consolidated operations in the Asia region, the Company owns a 50% interest in SPT, a partnership with Ansell Ltd. (formerly Pacific Dunlop Ltd) of Australia. SPT is the largest tire manufacturer, marketer and exporter in Australia and New Zealand. The Company is required to use the equity method to account for its interest in the results of operations and financial position of SPT.

The following presents 100% of the sales and operating income (loss) of SPT:

Restated

(In millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$158.4	\$142.3	\$300.5	\$263.3
Operating income (loss)	0.8	(1.3)	(0.2)	(5.9)

SPT debt totaled \$154.5 million at June 30, 2003, of which \$37.0 million is payable to Goodyear. At December 31, 2002, SPT debt totaled \$131.3 million, of which \$26.3 million was payable to Goodyear.

NOTE 11. SUBSEQUENT EVENTS

On July 29, 2003, the Company announced plans to shutdown its Cartersville, Georgia, facility effective October 1, 2003. The Engineered Products facility had supplied woven fabric to the Company's North American conveyor belt facilities and fabric for automotive coolant hose and air spring production. The plant's equipment will be purchased by Industrial Specialty Fabrics which will enter a supply agreement with Goodyear. Approximately 120 associates will be affected by this shutdown. Goodyear will record a charge during the third quarter of 2003 related to this shutdown.

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Recently Adopted Accounting Pronouncement

The Financial Accounting Standards Board has issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. 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 requires disclosures by companies, effective with financial statements issued after January 31, 2003, about the nature, purpose, size and activities of VIEs covered by its provisions, and their maximum exposure to loss. FIN 46 also requires companies to consolidate VIEs created before February 1, 2003, in financial statements for periods beginning after June 15, 2003.

The Company is a party to lease agreements with two unrelated special purpose entities (SPEs) that are VIEs as defined by FIN 46. The agreements are related to certain North American distribution facilities and certain corporate aircraft. The fair value of the assets and liabilities, and the Company's maximum exposure to loss prior to insurance recoveries, is approximately \$30 million in each SPE. Upon consolidation of the assets, liabilities and results of operations of these SPEs in the third quarter of 2003, long term debt will increase by approximately \$60 million. Financing costs recognized in the Company's financial statements are not expected to change significantly. Financing costs related to these two SPEs are currently included in SAG, and will be recognized prospectively as Interest Expense upon the consolidation of the SPEs.

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

The Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in this Item 2 has been restated 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 June 30, 2003 (the Form 10-Q). The restatement also affects the three- and six-month periods ended June 30, 2002. The adjustments increased the net loss by \$12.6 million for the six-month period ended June 30, 2003. For the six-month period ended June 30, 2002, the net loss was unchanged by the restatement adjustments. The adjustments reduced the net loss by \$20.6 million for the quarter ended June 30, 2003 and decreased the net income by \$4.2 million for the quarter ended June 30, 2002. The restated financial information has been prepared by management and reflects all adjustments known to management.

Refer to Note 1A, Restatement, to the financial statements as restated for further information.

RESULTS OF OPERATIONS

CONSOLIDATED

(All per share amounts are diluted)

Net sales in the second quarter of 2003 were \$3.75 billion (as restated), increasing 7.5% from \$3.49 billion (as restated) in the 2002 second quarter. A net loss of \$53.0 million or \$0.30 per share (as restated) was recorded in the 2003 second quarter compared to net income of \$24.7 million or \$0.15 per share (as restated) in the 2002 period. The 2003 second quarter included an after-tax rationalization charge of \$11.5 million or \$0.06 per share (as restated).

In the first six months of 2003, sales of \$7.30 billion (as restated) increased 7.2% from \$6.81 billion (as restated) in the 2002 period. A net loss of \$249.5 million or \$1.42 per share (as restated) was recorded in the 2003 first half compared to a net loss of \$34.3 million or \$0.21 per share (as restated) in the 2002 first half. The 2003 first half included an after-tax rationalization charge of \$69.2 million or \$0.39 per share (as restated).

Revenues in the second quarter of 2003 increased from the 2002 period primarily due to the impact of currency translation of approximately \$178 million (as restated). Price and mix improvements also had a favorable impact on second quarter revenues while lower tire unit volume had a negative impact on the 2003 period.

Worldwide tire unit sales in the second quarter of 2003 were 52.8 million units, a decrease of 0.5 million units or 0.9% compared to the 2002 period. North American Tire (U.S. and Canada) volume decreased 1.1 million units or 4.1% in the quarter, while international unit sales increased 0.6 million units or 2.3%. Worldwide replacement unit sales increased 1.8% from the 2002 quarter, due to increases in European Union Tire and Eastern Europe, Africa and Middle East Tire (Eastern Europe Tire). Original equipment (OE) unit sales decreased 6.2% in the quarter, due to decreases in North American Tire, European Union Tire and Latin American Tire.

Revenues in the first half of 2003 increased from the 2002 period primarily due to the impact of currency translation of approximately \$313 million (as

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restated). Price and mix improvements also had a favorable impact on the six months revenues while lower tire unit volume had a negative impact on the 2003 period.

Worldwide tire unit sales in the first half of 2003 were 105.4 million units, a decrease of 0.9 million units or 0.8% compared to the 2002 period. North American Tire (U.S. and Canada) volume decreased 2.5 million units or 4.7% in the period, while international unit sales increased 1.6 million units or 2.9%. Worldwide replacement unit sales increased 1.3% from the 2002 six months, due to increases in European Union Tire and Eastern Europe Tire. OE unit sales decreased 5.0% in the period, due to decreases in North American Tire, European Union Tire and Latin American Tire. Unit sales in the first six months of 2002 included approximately 500,000 tires in connection with the Ford Motor Company tire replacement program.

Cost of goods sold (CGS) increased in dollars and increased to 81.0% (as restated) of net sales in the second quarter of 2003, compared to 80.1% (as restated) in the 2002 period. CGS in the second quarter of 2003 was adversely impacted by approximately \$123 million (as restated) from higher raw material costs and by approximately \$134 million (as restated) due to currency translation.

CGS increased in dollars, and increased to 82.2% (as restated) of net sales in the first six months of 2003, compared to 81.5% (as restated) in the 2002 period. CGS in the first half of 2003 was adversely impacted by approximately \$187 million (as restated) from higher raw material costs and by approximately \$243 million (as restated) due to currency translation. CGS was also adversely impacted by adjustments that were related to the Engineered Products Segment which were recorded in conjunction with the restatement. It was not possible to allocate the amount of the account reconciliation adjustment to applicable periods and accordingly, Goodyear recorded substantially all of this adjustment in the first quarter of 2003. This account reconciliation 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.

Selling, administrative and general expense (SAG) in the second quarter of 2003 increased 7.0% (as restated) in dollars compared to the 2002 period but decreased from 15.9% (as restated) of net sales in 2002 to 15.8% (as restated) in 2003. SAG increased in the second quarter of 2003 compared to the 2002 period primarily as a result of currency translation of approximately \$31 million and higher consulting expense. Higher wage and benefit costs were offset by the favorable impact of the change in vacation policy of approximately \$6 million (as restated) discussed below.

SAG in the first half of 2003 increased 7.7% (as restated) in dollars compared to the 2002 period and increased from 15.9% (as restated) of net sales in 2002 to 16.0% (as restated) in 2003. SAG increased in the first half of 2003 compared to the 2002 period primarily as a result of currency translation of approximately \$64 million (as restated) and higher consulting expense. Higher wage and benefit costs were offset by the favorable impact of the change in vacation policy of approximately \$12 million (as restated) discussed below.

During 2002, Goodyear announced the suspension of the matching contribution portion of its savings plans for all salaried associates, effective January 1, 2003. On April 19, 2003, Goodyear's master contract with the United Steelworkers of America (USWA) expired. The Company and the USWA have agreed to extend the master contract on a day-to-day basis. The Company suspended the matching contribution portion of the savings plan for those employees covered by that

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contract effective April 20, 2003. Goodyear contributed approximately \$38 million to the savings plans in 2002. In addition, the Company changed its vacation policy for domestic salaried associates in 2002. As a result of the changes to the policy, the Company will not incur vacation expense for domestic salaried associates in 2003. Vacation expense in 2003 is expected to be reduced by approximately \$50 million due to this change in the vacation policy. Expenses were approximately \$24 million lower in the six months of 2003 compared to the 2002 period as a result of the change in the vacation policy.

Interest expense of \$82.4 million (as restated) increased 38.3% in the 2003 second quarter compared to the 2002 period. For the first six months of 2003, interest expense increased 16.7% to \$140.8 million (as restated) compared to the 2002 period. The increase in both periods is due primarily to higher average debt outstanding.

Other (income) and expense was \$29.4 million (as restated) net expense in the 2003 second quarter compared to \$20.5 million (as restated) net expense in the 2002 period. Other (income) and expense in the second quarter of 2003 included a loss of \$17.8 million (as restated) (\$9.0 million after tax or \$0.05 per share (as restated)) on the sale of 20,833,000 shares of Sumitomo Rubber Industries, Ltd. (SRI) and the sale of assets in the European Union Tire Segment and a gain of \$3.4 million (as restated) (\$2.8 million after tax or \$0.02 per share (as restated)) on the sale of land in the Asia Tire Segment and the sale of assets in the European Union Tire Segment. Other (income) and expense in the 2002 quarter included a gain of \$1.1 million (as restated) (\$0.8 million after tax or \$0.00 per share (as restated)) on the sale of assets in the European Union Tire Segment. Other (income) and expense also included fees related to financing and financial instruments of \$25.1 million (as restated) and \$12.0 million in the second quarters of 2003 and 2002, respectively.

Other (income) and expense also includes General & product liability-discontinued products which includes charges for claims against Goodyear related to asbestos personal injury claims and for other products no longer manufactured by the Company. Goodyear reclassified such charges from SAG to Other (income) and expense during the second quarter of 2003, due to the non-operational nature of these claims. Charges for general and product liabilities related to ongoing operations continue to be recorded as SAG. Goodyear recorded charges for General & product liability-discontinued products totaling \$92.7 million (as restated) for the second quarter of 2003 and \$113.6 million (as restated) for the first six months of 2003. Also during the second quarter of 2003, Goodyear recorded a receivable of \$101.8 million, primarily from its excess liability insurance carriers related to General & product liability-discontinued products. This receivable reflects, in part, coverage of General & product liability-discontinued products for which Goodyear incurred charges prior to the second quarter of 2003. For further information, refer to the notes to the financial statements as restated, No. 3, Other (Income) and Expense, and No. 8, Commitments and Contingent Liabilities.

For the first half of 2003, Other (income) and expense was \$73.0 million (as restated) net expense compared to \$40.3 million (as restated) net expense in the 2002 period. Other (income) and expense in the 2003 first half included a loss of \$17.6 million (\$8.9 million after tax or \$0.05 per share) on the sale of the SRI shares and a gain of \$4.6 million (as restated) (\$3.8 million after tax or \$0.02 per share (as restated)) resulting from the sale of land in the Asia Tire Segment and the sale of assets in the European Union Tire Segment. Other (income) and expense also included fees related to financing and financial instruments of \$53.1 million (as restated) and \$23.0 million in the first half of 2003 and 2002,

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respectively. The increase is due to the costs incurred in connection with the restructuring and refinancing of the Company's bank credit and receivables securitization facilities discussed below.

Foreign currency exchange loss was \$18.1 million (as restated) in the 2003 second quarter compared to a gain of \$6.1 million in the 2002 quarter. Foreign currency exchange loss in the 2003 quarter included approximately \$7 million resulting from currency movements on U.S. dollar denominated monetary items in Brazil. For the first half of 2003, foreign currency exchange loss was \$19.0 million (as restated) compared to a loss of \$7.7 million (as restated) in the 2002 period. Foreign currency exchange in the first six months of 2003 was adversely impacted by approximately \$11 million due to currency movements on U.S. dollar denominated monetary items in Brazil.

For the 2003 first half, Goodyear recorded tax expense of \$45.0 million (as restated) on a loss before income taxes and minority interest in net income of subsidiaries of \$181.0 million (as restated). The difference between Goodyear's effective tax rate and the U.S. statutory rate was primarily attributable to the Company continuing to maintain a full valuation allowance against its net Federal and state deferred tax assets. Included in tax expense for the first and second quarters are favorable tax adjustments of \$1.2 million (as restated) and \$15.2 million (as restated), respectively. These favorable tax adjustments are primarily related to the settlement of prior years' tax liabilities and reductions of the valuation allowances of certain Goodyear entities. For the first half of 2002, Goodyear recorded tax expense of \$5.8 million (as restated) on income before taxes and minority interest in net income of subsidiaries of \$0.4 million (as restated).

