

UNITED STATES DISTRICT COURT  
MIDDLE DISTRICT OF TENNESSEE  
NASHVILLE DIVISION

CITY OF MONROE EMPLOYEES  
RETIREMENT SYSTEM, On Behalf of Itself  
and All Others Similarly Situated,

Plaintiff,

vs.

BRIDGESTONE CORPORATION,  
BRIDGESTONE/FIRESTONE, INC.,  
YOICHIRO KAIZAKI and MASATOSHI  
ONO,

Defendants.

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) No.

) CLASS ACTION

) COMPLAINT FOR VIOLATIONS OF THE  
) SECURITIES EXCHANGE ACT OF 1934

) DEMAND FOR JURY TRIAL

## OVERVIEW

1. This is an action on behalf of all purchasers of the common stock and American Depository Receipts ("ADRs") for the common stock of Bridgestone Corporation ("Bridgestone") between 3/31/98 and 8/31/00 (the "Class Period"). This action arises out of defendants' dissemination of false and misleading statements designed to conceal and cover up defects in steel-belted radial ATX tires manufactured by Bridgestone's U.S. subsidiary, Bridgestone/Firestone, Inc. ("Bridgestone/Firestone") used principally on Ford Motor Company's ("Ford") Explorer sport-utility vehicles. Due to the success of the Explorer, Ford became Bridgestone/Firestone's largest customer and sales of ATX tires became the largest source of revenues and profits for Bridgestone and Bridgestone/Firestone during the 1990s. During the Class Period, Bridgestone and Bridgestone/Firestone had knowledge of thousands of claims for and complaints concerning ATX tire failures, especially ATX tires manufactured at Bridgestone/Firestone's Decatur, Illinois plant during and after a bitter 1994-1996 strike, due to design and manufacturing defects which resulted in over 2,200 rollover accidents, over 500 serious injuries and approximately 150 fatalities by 2000. Nevertheless, Bridgestone made false and misleading statements about the effectiveness and integrity of its product design, testing and manufacturing processes and the quality and safety of its products, while concealing its growing awareness of the problems with and defects in the ATX radial tires. Bridgestone also failed to properly account for or disclose the prospective cost of these product failures and associated remedial costs, thereby materially misstating its financial condition – reporting inflated earnings during the Class Period.

2. In its communications with the investment community during the Class Period, Bridgestone stressed its success in improving the productivity at Bridgestone/Firestone plants in the U.S. following a bitter strike in 1994-1996, its technological expertise, which enabled it to design and produce increasing amounts of exceptionally high quality tires, and its success in re-establishing Firestone as a leading brand, as summarized below:

(a) Regarding its technological superiority and efficient production capabilities, Bridgestone stated:

- *"We inaugurated a productivity program in 1994 to raise our capacity utilization rates, our tire yields per ton of rubber, and our output per employee. That program has been highly successful ...."*
- *"We reached an agreement in 1996 with the union that represents employees at ... our North American plants ... that **permit[s] our plants to operate 24 hours a day, seven days a week.... Those adjustments ... permit gains in operating efficiency ....**"*
- *"Yields and productivity are rising at Bridgestone plants around the world."*
- *"Continuing gains in productivity have strengthened our competitive position greatly in the Americas ...."*

(b) Regarding the *high quality* of its tires, Bridgestone stated:

- *"We are the largest tire supplier to Ford Motor .... That growth evidences high regard among automakers for our strengths in product quality ...."*
- *"Rigorous testing under the diverse conditions at our proving grounds around the world helps ensure reliable quality for original equipment ... customers." "Our competitive edge in tire technology remains our highest asset." "World-class technology." "Globally consistent quality ...."*
- *"Selling the best tires in the world means being ready with the best tire for each customer .... [W]e have restored the Firestone brand to a pre-eminent position in mainstream tires."*
- *"Our pledge to customers is to deliver world-class quality in every tire we manufacture everywhere in the world. We make good on that pledge every day at 39 tire plants ...."*
- *"The products we delivered in 1996 were exactly what customers were seeking."*

(c) Regarding the successful turnaround of Firestone, Bridgestone stated:

- *"In the Americas, our multibrand strategy – centered on the ... Firestone ... brand[] – has produced sales growth that has averaged nearly \$500 million a year since 1993."*
- *"[T]he real proof of our progress is in our business performance.... **Excellent results in North America, especially .... Sales at our subsidiary for the Americas, Bridgestone/Firestone, Inc., surpassed our parent-company turnover for the first time.**"*
- *"The Americas, the largest tire market in the world, are our biggest source of consolidated sales.... We have established the Firestone brand as a market leader ...."*
- *"Our Firestone brand has become a genuine leader in the ... North American tire market ...."*

Thus, Bridgestone also represented that "***Bridgestone today is better positioned than ever to maintain sound margins in any kind of market environment. We are well positioned ... to reward investors.***" When questions arose in 00 about the safety of Bridgestone/Firestone ATX tires on the Explorer, Bridgestone/Firestone ***denied there were any problems***, stating:

- ***"Firestone ATX, ATX II and Wilderness AT tires are among the safest tires on the road today."***
- ***"These are safe tires."***
- Bridgestone/Firestone had "***full confidence***" in the ATX tires.
- ***"We continually monitor the performance of all our tire lines, and the objective data clearly reinforces our belief that these are high-quality, safe tires."***

3. Defendants' statements about Bridgestone's technological advantages and expertise in tire design, manufacturing and production, its improved manufacturing productivity, the quality of its tires, the success of its Bridgestone/Firestone operations and the Firestone brand were false. In fact:

(a) Bridgestone/Firestone's productivity program and work rule changes were not highly successful as represented, as Bridgestone/Firestone's production gains at its U.S. facilities were being achieved by the imposition of work rules and production methods that prevented the manufacture of ATX tires meeting necessary quality standards due to production and inspection shortcuts and errors;

(b) Bridgestone/Firestone did not have a competitive edge in tire technology and was not producing tires of world-class quality every day as represented, as, in order to produce ATX tires in sufficient quantities to meet Ford's demands for its Explorer, Bridgestone/Firestone was engaging in production, inspection and quality control shortcuts, resulting in the production and shipment of large numbers of defective ATX tires prone to sudden tread separation failures;

(c) Bridgestone/Firestone tires were not exactly what customers wanted, nor were they the best tires in the world or of world-class quality as represented, as the ATX tires were defectively designed and those produced during and after the 1994-1996 strike had

extraordinarily high defect rates, as during the strike the tires were made by under-trained or untrained replacement workers and after the strike ended, new work rules to boost production and management pressure to meet the volume demands of Ford resulted in the use of improper, old, bad or out-of-specification raw materials and production errors and skipped inspection steps;

(d) Bridgestone/Firestone was not keeping the Ford Explorer tire supply contract due to the quality of its products, but rather, because it was able to meet Ford's low cost requirements and production demands only by the use of improper, old, bad or out-of-specification raw materials and production, inspection and quality control shortcuts that resulted in the manufacture of large numbers of defective tires;

(e) Bridgestone/Firestone did not have superiority in tire design and production technology nor was it producing the best tires in the world or tires of world-class quality as represented, as the Bridgestone/Firestone ATX tires were defectively designed and were being produced with the use of improper, old, bad, out-of-specification or inappropriate raw materials and sloppy workmanship, inadequate inspection and quality control shortcuts and were defective, leading to exceptionally high rates of sudden tread separation and failure;

(f) Bridgestone/Firestone's purported success in the U.S. and restoration of the Firestone brand name was misleading because, in fact, due to use of improper, old, bad, out-of-specification or inappropriate raw materials and production, inspection and quality control shortcuts Bridgestone/Firestone was manufacturing large numbers of defective ATX tires prone to sudden tread separation failures; and

(g) Bridgestone's and Bridgestone/Firestone's reported revenues and profits were inflated as detailed herein, due to huge cost curtailments and artificial production boosts that were resulting in the production of extraordinarily large numbers of defective ATX tires, which would result in the recall or replacement of millions of ATX tires at a cost of hundreds of millions of dollars while Bridgestone's financial statements were misleading due to its failure to disclose and accrue for existing loss contingencies relating to its sale of the defective ATX tires.

4. In February 2000, a Houston TV station (KHOU) reported on three Explorer rollover accidents due to ATX tire failures, suggesting that several deaths had resulted in similar accidents. ***Bridgestone/Firestone said its ATX tire was a "reliable workhorse" and endorsed the "quality and reliability of these tires."*** On 7/26/00, two suits were filed against Bridgestone/Firestone alleging that ATX tire tread separation caused Explorers to roll over resulting in fatalities. *The Wall Street Journal* asked Bridgestone/Firestone to comment. Bridgestone/Firestone stated it had ***"full confidence"*** in the tires. On 8/1/00, after two safety groups urged Ford to recall the Explorers with Bridgestone/Firestone ATX tires on them, Bridgestone/Firestone responded: ***"We continually monitor the performance of all our tire lines, and the objective data clearly reinforces our belief that these are high-quality, safe tires."*** On 8/3/00, Bridgestone/Firestone issued a statement that the ATX ***"tires are among the safest tires on the road today"*** and told *The New York Times*, ***"These are safe tires."*** These statements were false. The ATX tires were defective in design, material and production, resulting in a large number of Explorer crashes, including "single event" rollover accidents. In fact, ATX tires failed at alarming rates in Bridgestone/Firestone's own tests and in the real world as well. Far from being safe, high-quality or workhorses, the ATX tires were time-bombs and were leading to an extremely large number of crashes and serious injuries and deaths.

5. Throughout the Class Period, defendants schemed and pursued a common course of conduct and course of business that operated as a fraud or deceit on the purchasers of Bridgestone common stock and ADRs. Unable to sustain the cover-up any longer, on 8/9/00, Bridgestone/Firestone announced a ***recall*** of 6.5+ million in-use ATX tires and replacement of all ATX tires on all unsold Explorers in inventory. The recall and the ensuing revelations over the next several weeks of the true severity of problems with ATX tires resulted in the very kind of massive public relations debacle that motivated Bridgestone and Bridgestone/Firestone to cover-up these problems over the past three and one-half years. Documents and other evidence became public that demonstrated that Bridgestone and Bridgestone/Firestone had, in fact, known for years of the defective nature of the ATX tires and of their propensity for

sudden failure due to tread separation, resulting in thousands of accidents and hundreds of serious injuries and fatalities.