Rationalization Activity

To maintain global competitiveness, Goodyear has implemented rationalization actions over the past several years for the purpose of reducing excess capacity, eliminating redundancies and reducing costs.

2003 Program

Goodyear recorded a net rationalization charge totaling \$76.1 million (as restated) (\$69.2 million after tax or \$0.39 per share (as restated)) during the first and second quarters of 2003, which included reversals of \$1.8 million (as restated) (\$1.4 million after tax or \$0.01 per share (as restated)) for reserves from rationalization actions no longer needed for their originally intended purposes and new charges of \$77.9 million (as restated) (\$70.6 million after tax or \$0.40 per share (as restated)). The second quarter net rationalization charge of \$15.4 million (as restated) (\$11.5 million after tax or \$0.06 per share (as restated)) included new charges of \$17.2 million (as restated) (\$12.9 million after tax or \$0.07 per share (as restated)) and reversals of \$1.8 million (as restated) (\$1.4 million after tax or \$0.01 per share (as restated)). The 2003 rationalization actions consist of research and development, retail, manufacturing and administrative consolidations in North America, Europe and Latin America. Of the \$77.9 million (as restated) charge, \$56.8 million (as restated) related to future cash outflows, primarily associate severance costs, and the remainder primarily represented non-cash pension curtailment charges. All of the \$17.2 million (as restated) second quarter charge related to future cash outflows. Upon completion of these plans, the Company estimates that it will further reduce annual operating costs by approximately \$90 million (approximately \$50 million SAG and approximately \$40 million CGS). Goodyear estimates that SAG and CGS were reduced by approximately

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\$21 million in the first half of 2003, including approximately \$12 million in the second quarter, as a result of the implementation of this program.

The 2003 actions included associate-related costs of \$76.7 million (as restated) for the release of approximately 1,300 research and development, retail, manufacturing and administrative associates in Europe, the United States and Latin America. As of June 30, 2003, \$44.3 million (as restated) was incurred in associate-related costs, including \$20.0 million (as restated) in the second quarter. Rationalization costs, other than associate-related costs, totaled \$1.2 million (as restated) and were primarily for outplacement services and moving expenses. During the first half of 2003, \$1.1 million (as restated) of other than associate-related costs were incurred, including \$0.8 million (as restated) in the second quarter. The remaining reserve for costs related to the completion of these actions was \$32.4 million (as restated) at June 30, 2003.

2002 Program

Goodyear recorded a net rationalization charge of \$10.4 million (as restated) (\$12.1 million after tax or \$0.07 per share (as restated)) in 2002, which included reversals of \$16.1 million (as restated) (\$12.7 million after tax or \$0.07 per share (as restated)) for reserves from rationalization actions no longer needed for their originally intended purposes and new charges of \$26.5 million (\$23.0 million after tax or \$0.14 per share). The 2002 rationalization actions consisted of a manufacturing facility consolidation in Europe, the closure of a mold manufacturing facility and a plant consolidation in the United States and administrative consolidations.

The 2002 actions included associate-related costs of \$19.5 million (as restated) for the release of approximately 1,000 manufacturing and administrative associates in Europe and the United States. As of June 30, 2003, approximately 720 associates have been released. Approximately 450 associates have been released in the first six months of 2003, including approximately 270 associates in the second quarter. Goodyear incurred \$13.2 million of associate-related costs in the first half of 2003, including \$3.1 million during the second quarter of 2003. Rationalization costs, other than associate-related costs, totaled \$7.0 million (as restated) and were primarily for the writeoff of equipment taken out of service in the Engineered Products and North American Tire Segments and noncancellable contract costs. Goodyear incurred \$1.9 million of other than associate-related costs during the first half of 2003, including \$0.4 million in the second quarter, primarily for ongoing noncancellable lease costs. The remaining reserve for costs related to the completion of these actions was \$5.6 million and \$20.7 million at June 30, 2003 and December 31, 2002, respectively.

Goodyear estimates that operating costs were reduced by approximately \$30 million in the first half of 2003, including approximately \$15 million in the second quarter as a result of the implementation of this program. Plan savings have been substantially offset by higher conversion costs including increased compensation and benefit costs.

Fourth Quarter 2001 Program

Goodyear recorded rationalization charges totaling \$136.2 million (as restated) (\$107.5 million after tax or \$0.65 per share (as restated)) in the fourth quarter of 2001. These actions were in response to continued competitive conditions in the markets served by Goodyear and worldwide economic uncertainty. Under these actions, Goodyear provided for worldwide associate reductions through retail and administrative consolidation and manufacturing plant downsizing and consolidation.

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Reversals of prior year reserves no longer needed for their originally intended purposes totaling \$4.1 million were recorded during 2001.

The 2001 fourth quarter actions included associate-related costs of \$53.1 million for the release of approximately 2,200 associates around the world, primarily production and administrative associates in Europe. As of June 30, 2003, approximately 2,060 associates have been released. Approximately 70 associates were released in the first six months of 2003, including approximately 10 associates in the second quarter of 2003. Goodyear incurred \$2.9 million of associate-related costs in the first half of 2003, including \$1.1 million during the second quarter. Rationalization costs, other than associate-related costs, totaled \$83.1 million (as restated), of which \$41.6 million (as restated) related to the writeoff of tire manufacturing equipment taken out of service, principally in the Asia Tire Segment, and noncancellable lease contracts. Goodyear incurred \$1.6 million of other than associate-related costs in the first half of 2003, including \$0.9 million in the second quarter, primarily for ongoing noncancellable lease costs. During the second quarter of 2003, Goodyear reversed \$1.7 million of reserves from the fourth quarter 2001 program, no longer needed for their originally intended purposes. Of the \$1.7 million reversal, \$0.1 million was primarily the result of lower than initially estimated associate-related payments and \$1.6 million was primarily the result of lower than initially estimated lease cancellation fees in the European Union. The remaining reserve for costs related to the completion of these actions was \$22.5 million (as restated) and \$28.7 million at June 30, 2003 and December 31, 2002, respectively.

Goodyear estimates that operating costs were reduced by approximately \$40 million in the first half of 2003, including approximately \$20 million in the second quarter as a result of the implementation of this program. Plan savings have been substantially offset by higher conversion costs including increased compensation and benefit costs.

For further information, refer to the note to the financial statements as restated No. 2, Rationalizations.

CRITICAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND UNCERTAINTIES

General Market Uncertainties

Goodyear's results of operations, financial position and liquidity could be adversely affected in future periods by loss of market share or lower demand in the replacement market or from the OE industry, which would result in lower levels of plant utilization that would increase unit costs. Also, Goodyear could experience unexpected higher raw material, labor and energy prices in future periods. These costs, if incurred, may not be recoverable due to pricing pressures present in today's highly competitive market. Goodyear is unable to predict future currency fluctuations. Sales and earnings in future periods would be unfavorably impacted if the U.S. dollar strengthens versus various foreign currencies. A continuation of the current economic downturn in the U.S. and Europe is likely to unfavorably impact Goodyear's sales and earnings in future periods. Similarly, continued volatile economic conditions in emerging markets could adversely affect sales and earnings in future periods. Goodyear may also be impacted by economic disruptions associated with global events including war, acts of terror and civil obstructions. On April 19, 2003, Goodyear's master contract with the USWA expired. On June 27, 2003, the Company and the USWA ended formal contract discussions. On July 5, 2003, contracts with the USWA covering employees

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at three additional plants expired. In late July 2003, the Company and the USWA announced their intention to resume formal contract negotiations in early August 2003. Although Goodyear and the USWA have agreed to extend the master contract on a day-to-day basis, it is uncertain at this time whether an agreement will be reached without interruption of production. The Company's financial position, results of operations and liquidity could be materially adversely affected if the Company and the USWA are unable to reach agreement on a new master contract or if there were a prolonged interruption of production.

Critical Accounting Policies, Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes to financial statements. Actual results could differ from those estimates. On an ongoing basis, management reviews its estimates, including those related to the allowance for doubtful accounts, recoverability of intangibles and other long-lived assets, deferred tax asset valuation allowance, warranty, workers' compensation, litigation, general and product liabilities, environmental liabilities, pension and postretirement benefits, and various other operating allowances and accruals, based on currently available information. Changes in facts and circumstances may alter such estimates and affect results of operations and financial position in future periods.

General and Product Liability and Other Litigation. Goodyear recorded liabilities totaling \$356.7 million (as restated) at June 30, 2003, and \$240.7 million at December 31, 2002, for potential product liability and other tort claims, including related legal fees expected to be incurred, presently asserted against Goodyear. Of these amounts, \$87.7 million (as restated) and \$75.4 million were included in Other current liabilities at June 30, 2003 and December 31, 2002, respectively. This increase in the recorded liability is primarily attributable to an increase in the number of asbestos-related claims pending against the Company in the current period and the associated increase in Goodyear's estimate of litigation defense and settlement costs of such claims and a reserve in liabilities relating to Goodyear's Entran II hose. Where the amount recorded reflects an estimate of the liability, this estimate was determined on the basis of 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. Goodyear does not believe that it is possible at the present time to reasonably estimate certain categories of liabilities detailed below and, accordingly, no liability has been recorded for such items. The ultimate resolution of these matters may result in Goodyear recording additional liability.

Goodyear maintains primary and excess liability insurance coverage with respect to general and product liabilities. Goodyear does not record assets with respect to such policies until it determines that recovery is probable and it can reasonably estimate the amount of a particular recovery. With respect to general and product liability related insurance recoveries, Goodyear recorded assets at June 30, 2003, and December 31, 2002, which it expects to collect under coverage-in-place agreements with certain primary carriers. At June 30, 2003, Goodyear also recorded an amount it believes is probable of recovery from certain of its excess coverage insurance carriers.

Goodyear has policies and coverage-in-place agreements with certain of its primary insurance carriers that cover a portion of estimated indemnity payments and legal fees in respect of pending general and product claims. At the end of the second quarter of 2003, Goodyear had allocated to currently pending claims

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previously accrued amounts available under policies with its primary insurance carriers.

Prior to the second quarter of 2003, Goodyear did not record any assets for expected recoveries from excess carriers in respect of certain general and product liability matters. Goodyear has asserted claims against certain of these excess carriers for indemnity and defense of general and product claims against Goodyear. After consultation with its outside legal counselors and giving consideration to relevant factors including the ongoing legal proceedings with certain of its excess coverage insurance carriers, their financial viability, their legal obligations and other pertinent facts, Goodyear determined an amount it expects is probable of recovery from such carriers. Accordingly, Goodyear recorded a receivable in Accounts and Notes Receivable on its Consolidated Balance Sheet at June 30, 2003. The receivable recorded in the second quarter of 2003 represents an estimate of recovery relating to potential general and product liabilities for which Goodyear incurred charges prior to, as well as during, the second quarter. As Goodyear establishes reserves for liabilities in respect of general and product claims made in future periods, Goodyear expects to record an asset for probable recoveries from excess carriers in respect of a portion of such liabilities.

Goodyear is a defendant in numerous lawsuits involving, at June 30, 2003, approximately 110,600 claimants (approximately 100,600 claimants at December 31, 2002) alleging various asbestos related personal injuries purported to result from alleged exposure to asbestos in certain rubber encapsulated products manufactured by Goodyear in the past or to asbestos in certain Goodyear facilities. Typically, these lawsuits have been brought against multiple defendants in state and Federal courts. In the past, Goodyear has disposed of approximately 22,600 cases by defending and obtaining the dismissal thereof or by entering into a settlement.

A summary of approximate asbestos claims activity in recent years 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 from period to period.

(Dollars in millions)	Six Months Ended June 30, 2003	Year Ended December 31, 2002	2001
Pending claims, beginning of period	100,600	64,500	58,500
New claims filed	17,700	39,800	17,100
Claims settled/dismissed	(7,700)	(3,700)	(11,100)
Pending claims, end of period	<u>110,600</u>	<u>100,600</u>	<u>64,500</u>
Payments (1)	<u>\$ 11.2</u>	<u>\$ 18.8</u>	<u>\$ 14.4</u>

(1) Amount spent on asbestos litigation defense and claim resolution before recovery of insurance proceeds.