6. Bridgestone and Bridgestone/Firestone executives have been called before Congressional committees and excoriated for their misconduct. U.S. lawmakers have rejected their claims of ignorance about the **"lethal combination."** Based on only *some* of the facts pleaded in this Complaint, New Mexico Rep. Heather Wilson rejected Bridgestone/Firestone's claims of lack of knowledge: **"That's rubbish.... You knew a long time ago."** Through a spokesperson, Rep. Billy Tauzin said, **"This latest information only confirms our suspicion that [Bridgestone and Bridgestone/Firestone] knew a hell of a lot more than they're willing to admit."** In Venezuela, where over 40 people were killed in Explorer rollovers caused by ATX tire failures, Venezuelan consumer-protection authorities and that country's public prosecutor have opened criminal proceedings against Bridgestone and Bridgestone/Firestone **for colluding to keep Venezuelan motorists unaware of dangerous flaws in Ford Explorer vehicles equipped with Bridgestone/Firestone ATX tires.** On 8/30/00, after an investigation of Bridgestone/ Firestone and Ford, the Venezuelan safety agency, Indecu, concluded that they had **"met to plan ways out of a situation that was affecting their commercial interests, at the price of causing damage, destruction and death."** **"Both companies hid information and this caused many accidents,"** said Samuel Ruh Rios, the president of Indecu. The accidents were the result of a **"lethal combination"** of Ford design and Bridgestone/Firestone manufacturing problems – a **"macabre combination."** Rios concluded **"it's criminal."**

7. In fact, it is now clear that ATX tires **were a defective product** – prone to sudden failure due to tread separation. Ford's CEO Jacques Nasser has said **"this is about defective tires,"** and that there is **"conclusive evidence that the [ATX] tires [are] defective."** Top Bridgestone executives have admitted **"we made bad tires"** due to **"design flaws"** and **"manufacturing variances,"** especially at Bridgestone/Firestone's Decatur, Illinois plant, to where more than half the failed ATX tires have been traced. **Bridgestone/Firestone has admitted that an unusually high number of the ATX tires produced at the Decatur plant during a 1994-1996 strike, when the plant was staffed by strike-breakers, were especially**

*prone to tread separation. John Lampe, an executive vice president of Bridgestone/Firestone has admitted: "It's very, very evident there was something going on in Decatur that caused this." Yoichiro Kaizaki, Bridgestone's president and CEO, acknowledged that Bridgestone executives ignored signs of trouble. "If there was a problem with a Bridgestone tire," he said, "our technology staff in Tokyo would rush to the site" overseas to help out. "But if a problem arose with a Firestone tire, they wouldn't do anything." He has also admitted he wished that Bridgestone/Firestone had done more to ensure that Bridgestone/Firestone met the parent company's quality standards, and said, "We should have applied our standards to things like technology and quality assurance."*

8. In December 2000, Bridgestone/Firestone released a report of an internal investigation of the ATX tire fiasco which admitted the tires were defective in design and manufacture. According to the 12/19/00 *New York Times*:

A four-month internal investigation by Firestone found that the tire failures had their roots in decisions as simple as whether to use rubber pellets or rubber sheets in certain manufacturing processes, and whether the grooves in the side of a tire's tread were vertical or slanted, the engineers said in an interview today.

\* \* \*

While Firestone's chief executive told Congressional committees in September that the company had made "some bad tires," the engineers' comments were the first time that the company has publicly acknowledged making specific manufacturing mistakes.... The tires figure in more than 100 lawsuits seeking compensation for deaths, injuries and property damage when their treads peeled off. Similar tires have been implicated in dozens of deaths overseas.

\* \* \*

Firestone's sales of replacement tires have plunged 40 percent this fall because of the furor over its products.... Bridgestone has set aside \$750 million to cover the costs of the recall and lawsuits.

According to the engineers, the design problem lies in the so-called shoulder pockets of the recalled ATX tire. These are scalloped areas that run into the side of the tread from the sidewall to give traction in snow and during off-road driving. The steep angle of the ATX's shoulder pocket contributes to cracking inside the pocket, they said.

Particularly in tires made at the Decatur plant, the analysis found, the cracking was prone to spread from the pocket to another crucial part: the point where two belts of rubber-coated steel fibers form the tire's core.



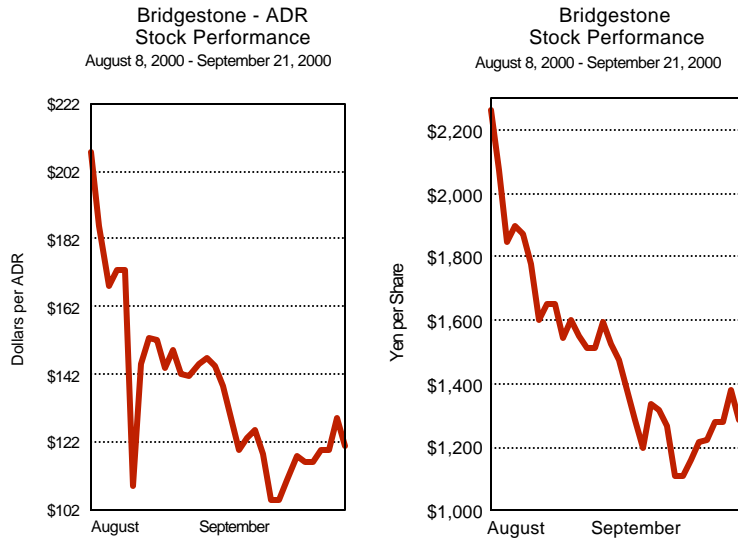
Variations in the manufacturing process in Decatur meant that the thickness of rubber between the angle and the belts varied considerably, the engineers said – and sometimes was thinner than tire designers intended.

Decatur was also producing belts that did not stick to each other very well when vulcanized, a process in which a tire is heated and squeezed to fuse the various layers. Decatur's machinery for mixing rubber compounds produced pellets, the engineers said; the machinery at Firestone's other factories produced sheets of rubber.

In each case, the pellets or sheets would be sprayed with a lubricant to keep the rubber from sticking together in huge globs. According to the engineers, the pellets' greater surface area meant they were exposed to larger quantities of lubricant. When Firestone burned the rubber from the recalled tires' belts and measured the chemical properties of the ash, it found that 1 percent to 1.5 percent of the ash from tires made in Decatur consisted of lubricant – two to three times the amount found in ash from other tires. Extra lubricant makes the belts stick to each other less.

To address the finding, Firestone has begun shipping rubber sheets from its other plants to Decatur, where the pellets are being used only in less critical manufacturing processes, the engineers said.

9. In addition to the public relations debacle and resulting damage to the Firestone "brand name," this fiasco will cost Bridgestone and Bridgestone/Firestone hundreds of millions of dollars in the near term. Bridgestone and Bridgestone/Firestone have suffered huge losses – measured in the hundreds of millions of dollars and Bridgestone/Firestone's CEO has been pushed out. These startling revelations and admissions resulted in a sharp decline in Bridgestone's stock and ADRs, wiping out billions of dollars of market capitalization and inflicting great damage on purchasers of Bridgestone stock and ADRs. Bridgestone stock and ADRs have plunged by 50%, *wiping out half Bridgestone's market value*. These collapses are shown below:



## JURISDICTION AND VENUE

10. The claims asserted arise under §§10(b) and 20(a) of the Securities Exchange Act of 1934 ("1934 Act") and Rule 10b-5. Jurisdiction is conferred by §27 of the 1934 Act. Venue is proper pursuant to §27 of the 1934 Act. Venue is proper in this district as Bridgestone's regional headquarters for the Americas and Bridgestone/Firestone's corporate headquarters are located in Nashville. Bridgestone operates in the U.S. through Bridgestone/Firestone – Bridgestone's largest subsidiary. Bridgestone has major manufacturing facilities located in the U.S. (including in Tennessee) and hundreds of millions of dollars worth of its products are sold here. The alleged false and misleading statements were distributed into and from this district.

## THE PARTIES

11. Plaintiff City of Monroe Employees Retirement System purchased Bridgestone common stock during the Class Period as shown in the attached certification and was damaged thereby.

12. Defendant Bridgestone operates in the U.S. through defendant Bridgestone/Firestone – Bridgestone's largest subsidiary. Bridgestone and Bridgestone/Firestone have major manufacturing facilities located in the U.S. and hundreds of

millions of dollars worth of their products are sold here. Bridgestone's U.S. office also issues Bridgestone press releases and shareholder and ADR/stockholder reports. There are 861 million shares of Bridgestone common stock and 10 million American Depository Shares, evidenced by American Depository Receipts ("ADRs") outstanding. Each ADR represents 10 shares of common stock. As a foreign issuer whose securities are registered with the SEC for trading in the U.S., Bridgestone files reports with the SEC on an annual and quarterly basis. Bridgestone's stock trades on the Tokyo Exchange and in the OTC market in the U.S. Bridgestone's ADRs also trade in the OTC market. These securities trade in efficient markets.

13. (a) Defendant Yoichiro Kaizaki ("Kaizaki") is the President and Chief Executive Officer of Bridgestone. Kaizaki made false statements and was intimately involved in the common course of conduct, fraudulent course of business and wrongful scheme complained of herein. By reason of Kaizaki's positions as President and CEO of Bridgestone, he is a controlling person of Bridgestone and Bridgestone/Firestone and is liable under §20(a) of the 1934 Act.

(b) Defendant Masatoshi Ono ("Ono") was the Executive Vice President of Bridgestone and Chairman and Chief Executive Officer of Bridgestone/Firestone until he was forced out in October 2000. Ono made false statements and was intimately involved in the common course of conduct, fraudulent course of business and wrongful scheme complained of herein.

#### **SCIENTER, SCHEME AND FRAUDULENT COURSE OF CONDUCT ALLEGATIONS**

14. In 1978-1979, Firestone encountered a crisis due to widespread failures (over 14,000, including tires on Ford vehicles) of its then leading steel-belted radial tire brand – the Firestone 500 – resulting in hundreds of passenger vehicle crashes and 41 fatalities. Firestone had covered up defects in its Firestone 500 tire and the pattern of Firestone 500 tire failures from the public and safety authorities for years, while attributing the publicly known failures to consumers for not properly inflating or taking care of their tires. However, government investigators finally uncovered that Firestone had been adding too much of an adhesion-

boosting compound to the rubber that held the steel belts together, known as Resorcinol. It turned out that Resorcinol actually resulted in rubber tire tread separating from the underlying steel belts, leading to the tire suddenly falling apart. When Firestone's cover-up unraveled, it was forced to make the largest tire recall in history – over 13 million Firestone 500 tires, which were defective due to manufacturing defects and production shortcuts. This horrible incident gravely injured Firestone's corporate image, badly damaged the Firestone brand and almost bankrupted Firestone. Firestone limped through the 1980s, financially damaged by the 1978-1979 recall *for essentially the same problem which occurred most recently with ATX tires* – the rubber tire tread peeling away from the underlying steel belts.

15. In 1988, Bridgestone, a Japanese conglomerate, acquired Firestone for \$2.6 billion. To make this acquisition, Bridgestone had to undertake the largest debt in its history – a debt burden Bridgestone described as "*oppressive*." Because of this, Bridgestone's top executives came under tremendous pressure to increase the revenues and cash flow of Bridgestone/Firestone to help pay down the large debt Bridgestone had incurred to purchase it. This could only be done by obtaining large OEM contracts *and* greatly boosting the productivity and output of Firestone's U.S. plants. Bridgestone executives made it clear that they wanted more OEM supply contracts *and* increased volume and production from the U.S. unit. The only way to achieve this was to expand Firestone's OEM business with auto companies, including Ford.

16. In 1988-1989, Ford was developing a new sport-utility vehicle to replace its aging, "boxy" Ford Bronco II sport-utility vehicle. The new vehicle was known as Explorer. The Explorer was to be a more stylish sport-utility vehicle – a combination of a light truck and a passenger car – that would be sufficiently luxurious to appeal to suburban families with children, but still have off-road characteristics for recreational use.

17. Obtaining the contract to supply tires for the Explorer was the highest priority for Bridgestone/Firestone. In 1989, in attempting to obtain the tire supply contract for the Explorer, Bridgestone/Firestone submitted prototypes of ATX tires for testing. Seventeen of these tires were tested by Arvin/Calspan, a tire-testing company. In February 1989,

Arvin/Calspan reported that *incredibly, five of the 17 prototypes failed in testing due to tread separation problems under heavy loads and strenuous conditions – failures very similar to those encountered by the Firestone 500 tire which had led to the massive 1978-1979 recall.*

18. In March 1990, Ford introduced its new Explorer which, despite the negative testing results of the ATX prototypes, *came equipped with "C"-rated Bridgestone/Firestone ATX tires*. It is impossible to overstate the importance of the ATX tires to Bridgestone's financial success during the 1990s. The Ford Explorer ATX tire supply contract saved Bridgestone/Firestone. When Bridgestone/Firestone landed the Ford Explorer tire supply contract, Ford became *the number one customer of Bridgestone/Firestone*. The Explorer was fantastically successful, selling over 300,000-400,000 units per year. Bridgestone/Firestone, which was losing \$1 million per day in 1989-1990, was profitable by 1993. Thus, Bridgestone positioned itself to obtain the huge revenues and cash flow necessary to pay down the *"oppressive"* Firestone acquisition debt and in succeeding years, as it *manufactured over 12 million ATX tires*, it obtained billions in revenues and cash flow and was able to *"pay off" the Firestone acquisition debt*.

19. Selling poorly designed or manufactured products to consumers can result in product failures, injuries or deaths, lawsuits, and government enforcement actions, including huge recalls that are enormously expensive and hurt product sales, revenues and earnings. Thus, investors favor companies that design and manufacture world-class quality, safe, defect-free products. Bridgestone knew that the prices of its stock and ADRs would benefit from creating the image that it was a technologically advanced and efficient producer that manufactured high-quality, safe and defect-free products.

20. The tires on any vehicle are extremely important, as a sudden tire failure can result in loss of control and a crash. Therefore, the safe design and high quality manufacturing of tires is of utmost importance. *The importance of safe design and high-quality manufacturing of tires is greatly enhanced in the context of a sport-utility vehicle*. Sport-utility vehicles, like the Explorer, are designed for off-road use, are intended to operate heavily

loaded for long trips by families on vacations and have high ground clearance which results in an unusually high center of gravity. This unusually high center of gravity makes sport-utility vehicles inherently more likely to roll over under normal highway use than passenger vehicles. The sudden failure of a sport-utility vehicle tire greatly increases the likelihood of a "single event" rollover.

21. After Ford introduced Explorers equipped with ATX tires, Bridgestone/Firestone began to receive consumer complaints regarding tire tread separations and tire failures, "single event" rollover accidents began to occur and Bridgestone and Bridgestone/Firestone were sued. These first failure reports were received as early as 1992, ***many of which were due to sudden ATX tire failure due to tread separation*** – problems very similar to those which led to the massive 1978-1979 recall of Firestone 500 tires, and which resulted in sudden tire failure under normal operating conditions.

22. Several product liability suits were filed during 1992-1995 due to ATX tire failures. By 1993, at least five lawsuits against Bridgestone had been filed for ATX tire failures that resulted in Explorer rollovers. By 1996 there were at least 16 suits. Many others followed. By 1999, at least 50 such suits had been filed. When suits are filed against Bridgestone or Bridgestone/Firestone about a safety defect, the company organizes an internal investigation to assemble information and analysis about the allegations. Top company officials were kept informed about all lawsuits against the companies, ***particularly when they accumulated concerning one particular problem, as was the case here***. Bridgestone and Bridgestone/Firestone knew they had a serious problem as early as 1993. But the defendants schemed and pursued a course of conduct and business to keep it as secret as possible.

23. In fact, by 1994, under pressure to cut its costs and increase the productivity and production rates of its U.S. facilities where ATX tires were made, Bridgestone/Firestone went to war with the union which represented its workers. Bridgestone's executives were determined to greatly reduce the union's influence over Bridgestone/Firestone's tire production operations and cut Bridgestone/Firestone's costs by obtaining very significant work rule changes. Thus, Bridgestone/Firestone's executives provoked a confrontation, leading to

a massive strike in July 1994 at its U.S. tire production facilities, including its largest production facility in Decatur. Bridgestone's executives demanded very significant changes in working conditions, including longer hourly work shifts and other work changes to permit around-the-clock, seven-days-a-week operations to cut costs and greatly increase production rates. During this bitter and prolonged strike, Bridgestone/Firestone ***maintained production by the use of management employees and untrained and inexperienced non-union replacement workers***. Bridgestone/Firestone's disregard for proper operating conditions in its production plants had already resulted in the U.S. Department of Labor imposing a huge \$7.5 million fine on Bridgestone for unsafe working conditions. Bridgestone's intransigent insistence on massive work rule changes was even publicly condemned by President Clinton who blasted Bridgestone/Firestone for ***'flagrantly turning its back on our tradition of peaceful collective bargaining.'*** Nevertheless, Bridgestone/Firestone's executives persisted and largely prevailed in 1996 via a settlement in which they obtained huge concessions to speed up production, including 12-hour work shifts and seven-days-a-week production.

24. While the strike was underway, the Bridgestone/Firestone ATX tires produced at Decatur were produced with significant production and inspection shortcuts. Decatur workers have stated the number of scrap tires – those thrown out because of defects – soared during the strike. Rubber stock piled up and often became too dry to use. The number of imperfect or defective tires produced soared as supervisors and under-trained or untrained replacement workers were called on to master highly skilled jobs to keep the Decatur plant running. After the strike, due to the changes in work rules to cut costs and increase production, the production and inspection shortcuts accelerated, resulting in the manufacture of huge numbers of tires using bad or improper raw materials that were not properly manufactured, tested or inspected. Thus, production errors, poor supervision of the tire-making process and quality control shortcuts persisted after the strike ended. "It takes two years to become a good tire builder," William Newton, a retired tire builder, has stated. ***"By the time I got back, I saw a lot of people who didn't know how to build tires."*** Darrell Batson, a retired Firestone factory worker, has stated it was common for inspectors at the Decatur plant to push tires

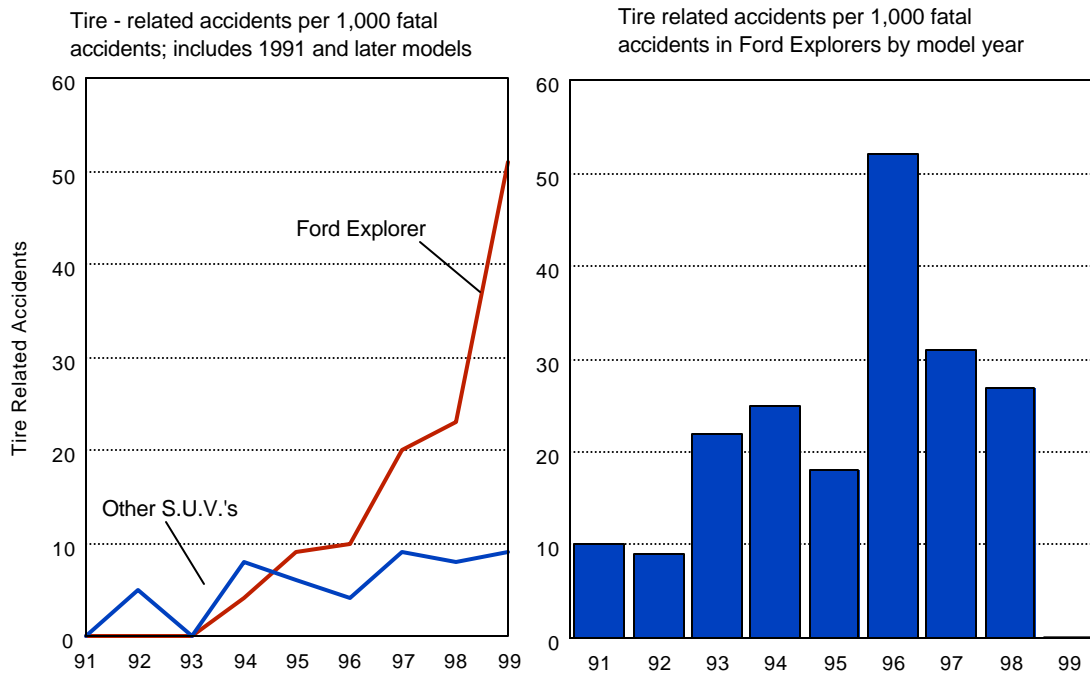
through to the warehouse without examining them when the workload grew heavy. "***I have seen where if the lines got a little heavy, the guys felt – some of them felt – it was necessary' to move tires without inspecting them.***" Mr. Batson has said he saw this happen "***daily.***" A tire production expert, R.J. Grogan, has stated, "***The problem is bad housekeeping and bad material.... It's a weak rubber, and they don't take care of it; they use stale stuff and freshen it up.***" Workers at Decatur have stated they commonly "gassed," or sprayed, a chemical solvent on the rubber to make it tackier. "***During the strike they were using it all the time,***" Jared Thompson, a tire builder, has stated, "***because the quality of the material going from one department to another wasn't as good.***" Several workers have stated that rubber was allowed to sit too long, that solvents were used haphazardly to try to improve the rubber's adhesive properties, and that efforts to speed up the vulcanization process led to flawed tires. Cecil Aldridge, who has worked at the Decatur plant since 1963, has stated he observed poorly trained workers and quality-control problems when he returned after the strike – "***I knew there'd be some kind of problem with the tires.***"

25. During 1996, Bridgestone/Firestone performed random quality control high-speed durability tests on ATX tires being produced at its Decatur and other plants. In one sample test of 129 ATX tires at Decatur, 18 suffered failure due to tread separation. In another random test of 229 ATX tires at Decatur, 31 failed. In yet another random test of 18 ATX tires, eight failed – seven from the Decatur plant. Bridgestone/Firestone documents show that tires with the highest tread separation rate were produced at Decatur from 1994 to 1996, during and shortly after the strike.

26. The rate of warranty claims on ATX tires on Explorers ***surged in the mid-90s, and the bulk of them involved tires made in Decatur.*** For the three years from 1994 through 1996, tread-separation claims attributed to ATX tires produced at the ***Decatur plant came in at rates ranging from roughly 350 to more than 600 tires per million.*** "***It's very, very evident there was something going on in Decatur that caused this,***" John Lampe, an executive vice president of Bridgestone/Firestone later admitted.