The portion of the recorded liabilities for potential product liability and other tort claims relating to asbestos claims is based on pending claims only. The amount recorded reflects an estimate of the cost of defending and resolving pending claims, based on available information and our experience in disposing of asbestos claims in the past. Although the ultimate cost of disposing of pending asbestos claims, and the future ability to recover from insurance

carriers, are uncertain, Goodyear believes that its reserve for pending asbestos claims, and the insurance assets recorded in respect of these claims, reflect reasonable and probable estimates of these amounts. Based on Goodyear's historical experience set forth above, Goodyear expects additional asbestos claims to be made, and additional liabilities to be incurred in respect of those claims. However, Goodyear does not believe that reasonable estimates can be determined for these

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liabilities, and no liability has been recorded for unknown asbestos claims. The estimate of the assets and liabilities related to asbestos claims and recovery is subject to numerous uncertainties, the ultimate outcome of which may result in significant changes to current estimates.

The Company is a defendant in seventeen class actions or potential class actions and four other civil actions in various Federal and state courts asserting non-asbestos property damage claims relating to Entran II, a rubber hose product that it supplied from 1989-1993 to Chiles Power Supply, Inc. (d/b/a Heatway Systems), a designer and seller of hydronic radiant heating systems in the United States. The plaintiffs in these actions are generally seeking recovery under various tort, contract and statutory causes of action, including breach of express warranty, breach of implied warranty of merchantability, breach of implied warranty of fitness for a particular purpose, negligence, strict liability and violation of state consumer protection statutes. The Company believes that Entran II hose is not defective and is vigorously defending all Entran II actions.

In addition to the actions referred to above, in 2002, two state courts in Colorado entered judgments against the Company in Entran II cases of \$22.7 million and \$1.3 million, respectively. The Company has appealed both of these judgments. No charge was recorded with respect to these judgments or any of the then pending Entran II claims through the first quarter of 2003 due to a history of favorable court judgments in Entran II actions and the Company's belief that the \$22.7 million and \$1.3 million verdicts were based on material errors of fact and law. In another action, on June 19, 2003, a jury in Colorado Federal court awarded a judgment against the Company of \$4.1 million. The Company intends to appeal this judgment.

Based on developments in Entran II litigation during the second quarter of 2003, Goodyear recorded a charge in Other (income) and expense for anticipated liabilities as part of General & product liability-discontinued products related to pending Entran II claims. The ultimate cost of disposing of Entran II claims is dependent upon a number of uncertainties, including any future judgments by courts in Entran II actions, the Company's ability to recover from its insurance carriers, the number and identification of potential claimants and the possibility of reaching a resolution with the Entran II claimants. As a result of these uncertainties, additional liabilities may arise for amounts in excess of the current reserve. These additional liabilities cannot now be reasonably estimated and could be material to the Company's consolidated financial position, results of operations and liquidity in future periods.

The Company is also a party to actions relating to alleged breaches of warranty or product defects relating to certain of Goodyear's Load Range D and E light truck tires.

Various other legal actions, claims and governmental investigations and proceedings covering a wide range of matters are pending against Goodyear and its subsidiaries. Management, after reviewing available information relating to such matters and consulting with Goodyear's General Counsel, has determined with respect to each such matter either that it is not reasonably possible that Goodyear has incurred any liability in respect thereof or that any liability ultimately incurred will not exceed the amount, if any, recorded at June 30, 2003, in respect thereof that would be material relative to the consolidated financial position, results of operations or liquidity of Goodyear. However, in the event of an unanticipated adverse final determination in respect of certain matters, Goodyear's consolidated financial position, results of operations or liquidity for the period in which such determination occurs could be materially affected.

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Environmental Matters. At June 30, 2003, Goodyear had recorded liabilities totaling \$55.2 million (\$53.5 million at December 31, 2002) for anticipated costs related to various environmental matters, primarily the remediation of numerous waste disposal sites and certain properties sold by Goodyear. These 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 Goodyear's 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.

Workers Compensation. At June 30, 2003, Goodyear had recorded liabilities, on a discounted basis, totaling \$161.9 million (as restated) (\$152.4 million at December 31, 2002) for anticipated costs related to workers compensation. 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 Goodyear's assessment of potential liability using an analysis of available information with respect to pending claims, historical experience, and current cost trends. The amount of Goodyear's ultimate liability in respect of these matters may differ from these estimates.

Deferred Tax Asset Valuation Allowance. Goodyear continues to maintain a valuation allowance against all of its net Federal and state and some of its international subsidiaries deferred tax assets.

The net Federal and state deferred tax assets are almost entirely composed of deductions available to reduce Federal and state taxable income in future years. The international deferred tax assets include loss carryforwards as well as deductions available to reduce future international taxable income.

Goodyear intends to adjust or eliminate the valuation allowance when sufficient positive evidence exists to support realization of some or all of its Federal, state and international deferred tax assets.

Pensions and Postretirement Benefits. Goodyear's recorded liability for pensions and postretirement benefits other than pensions is based on a number of assumptions, including future health care costs, maximum company covered benefit costs, life expectancies, retirement rates, discount rates, long term rates of return on plan assets and future compensation levels. Certain of these assumptions are determined with the assistance of outside actuaries. Assumptions about health care costs, life expectancies, retirement rates and future compensation levels are based on past experience and anticipated future trends, including an assumption about inflation. Discount rates are based on market indicators at the time these assumptions are established. The expected return on plan assets is determined using historical compound annualized returns of Goodyear's pension fund for 15 or more years. These assumptions are regularly reviewed and revised when appropriate, and changes in one or more of them could affect the amount of Goodyear's recorded expenses for these benefits. If the actual experience differs from expectations, Goodyear's financial position, results of operations and liquidity in future periods could be affected.

Although subject to change in view of the volatility of the capital markets, based on current estimates, Goodyear expects to make contributions to its domestic pension plans of approximately \$375 million to \$425 million in 2004 in order to satisfy statutory minimum funding requirements. Goodyear will be subject to additional statutory minimum funding requirements after 2004. The amount of funding requirements could be substantial and will be based on a number of factors, including the value of the pension assets at the time as well as the

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interest rate for the relevant period.

RECENTLY ISSUED ACCOUNTING STANDARDS

In April 2003, the Financial Accounting Standards Board (the FASB) issued Statement of Financial Accounting Standard No. 149 (SFAS 149), Amendment of Statement 133 on Derivative Instruments and Hedging Activities, which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities under Statement of Financial Accounting Standard No. 133. SFAS 149 is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003 except for the provisions that were cleared by the FASB in prior pronouncements. The adoption of this statement is not expected to have a significant impact on the Company s consolidated financial statements.

In May 2003, the FASB issued Statement of Financial Accounting Standard No. 150 (SFAS 150), Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS 150 is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 establishes standards for how an issuer classifies and measures in its statement of financial position certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability because that financial instrument embodies an obligation of the issuer. The adoption of this statement is not expected to have a significant impact on the Company s consolidated financial statements.

The Financial Accounting Standards Board has issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. 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 requires disclosures by companies, effective with financial statements issued after January 31, 2003, about the nature, purpose, size and activities of VIEs covered by its provisions, and their maximum exposure to loss. FIN 46 also requires companies to consolidate VIEs created before February 1, 2003, in financial statements for periods beginning after June 15, 2003.

The Company is a party to lease agreements with two unrelated special purpose entities (SPEs) that are VIEs as defined by FIN 46. The agreements are related to certain North American distribution facilities and certain corporate aircraft. The fair value of the assets and liabilities, and the Company s maximum exposure to loss prior to insurance recoveries, is approximately \$30 million in each SPE. Upon consolidation of the assets, liabilities and results of operations of these SPEs in the third quarter of 2003, long term debt will increase by approximately \$60 million. Financing costs recognized in the Company s financial statements are not expected to change significantly. Financing costs related to these two SPEs are currently included in SAG, and will be recognized prospectively as Interest Expense upon the consolidation of the SPEs.

Table of Contents**SEGMENT INFORMATION**

Segment information reflects the strategic business units (SBU) of Goodyear, which are organized to meet customer requirements and global competition. The Tire business is managed on a regional basis. Engineered Products and Chemical Products are managed on a global basis.

Results of operations in the Tire and Engineered Products Segments were measured based on net sales to unaffiliated customers and segment operating income. Results of operations of the Chemical Products Segment were measured based on net sales (including sales to other SBUs) and segment operating income. Segment operating income included transfers to other SBUs. Segment operating income was computed as follows: Net Sales less CGS and SAG (excluding certain corporate expenses). Segment operating income also included equity (earnings) losses in affiliates. Segment operating income did not include the previously discussed rationalization charges and certain other items.

Total segment operating income was \$149.1 million (as restated) in the second quarter of 2003, decreasing 8.2% from \$162.5 million (as restated) in the 2002 quarter. Total segment operating margin (total segment operating income divided by segment sales) in the second quarter of 2003 was 3.8% (as restated), compared to 4.5% (as restated) in the 2002 period.

In the six months of 2003, total segment operating income was \$191.1 million (as restated), decreasing 7.3% from \$206.2 million (as restated) in the 2002 period. Total segment operating margin in the six months of 2003 was 2.5% (as restated), compared to 2.9% (as restated) in the 2002 period.

Management believes that total segment operating income is useful because it represents the aggregate value of income created by the Company's SBUs and excludes items not directly related to the SBUs for performance evaluation purposes. Total segment operating income is the sum of the individual SBUs' segment operating income as measured in accordance with Statement of Financial Accounting Standard No. 131, Disclosures about Segments of an Enterprise and Related Information. Refer to the note to the financial statements as restated No. 9, Business Segments, for a reconciliation of total segment operating income to Income (loss) before income taxes.

North American Tire

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Tire Units	25.3	26.4	50.1	52.6
Sales	\$1,692.0	\$1,698.1	\$3,284.2	\$3,350.6
Segment Operating Income (Loss)	(10.2)	34.5	(76.7)	(17.2)
Segment Operating Margin	(0.6)%	2.0%	(2.3)%	(0.5)%

North American Tire segment unit sales in the 2003 second quarter decreased 1.1 million units or 4.1% from the 2002 period. Replacement unit volume decreased 2.4% and OE unit volume decreased 7.2%.

Unit sales in the six months decreased 2.5 million units or 4.7% from the 2002 period. Replacement unit volume decreased 4.5% and OE unit volume decreased 5.0%.

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Revenues in 2003 decreased 0.4% (as restated) in the second quarter from the 2002 period due primarily to reduced volume in the consumer OE markets partially offset by increases in commercial and retail markets. OE sales in the 2002 period were favorably impacted by an increase in auto production.

For the six months of 2003, revenues decreased 2.0% (as restated) from the 2002 period due to reduced volume in the consumer replacement and OE markets. Increases in commercial and retail markets favorably impacted 2003 revenue. OE sales in the 2002 period were favorably impacted by an increase in auto production.

During the first half of 2002, Goodyear supplied approximately 500,000 tire units for the Ford Motor Company tire replacement program with a segment operating income benefit of approximately \$10 million for that period. Ford ended the replacement program on March 31, 2002. Segment operating income (as restated) in the first six months of 2002 also included a charge of approximately \$10 million related to the return of tires previously sold by Goodyear to Penske Automotive Centers. On April 6, 2002, Penske Automotive Centers announced plans to close its 563 stores in the United States.

North American Tire segment operating income (as restated) in the second quarter of 2003 decreased substantially from the 2002 quarter. Higher raw material costs of approximately \$55 million (as restated) and unfavorable product mix of approximately \$24 million (as restated) negatively impacted second quarter 2003 segment operating income. 2003 second quarter segment operating income (as restated) was positively impacted by savings from restructuring activities of approximately \$16 million, approximately \$9 million (as restated) due to the change in the salaried associates vacation policy discussed above, lower freight costs of approximately \$8 million and lower research and development expenditures of approximately \$7 million. Improvements in retail operations and cost savings initiatives also benefited segment operating income (as restated).

North American Tire segment operating income (as restated) in the first half of 2003 decreased considerably from the 2002 period. Higher raw material costs of approximately \$77 million (as restated) and increased conversion costs of approximately \$33 million (as restated) unfavorably impacted 2003 segment operating income. Higher SAG costs of approximately \$33 million (as restated), due primarily to increased wages and benefits partially offset by reduced information technology expenses, unfavorably impacted segment operating income (as restated) in the first six months of 2003 as compared to 2002. 2003 segment operating income (as restated) was positively impacted by savings from restructuring activities of approximately \$34 million and approximately \$18 million due to the change in the salaried associates vacation policy discussed above. Reduced research and development costs of approximately \$15 million, lower freight costs of approximately \$10 million, improvements in retail operations and cost savings initiatives also benefited segment operating income (as restated).

Segment operating income (as restated) in 2003 did not include first quarter rationalization charges totaling \$48.5 million (as restated).