27. During 1996-1997, consumer complaints to and claims made on Bridgestone/Firestone due to tire failures on Explorer sport-utility vehicles equipped with ATX tires and rollover accidents of Explorers equipped with ATX tires began to soar as strike and post-strike production tires began to endure the rigors of road use. The charts below highlight these soaring claims:



28. In 1996, state agencies in Arizona began having major problems with tread separations of Bridgestone/Firestone ATX-type tires. Various agencies demanded new tires and Bridgestone/Firestone sent six engineers to Arizona to conduct an investigation. Then, Bridgestone/Firestone quietly replaced the tires.

29. By the end of 1996, at least 15 suits for injuries or death resulting from Explorer crashes due to ATX tire failures had been filed. In late 1996 came the first public disclosure of an alleged link between Bridgestone/Firestone ATX tires and Ford Explorer rollover accidents via a Houston, Texas TV station's (KPRC) report on the subject. However, Bridgestone/Firestone issued a statement that Bridgestone/Firestone had "*no reason to believe there is anything wrong with [these tires].*" Bridgestone/Firestone knew this was a false.

30. During 1996-1997, as warranty claims to Bridgestone/Firestone from tire failures due to tread separation increased dramatically, State Farm, the largest automobile

insurer in the U.S., began to demand that Bridgestone/Firestone pay the costs of automobile accidents attributable to ATX tire failures. Without contesting its legal liability for these claims, *Bridgestone/Firestone secretly began to reimburse State Farm for these claims* to avoid being sued by State Farm, which would have publicized the growing problem with the ATX tires.

31. During 1996-1997, increasing numbers of ATX tire users complained to Bridgestone/Firestone about ATX tire failures and Bridgestone/Firestone began secretly to compensate complaining customers, even for out-of-warranty tires. Numerous Bridgestone/Firestone documents have become available showing that Bridgestone/Firestone knew since 1996-1997 from property damage and injury claims and tire performance data, such as warranty adjustments and financial analysis of such claims, that its ATX tires were failing at unprecedented rates. Several documents show a large jump in claims involving tread separations in 1996 and 1997. One Bridgestone/Firestone chart reveals that tread separations for the Wilderness AT tire increased 194% in 1999 from 1998.

32. Bridgestone and Bridgestone/Firestone maintained sophisticated databases to record and track product failure reports based on warranty claims, customers' complaints and accident reports, as well as information received from NHSTA. For instance, when a warranty claim is filed against Bridgestone/Firestone, the tires are sent to one of 11 regional return centers where Bridgestone/Firestone engineers diagnose the problem. Defects are sorted into 100+ categories and constantly compiled, sorted and analyzed. As a result of this information, Bridgestone and Bridgestone/Firestone actually knew by the beginning of the Class Period – 3/31/98 – that the ATX tires were defectively designed and manufactured, which was resulting in an increasing number of sudden tread separation tire failures and Explorer accidents, including rollovers, resulting in hundreds of injuries and many deaths.

33. By 1997-1999, Bridgestone/Firestone was facing an accelerating number of suits arising out of the failures of the ATX tires. A prime instrument in the Bridgestone/Firestone cover-up was the secrecy agreements they obtained in product liability lawsuits. As Bridgestone and Bridgestone/Firestone settled these suits, they insisted that the

settlement agreements be sealed and on protective orders to conceal discovery, and that damaging documents be returned to them, so information on the tread separation on Bridgestone/Firestone ATX tires causing rollovers on Ford Explorers was concealed.

34. During the Class Period, in order to attempt to avoid the public relations disaster and adverse financial impact they knew would inevitably result from disclosure of what they knew about the ATX tires, defendants schemed and worked individually and cooperatively to keep the information and data and knowledge which they had secret, including the continued secret reimbursement of State Farm for vehicle crash claims connected with ATX tire failures, the secret settlement of personal injury suits whereby they required plaintiffs and their counsel to agree to seal court records, return or secrete evidence and not help with other tire failure suits, and Bridgestone/Firestone's continuing practice of reimbursing complaining ATX tire customers for tire problems and failures even for out-of-warranty tires. Thus, Bridgestone/Firestone kept the accident rate data which they had and which showed these serious problems from safety regulators, both in foreign countries as well as in the U.S. All the while, Bridgestone and Bridgestone/Firestone continued to pump out ATX tires, so they could report huge profits and their executives could retain their positions of power, prestige and profit and Bridgestone's stock and ADRs would continue to trade at inflated, higher prices, providing the executives with direct economic benefits based on their stock holdings and options and allowing them to personally pocket huge bonuses based on corporate profits, and hoping against hope that their cover-up would permit them over time to fix the problems without any public disclosure of them. But Bridgestone and Bridgestone/Firestone lost their gamble on deceit and secrecy.

35. During 1997-1998, Bridgestone/Firestone encountered a rash of ATX tire failures in the Persian Gulf and in Venezuela, resulting in numerous fatalities. Bridgestone faced very serious adverse consequences if the problems with the ATX tires became publicly known. If the governments of Saudi Arabia *or* Venezuela were to find out about the number of accidents and the defective nature of the tires, Bridgestone feared punitive action by those governments. If Bridgestone publicly recalled or replaced the tires, not only would these

governments find out, but likely the U.S. safety regulators would also find out. Such disclosure would not only result in a public relations debacle for Bridgestone and Bridgestone/Firestone, but would have very adverse financial consequences for them, due to the tremendous financial cost of replacing millions and millions of tires and damage to their treasured "brand" name products.

36. By 1998, the ATX tire failure rate in Venezuela had reached crisis proportions. Over 40 people had now been killed in Explorer rollover accidents due to ATX tire failures. Ford insisted that Bridgestone/Firestone alter the design of the ATX tire being sold in Venezuela to include a nylon cap. Bridgestone/Firestone did not do so. An official Venezuelan report said that when Ford and Bridgestone/Firestone realized the original ATX tires on Explorers had problems, they, "*in the most absolute secrecy*," agreed to add a nylon layer to the tire to prevent tread separation. However, Bridgestone refused to participate in any public replacement program because this "*would put in jeopardy the Bridgestone brand in Venezuela.*"

37. By 1998, the situation in the Persian Gulf, especially in Saudi Arabia, had also reached crisis proportions due to the escalating number of ATX tire failures there, where several fatalities had now occurred. Bridgestone/Firestone considered the possibility of a formal recall of the ATX tires in the Persian Gulf region, however, *fearing that the U.S. safety regulators would have to be notified of such a program since the same product was being sold in the United States and also because such an overt public program could result in the Saudi Arabian government beginning to prohibit the import of the ATX tire, they didn't initiate a formal recall.* A March 1999 Ford memo revealed that "Firestone legal has some major reservations about the plan to notify customers and offer them an option .... *They feel that the U.S. D.O.T. will have to be notified of the program, since the product is sold in the U.S.*"

38. The number of complaints and failure incidents Bridgestone/Firestone received during 1995-1999 was *astounding*! Bridgestone/Firestone knew that NHTSA had instituted investigations of consumer products on as few as two to three complaints. Thus,

Bridgestone/Firestone deliberately secreted the negative information about Bridgestone/Firestone ATX tires because they knew that if NHTSA found out about the level of complaints and claims concerning and accidents involving ATX tires, NHTSA would start an investigation and force a recall of all ATX tires.

39. Given Bridgestone/Firestone's prior involvement with tire failures and other safety defects, *it is impossible that Ford's and Bridgestone's conduct and false statements complained of were the result of lack of information, carelessness or even gross negligence*. This company is a recidivist when it comes to covering up product defects. In fact, Bridgestone/Firestone *paid the largest fine ever imposed by NHSTA for concealing vehicle-related product defects – \$500,000 for the 1978-1979 Firestone 500 tire fiasco*.

40. But, covering up defects to avoid recalls is profitable for Bridgestone even if it ultimately gets caught by NHTSA. The worst case is it gets caught and pays a token fine, which is more than offset by the money saved in a delayed recall, which, when delayed, always has a lower completion rate and less cost. If Bridgestone does not get caught by NHTSA and the defect never becomes public, it saves hundreds of millions of dollars in recall costs. If it does get caught in time to do a recall, then the maximum fine is \$1,000 per tire which should have been recalled earlier *capped at \$800,000 (adjusted to \$925,000 for inflation)*! These are trivial amounts for a huge corporate enterprise. *For Bridgestone/Firestone, its \$500,000 fine for 13 million defective tires was just four cents a tire*. Thus historically, it paid for Bridgestone to cover up and conceal vehicle-related design defects and dangers.

41. Cover-up is the culture at Bridgestone/Firestone. There are a number of parallels between this recall and the 1978 recall of the Firestone 500 tire. Sudden tire separation is the failure mode in both situations. In 1978-1979, as now, *Firestone singled out its Decatur plant as the source of its defective tires, as the initial recall then involved 400,000 tires made in Decatur*. Now the initial recall of the 6.5 million ATX tires has been limited to tires made at the Decatur plant, *even though 50% of the ATX tires that have failed on Explorers to date were manufactured in other plants, just as proved to be the case in the 1978-1979 debacle*. In 1978-1979, there was a documented cover-up by Firestone of the

Firestone 500 defect, spurred by the lack of a Firestone replacement tire. *Same here!* Again, as in 1978-1979, when first confronted with accusations about the performance of the tire, Bridgestone/Firestone misleadingly claimed owner abuse or lack of maintenance was the cause of the failure.

42. The press has also documented the Bridgestone/Firestone cover-up. For instance, *Newsweek* has reported it has obtained documents that show Bridgestone/Firestone was chronicling a pattern of tire failures *for the last three years*. *Newsweek* has reported that Congressional investigators have three Bridgestone/ Firestone reports, from 1998, 1999 and 2000, that show unusually high rates of failures and tread peeling from ATX II tires, one of the types involved in the current recall. In the 1999 report, those tires accounted for the majority of all the company's tire claims in 1997 and 1998, even though that model accounted for less than 10% of Bridgestone/Firestone's total production. The 1999 report also indicates that more than half the "seperation [sic]" claims Bridgestone/Firestone received came from tires produced at its Decatur, Illinois factory. Congressional investigators say they are following a paper trail that shows both companies knew far earlier than they are publicly admitting that something was terribly wrong with the 15-inch ATX tires outfitted on Explorers. Bridgestone/Firestone's own financial analyses of damage and injury claims against the company document a pattern of problems at least as early as 1997. The report's financial analysis of accident claims going back three years shows that Bridgestone/Firestone had long been compiling and analyzing data on tires that shredded and where they were made.

43. Governmental authorities and auto safety specialists *who have had access to only some of the facts alleged in this Complaint* have been severely critical of Bridgestone/Firestone's conduct:

(a) Clarence Ditlow, the executive director of the Center for Auto Safety, has testified:

The Explorer is the worst kind of vehicle on which to put a bad tire. A tread separation or other tire failure can lead to a fatal rollover. A tire made for [a sport-utility vehicle] like the Explorer should have an extra margin of safety built into it like a nylon ply because the consequences of failure can be so bad.