Revenues and segment operating income in the North American Tire Segment may be adversely affected in future periods by the effects of continued competitive pricing conditions, reduced demand in the replacement and OE market, changes in mix, increases in raw material and energy prices, higher wage and benefit costs and general economic conditions. On April 19, 2003, Goodyear's master contract with the USWA expired. On June 27, 2003, the Company and the USWA ended formal

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contract discussions. On July 5, 2003, contracts with the USWA covering employees at three additional plants expired. At the end of July 2003, the Company and the USWA announced their intention to resume formal contract negotiations in early August 2003. Approximately 13,100 employees or 42% of the segment's employees are covered by these contracts. Although Goodyear and the USWA have agreed to extend the master contract on a day-to-day basis, it is uncertain at this time whether an agreement will be reached without interruption of production, and the terms of any agreement ultimately reached could result in higher wage and benefit costs in the United States. In addition, the Company's financial position, results of operations and liquidity could be materially affected if the Company and the USWA are unable to reach agreement on a new master contract or if there were a prolonged interruption of production.

European Union Tire

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Tire Units	14.9	14.8	30.7	29.9
Sales	\$961.4	\$810.7	\$1,889.7	\$1,556.7
Segment Operating Income	37.6	34.5	62.6	53.4
Segment Operating Margin	3.9%	4.3%	3.3%	3.4%

European Union Tire segment unit sales in the 2003 second quarter increased 0.1 million units or 1.1% from the 2002 period. Replacement unit sales increased 5.1% while OE unit volume decreased 6.3%.

Unit sales in the six months increased 0.8 million units or 3.0% from the 2002 period. Replacement unit volume increased 8.4% while OE unit volume decreased 7.0%.

Revenues in 2003 increased 18.6% (as restated) in the second quarter and 21.4% (as restated) in the first six months from the 2002 periods due primarily to the favorable effect of currency translation of approximately \$152 million (as restated) and \$320 million (as restated), respectively. Higher volume positively affected revenues in the 2003 periods while negative product mix and pricing had a unfavorable impact on the 2003 periods.

European Union Tire segment operating income (as restated) increased 9.0% in the 2003 second quarter compared to 2002 due to savings from restructuring of approximately \$14 million, lower conversion costs of approximately \$10 million (as restated) and the positive effect of currency translation. Higher raw material costs of approximately \$19 million and higher marketing costs negatively affected second quarter 2003 segment operating income (as restated) compared to 2002.

For the six months of 2003, segment operating income (as restated) increased 17.2% compared to 2002 due to savings from restructuring of approximately \$31 million, lower conversion costs of approximately \$19 million (as restated) and the positive effect of currency translation of approximately \$15 million (as restated). Higher raw material costs of approximately \$29 million (as restated), increased SAG costs of approximately \$16 million (as restated) and lower pricing and product mix, due primarily to retail operations, of approximately \$13 million negatively affected segment operating income (as restated) in the first six months of 2003 compared to 2002.

Segment operating income (as restated) in the six months of 2003 did not include net rationalization charges totaling \$17.1 million (as restated) and a

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gain on asset sales of \$2.5 million, including \$8.1 million (as restated) rationalization charges and \$1.1 million gain on asset sales in the second quarter. Segment operating income (as restated) in the second quarter and six months of 2002 did not include a \$1.1 million gain (as restated) on asset sales.

Revenues and segment operating income in the European Union Tire Segment may be adversely affected in future periods by the effects of continued competitive pricing conditions, changes in mix, increases in raw material and energy prices, currency translation and the general economic slowdown in the region.

Eastern Europe, Africa and Middle East Tire

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Tire Units	4.7	3.7	8.7	7.5
Sales	\$268.6	\$193.2	\$496.0	\$367.7
Segment Operating Income	34.4	21.2	55.3	32.1
Segment Operating Margin	12.8%	11.0%	11.1%	8.7%

Eastern Europe Tire segment unit sales in the 2003 second quarter increased 1.0 million units or 25.7% from the 2002 period. Replacement unit sales increased 23.6% and OE unit volume increased 34.9%.

Unit sales in the six months of 2003 increased 1.2 million units or 16.0% from the 2002 period. Replacement unit volume increased 17.3% and OE unit volume increased 10.9%.

Revenues increased 39.0% in the 2003 second quarter compared to 2002 primarily due to the positive impact of currency translation. Revenue was favorably affected by currency translation of approximately \$36 million, primarily in South Africa where the Rand gained against the U.S. dollar compared to the 2002 period. Higher volume and improved pricing in the 2003 quarter also positively impacted revenues.

For the six months of 2003, revenues increased 34.9% compared to 2002 primarily due to the positive impact of currency translation, higher volume and price increases. Revenue was favorably affected by currency translation of approximately \$71 million, primarily in South Africa where the Rand gained against the U.S. dollar compared to the 2002 period.

Segment operating income (as restated) in the 2003 second quarter increased 62.3% from the 2002 quarter. Segment operating income for the 2003 period was favorably impacted by approximately \$12 million related to higher volume, approximately \$8 million (as restated) due to improved pricing and approximately \$4 million (as restated) due to lower conversion costs. Higher raw material prices of approximately \$6 million and higher SAG costs of approximately \$4 million adversely impacted 2003 segment operating income.

Segment operating income (as restated) in the first six months of 2003 increased 72.3% from the 2002 period. Segment operating income for the 2003 period was favorably impacted by approximately \$16 million related to higher volume, approximately \$12 million (as restated) due to improved pricing and approximately \$12 million due to lower conversion costs. Higher raw material prices of approximately \$10 million and higher SAG costs of approximately \$8

million adversely impacted 2003 segment operating income for the six months.

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Segment operating income in 2003 did not include second quarter rationalization credits totaling \$0.1 million.

Revenues and segment operating income in the Eastern Europe Tire Segment may be adversely affected in future periods by the effects of continued competitive pricing conditions, changes in mix, increases in raw material and energy prices, continued volatile economic conditions, labor disturbances and currency translation.

Latin American Tire

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Tire Units	4.4	5.2	9.1	10.1
Sales	\$258.3	\$254.0	\$490.0	\$499.7
Segment Operating Income	33.8	26.0	60.4	53.7
Segment Operating Margin	13.1%	10.2%	12.3%	10.7%

Latin American Tire segment unit sales in the 2003 second quarter were down 0.8 million units or 14.6% from the 2002 period. Replacement unit sales decreased 5.2% due to weaker consumer demand, partially offset by stronger commercial sales. OE unit volume decreased 34.2% due to planned changes and reduced production by vehicle manufacturers in the region.

Unit sales in the six months decreased 1.0 million units or 10.3% from the 2002 period. Replacement unit volume decreased 3.4% and OE unit volume decreased 25.9%.

Revenues in the 2003 second quarter increased 1.7% from the 2002 period due primarily to improvements in pricing and mix offsetting unfavorable currency translation of approximately \$24 million (as restated) in the second quarter compared to 2002.

For the six months, revenues decreased 1.9% compared to 2002 primarily due to the negative impact of currency translation of approximately \$100 million (as restated) and lower volume. Revenue was partially compensated for by price and mix compared to the 2002 period.

Segment operating income (as restated) in the 2003 quarter increased 30.0% from the 2002 period. Segment operating income was favorably impacted by approximately \$37 million related to pricing and mix. Price adjustments were made to partially offset the adverse impact of currency movements. Increased raw material costs of approximately \$20 million, higher conversion costs of approximately \$3 million (as restated) and currency translation of approximately \$2 million also negatively impacted segment operating income compared to the 2002 period.

Segment operating income (as restated) in the first six months of 2003 increased 12.5% from the 2002 period due primarily to mix and pricing of approximately \$73 million offsetting the adverse impact of currency translation of approximately \$29 million. Negatively impacting segment operating income for 2003 were higher raw material prices of approximately \$25 million, increased conversion costs of approximately \$8 million (as restated) and increased SAG of approximately \$3 million.

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Segment operating income (as restated) in the six months of 2003 did not include rationalization charges totaling \$5.5 million, including \$4.6 million in the second quarter.

Revenues and segment operating income in the Latin American Tire Segment may be adversely affected in future periods by the effects of continued competitive pricing conditions, changes in mix, increases in raw material and energy prices, continued volatile economic conditions, future adverse economic conditions in the region and currency translation.

Asia Tire

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Tire Units	3.5	3.2	6.8	6.2
Sales	\$149.1	\$134.7	\$289.8	\$256.3
Segment Operating Income	12.7	12.2	25.9	20.2
Segment Operating Margin	8.5%	9.1%	8.9%	7.9%

Asia Tire segment unit sales in the 2003 second quarter increased 0.3 million units or 7.9% from the 2002 period. Replacement unit sales increased 1.0% and OE unit volume increased 25.8%.

Segment unit sales in the first six months of 2003 increased 0.6 million units or 8.4% from the 2002 period. Replacement unit sales were flat while OE unit volume increased 30.4%.

Revenues in 2003 increased 10.7% (as restated) in the second quarter from the 2002 period due primarily to higher consumer OE volume and increased prices in the replacement and OE markets. Currency translation of approximately \$3 million also favorably impacted revenues in the 2003 second quarter.

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For the six months, revenues increased 13.1% (as restated) compared to the 2002 period primarily due to higher volume and higher selling prices. Currency translation of approximately \$6 million also favorably impacted revenues in the 2003 six months.

Segment operating income (as restated) in the second quarter of 2003 increased 4.1% compared to the 2002 period due to improved pricing and product mix of approximately \$5 million, the favorable impact of currency translation of approximately \$1 million and higher volume of approximately \$2 million. 2003 segment operating income was adversely affected by higher raw material prices of approximately \$8 million.

For the first half of 2003, segment operating income (as restated) increased 28.2% compared to the 2002 period due to improved pricing and product mix of approximately \$11 million, higher volume of approximately \$4 million and the favorable impact of currency translation of approximately \$3 million. 2003 segment operating income was adversely affected by higher raw material prices of approximately \$14 million.

Segment operating income in 2003 did not include the second quarter gain on the sale of land of \$2.1 million.

Revenues and segment operating income in the Asia Tire Segment may be adversely affected in future periods by the effects of continued competitive pricing conditions, changes in mix, increases in raw material and energy costs and currency translation.

Sales and segment operating income of the Asia Tire Segment reflect the results of Goodyear's majority-owned tire business in the region. In addition, Goodyear owns a 50% interest in South Pacific Tyres (SPT), the largest tire manufacturer, marketer and exporter in Australia and New Zealand. Results of operations of SPT are not reported in segment results, but are reflected in Goodyear's Consolidated Statement of Income using the equity method.

The following presents 100% of the sales and operating income (loss) of SPT:

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net sales	\$158.4	\$142.3	\$300.5	\$263.3
Operating income (loss)	0.8	(1.3)	(0.2)	(5.9)

SPT debt totaled \$154.5 million at June 30, 2003, of which \$37.0 million is payable to Goodyear. At December 31, 2002, SPT debt totaled \$131.3 million, of which \$26.3 million was payable to Goodyear.

Engineered Products

	Restated	
	Three Months Ended June 30,	Six Months Ended June 30,

(In millions)	2003	2002	2003	2002
Sales	\$299.0	\$303.9	\$590.9	\$587.0
Segment Operating Income	20.2	16.6	11.6	24.1
Segment Operating Margin	6.8%	5.5%	2.0%	4.1%

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Engineered Products revenues decreased 1.6% in the second quarter of 2003 from 2002 due largely to lower sales of OE, replacement and military products, while sales of industrial products increased. Revenues were favorably impacted by currency translation of approximately \$8 million (as restated).

Revenues increased 0.7% in the first six months of 2003 from 2002 due largely to strong sales of replacement and industrial products, while sales of OE, heavy duty and military products declined. Revenues were favorably impacted by currency translation of approximately \$7 million (as restated).

Segment operating income (as restated) increased 21.7% in the second quarter of 2003 compared to the 2002 period due to lower conversion costs of approximately \$6 million, the favorable impact of currency translation of approximately \$1 million (as restated) and raw material substitutions resulting in lower raw material costs of approximately \$1 million. Lower research and development expenditures and other cost improvements also benefited 2003 segment operating income. 2003 segment operating income was negatively impacted by lower volume of approximately \$8 million and the unfavorable impact of pricing and product mix.

For the six month period, segment operating income (as restated) decreased 51.9% in 2003 compared to the 2002 period due primarily to adjustments recorded in conjunction with the restatement. It was not possible to allocate the amount of the account reconciliation adjustment to applicable periods and accordingly, Goodyear recorded substantially all of this adjustment in the first quarter of 2003. This account reconciliation 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. 2003 segment operating income (as restated) was also negatively impacted by lower volume of approximately \$4 million and increased SAG costs. Segment operating income (as restated) in 2003 was favorably impacted by lower conversion costs of approximately \$2 million, foreign currency translation of approximately \$2 million and raw material substitutions resulting in lower raw material costs of approximately \$1 million.

Segment operating income (as restated) in the six months of 2003 did not include rationalization charges totaling \$3.2 million, including \$2.6 million in the second quarter.

Revenues and segment operating income in the Engineered Products Segment may be adversely affected in future periods by lower OE demand, competitive pricing pressures, expected continuing unfavorable economic conditions in certain markets, adverse economic conditions globally in the mining, construction and agriculture industries, increases in raw material and energy prices, anticipated higher wage and benefit costs and currency translation. The Engineered Products Segment plants in the U.S. are included in Goodyear's master contract with the USWA, which expired on April 19, 2003. Approximately 1,900 employees or 27% of the segment's employees are covered by this contract. Formal contract discussions between the Company and the USWA ended on June 27, 2003. However, in late July 2003, the parties announced their intention to resume such discussions in early August 2003. Although Goodyear and the USWA have agreed to extend the master contract on a day-to-day basis, it is uncertain at this time whether an agreement will be reached without interruption of production and the terms of the agreement ultimately reached could result in higher wage and benefit costs in the United States. The Company's financial position, results of operations and liquidity could be materially affected if the Company and the USWA are unable to reach agreement on a new master contract or if there were a prolonged interruption of production.

Table of Contents**Chemical Products**

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Sales	\$303.6	\$233.0	\$603.1	\$435.5
Segment Operating Income	20.6	17.5	52.0	39.9
Segment Operating Margin	6.8%	7.5%	8.6%	9.2%

Chemical Products revenues increased 30.3% (as restated) in the 2003 second quarter and 38.5% (as restated) in the six month period compared to the 2002 periods. Approximately 63% of the total pounds of synthetic materials sold by the Chemical Products segment in 2003 were to Goodyear's other segments. Natural rubber plantations, a rubber processing facility and natural rubber purchasing operations are included in the Chemical Products Segment. Revenues in both 2003 periods increased primarily due to higher net selling prices resulting from the pass through of higher raw material and energy costs. The relatively strong Euro also contributed favorably to 2003 revenue.

Segment operating income (as restated) in the 2003 second quarter increased 17.7% from the 2002 period. Higher net selling prices of approximately \$37 million and favorable currency translation of approximately \$5 million were partially offset by higher raw material costs of approximately \$37 million. The natural rubber operations contributed approximately \$1 million of the improvement through pricing and volume.

For the first six months of 2003, segment operating income (as restated) increased 30.3% from the 2002 period. Higher net selling prices of approximately \$95 million and favorable currency translation of approximately \$10 million favorably impacted segment operating income in 2003. Partially offsetting these improvements were higher raw material costs of approximately \$81 million and higher conversion costs of approximately \$17 million. The natural rubber operations contributed approximately \$5 million (as restated) of the improvement through pricing and volume.

Certain items identified as a result of a stand-alone audit of a portion of the Chemical Products business segment were previously recorded in 2002. In connection with the restatement, such amounts, all of which related to years prior to 2003, were reflected in the appropriate periods. The most significant adjustments 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.

The Company is exploring the possible sale of its Chemical business, or portions thereof, to both enhance its financial flexibility and focus future investments on its core business.

Revenues and segment operating income in the Chemical Products Segment may be adversely affected in future periods by competitive pricing pressures, lower aggregate demand levels for its products and increases in raw material and energy prices.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES****OPERATING ACTIVITIES**

Net cash used in operating activities was \$867.3 million (as restated) during the first six months of 2003, as reported on the Company's Consolidated Statement of Cash Flows (as restated). Working capital increased from June 30, 2002 to June 30, 2003, due primarily to increased cash and cash equivalents, accounts receivable and inventory. The increased accounts receivable is due primarily to the termination of Goodyear's domestic accounts receivable securitization program effective April 1, 2003. For further information, refer to the note to the financial statements (as restated), No. 5, Accounts Receivable.

INVESTING ACTIVITIES

Net cash used in investing activities was \$42.3 million (as restated) during the first six months of 2003. Capital expenditures were \$183.4 million (as restated), and were primarily for plant modernizations and new tire molds. The amount of capital expenditures are restricted under the Company's restructured credit facilities as discussed below.

(In millions)	Restated			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Capital Expenditures	\$ 86.4	\$ 97.1	\$183.4	\$172.7
Depreciation and Amortization	154.5	156.0	302.7	303.0

On April 8, 2003, Goodyear sold 20.8 million shares of its investment in SRI for approximately \$83 million.

On April 28, 2003, the Company purchased Arkansas Best Corporation's 19% ownership interest in Wingfoot Commercial Tire Systems, LLC, a joint venture company formed by Goodyear and Arkansas Best Corporation to sell and service commercial truck tires, provide retread services and conduct related business, for approximately \$71 million.

FINANCING ACTIVITIES

Net cash provided by financing activities was \$1.11 billion (as restated) during the first six months of 2003.

Consolidated Debt and the Debt to Debt and Equity Ratio for the periods indicated:

(In millions)	Restated		
	June 30, 2003	December 31, 2002	June 30, 2002
Consolidated Debt	\$5,025.1	\$3,643.0	\$3,665.8
Debt to Debt and Equity	96.0%	93.4%	58.5%

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Credit Sources

Restructuring and Refinancing of Credit Facilities

On April 1, 2003, the Company completed a comprehensive restructuring and refinancing of its bank credit and receivables securitization facilities. After completing the restructuring and refinancing, the Company replaced a total of \$2,938 million in finance facilities with a total of \$3,345 million of finance facilities including:

\$750 million Senior Secured U.S. Revolving Credit Facility due April 2005;

\$645 million Senior Secured U.S. Term Facility due April 2005;

\$650 million Senior Secured European Facilities due April 2005; and

\$1.30 billion Senior Secured Asset-Backed Facilities due March 2006.

The Company had approximately \$166.5 million of unused available committed credit under the new facilities as of June 30, 2003.

With the exception of approximately \$700 million in domestic accounts receivable securitizations and \$63 million in Canadian accounts receivable securitizations, each of the replaced finance facilities was unsecured. As of June 30, 2003, international subsidiaries of Goodyear had \$296.8 million of available borrowings under non-domestic accounts receivable securitization facilities. The Company expects the European portion of these facilities to be replaced with a new master European facility during the second half of 2003. As of June 30, 2003, Goodyear had short term committed and uncommitted bank credit arrangements totaling \$405.0 million, of which \$275.6 million were unused. The continued availability of these arrangements is at the discretion of the relevant lender, and a portion of these arrangements may be terminated at any time.

The total fees and expenses incurred in 2003 for the restructuring and refinancing were \$118.4 million. In addition, the Company will pay a termination fee on the senior secured asset-backed facilities at termination estimated to be equal to 100 basis points of the aggregate principal amount. Of these costs, \$14.4 million was charged against income in the first quarter of 2003 and the remainder is being charged against income over the term of the agreements.

The accounts receivable and debt that are subject to the new \$1.30 billion asset-backed facilities are included on Goodyear's consolidated balance sheet at June 30, 2003. Accounts receivable subject to the terminated \$763 million domestic and Canadian accounts receivable programs were not included on the consolidated balance sheet at December 31, 2002.

\$750 Million Senior Secured U.S. Revolving Credit Facility

The Company's amended and restated senior secured \$750 million revolving credit facility is with domestic and international banks and financial institutions and provides for borrowing up to the \$750 million commitment at any time until April 30, 2005. Up to \$600 million of the facility is available for the issuance of letters of credit. Under the facility, as of June 30, 2003, there were borrowings of \$295.0 million and \$381.5 million in letters of credit issued. The Company pays an annual commitment fee of 75 basis points on the undrawn portion of the commitment under the U.S. revolving credit facility.

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\$645 Million Senior Secured U.S. Term Facility

As of June 30, 2003, domestic and international banks, financial institutions and other entities were participants in the U.S. term facility and the balance due on the facility was \$583.3 million due to a partial pay down of the balance during the second quarter. The U.S. term facility matures on April 30, 2005.

The Company may obtain loans under both the U.S. revolving credit facility and the U.S. term facility (collectively, the U.S. facilities) bearing interest at LIBOR plus 400 basis points or an alternative base rate (the higher of JPMorgan's prime rate or the federal funds rate plus 50 basis points) plus 300 basis points. If loans under the \$645 million term facility remain outstanding on April 30, 2004, fees equal to 100 basis points (or 75 basis points if such facility has been reduced to not more than \$200 million) shall be paid to each lender on its ratable portion of the facility amount under the U.S. facilities.

The collateral pledged under the U.S. facilities includes:

subject to certain exceptions, all of the capital stock of the Company's domestic subsidiaries and 65% of the capital stock of its foreign subsidiaries;

perfected first-priority security interests in and mortgages on certain property, plant and equipment with a book value of at least \$1.00 billion;

perfected first-priority security interests in and mortgages on substantially all of Goodyear's other tangible and intangible assets including real property, equipment, contract rights and intellectual property; and

perfected second-priority security interests in all accounts receivable and inventory pledged as security under the Company's \$1.30 billion senior secured asset-backed facilities, cash and cash accounts, and 65% of the capital stock of Goodyear Finance Holding S.A.

The indentures for the Company's Swiss franc denominated bonds limit its ability to use its domestic tire and automotive parts manufacturing facilities as collateral for secured debt without triggering a requirement that bond holders be secured on an equal and ratable basis. The manufacturing facilities indicated above will be pledged to ratably secure the Company's Swiss franc denominated bonds to the extent required under the applicable indenture. However, the aggregate amount collateralized by these manufacturing facilities will be limited to 15% of the Company's shareholders' equity, in order that the security interests granted to the lenders under the restructured

facilities will not be required to be shared with the holders of indebtedness outstanding under the Company's other existing bond indentures.

The U.S. facilities contain certain covenants that, among other things, limit the Company's ability to incur additional secured indebtedness (including a limit, subject to certain exceptions, of \$275 million in accounts receivable transactions which is computed using the exchange rate as of the first day of the quarter), make investments, and sell assets beyond specified limits. The facilities prohibit Goodyear from paying dividends on its common stock. Goodyear must also maintain a minimum consolidated net worth (as such term is defined in the U.S. facilities) of at least \$2.80 billion and \$2.50 billion for quarters ending in 2003 and 2004, respectively, and \$2.00 billion for the quarter ending March 31, 2005. Goodyear also is not permitted to fall below a ratio of 2.25 to 1.00 of consolidated EBITDA to consolidated interest expense (as such terms are defined in the U.S. facilities) for any period of four consecutive fiscal

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quarters. In addition, Goodyear's ratio of consolidated senior secured indebtedness to consolidated EBITDA (as such terms are defined in the U.S. facilities) is not permitted to be greater than 4.00 to 1.00 at any time.

In addition, the U.S. term facility requires that any amount outstanding under the facility be prepaid with:

75% of the net cash proceeds of any asset sales or dispositions greater than \$5.0 million;

50% of net cash proceeds of any sale of the Engineered Products Division; and

50% of the net cash proceeds of any debt or equity issuances.

Since April 1, 2003, the Company has used the proceeds of the sale of shares of SRI to pay down \$62.1 million of the U.S. term facility.

The U.S. facilities also limit the amount of capital expenditures the Company may make to \$360 million, \$500 million, and \$200 million in 2003, 2004 and 2005 (through April 30), respectively. The amounts of permitted capital expenditures may be increased by the amount of net proceeds retained by the Company from permitted asset sales and equity and debt issuances after application of the prepayment requirement in the U.S. term facility described above. As a result of the second quarter 2003 sale of 20,833,000 shares of SRI for approximately \$83 million, the capital expenditure limit for 2003 has increased from \$360 million to approximately \$381 million. In addition, to the extent the Company does not reach the limit of permitted capital expenditures in any given year, such shortfall may be carried over into the next year.

\$650 Million Senior Secured European Facilities

Goodyear Dunlop Tires Europe B.V. (GDTE) has entered into a \$250 million senior secured revolving credit facility and a \$400 million senior secured term loan facility (collectively, the European facilities). These facilities are with domestic and international banks and financial institutions and mature on April 30, 2005. As of June 30, 2003, there were borrowings of \$250.0 million and \$400.0 million under the European revolving and term facilities, respectively.