*As the tragic toll of ... deaths and ... injuries continues to climb and more information is added to the public record, it becomes clearer and clearer that both Ford and [Bridgestone/]Firestone knew more earlier but failed to act until there were too many complaints, deaths and injuries to conceal [Bridgestone/]Firestone tire failure on Ford Explorers from public attention.*

\* \* \*

[I]nformation shows that both Ford and Firestone had early knowledge of tread separation in Firestone tires on Ford Explorers and other Ford vehicles but at no point informed the NHTSA or the American public. *To the contrary, [they] concealed information on the lethal combination of Firestone tires on Ford Explorers.*

(b) Harsh criticism for Bridgestone and Bridgestone/Firestone has come from Venezuelan consumer-protection authorities and that country's public prosecutor who has opened proceedings against the companies *for colluding with Ford to keep Venezuelan motorists unaware of dangerous flaws in both Ford Explorer vehicles and in Bridgestone/Firestone ATX tires.* On 8/30/00, the Venezuelan safety agency, Indecu, concluded after an investigation that Bridgestone/Firestone and Ford *"met to plan ways out of a situation that was affecting their commercial interests, at the price of causing damage, destruction and death,"* and announced it was recommending criminal enforcement for involuntary manslaughter. *"Both companies hid information and this caused many accidents,"* said Samuel Ruh Rios, the president of Indecu. The Venezuelan accidents were the result of a *"lethal combination"* of Ford design and Bridgestone/Firestone manufacturing problems – a *"macabre combination,"* Rios said. He concluded *"it's criminal."*

(c) U.S. lawmakers have also rejected the companies' claims of ignorance about the lethal problem. Based on some of the facts pleaded in this Complaint, New Mexico Rep. Heather Wilson rejected Bridgestone/Firestone's claims of lack of knowledge. *"That's rubbish. ... You knew a long time ago."* Through a spokesperson, Rep. Billie Tauzin said, *"This latest information only confirms our suspicion that [Bridgestone and Bridgestone/Firestone] knew a hell of a lot more than they're willing to admit."*

44. It is clear from Bridgestone's and Bridgestone/Firestone's prior handling of product deficiencies that they were aware, at the highest levels of management, of the

prospective material adverse financial impact inferior or dangerous products would have on their financial conditions. Each of these companies established procedures to identify such problems in order to quantify their financial impact and determine their public relations impact. However, instead of confronting their problems in an open and honest fashion, their histories evidence the development of corporate cultures and executive conduct intended to hide the truth from regulators, customers and investors. Such conduct, over such a long period of time, is clear evidence of deliberate, or at best, deliberately reckless disregard for their legal obligations to their customers and the investing public.

45. It is clear ATX tires were a defective product – prone to sudden tire failure due to tread separation. Ford's CEO Jacques Nasser has said, *"this is about defective tires,"* and admitted that there is *"conclusive evidence that the [ATX] tires [are] defective."* Top Bridgestone executives have admitted *"we made bad tires,"* especially at Bridgestone/Firestone's Decatur, Illinois plant due to *"design flaws"* and *"manufacturing variances,"* where more than half the failed ATX tires have been traced to. *Bridgestone/Firestone has admitted that an unusually high number of the ATX tires produced at the Decatur plant during the 1994-1996 strike, when the plant was staffed by strike-breakers, were especially prone to tread separation. John Lampe, an executive vice president of Bridgestone/Firestone has admitted, "It's very, very evident there was something going on in Decatur that caused this."* Yoichiro Kaizaki, Bridgestone's president and CEO, acknowledged that Bridgestone executives ignored signs of trouble. *"If there was a problem with a Bridgestone tire," he said, "our technology staff in Tokyo would rush to the site" overseas to help out. "But if a problem arose with a Firestone tire, they wouldn't do anything."* He has also admitted he wished that Bridgestone/Firestone had done more to ensure that Bridgestone/Firestone met the parent company's quality standards, and said, *"We should have applied our standards to things like technology and quality assurance."*



46. In December 2000, Bridgestone/Firestone released a report of an internal investigation of the ATX tire fiasco which admitted the tires were defective in design and manufacture. According to the 12/19/00 *New York Times*:

A four-month internal investigation by Firestone found that the tire failures had their roots in decisions as simple as whether to use rubber pellets or rubber sheets in certain manufacturing processes, and whether the grooves in the side of a tire's tread were vertical or slanted, the engineers said in an interview today.

\* \* \*

While Firestone's chief executive told Congressional committees in September that the company had made "some bad tires," the engineers' comments were the first time that the company has publicly acknowledged making specific manufacturing mistakes.... The tires figure in more than 100 lawsuits seeking compensation for deaths, injuries and property damage when their treads peeled off. Similar tires have been implicated in dozens of deaths overseas.

\* \* \*

Firestone's sales of replacement tires have plunged 40 percent this fall because of the furor over its products.... Bridgestone has set aside \$750 million to cover the costs of the recall and lawsuits.

According to the engineers, the design problem lies in the so-called shoulder pockets of the recalled ATX tire. These are scalloped areas that run into the side of the tread from the sidewall to give traction in snow and during off-road driving. The steep angle of the ATX's shoulder pocket contributes to cracking inside the pocket, they said.

Particularly in tires made at the Decatur plant, the analysis found, the cracking was prone to spread from the pocket to another crucial part: the point where two belts of rubber-coated steel fibers form the tire's core.

Variations in the manufacturing process in Decatur meant that the thickness of rubber between the angle and the belts varied considerably, the engineers said – and sometimes was thinner than tire designers intended.

Decatur was also producing belts that did not stick to each other very well when vulcanized, a process in which a tire is heated and squeezed to fuse the various layers. Decatur's machinery for mixing rubber compounds produced pellets, the engineers said; the machinery at Firestone's other factories produced sheets of rubber.

In each case, the pellets or sheets would be sprayed with a lubricant to keep the rubber from sticking together in huge globs. According to the engineers, the pellets' greater surface area meant they were exposed to larger quantities of lubricant. When Firestone burned the rubber from the recalled tires' belts and measured the chemical properties of the ash, it found that 1 percent to 1.5 percent of the ash from tires made in Decatur consisted of

lubricant – two to three times the amount found in ash from other tires. Extra lubricant makes the belts stick to each other less.

To address the finding, Firestone has begun shipping rubber sheets from its other plants to Decatur, where the pellets are being used only in less critical manufacturing processes, the engineers said.

### **BACKGROUND TO THE CLASS PERIOD**

47. On or about 3/31/97, Bridgestone and Bridgestone/Firestone issued a 1996 Annual Report. The 1996 Annual Report contained a letter from defendant Kaizaki, which trumpeted Bridgestone's 1996 record earnings performance. It also stated:

*Strong, complementary identities for our Bridgestone and Firestone brands helped increase our industry-leading share of the world tire market. We are staking our claim to global leadership in the tire industry. And we are very close to attaining our goal of securing 20% of the world market.*

\* \* \*

### **EARNINGS CLIMBED WORLDWIDE**

**Our record earnings performance in 1996 included business gains at our main operating units in Japan, the Americas, and Europe.**

\* \* \*

*We inaugurated a productivity program in 1994 to raise our capacity utilization rates, our tire yields per ton of rubber, and our output per employee. That program has been highly successful, thanks partly to traveling productivity teams that have supervised plant improvements. Those teams, which began their activities in Japan, have begun visiting our plants in other nations. And their results there have been as impressive as their results in Japan.*

**I am especially satisfied with our ongoing business turnaround in the Americas, the biggest tire market in the world.**

*That turnaround is all the more gratifying because it has become a genuine team effort. We reached an agreement in 1996 with the union that represents employees at several of our North American plants.... The union has accepted already-implemented adjustments in working hours that permit our plants to operate 24 hours a day, seven days a week.*

*Those adjustments ... permit gains in operating efficiency that make our North American plants more cost-competitive with those of our principal competitors.*

\* \* \*

**Our competitive edge in tire technology remains our highest asset.**

\* \* \*

*Technology will continue to strengthen the appeal of our products and operations. This will include advances in ... enhancing safety and improving performance.*

48. Elsewhere, the 1996 Annual Report stated:

### **MARKETING**

*Selling the best tires in the world means being ready with the best tire for each customer .... [W]e have restored the Firestone brand to a pre-eminent position in mainstream tires.*

\* \* \*

### **MANUFACTURING**

*Our pledge to customers is to deliver world-class quality in every tire we manufacture everywhere in the world. We make good on that pledge every day at 39 tire plants ....*

### **THE AMERICAS**

\* \* \*

*Our Firestone brand has become a genuine leader in the mainstream segment of the North American tire market....*

*The products we delivered in 1996 were exactly what customers were seeking.*

49. The 1996 Annual Report also stated:

### **ORIGINAL EQUIPMENT TIRES**

\* \* \*

### **Productivity, Quality, Modernization**

*Yields and productivity are rising at Bridgestone plants around the world....*

We set up a pair of "task forces" in 1995 to lead productivity-improvement activities at Bridgestone plants ... around the world.

50. The 1996 Annual Report reported Bridgestone's financial results from 1994-1996, as follows:

	<u>1996</u>	<u>1995</u>	<u>1994</u>
Net Sales	¥1,958,026	¥1,686,636	¥1,595,086
Tires	1,515,510	1,274,242	1,195,895
Non-tire products	442,516	412,394	399,191
Net earnings	70,335	54,143	31,863

The 1996 Annual Report also disclosed "Contingent Liabilities," but made no mention or disclosure of any loss contingency related to any of their tire products that had previously been sold.

**CLASS PERIOD FALSE AND MISLEADING STATEMENTS**

51. The statements made by defendants prior to the Class Period in the 1996 Annual Report were false when made and they were at the outset of the Class Period alive, false, uncorrected and part of the total mix of information impacting the market prices of Bridgestone's stock and ADRs.

52. On or about 3/31/98, Bridgestone and Bridgestone/Firestone issued a 1997 Annual Report. The 1997 Annual Report included a letter by defendant Kaizaki, which stated:

*We are making steady progress toward leadership in the world tire industry....* [T]he real proof of our progress is in our business performance.

... Excellent results in North America, especially .... *Sales at our subsidiary for the Americas, Bridgestone/Firestone, Inc., surpassed our parent-company turnover for the first time.*

53. Elsewhere, the 1997 Annual Report stated:

Leadership in product technologies...

Leadership in production engineering...

\* \* \*

***Original Equipment Tires***

The criteria for success in original equipment tires are clear and demanding:

\* \* \*

- ***Globally consistent quality ....***

\* \* \*

- ***World-class technology.***

*We fulfill those criteria through the tire industry's most extensive manufacturing network and through a global R&D organization that includes large technical centers ....*

*We are the largest supplier of tires to Ford Motor Company ....*

\* \* \*

***Rigorous testing under the diverse conditions at our proving grounds around the world helps ensure reliable quality for original equipment ... customers.***

54. The 1997 Annual Report also reported the companies' financial results for 1995-1997:

	<u>1997</u>	<u>1996</u>	<u>1995</u>
Net Sales	¥2,170,803	¥1,958,026	¥1,686,636
Tires	1,685,389	1,515,510	1,274,242
Non-tire products	485,414	442,516	412,394
Net earnings	39,159	70,335	54,143

The 1997 Annual Report discussed the companies' "Contingent Liabilities," but made no mention or disclosure of any loss contingency related to any of their tire products that had previously been sold.

55. The statements made in the 1996 and 1997 Annual Reports were false or misleading when issued. The true but concealed facts were:

(a) Bridgestone/Firestone's productivity program and work rule changes were not highly successful as represented, as Bridgestone/Firestone's production gains at its U.S. facilities were being achieved by the imposition of work rules and production methods that prevented the manufacture of ATX tires meeting necessary quality standards due to production and inspection shortcuts and errors;

(b) Bridgestone/Firestone did not have a competitive edge in tire technology and was not producing tires of world-class quality every day as represented, as, in order to produce ATX tires in sufficient quantities to meet Ford's demands for its Explorer, Bridgestone/Firestone was engaging in production, inspection and quality control shortcuts, resulting in the production and shipment of large numbers of defective ATX tires prone to sudden tread separation failures;

(c) Bridgestone/Firestone tires were not exactly what customers wanted, nor were they the best tires in the world or of world-class quality as represented, as the ATX tires were defectively designed and those produced during and after the 1994-1996 strike had extraordinarily high defect rates, as during the strike the tires were made by under-trained or untrained replacement workers and after the strike ended, new work rules to boost production

and management pressure to meet the volume demands of Ford resulted in the use of improper, old, bad or out-of-specification raw materials and production errors and skipped inspection steps;

(d) Bridgestone/Firestone was not keeping the Ford Explorer tire supply contract due to the quality of its products, but rather, because it was able to meet Ford's low cost requirements and production demands only by the use of improper, old, bad or out-of-specification raw materials and production, inspection and quality control shortcuts that resulted in the manufacture of large numbers of defective tires;

(e) Bridgestone/Firestone did not have superiority in tire design and production technology nor was it producing the best tires in the world or tires of world-class quality as represented, as the Bridgestone/Firestone ATX tires were defectively designed and were being produced with the use of improper, old, bad, out-of-specification or inappropriate raw materials and sloppy workmanship, inadequate inspection and quality control shortcuts and were defective, leading to exceptionally high rates of sudden tread separation and failure;

(f) Bridgestone/Firestone's purported success in the U.S. and restoration of the Firestone brand name was misleading because, in fact, due to use of improper, old, bad, out-of-specification or inappropriate raw materials and production, inspection and quality control shortcuts Bridgestone/Firestone was manufacturing large numbers of defective ATX tires prone to sudden tread separation failures; and

(g) Bridgestone's and Bridgestone/Firestone's reported revenues and profits were inflated as detailed herein, due to huge cost curtailments and artificial production boosts that were resulting in the production of extraordinarily large numbers of defective ATX tires, which would result in the recall or replacement of millions of ATX tires at a cost of hundreds of millions of dollars while Bridgestone's financial statements were misleading due to its failure to disclose and accrue for existing loss contingencies relating to its sale of the defective ATX tires.

56. On or about 3/31/99, Bridgestone and Bridgestone/Firestone issued a 1998 Annual Report. The 1998 Annual Report contained a letter from defendant Kaizaki, which stated:

Bridgestone today *is better positioned than ever to maintain sound margins in any kind of market environment. We are well positioned* ... to reward investors for the confidence they express in our company by owning our shares.

\* \* \*

In the Americas, our multibrand strategy – centered on the Bridgestone, Firestone, and Dayton brands – has produced sales growth that has averaged nearly \$500 million a year since 1993.

\* \* \*

### **Quality of Earnings**

\* \* \*

My biggest goal when I became president in 1993 was to rebuild our balance sheet and restore Bridgestone to the sparkling financial position we formerly enjoyed. *We had assumed an oppressive burden of debt and goodwill to finance the Firestone acquisition in 1988. Paying off and amortizing that burden were urgent priorities.*

*Today, the goodwill is gone completely, and our debt/equity ratio is the lowest it has been in 11 years. I take pride in reporting that Bridgestone is well positioned – both on and off the balance sheet – to tackle the challenges that lie ahead.*

57. Elsewhere, the 1998 Annual Report stated:

### **THE AMERICAS**

*The Americas, the largest tire market in the world, are our biggest source of consolidated sales....*

*Our sales growth in North America outpaced even the strong growth in North American demand.* It reflected the success of our multi-brand strategy. *We have established the Firestone brand as a market leader in the upper and upper-middle segments of the tire market.*

\* \* \*

### **ORIGINAL EQUIPMENT TIRES**

*We are the largest tire supplier to Ford Motor ....* Our global market share in original equipment tires increased further in 1998. *That growth evidences high regard among automakers for our strengths in product quality ....*

58. The 1998 Annual Report also reported Bridgestone's financial results for 1996-1998:

	<u>1998</u>	<u>1997</u>	<u>1996</u>
Net Sales	¥2,236,699	¥2,170,803	¥1,958,026
Tires	1,772,226	1,685,389	1,515,510
Non-tire products	464,473	485,414	442,516
Net earnings	104,626	39,159	70,335

The 1998 Annual Report also disclosed the companies' "Contingent Liabilities," but made no mention or disclosure of any loss contingency related to any of their tire products that had previously been sold.

59. The statements in the 1998 Annual Report were false or misleading when issued. The true but concealed facts were:

(a) Bridgestone/Firestone's productivity program and work rule changes were not highly successful as represented, as Bridgestone/Firestone's production gains at its U.S. facilities were being achieved by the imposition of work rules and production methods that prevented the manufacture of ATX tires meeting necessary quality standards due to production and inspection shortcuts and errors;

(b) Bridgestone/Firestone did not have a competitive edge in tire technology and was not producing tires of world-class quality every day as represented, as, in order to produce ATX tires in sufficient quantities to meet Ford's demands for its Explorer, Bridgestone/Firestone was engaging in production, inspection and quality control shortcuts, resulting in the production and shipment of large numbers of defective ATX tires prone to sudden tread separation failures;

(c) Bridgestone/Firestone tires were not exactly what customers wanted, nor were they the best tires in the world or of world-class quality as represented, as the ATX tires were defectively designed and those produced during and after the 1994-1996 strike had extraordinarily high defect rates, as during the strike the tires were made by under-trained or untrained replacement workers and after the strike ended, new work rules to boost production and management pressure to meet the volume demands of Ford resulted in the use of improper,



old, bad or out-of-specification raw materials and production errors and skipped inspection steps;

(d) Bridgestone/Firestone was not keeping the Ford Explorer tire supply contract due to the quality of its products, but rather, because it was able to meet Ford's low cost requirements and production demands only by the use of improper, old, bad or out-of-specification raw materials and production, inspection and quality control shortcuts that resulted in the manufacture of large numbers of defective tires;

(e) Bridgestone/Firestone did not have superiority in tire design and production technology nor was it producing the best tires in the world or tires of world-class quality as represented, as the Bridgestone/Firestone ATX tires were defectively designed and were being produced with the use of improper, old, bad, out-of-specification or inappropriate raw materials and sloppy workmanship, inadequate inspection and quality control shortcuts and were defective, leading to exceptionally high rates of sudden tread separation and failure;

(f) Bridgestone/Firestone's purported success in the U.S. and restoration of the Firestone brand name was misleading because, in fact, due to use of improper, old, bad, out-of-specification or inappropriate raw materials and production, inspection and quality control shortcuts Bridgestone/Firestone was manufacturing large numbers of defective ATX tires prone to sudden tread separation failures; and

(g) Bridgestone's and Bridgestone/Firestone's reported revenues and profits were inflated as detailed herein, due to huge cost curtailments and artificial production boosts that were resulting in the production of extraordinarily large numbers of defective ATX tires, which would result in the recall or replacement of millions of ATX tires at a cost of hundreds of millions of dollars while Bridgestone's financial statements were misleading due to its failure to disclose and accrue for existing loss contingencies relating to its sale of the defective ATX tires.

60. In early February 2000, a Houston, Texas TV station ran an exposé which reported on three Ford Explorers equipped with Bridgestone/Firestone ATX tires being in fatal rollover accidents. On 2/4/00, Bridgestone/Firestone issued a release which stated:

"We at Bridgestone/Firestone, Inc. take great pride in the quality and durability of our products and we stand behind all of them. We work hard every day to earn and maintain the loyalty and trust of our customers, and *we have full confidence in the performance of our Firestone Radial ATX tires.*

Firestone has manufactured more than 12 million Radial ATX tires – nearly 6.8 million of which were original equipment on virtually all of the millions of Explorers produced by the Ford Motor Company from 1990 to 1996. *The Radial ATX has proved to be a reliable workhorse for U.S. consumers. Our experience with the Radial ATX indicates high consumer satisfaction with the quality and reliability of these tires.*

\* \* \*

We monitor the performance of all of our tires and, having manufactured more than 12 million Radial ATX tires, *we have full confidence in them.*"

These statements were false. The ATX tires were defective in design and workmanship. They failed at alarming rates in Bridgestone/Firestone's own tests and in the real world as well and Bridgestone/Firestone knew the ATX tires on Ford Explorers were being run at too low an inflated pressure of 26 psi. Far from being workhorses, the ATX tires were time-bombs.

61. On or about 3/31/00, Bridgestone and Bridgestone/Firestone issued a 1999 Annual Report. The 1999 Annual Report contained a letter from defendant Kaizaki, which stated:

Bridgestone already is a tire-industry leader. Our goal, however, is to be more than "a" leader. We are determined to be "the" leader. *We are determined to assert a singular advantage in product technology ....*

\* \* \*

*We have built a premium-quality identity for ... Firestone tires....*

... Since acquiring the Firestone organization in 1988, we have restored that proud name to preeminence in world tire markets....

62. The 1999 Annual Report also stated:

We increased our market share in North America in 1999 in ... the original equipment market. Our North American operations are approaching a market share of 20% .... That is in keeping with our goal of being No. 1 or at least a strong No. 2 in every large market.

*Continuing gains in productivity have strengthened our competitive position greatly in the Americas*, but we need to become more productive still. As in Japan and other regions, we are working to reduce non-operating time 50% at our plants in the Americas. *And we are well on the way to attaining that goal.*

\* \* \*

Our multibrand strategy – centered on the Bridgestone, Firestone, and Dayton brands – raised our market profile further in 1999. Sales were up for all these brands. ... *[A]ggressive product development and strategic marketing have re-established the Firestone name as a vigorous brand in premium-grade tires, as well as in large-volume, middle-market tires.*

\* \* \*

*Ford Motor Company is our oldest customer in North America ....*

\* \* \*

### **IN THE FACTORY**

\* \* \*

We have stepped up interchange among our production engineering people worldwide to propagate advances in productivity and quality quickly. This includes sharing insights into measures for reducing non-operating time in production equipment. *Most of our plants are well on the way to attaining our target of reducing non-operating time 50%.*

63. The 1999 Annual Report also reported the companies' financial results for 1997-1999:

	<u>1999</u>	<u>1998</u>	<u>1997</u>
Net Sales	¥2,085,720	¥2,236,699	¥2,170,803
Tires	1,638,304	1,772,226	1,685,389
Non-tire products	447,416	464,473	485,414
Net earnings	88,690	104,626	39,159

The 1999 Annual Report also disclosed the companies' "Contingent Liabilities," but made no mention or disclosure of any loss contingency related to any of their tire products that had previously been sold.