GDTE pays an annual commitment fee of 75 basis points on the undrawn portion of the commitments under the European revolving facility. GDTE may obtain loans under the European facilities bearing interest at LIBOR plus 400 basis points or an alternative base rate (the higher of JPMorgan's prime rate or the federal funds rate plus 50 basis points) plus 300 basis points. If loans under the \$645 million U.S. term facility remain outstanding on April 30, 2004, fees equal to 100 basis points (or 75 basis points if such facility has been reduced to not more than \$200 million) shall be paid to each lender on its ratable portion of the facility amount under each of the European facilities.

The collateral pledged under the European facilities includes:

all of the capital stock of Goodyear Finance Holding S.A. and certain subsidiaries of GDTE; and

a perfected first-priority interest in and mortgages on substantially all the tangible and intangible assets of GDTE in the United Kingdom, Luxembourg, France and Germany (and Slovenia if Sava Tires Joint Venture Holding d.o.o. becomes a wholly-owned subsidiary of GDTE), including certain accounts receivable, inventory, real property, equipment, contract rights and cash and cash accounts, but excluding certain accounts receivable used in securitization programs.

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Consistent with the covenants applicable to Goodyear in the U.S. facilities, the European facilities contain certain covenants applicable to GDTE and its subsidiaries which, among other things, limit GDTE's ability to incur additional indebtedness, make investments, sell assets beyond specified limits, pay dividends and make loans or advances to Goodyear companies that are not subsidiaries of GDTE. The European facilities also contain certain covenants applicable to the Company identical to those in the U.S. facilities. The European facilities also limit the amount of capital expenditures that GDTE may make to \$180 million, \$250 million and \$100 million in 2003, 2004 and 2005 (through April 30), respectively.

Subject to the provisions in the European facilities and agreements with Goodyear's joint venture partner, SRI (which include limitations on loans and advances from GDTE to Goodyear and a requirement that transactions with affiliates be consistent with past practices or on arms-length terms), GDTE is permitted to transfer funds to Goodyear.

Any amount outstanding under the term facility is required to be prepaid with:

75% of the net cash proceeds of all sales and dispositions of assets by GDTE and its subsidiaries greater than \$5 million; and

50% of the net cash proceeds of debt and equity issuances by GDTE and its subsidiaries.

The U.S. and European facilities can be used, if necessary, to fund ordinary course of business needs, to repay maturing debt, and for other needs as they arise.

\$1.30 Billion Senior Secured Asset-Backed Credit Facilities

The Company has also entered into senior secured asset-backed credit facilities in an aggregate principal amount of \$1.30 billion, consisting of a \$500 million revolving credit facility and an \$800 million term loan facility. As of June 30, 2003, there were borrowings of \$357.0 million and \$800.0 million under the revolving credit and term loan asset-backed facilities, respectively. These facilities may be increased to not more than \$1.60 billion through extensions of, or increases in, commitments by new or existing creditors. The facilities mature on March 31, 2006. Availability under the facilities is limited by a borrowing base equal to the sum of (a) 85% of adjusted eligible accounts receivable and (b) (i) if the effective advance rate for inventory is equal to or greater than 85% of the recovery rate (as determined by a third party appraisal) of such inventory, 85% of the recovery rate of such inventory, or (ii) if the effective advance rate for inventory is less than 85% of the recovery rate, (A) the sum of 35% of eligible raw materials, 65% of adjusted eligible finished goods relating to the North American Tire Segment, and 60% of adjusted eligible finished goods relating to the retail division, Engineered Products Segment and Chemical Products Segment minus (B) a rent reserve equal to three months' rent and warehouse charges at facilities where inventory is stored. The calculation of the borrowing base and reserves against inventory and accounts receivable included in the borrowing base are subject to adjustment from time to time by the administrative agent and the majority lenders in their discretion (not to be exercised unreasonably), based on the results of ongoing collateral and borrowing base evaluations and appraisals. Availability under the facilities is further limited by a \$50 million availability block. If at any time the amount of outstanding borrowings under the facilities exceeds the borrowing base, the Company will be required to prepay borrowings sufficient to eliminate the excess or maintain compensating deposits with the

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agent bank. The facilities are collateralized by a first-priority security interest in all accounts receivable and inventory of Goodyear and its domestic and Canadian subsidiaries (excluding accounts receivable and inventory related to the Company's North American joint venture with SRI). The facilities contain certain covenants which are materially the same as those in the U.S. facilities, with capital expenditures of \$500 million and \$150 million permitted in 2005 and 2006 (through March 31), respectively.

Terminated or Amended Facilities

Until April 1, 2003, the Company was a party to two revolving credit facilities, consisting of a \$750 million five-year revolving credit facility and a \$575 million 364-day revolving credit facility. The Company was also a party to an \$800 million term loan agreement, a \$50 million term loan agreement, a \$700 million accounts receivable facility with respect to its domestic trade accounts receivable and an aggregate of \$346 million of non-domestic accounts receivable facilities. With the exception of (i) \$275 million of the non-domestic accounts receivable facilities, which remained in place as of April 1, 2003, and (ii) the \$750 million five-year revolving credit facility, which was amended and restated, each of these arrangements was terminated as of April 1, 2003, in connection with the restructuring and refinancing.

Terminated or Amended Credit Facilities

Prior to being amended and restated, the \$750 million five-year revolving credit facility was with domestic and international banks and provided for borrowings of up to the \$750 million commitment at any time until August 15, 2005, when the commitment was to terminate and any outstanding loans were to mature.

The \$575 million 364-day revolving credit facility, which was an extension of a \$775 million facility which expired on August 13, 2002, was with 21 domestic and international banks and provided for borrowings of up to the \$575 million commitment at any time until August 12, 2003.

The \$800 million term loan was with 28 domestic and international banks and was scheduled to mature on March 30, 2004.

During 2002 and early 2003 there was a series of reductions in the Company's credit ratings, and the Company perceived the possibility that it would not continue to comply with covenants relating to pension plan funding and minimum net worth in its then existing financing agreements. Accordingly, the Company entered into discussions with its lenders regarding amendments of its financing agreements. On December 24, 2002, the Company obtained waivers of the pension funding and net worth covenants contained in its revolving credit facilities and term loan agreement. The Company paid fees to the lenders as consideration for their granting the waivers. On March 5, 2003, these waivers were extended to April 4, 2003, and additional fees were paid.

Terminated Domestic Accounts Receivable Securitization Facility

Until April 1, 2003, Goodyear maintained a program for the continuous sale of substantially all of its domestic trade accounts receivable to Wingfoot A/R LLC, a wholly-owned limited liability subsidiary company that is a bankruptcy-remote special purpose entity (SPE). The results of operations and financial position of Wingfoot A/R LLC were not included in the consolidated financial statements of the Company as provided by Statement of Financial Accounting Standards No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of

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Liabilities. Wingfoot A/R LLC purchased Goodyear's receivables with (a) the cash proceeds of borrowings from a group of four bank-affiliated issuers of commercial paper, which borrowings were secured by the trade accounts receivable purchased from Goodyear, (b) the proceeds of Goodyear's equity investment in Wingfoot A/R LLC, and (c) a subordinated note payable to Goodyear. Wingfoot A/R LLC was permitted to borrow a maximum of \$700 million from the note purchasers. The outstanding borrowings under the facility, \$577.5 million, were retired in connection with the restructuring and refinancing on April 1, 2003.

Non-Domestic Accounts Receivable Securitization Facilities

Various international subsidiaries of the Company have also established accounts receivable continuous sales programs whereunder these subsidiaries may receive proceeds from the sale of certain of their receivables. These subsidiaries retain servicing responsibilities.

As of June 30, 2003, the amount outstanding under programs maintained by GDTE totaled \$282.5 million and such programs were fully utilized. The Company expects these facilities to be replaced with a new European facility during the second half of 2003. In addition, as of June 30, 2003, the Company had \$14.3 million outstanding of other receivable financing programs.

At June 30, 2003, the net proceeds for all sales of receivables by Goodyear were \$296.8 million. Net cash outflows of \$647.2 million were recorded in the first six months of 2003 for transfers of accounts receivable under these and other programs. For further information, refer to the note to the financial statements (as restated) No. 5, Accounts Receivable.

Credit Ratings

On March 20, 2003, Moody's Investor Services assigned a Ba2 long term debt rating to Goodyear's then proposed restructured credit facilities. At the same time, Moody's assigned Goodyear a senior implied rating of Ba3, an unsecured long-term issuer rating of B1 and lowered Goodyear's senior unsecured debt rating to B1. Moody's rating outlook is stable. On March 20, 2003, Standard & Poor's assigned ratings on the then proposed restructured credit facilities of BB+ for the \$1.30 billion senior secured asset-backed credit facility; and BB- for the U.S. facilities and the European facilities. On April 2, 2003, Standard & Poor's affirmed its BB- long term debt rating, maintained its negative outlook and lowered the rating on Goodyear's unsecured notes to B+. As a result of these ratings actions and other related events, the Company believes that its access to capital markets may be limited. In addition, financing and related expenses under some existing arrangements have increased as a result of the Company's non-investment-grade ratings.

Dividends

On February 4, 2003, the Company announced that it eliminated its quarterly cash dividend. The dividend reduction was effected by the Board of Directors in order to conserve cash for the Company's business and should result in annual cash savings to the Company of approximately \$84 million per year. Under the Company's restructured credit agreements, the Company is not permitted to pay dividends on its common stock.

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Turnaround Strategy

The Company is currently implementing the initial stages of a turnaround strategy for the North American Tire Segment that will require the Company to 1) stabilize margins and market shares, 2) simplify the sales and supply chain process, 3) execute key cost-cutting, brand and distribution strategies and 4) grow the business through new product introductions and new sales channels. There is no assurance that the Company will successfully implement this turnaround strategy. In particular, this strategy and the Company's liquidity could be adversely affected by trends that negatively affected the North American Tire Segment in 2002 and prior years, including industry overcapacity which limits pricing power, weakness in the replacement tire market, increased competition from low cost manufacturers and a related decline in Goodyear's market share, weak U.S. economic conditions, and increases in medical and pension costs.

The ability of the Company to fully implement its cost-cutting strategy is significantly dependent upon the successful negotiation of a new master contract with the USWA. On April 19, 2003, the Company's master contract with the USWA expired. On June 27, 2003, the Company and the USWA ended formal contract discussions. On July 5, 2003, contracts with the USWA covering employees at three additional plants expired. Under an agreement between the USWA and the Company, the USWA must give the Company 72 hours prior notice of a strike and the Company must give the USWA 72 hours prior notice before implementing a lock-out. In late July 2003, the Company and the USWA announced their intention to resume formal contract negotiations in early August 2003. The Company's financial position, results of operations and liquidity could be materially adversely affected if the Company and the USWA are unable to reach agreement on a new master contract or if there were a prolonged interruption of production. In addition, the other factors mentioned in the discussion of the North American Tire Segment above could have an adverse effect on the Company's financial position, results of operations and liquidity.

Future Capital Requirements

Subject to the uncertainties and contingencies identified elsewhere in this document, including but not limited to the risks identified in Forward-Looking Information Safe Harbor Statement, and based upon the Company's projected operating results, the Company believes that cash flow from operations together with available borrowing under its restructured credit facilities and other sources of liquidity will be adequate to meet the Company's anticipated requirements for working capital, debt service and capital expenditures.

The Company is required to meet certain covenants related to the credit agreements as discussed above. In the event the Company failed to comply with these covenants, the lenders would have the right to cease further loans to the Company and to demand the repayment of all outstanding loans under these facilities.

The Company's \$3,283.3 million of bank finance facilities at June 30, 2003, mature in 2005 and 2006; and the Company would have to refinance these facilities in the capital markets if they were not renewed by the banks. Because of its debt ratings, recent operating performance and other factors, the Company believes its access to such markets at the present may be limited. The Company's ability to improve its access to the capital markets is highly dependent on successfully implementing its turnaround strategy. There is no assurance that the Company will be successful in implementing its turnaround strategy. Failure to successfully complete the turnaround strategy could have a material adverse effect on the Company's financial position, results of operations and liquidity.

Table of Contents**COMMITMENTS & CONTINGENCIES**

The following table presents, at June 30, 2003, Goodyear's obligations and commitments to make future payments under contracts and contingent commitments.