64. The statements made in the 1999 Annual Report were false or misleading when issued. The true but concealed facts were:

(a) Bridgestone/Firestone's productivity program and work rule changes were not highly successful as represented, as Bridgestone/Firestone's production gains at its U.S. facilities were being achieved by the imposition of work rules and production methods that prevented the manufacture of ATX tires meeting necessary quality standards due to production and inspection shortcuts and errors;

(b) Bridgestone/Firestone did not have a competitive edge in tire technology and was not producing tires of world-class quality every day as represented, as, in order to produce ATX tires in sufficient quantities to meet Ford's demands for the its Explorer, Bridgestone/Firestone was engaging in production, inspection and quality control shortcuts, resulting in the production and shipment of large numbers of defective ATX tires prone to sudden tread separation failures;

(c) Bridgestone/Firestone tires were not exactly what customers wanted, nor were they the best tires in the world or of world-class quality as represented, as the ATX tires were defectively designed and those produced during and after the 1994-1996 strike had extraordinarily high defect rates, as during the strike the tires were made by under-trained or untrained replacement workers and after the strike ended, new work rules to boost production and management pressure to meet the volume demands of Ford resulted in the use of improper, old, bad or out-of-specification raw materials and production errors and skipped inspection steps;

(d) Bridgestone/Firestone was not keeping the Ford Explorer tire supply contract due to the quality of its products, but rather, because it was able to meet Ford's low cost requirements and production demands only by the use of improper, old, bad or out-of-specification raw materials and production, inspection and quality control shortcuts that resulted in the manufacture of large numbers of defective tires;

(e) Bridgestone/Firestone did not have superiority in tire design and production technology nor was it producing the best tires in the world or tires of world-class quality as represented, as the Bridgestone/Firestone ATX tires were defectively designed and were being produced with the use of improper, old, bad, out-of-specification or inappropriate raw materials and sloppy workmanship, inadequate inspection and quality control shortcuts and were defective, leading to exceptionally high rates of sudden tread separation and failure;

(f) Bridgestone/Firestone's purported success in the U.S. and restoration of the Firestone brand name was misleading because, in fact, due to use of improper, old, bad, out-of-specification or inappropriate raw materials and production, inspection and quality

control shortcuts Bridgestone/Firestone was manufacturing large numbers of defective ATX tires prone to sudden tread separation failures; and

(g) Bridgestone's and Bridgestone/Firestone's reported revenues and profits were inflated as detailed herein, due to huge cost curtailments and artificial production boosts that were resulting in the production of extraordinarily large numbers of defective ATX tires, which would result in the recall or replacement of millions of ATX tires at a cost of hundreds of millions of dollars while Bridgestone's financial statements were misleading due to its failure to disclose and accrue for existing loss contingencies relating to its sale of the defective ATX tires.

65. On 7/26/00, after two suits were filed against Bridgestone/Firestone alleging ATX tire tread separation caused Ford Explorers to roll over resulting in fatalities, *The Wall Street Journal* asked Bridgestone/Firestone to comment. Bridgestone/Firestone stated it had "**full confidence**" in the tires. On 8/1/00, after two safety groups urged Ford to recall the Explorers with Bridgestone/Firestone ATX tires on them, Bridgestone/Firestone responded in a written statement: "***We continually monitor the performance of all our tire lines, and the objective data clearly reinforces our belief that these are high-quality, safe tires.***" On 8/1/00, after two safety groups urged Ford to recall the Explorers with Bridgestone/Firestone ATX tires on them, Bridgestone/Firestone issued a statement that:

***"Properly inflated and maintained Firestone ATX, ATX II, and Wilderness AT tires are among the safest tires on the road today."***

On 8/3/00, *The New York Times* ran an article about the Ford Explorer and Bridgestone/Firestone ATX tires that suggested problems with the tire. The article stated:

Bridgestone/Firestone denied the charges .... "***These are safe tires***," said Christine Karbowski, a Bridgestone/Firestone spokeswoman.

66. The statements made by Bridgestone/Firestone between July 2000 and August 3, 2000 were false. The ATX tires were defective in design and workmanship. They failed at alarming rates in Bridgestone/Firestone's own tests and in the real world as well. Far from being high-quality, safe, reliable, workhorses, the tires were defectively designed and manufactured – "time-bombs."

## **DEFENDANTS' FALSE FINANCIAL REPORTING DURING THE CLASS PERIOD**

67. In order to inflate the price of its stock and ADRs, defendants issued false financial statements, failing to disclose the enormous loss contingency which they had incurred by selling what they knew by 1996 to be defective tires. Ultimately, defendants revealed that Bridgestone and Bridgestone/Firestone would recall 6.5 million tires costing hundreds of millions of dollars. Bridgestone's and Bridgestone/Firestone's results for 2000 will be adversely affected due to huge charges to replace tires and compensate victims of the defective tires.

68. Bridgestone reported favorable sales and earnings growth for 1997 and 1998, with only a modest decline for 1999. Bridgestone represented that its disclosure was in "accordance with generally accepted accounting principles in Japan" ("Japanese GAAP"). The English version of the financial statements also purported to be reconciled to U.S. GAAP. A section of the financial statements referred to Contingent Liabilities but no mention was ever made of the enormous liability which Bridgestone was incurring by continuing to sell defective tires made in its Bridgestone/Firestone Decatur, Illinois plant.

69. These results and the representations concerning them were false and misleading when made, as Bridgestone's financial statements for 1997, 1998 and 1999 were not a fair presentation of Bridgestone's results and were presented in violation of GAAP (including U.S. GAAP, Japanese GAAP and International Accounting Standards) and SEC rules.

70. U.S. GAAP are those principles recognized by the accounting profession as the conventions, rules and procedures necessary to define accepted accounting practice at a particular time. SEC Regulation S-X (17 C.F.R. §210.4-01(a)(1)) states that financial statements filed with the SEC which are not prepared in compliance with GAAP are presumed to be misleading and inaccurate, despite footnote or other disclosure. Regulation S-X requires that interim financial statements must also comply with GAAP, with the exception that interim financial statements need not include disclosures which would be duplicative of disclosures accompanying annual financial statements. 17 C.F.R. §210.10-01(a).

71. Bridgestone falsified its reported financial results through its failure to make adequate and timely disclosure of the liability incurred by Bridgestone as of each balance sheet date for the years 1997, 1998, and 1999.

72. U.S. GAAP, as set forth in FASB Statement of Financial Accounting Standards ("SFAS") No. 5, Accounting for Contingencies, requires that a loss be accrued whenever it is probable a loss has been incurred or an asset impaired and the amount of the loss can be reasonably estimated. If the loss is at least reasonably possible but no reasonable estimate can be made, the contingency at a minimum should be disclosed. *See* SFAS No. 5, ¶¶8-9. According to SFAS No. 5, ¶26:

Obligations other than warranties may arise with respect to products or services that have been sold, for example, claims resulting from injury or damage caused by product defects. If it is probable that claims will arise with respect to products or services that have been sold, accrual for losses may be appropriate. The condition in paragraph 8(a) would be met, for instance, with respect to a drug product or toys that have been sold if a health or safety hazard related to those products is discovered and as a result it is considered probable that liabilities have been incurred. The condition in paragraph 8(b) would be met if experience or other information enables the enterprise to make a reasonable estimate of the loss with respect to the drug product or the toys.

73. International Accounting Standards, as set forth by the International Accounting Standards Committee,<sup>1</sup> provides that loss contingencies should be recorded if it is probable that an asset has been impaired or a liability incurred at the balance sheet date and a reasonable estimate of the amount of the resulting loss can be made. If either of the conditions is met and the possibility of the loss is not remote, the existence of the contingent loss should be disclosed in the financial statements. *See* International Accounting Standard, AICPA AC §9010.08-.09.

74. During the Class Period, Bridgestone sold what, by 1996, it knew was a defective product. On 9/20/00, Rep. Billy Tauzin's (R-Louisiana) spokesman Ken Johnson told the *Associated Press* that, "It's clear to us from internal documents that someone at Firestone had

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<sup>1</sup> The International Accounting Standards Committee ("IASC") is an independent private sector body formed in 1973 through the agreement of professional accountancy bodies from Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the United Kingdom, Ireland and the United States, to achieve uniformity in the accounting principles which are used by businesses.

to know they were having serious problems with these tires as early as 1996." Thus, it could be expected that Bridgestone and Bridgestone/Firestone would experience large losses when the defect was discovered. Nevertheless, Bridgestone failed to adequately disclose the contingency or accrue for the loss. As a result, Bridgestone was able to report favorable financial statements during the Class Period.

75. Unfortunately for investors, these financial statements were false. Ultimately, on 8/9/00, Bridgestone announced a huge recall which will result in enormous costs to the company. Bridgestone will replace 6.5 million tires and reimburse millions of customers for costs they have incurred.

76. Due to these accounting improprieties, Bridgestone presented its financial results and statements in a manner which violated GAAP, including the following fundamental accounting principles:

(a) The principle that interim financial reporting should be based upon the same accounting principles and practices used to prepare annual financial statements was violated (APB No. 28, ¶10);

(b) The principle that financial reporting should provide information that is useful to present and potential investors and creditors and other users in making rational investment, credit and similar decisions was violated (FASB Statement of Concepts No. 1, ¶34);

(c) The principle that financial reporting should provide information about the economic resources of an enterprise, the claims to those resources, and effects of transactions, events and circumstances that change resources and claims to those resources was violated (FASB Statement of Concepts No. 1, ¶40);

(d) The principle that financial reporting should provide information about how management of an enterprise has discharged its stewardship responsibility to owners (stockholders) for the use of enterprise resources entrusted to it was violated. To the extent that management offers securities of the enterprise to the public, it voluntarily accepts wider



responsibilities for accountability to prospective investors and to the public in general (FASB Statement of Concepts No. 1, ¶50);

(e) The principle that financial reporting should provide information about an enterprise's financial performance during a period was violated. Investors and creditors often use information about the past to help in assessing the prospects of an enterprise. Thus, although investment and credit decisions reflect investors' expectations about future enterprise performance, those expectations are commonly based at least partly on evaluations of past enterprise performance (FASB Statement of Concepts No. 1, ¶42);

(f) The principle that financial reporting should be reliable in that it represents what it purports to represent was violated. That information should be reliable as well as relevant is a notion that is central to accounting (FASB Statement of Concepts No. 2, ¶¶58-59);

(g) The principle of completeness, which means that nothing is left out of the information that may be necessary to insure that it validly represents underlying events and conditions was violated (FASB Statement of Concepts No. 2, ¶79); and

(h) The principle that conservatism be used as a prudent reaction to uncertainty to try to ensure that uncertainties and risks inherent in business situations are adequately considered was violated. The best way to avoid injury to investors is to try to ensure that what is reported represents what it purports to represent (FASB Statement of Concepts No. 2, ¶¶95, 97).