(In millions)	Restated Payment Due by Period as of June 30, 2003						
	Total	1 Year	2 Years	3 Years	4 Years	5 Years	After 5 Years
Contractual Obligations							
Long Term Debt (1)	\$4,958.4	\$167.3	\$1,989.5	\$1,319.0	\$572.9	\$101.6	\$ 808.1
Capital Lease Obligations (2)	106.6	9.5	9.4	8.0	7.4	7.3	65.0
Operating Leases (3)	1,466.9	279.1	232.6	187.2	166.3	104.0	497.7
Binding Commitments (4)	328.2	287.8	19.6	10.3	2.9	1.2	6.4
Total Contractual Cash Obligations	\$6,860.1	\$743.7	\$2,251.1	\$1,524.5	\$749.5	\$214.1	\$1,377.2

Amount of Commitment Expiration per Period

Other Off-Balance-Sheet Financial Guarantees Written and Other Commitments (5)	\$ 73.8	\$ 52.6	\$ 2.7	\$ 0.5	\$ 0.1	\$ 4.9	\$ 13.0
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- (1) Long term debt payments include notes payable.
- (2) The present value of capital lease obligations is \$66.7 million (as restated).
- (3) Operating leases do not include minimum sublease rentals of \$41.2 million, \$32.8 million, \$23.6 million, \$16.1 million, \$10.5 million and \$14.5 million in each of the periods above, respectively, for a total of \$138.7 million. Net operating lease payments total \$1,328.2 million (as restated). The present value of operating leases is \$786.5 million (as restated). The operating leases relate to, among other things, computers and office equipment, real estate and miscellaneous other

assets, which are in some instances leased from SPEs owned and controlled by independent, unaffiliated lessors that are owned or financed by financial institutions. At June 30, 2003, the Company was a party to lease agreements with two unrelated SPEs. The agreements are related to certain North American distribution facilities and certain corporate aircraft. Minimum operating lease payments in the above table include approximately \$30 million in 2006 related to the distribution facilities. No director, officer or employee of Goodyear or any of its subsidiaries or other affiliate holds any direct or indirect interest in such entities. No asset is leased from any related party.

- (4) Binding commitments are for normal operations of the Company and include investments in land, buildings and equipment and raw materials purchased through short term supply contracts at fixed prices or at formula prices related to market prices or negotiated prices.
- (5) Other off-balance-sheet financial guarantees written and other commitments include, at June 30, 2003, approximately \$45.6 million related to an option held by one of Goodyear's minority partners in Sava Tires to require Goodyear to purchase the partner's 20% equity interest in Sava Tires. The minority partner may exercise its option during various periods beginning in 2003 and extending through 2005.

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In addition, the following contingent contractual obligations, the amounts of which cannot be estimated, are not included in the table above:

The terms and conditions of Goodyear's global alliance with SRI as set forth in the Umbrella Agreement between Goodyear and SRI provide for certain minority exit rights available to SRI commencing in 2009. SRI's exit rights, in the unlikely event of exercise, could require Goodyear to make a substantial payment to acquire SRI's interest in the alliance.

Pursuant to an agreement entered into in 2001, Ansell Ltd. (Ansell), formerly Pacific Dunlop Ltd., has the right, during the period beginning August 2005 and ending one year later, to require Goodyear to purchase Ansell's 50% interest in SPT at a formula price based on the earnings of SPT. If Ansell does not exercise its right, Goodyear may require Ansell to sell its interest to Goodyear during the 180 days following the expiration of Ansell's right at a price established using the same formula.

Pursuant to an agreement entered into in 2001, Goodyear shall purchase minimum amounts of carbon black from a certain supplier from January 1, 2003 through December 31, 2006, at agreed upon base prices that are subject to quarterly adjustments for changes in raw material costs and natural gas costs and a one time adjustment for other manufacturing costs.

Goodyear expects to make contributions to its domestic pension plans of approximately \$375 million to \$425 million in 2004 in order to satisfy statutory minimum funding requirements.

The Company does not engage in the trading of commodity contracts or any related derivative contracts. The Company generally purchases raw materials and energy through short term, intermediate and long term supply contracts at fixed prices or at formula prices related to market prices or negotiated prices.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Goodyear continuously monitors its fixed and floating rate debt mix. Within defined limitations, Goodyear actively manages the mix using refinancing and unleveraged interest rate swaps. Goodyear will enter into fixed and floating interest rate swaps to alter its exposure to the impact of changing interest rates on consolidated results of operations and future cash outflows for interest. As a result of credit ratings' actions and other related events, the Company's access to these instruments may be limited. Fixed rate swaps are used to reduce Goodyear's risk of increased interest costs during periods of rising interest rates, and are normally designated as cash flow hedges. Floating rate swaps are used to convert the fixed rates of long-term borrowings into short-term variable rates. Interest rate swap contracts are thus used by Goodyear to separate interest rate risk management from debt funding decisions. At June 30, 2003, the interest rates on 46% of Goodyear's debt were fixed by either the nature of the obligation or through the interest rate swap contracts, compared to 70% at December 31, 2002. Goodyear also has from time to time entered into interest rate lock contracts to hedge the risk-free component of anticipated debt issuances. As a result of credit ratings' actions and other related events, the Company's access to these instruments may be limited.

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The following tables present information at June 30:

(Dollars in millions) Interest Rate Swap Contracts	2003	2002
Fixed Rate Contracts:		
Notional principal amount	\$325.0	\$325.0
Pay fixed rate	5.00%	5.00%
Receive variable LIBOR	1.10	1.90
Average years to maturity	0.75	1.80
Fair value liability	\$ (9.6)	\$ (11.4)
Pro forma fair value liability	(9.8)	(12.3)
Floating Rate Contracts:		
Notional principal amount	\$200.0	\$250.0
Pay variable LIBOR	2.91%	3.80%
Receive fixed rate	6.63	6.60
Average years to maturity	3.46	4.50
Fair value asset	\$ 18.8	\$ 5.0
Pro forma fair value asset	19.5	6.9

The pro forma fair value assumes a 10% decrease in variable market interest rates at June 30 of each year, and reflects the estimated fair value of contracts outstanding at that date under that assumption.

Weighted average interest rate swap contract information follows:

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Fixed Rate Contracts:				
Notional principal	\$325.0	\$325.0	\$325.0	\$325.0
Pay fixed rate	5.00%	5.07%	5.00%	5.12%
Receive variable LIBOR	1.34	2.07	1.38	2.03
Floating Rate Contracts:				
Notional principal	\$200.0	\$250.0	\$213.0	\$171.0
Pay variable LIBOR	3.11%	3.69%	3.15%	3.71%
Receive fixed rate	6.63	6.63	6.63	6.63

The following table presents fixed rate debt information at June 30:

(In millions) Fixed Rate Debt	2003	2002
Fair value liability	\$1,862.0	\$2,292.0
Carrying amount liability	2,168.5	2,423.8

Pro forma fair value liability	1,923.0	2,382.0
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The pro forma information assumes a 100 basis point decrease in market interest rates at June 30, 2003 and 2002, respectively, and reflects the estimated fair value of fixed rate debt outstanding at that date under that assumption.

The sensitivity to changes in interest rates of Goodyear's interest rate contracts and fixed rate debt was determined with a valuation model based upon net modified duration analysis. The model assumes a parallel shift in the yield curve. The precision of the model decreases as the assumed change in interest rates increases.

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Table of Contents**Foreign Currency Exchange Risk**

In order to reduce the impact of changes in foreign exchange rates on consolidated results of operations and future foreign currency-denominated cash flows, Goodyear enters into foreign currency contracts. These contracts reduce exposure to currency movements affecting existing foreign currency-denominated assets, liabilities, firm commitments and forecasted transactions resulting primarily from trade receivables and payables, equipment acquisitions, intercompany loans and royalty agreements and forecasted purchases and sales. In addition, the principal and interest on Goodyear's Swiss franc bond due 2006 and Euro100 million of the Euro Notes due 2005 are hedged by currency swap agreements.

Contracts hedging the Swiss franc bond and the Euro Notes are designated as cash flow hedges. Contracts hedging short term trade receivables and payables normally have no hedging designation.

The following table presents foreign currency contract information at June 30:

(In millions)	Restated	
Foreign Exchange Contracts	2003	2002
Fair value asset	\$ 62.7	\$ 41.0
Pro forma change in fair value	(28.9)	27.4
Contract maturities	7/03-12/18	7/02-3/06
Fair value asset (liability):		
Swiss franc swap-current	\$ (1.8)	\$ (2.5)
Swiss franc swap-long term	34.3	22.1
Euro swaps-current	0.4	(1.9)
Euro swaps-long term	21.3	11.9
Other-current asset	11.8	11.4
Other-current liability	(3.3)	

The pro forma change in fair value assumes a 10% change in foreign exchange rates at June 30 of each year, and reflects the estimated change in the fair value of contracts outstanding at that date under that assumption.

The sensitivity to changes in exchange rates of Goodyear's foreign currency positions was determined using current market pricing models.

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FORWARD-LOOKING INFORMATION SAFE HARBOR STATEMENT

Certain information set forth herein (other than historical data and information) may constitute forward-looking statements regarding events and trends which may affect our future operating results and financial position. The words estimate, expect, intend and project, as well as other words or expressions of similar meaning, are intended to identify forward-looking statements. You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this Quarterly Report. Such statements are based on current expectations and assumptions, are inherently uncertain, are subject to risks and should be viewed with caution. Actual results and experience may differ materially from the forward-looking statements as a result of many factors, including:

we have not yet completed the implementation of our plan to improve our internal controls and may be unable to remedy certain internal control weaknesses identified by our external auditors and take other actions in time to meet the March 1, 2005 deadline for complying with Section 404 of the Sarbanes-Oxley Act of 2002;

pending litigation relating to our restatement could have a material adverse effect on our financial condition;

an ongoing SEC investigation regarding our restatement could materially adversely affect us;

we have experienced significant losses in 2001, 2002 and 2003. We cannot assure that we will be able to achieve future profitability. Our future profitability is dependent upon our ability to successfully implement our turnaround strategy for our North American Tire segment and our previously announced rationalization actions;

we face significant global competition, including increasingly from lower cost manufacturers, and our market share could decline;

our secured credit facilities limit the amount of capital expenditures that we may make;

higher raw material and energy costs may materially adversely affect our operating results and financial condition;

continued pricing pressures from vehicle manufacturers may materially adversely affect our business;

our financial position, results of operations and liquidity could be materially adversely affected if we experience a labor strike, work stoppage or other similar difficulty;

decline in the value of the securities held by our employee benefit plans or a decline in interest rates would increase our pension expense and underfunding levels. Termination by the Pension Benefit Guaranty Corporation of any of our U.S. pension plans would further increase our pension expense and could result in additional liens on material amounts of our assets;

our long term ability to meet current obligations and to repay maturing indebtedness, including long term debt maturing in 2005 and 2006 of approximately \$1.21 billion and \$1.96 billion at June 30, 2004, respectively, is dependent on

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our ability to access capital markets in the future and to improve our operating results;

we have a substantial amount of debt, which could restrict our growth, place us at a competitive disadvantage or otherwise materially adversely affect our financial health;

any failure to be in compliance with any material provision or covenant of our secured credit facilities and the indenture governing our senior secured notes could have a material adverse effect on our liquidity and our operations;

our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly;

if we fail to manage healthcare costs successfully, our financial results may be materially adversely affected;

we may incur significant costs in connection with product liability and other tort claims;

our reserves for product liability and other tort claims and our recorded insurance assets are subject to various uncertainties, the outcome of which may result in our actual costs being significantly higher than the amounts recorded;

we may be required to deposit cash collateral to support an appeal bond if we are subject to a significant adverse judgment, which may have a material adverse effect on our liquidity;

we are subject to extensive government regulations that may materially adversely affect our ongoing operating results;

our international operations have certain risks that may materially adversely affect our operating results;

the terms and conditions of our global alliance with Sumitomo Rubber Industries, Ltd. (SRI) provide for certain exit rights available to SRI upon the occurrence of certain events, which could require us to make a substantial payment to acquire SRI's interest in certain of our joint venture alliances (which include much of our operations in Europe);

we have foreign currency translation and transaction risks that may materially adversely affect our operating results; and

if we are unable to attract and retain key personnel, our business could be materially adversely affected.

It is not possible to foresee or identify all such factors. We will not revise or update any forward-looking statement or disclose any facts, events or circumstances that occur after the date hereof that may affect the accuracy of any forward-looking statement.

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ITEM 4. CONTROLS AND PROCEDURES.

Overview.

On May 19, 2004, the Company filed its Annual Report on Form 10-K for the year ended December 31, 2003, containing restated financial statements reflecting adjustments to the Company's previously reported financial information on Form 10-K for the years ended December 31, 2002 and 2001. This Form 10-Q/A contains restated financial information reflecting adjustments to the Company's previously reported financial information on Form 10-Q for the quarter ended June 30, 2003.

Following the Company's decision in the third quarter of 2003 to restate the Company's previously issued financial statements, the Company's independent registered public accounting firm, PricewaterhouseCoopers LLP (PwC), advised the Company that the failure to identify certain issues that had affected several years 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 reconciliation, and internal reporting and monitoring of these matters.

On December 10, 2003, the Company announced that it was delaying the filing of its 2002 Form 10-K/A containing restated financial statements in order to permit the Audit Committee to conduct an internal investigation into potential improper accounting issues in its European Union Tire business segment. The investigation subsequently expanded to other locations of the Company's overseas operations. The investigation identified accounting irregularities primarily related to earnings management whereby accrual accounts were adjusted or expenses were improperly deferred in order to increase the segments' operating income.

Prior to filing its 2003 Annual Report on Form 10-K on May 19, 2004, the Company identified other matters requiring adjustment. Some of these adjustments resulted from an improper understatement of workers' compensation liability and improper accounting related to the valuation of real estate received in payment of trade accounts receivable. 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, following the conclusion of these internal investigations conducted by the Company's Audit Committee, 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 as an additional material weakness certain intentional overrides that the Company had discovered of internal controls by middle managerial personnel, 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. PwC also identified a number of other internal control weaknesses and made additional business and controls recommendations.

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In April 2003, the Company began to implement various measures to strengthen its account reconciliation control processes. The Company established a requirement that the finance director of each operating unit that maintains a general ledger or sub-ledger confirm on a monthly basis that all balance sheet accounts for which he or she has responsibility have been reconciled accurately and on a timely basis. At the corporate level, each employee responsible for an account is required to certify, on a quarterly basis, that such account has been accurately reconciled. The Company's Internal Audit Department has commenced targeted reviews of selected account reconciliations. In response to the overseas accounting investigation, senior finance personnel visited various overseas locations in preparation for the filing of the Company's 2003 Form 10-K and reviewed and confirmed the accuracy of selected account reconciliations, analyzed reported results, reviewed items identified by prior audits to ensure corrective actions were in place and reviewed the certification process with local management.

In connection with the restatement process and the internal investigation by the Audit Committee, the Company has dedicated substantial resources to the review of its control processes and procedures. As a result of that review, the Company has determined that it will strengthen its internal controls by (i) making personnel and organizational changes, (ii) improving communications and reporting, (iii) improving monitoring controls, (iv) increasing oversight to reduce opportunities for intentional overrides of control procedures, and (v) simplifying and improving financial processes and procedures. Specific remedial measures that have already been undertaken, principally since the beginning of 2004, include the following:

Various disciplinary actions (ranging from reprimand to termination) against numerous employees;

Restructured reporting relationships within the finance function such that the finance directors of all seven strategic business units report directly to the Chief Financial Officer and the controllers of these business units report to the Corporate Controller;

Changed compensation structures for business unit finance directors so that compensation is no longer directly tied to financial performance of the business unit;

Increased staffing (including the use of temporary personnel) in various aspects of the Company's finance and internal audit functions;

Increased management oversight by creating a new Disclosure Committee comprised of senior managers with responsibility for responding to issues raised during the financial reporting process;

Streamlined the organization of its European Business Unit to eliminate a level of management and financial reporting;

Began conducting enhanced training on the certification process whereby senior finance management explained each matter to be certified with each of the seven strategic business units and their local management teams;

Commissioned a review of a significant portion of open workers' compensation claims, including a certification by an outside administrator that such claims had been properly valued; and

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Revised procedures with respect to opening bank accounts to ensure appropriate oversight by the Treasury Department.

A number of other initiatives to strengthen the Company's internal controls are currently in process or under development. These include:

Expanding the personnel, resources and responsibilities of the internal audit function;

Increasing finance staff and upgrading the technical capabilities of individuals within the finance function, through improved and formalized training;

Development of new and enhanced monitoring controls;

Simplification of financial processes and information technology systems;

Creation of a Remediation Project Management Office responsible for the design and implementation of the Company's long-term remediation plan;

Establishing a communications program to improve inter-department and cross-functional communications, maintain awareness of the financial statement certification process and finance issues in general and to encourage associates to raise issues for review and/or resolution; and

Review all accounting policies and procedures, and where appropriate make modifications.

The Company will continue to evaluate the effectiveness of its controls and procedures on an ongoing basis, including consideration of the internal control weaknesses identified and the business and controls recommendations made by PwC, and will implement further actions as necessary in its continuing efforts to strengthen the control process. PwC has not completed its assessment of the effectiveness of the Company's actions.

In addition, the Company is undertaking a thorough review of its internal controls, including information technology systems and financial reporting, as part of the Company's preparation for compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. Given the effort needed to remedy the internal control weaknesses identified by PwC, the Company may not be able to fully remedy these weaknesses and take the other actions required for compliance with Section 404 of the Sarbanes-Oxley Act by the March 1, 2005 deadline for Section 404 compliance.

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Disclosure Controls and Procedures.

The Company's senior management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of June 30, 2003. Based upon that evaluation, combined with a consideration of the additional procedures described above, the Company's Chief Executive Officer and Chief Financial Officer concluded that, notwithstanding the material weaknesses and reportable conditions described above, after taking into account the remedial measures implemented by the Company, as of the evaluation date, the Company's disclosure controls and procedures are designed, and are effective, to give reasonable assurance that information the Company must disclose in reports filed with the SEC is properly recorded, processed and summarized, and then reported as required.

Changes in Internal Control over Financial Reporting.

Except as described above, there were no changes in the Company's internal controls over financial reporting during the second quarter of 2003 that materially affected, or were reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) Exhibits. See the Index of Exhibits at page E-1, which is by specific reference incorporated into and made a part of this Quarterly Report on Form 10-Q/A.

(b) Reports on Form 8-K. The following Current Reports on Form 8-K were furnished by The Goodyear Tire & Rubber Company to the Securities and Exchange Commission during the quarter ended June 30, 2003:

Form 8-K, dated April 3, 2003 (Items 7 and 12)*

Form 8-K, dated April 30, 2003 (Items 7 and 12)*

* The information furnished in the report shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934.

S I G N A T U R E S

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE GOODYEAR TIRE & RUBBER
COMPANY

(Registrant)

Date: August 3, 2004

By /s/ Thomas A. Connell
Thomas A. Connell, Vice President and Controller

(Signing on behalf of Registrant as a duly
authorized officer of Registrant and signing as the
principal financial officer of Registrant.)

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**THE GOODYEAR TIRE & RUBBER COMPANY
Quarterly Report on Form 10-Q/A
For the Quarter Ended June 30, 2003**

INDEX OF EXHIBITS

EXHIBIT Table Item No.	Description of Exhibit	EXHIBIT Number
3	<p>ARTICLES OF INCORPORATION AND BY-LAWS</p> <p>(a) Certificate of Amended Articles of Incorporation of The Goodyear Tire & Rubber Company (Goodyear), dated December 20, 1954, and Certificate of Amendment to Amended Articles of Incorporation of Goodyear, dated April 6, 1993, and Certificate of Amendment to Amended Articles of Incorporation of Goodyear dated June 4, 1996, three documents comprising Goodyear s Articles of Incorporation as amended (incorporated by reference, filed as Exhibit 4.1 to Goodyear s Registration Statement on Form S-3, File No. 333-90786).</p> <p>(b) Code of Regulations of Goodyear, adopted November 22, 1955, as amended April 5, 1965, April 7, 1980, April 6, 1981, April 13, 1987 and May 7, 2003 (incorporated by reference, filed as Exhibit 3.1 to Goodyear s Quarterly Report on Form 10-Q for the quarter ended June 30, 2003 filed on July 30, 2003, File No. 1-1927).</p>	
4	<p>INSTRUMENTS DEFINING THE RIGHTS OF SECURITY HOLDERS, INCLUDING INDENTURES</p> <p>(a) Specimen nondenominational Certificate for shares of the Common Stock, Without Par Value, of Goodyear; EquiServe Trust Company, N.A. as transfer agent and registrar (incorporated by reference, filed as Exhibit 4.4 to Goodyear s Registration Statement on Form S-3, File No. 333-90786).</p> <p>(b) Conformed copy of Amended and Restated Rights Agreement April 15, 2002, between Goodyear and EquiServe Trust Company, N.A., as successor Rights Agent, amending and restating the Rights Agreement, dated as of June 4, 1996, between Goodyear and First Chicago Trust Company of New York, Rights Agent (incorporated by reference, filed as Exhibit 4.1 to Goodyear s Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, File No. 1-1927).</p> <p>(c) Conformed copy of \$750,000,000 Amended and Restated Revolving Credit Agreement dated as of March 31, 2003 among Goodyear, the Lenders named therein, and JPMorgan Chase Bank, as Administrative Agent (incorporated by reference, filed as Exhibit 4.1 to Goodyear s Form 10-Q for the quarter ended March 31, 2003 filed on April 30, 2003, File No. 1-1927).</p>	

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EXHIBIT Table Item No.	Description of Exhibit	EXHIBIT Number
4	<p>(d) Conformed copy of \$645,454,545 Term Loan Agreement dated as of March 31, 2003 among Goodyear, the Lenders named therein, and JPMorgan Chase Bank, as Administrative Agent (incorporated by reference, filed as Exhibit 4.2 to Goodyear's Form 10-Q for the quarter ended March 31, 2003 filed on April 30, 2003, File No. 1-1927).</p> <p>(e) Term Loan and Revolving Credit Agreement dated as of March 31, 2003 among Goodyear, Goodyear Dunlop Tires Europe B.V., Goodyear Dunlop Tires Germany GmbH, Goodyear GmbH & Co KG, Dunlop GmbH & Co KG, Goodyear Luxembourg Tires SA, the Lenders named therein and JPMorgan Chase Bank, as Administrative Agent and Collateral Agent (incorporated by reference, filed as Exhibit 4.3 to Goodyear's Form 10-Q for the quarter ended March 31, 2003 filed on April 30, 2003, File No. 1-1927).</p> <p>(f) Term Loan and Revolving Credit Agreement dated as of March 31, 2003 among Goodyear, the Lenders named therein, and JPMorgan Chase Bank, as Administrative Agent (incorporated by reference, filed as Exhibit 4.4 to Goodyear's Form 10-Q for the quarter ended March 31, 2003 filed on April 30, 2003, File No. 1-1927).</p> <p>(g) Master Guarantee and Collateral Agreement dated as of March 31, 2003 among Goodyear, certain subsidiaries of Goodyear as Grantors and Guarantors, the Lenders named therein and JPMorgan Chase Bank, as Collateral Agent (incorporated by reference, filed as Exhibit 4.5 to Goodyear's Form 10-Q for the quarter ended March 31, 2003 filed on April 30, 2003, File No. 1-1927).</p> <p>(h) Form of Indenture, dated as of March 15, 1996, between Goodyear and Chemical Bank (now JPMorgan Chase Bank), as Trustee, as supplemented on December 3, 1996, March 11, 1998 and March 17, 1998 (incorporated by reference, filed as Exhibit 4.1 to Goodyear's Form 10-Q for the quarter ended March 31, 1998, File No. 1-1927).</p> <p>(i) Form of Indenture, dated as of March 1, 1999, between Goodyear and The Chase Manhattan Bank (now JPMorgan Chase Bank), as Trustee, as supplemented on March 14, 2000 (incorporated by reference, filed as Exhibit 4.1 to Goodyear's Form 10-Q for the quarter ended March 31, 2000, File No. 1-1927) and as further supplemented on August 15, 2001 (incorporated by reference, filed as Exhibit 4.3 to Goodyear's Form 10-Q for the quarter ended September 30, 2001, File No. 1-1927).</p>	

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EXHIBIT Table Item No.	Description of Exhibit	EXHIBIT Number
	In accordance with paragraph (iii) to Part 4 of Item 601 of Regulation S-K, agreements and instruments defining the rights of holders of certain items of long term debt entered into during the quarter ended June 30, 2003 which relate to securities having an aggregate principal amount less than 10% of the consolidated assets of Registrant and its Subsidiaries are not filed herewith. The Registrant hereby agrees to furnish a copy of any such agreements or instruments to the Securities and Exchange Commission upon request.	
12	STATEMENT RE COMPUTATION OF RATIOS	
	Statement setting forth the computation of Ratio of Earnings to Fixed Charges.	12
31	302 CERTIFICATIONS	
	Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	31.1
	Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	31.2
32	906 CERTIFICATIONS	
	Certificate of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	32

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