### **THE TRUTH COMES OUT**

77. Unable to sustain the cover-up any longer, on 8/9/00, Bridgestone/Firestone announced a recall of 6.5+ million ATX tires and replacement of all ATX tires on unsold Explorers in inventory. The 8/9/00 recall and the ensuing disclosure of the true severity of problems with ATX tires over the next several weeks resulted in exactly the kind of harm to Bridgestone/Firestone that motivated defendants to scheme with each other to lie about and cover-up these problems over the past three and one-half years. And, most recently, when all this became public, Saudi Arabia banned the importation of ATX tires – the very result

Bridgestone and Bridgestone/Firestone feared and which caused them to cover up the defects there. Bridgestone/Firestone has been plunged into a massive public relations crisis. The image of the Bridgestone/Firestone tire brand has suffered damage. Bridgestone/Firestone has been hauled before Congressional committees and confronted with damning evidence documenting its wrongful conduct, has been condemned by domestic and foreign safety regulators and automobile safety organizations and now faces criminal investigation and possible indictment. Bridgestone and Bridgestone/Firestone have incurred huge expenditures to fund the recall and tire replacement program and will face huge legal, public relations and advertising expenses going forward to try to recover from the consequences of this fiasco. Bridgestone/Firestone will bear huge recall costs and financial losses, which the company had not previously disclosed or properly accrued for.

78. Bridgestone's stock and ADRs plunged during August 2000 as more evidence surfaced of defendants' complicity in the wrongdoing and the damage to Bridgestone's and Bridgestone/Firestone's business was increasingly quantified. On 8/31/00, a *Reuters* report detailed these events:

Venezuela's consumer protection agency recommended Thursday that ***criminal charges be filed against tiremaker Bridgestone Corp. ... over product defects linked to at least 46 deaths in Venezuelan road accidents.***

The Indecu agency report blamed inadequate suspension and weak tires for causing high-speed blowouts on Ford's popular Explorer sports utility vehicle.

\* \* \*

The report, ***which alleged the two companies kept consumers in the dark about known problems with their products,*** was submitted to the Public Prosecutor's office ....

\* \* \*

Bridgestone stock plumed new five-years lows Thursday, closing at 1,380 yen ....

79. Bridgestone and Bridgestone/Firestone executives have been called before Congressional committees and excoriated for their misconduct. U.S. lawmakers have rejected their claims of ignorance about the "***lethal combination.***" Based on only *some* of the facts

pleaded in this Complaint, New Mexico Rep. Heather Wilson rejected Bridgestone/Firestone's claims of lack of knowledge: *"That's rubbish.... You knew a long time ago."* Through a spokesperson, Rep. Billy Tauzin said, *"This latest information only confirms our suspicion that [Bridgestone and Bridgestone/Firestone] knew a hell of a lot more than they're willing to admit."* In Venezuela, where over 40 people were killed in Explorer rollovers caused by ATX tire failures, Venezuelan consumer-protection authorities and that country's public prosecutor have opened criminal proceedings against the companies *for colluding to keep Venezuelan motorists unaware of dangerous flaws in both Ford Explorer vehicles and in Bridgestone/Firestone ATX tires.* On 8/30/00, after an investigation of Bridgestone/Firestone and Ford, the Venezuelan safety agency, Indecu, concluded that they *"met to plan ways out of a situation that was affecting their commercial interests, at the price of causing damage, destruction and death."* *"Both companies hid information and this caused many accidents,"* said Samuel Ruh Rios, the president of Indecu. The accidents were the result of a *"lethal combination"* of Ford design and Firestone manufacturing problems – a *"macabre combination."* Rios concluded *"it's criminal."*

80. It is clear ATX tires *were a defective product* – prone to sudden tire failure due to tread separation. Ford's CEO Jacques Nasser has said *"this is about defective tires,"* and that there is *"conclusive evidence that the [ATX] tires [are] defective."* Top Bridgestone executives have admitted *"we made bad tires"* due to *"design flaws"* and *"manufacturing variances,"* especially at Bridgestone/Firestone's Decatur, Illinois plant, to where more than half the failed ATX tires have been traced. *Bridgestone/Firestone and Ford have both admitted that an unusually high number of the ATX tires produced at the Decatur plant during a 1994-1996 strike, when the plant was staffed by strike-breakers, were especially prone to tread separation. John Lampe, an executive vice president of Bridgestone/Firestone has admitted: "It's very, very evident there was something going on in Decatur that caused this."* Defendant Kaizaki, Bridgestone's CEO and president, acknowledged that Bridgestone executives ignored signs of trouble. *"If there was a problem with a Bridgestone tire," he said, "our technology staff in Tokyo would rush to the site"*

*overseas to help out. "But if a problem arose with a Firestone tire, they wouldn't do anything." He has also admitted he wished that Bridgestone/Firestone had done more to ensure that Bridgestone/Firestone met the parent company's quality standards, and said, "We should have applied our standards to things like technology and quality assurance."*

81. In December 2000, Bridgestone/Firestone released a report of an internal investigation of the ATX tire fiasco which admitted the tires were defective in design and manufacture. According to the 12/19/00 *New York Times*:

A four-month internal investigation by Firestone found that the tire failures had their roots in decisions as simple as whether to use rubber pellets or rubber sheets in certain manufacturing processes, and whether the grooves in the side of a tire's tread were vertical or slanted, the engineers said in an interview today.

\* \* \*

While Firestone's chief executive told Congressional committees in September that the company had made "some bad tires," the engineers' comments were the first time that the company has publicly acknowledged making specific manufacturing mistakes.... Firestone recalled 6.5 million tires for sport utility vehicles in August. The tires figure in more than 100 lawsuits seeking compensation for deaths, injuries and property damage when their treads peeled off. Similar tires have been implicated in dozens of deaths overseas.

\* \* \*

Firestone's sales of replacement tires have plunged 40 percent this fall because of the furor over its products.... Bridgestone has set aside \$750 million to cover the costs of the recall and lawsuits.

According to the engineers, the design problem lies in the so-called shoulder pockets of the recalled ATX tire. These are scalloped areas that run into the side of the tread from the sidewall to give traction in snow and during off-road driving. The steep angle of the ATX's shoulder pocket contributes to cracking inside the pocket, they said.

Particularly in tires made at the Decatur plant, the analysis found, the cracking was prone to spread from the pocket to another crucial part: the point where two belts of rubber-coated steel fibers form the tire's core.

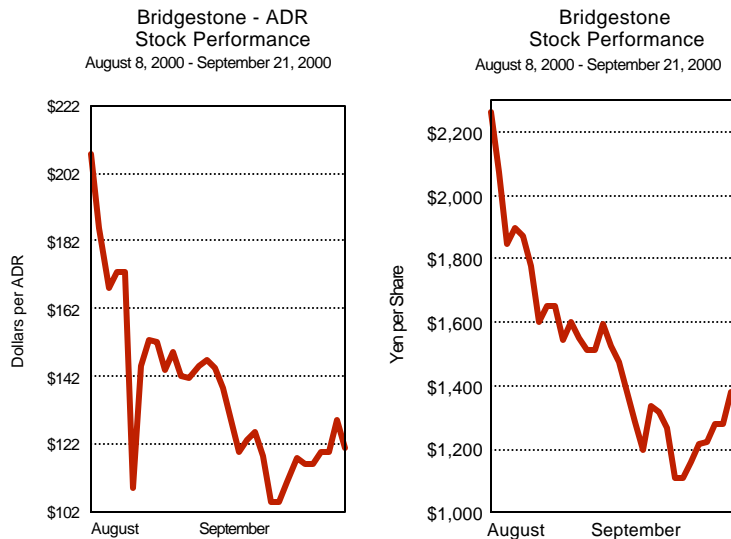
Variations in the manufacturing process in Decatur meant that the thickness of rubber between the angle and the belts varied considerably, the engineers said – and sometimes was thinner than tire designers intended.

Decatur was also producing belts that did not stick to each other very well when vulcanized, a process in which a tire is heated and squeezed to fuse the various layers. Decatur's machinery for mixing rubber compounds produced pellets, the engineers said; the machinery at Firestone's other factories produced sheets of rubber.

In each case, the pellets or sheets would be sprayed with a lubricant to keep the rubber from sticking together in huge globs. According to the engineers, the pellets' greater surface area meant they were exposed to larger quantities of lubricant. When Firestone burned the rubber from the recalled tires' belts and measured the chemical properties of the ash, it found that 1 percent to 1.5 percent of the ash from tires made in Decatur consisted of lubricant – two to three times the amount found in ash from other tires. Extra lubricant makes the belts stick to each other less.

To address the finding, Firestone has begun shipping rubber sheets from its other plants to Decatur, where the pellets are being used only in less critical manufacturing processes, the engineers said.

82. In addition to the public relations debacle and resulting damage to the Firestone "brand name," this fiasco will cost Bridgestone and Bridgestone/Firestone hundreds of millions of dollars in the near term. Bridgestone and Bridgestone/Firestone have suffered huge losses – measured in the hundreds of millions of dollars and Bridgestone/Firestone's CEO has been pushed out. Bridgestone stock and ADRs have plunged by 50%, wiping out half Bridgestone's market capitalization – billions of dollars:



### CLASS ACTION ALLEGATIONS

83. This is a class action on behalf of all purchasers of Bridgestone's common stock and ADRs between 3/31/98 and 8/31/00 (the "Class"). Members of the Class are so numerous that joinder of them is impracticable.

84. Common questions of law and fact predominate as to the Class and include whether defendants: (i) violated the 1934 Act; (ii) omitted and/or misrepresented material facts; (iii) knew or recklessly disregarded that their statements were false; (iv) acted individually or schemed together to conceal material adverse information about the safety and quality of Bridgestone/Firestone ATX tires on Ford Explorers; (v) artificially inflated Bridgestone's stock and ADR prices; and (vi) the extent of and appropriate measure of damages.

85. Plaintiff's claims are typical of those of the Class. Prosecution of individual actions would create a risk of inconsistent adjudications. Plaintiff will adequately protect the interests of the Class. A class action is superior to other available methods for the fair and efficient adjudication of this controversy.

#### **CLAIM FOR RELIEF**

86. Defendants violated §10(b) and Rule 10b-5 by:

(a) Employing devices, schemes and artifices to defraud;

(b) Making untrue statements of material facts and omitting to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and

(c) Engaging in acts, practices and a course of business that operated as a fraud or deceit upon the Class in connection with their purchases of Bridgestone's stock and ADRs.

87. Defendants schemed and pursued a common course of conduct and course of business that operated as a fraud or deceit on the purchasers of Bridgestone's stock and ADRs.

88. Class members were damaged. In reliance on the integrity of the market, they paid artificially inflated prices for Bridgestone's stock and ADRs.

**PRAYER**

WHEREFORE, plaintiff prays for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest to the Class; and such other relief as the Court may deem proper.

**JURY DEMAND**

Plaintiff demands a trial by jury.

DATED: January 3, 2001

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