

GOODRICH CORP
Form 10-Q
August 08, 2005

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

Form 10-Q

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

For The Quarterly Period Ended June 30, 2005

OR

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

**For the transition period from to .
Commission file number 1-892**

GOODRICH CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State of incorporation)

34-0252680

(I.R.S. Employer Identification No.)

Four Coliseum Centre

2730 West Tyvola Road

Charlotte, North Carolina

(Address of principal executive offices)

28217

(Zip Code)

Registrant's telephone number, including area code: (704) 423-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2005, there were 135,152,924 shares of common stock outstanding (excluding 14,000,000 shares held by a wholly owned subsidiary). There is only one class of common stock.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Report of Independent Registered Public Accounting Firm

We have reviewed the condensed consolidated balance sheet of Goodrich Corporation as of June 30, 2005, and the related condensed consolidated statement of income for the three-month and six-month periods ended June 30, 2005 and 2004, and the condensed consolidated statement of cash flows for the six-month periods ended June 30, 2005 and 2004. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Goodrich Corporation as of December 31, 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein; and in our report dated February 25, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2004, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/Ernst & Young LLP

Charlotte, North Carolina
August 5, 2005

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	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2005	2004	2005	2004
	(Dollars in millions,		(Dollars in millions,	
	except per share amounts)		except per share amounts)	
Sales	\$ 1,352.7	\$ 1,128.0	\$ 2,628.2	\$ 2,284.5
Operating costs and expenses:				
Cost of sales	990.5	824.6	1,920.2	1,690.8
Selling and administrative costs	226.1	200.9	441.8	392.5
	1,216.6	1,025.5	2,362.0	2,083.3
Operating Income	136.1	102.5	266.2	201.2
Interest expense	(33.0)	(35.7)	(66.9)	(73.1)
Interest income	1.0	0.5	1.9	1.3
Other income (expense) net	(14.3)	(11.7)	(24.4)	(29.7)
Income from continuing operations before income taxes	89.8	55.6	176.8	99.7
Income tax expense	(27.4)	(17.2)	(57.6)	(30.9)
Income From Continuing Operations	62.4	38.4	119.2	68.8
Income from discontinued operations net of income taxes	13.3	0.4	14.0	0.6
Cumulative effect of change in accounting				16.2
Net Income	\$ 75.7	\$ 38.8	\$ 133.2	\$ 85.6
Basic Earnings Per Share:				
Continuing operations	\$ 0.52	\$ 0.33	\$ 0.99	\$ 0.58
Discontinued operations	0.11		0.12	0.01
Cumulative effect of change in accounting				0.13
Net Income	\$ 0.63	\$ 0.33	\$ 1.11	\$ 0.72
Diluted Earnings Per Share:				
Continuing operations	\$ 0.51	\$ 0.32	\$ 0.97	\$ 0.57
Discontinued operations	0.10		0.11	0.01
Cumulative effect of change in accounting				0.13
Net Income	\$ 0.61	\$ 0.32	\$ 1.08	\$ 0.71
Dividends declared per common share	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.40

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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	June 30, 2005	December 31, 2004
	(Dollars in millions, except share amounts)	
Current Assets		
Cash and cash equivalents	\$ 251.3	\$ 297.9
Accounts and notes receivable, less allowances for doubtful receivables (\$19.3 at June 30, 2005 and \$19.5 at December 31, 2004)	737.4	649.3
Inventories net	1,256.0	1,163.5
Deferred income taxes	115.4	118.9
Prepaid expenses and other assets	64.1	118.8
Assets from discontinued operations		17.8
Total Current Assets	2,424.2	2,366.2
Property, plant and equipment net	1,126.2	1,164.1
Prepaid pension	242.6	275.5
Goodwill	1,280.3	1,258.5
Identifiable intangible assets net	473.9	507.0
Deferred income taxes	44.6	44.7
Other assets	586.2	601.5
Total Assets	\$6,178.0	\$6,217.5
Current Liabilities		
Short-term debt	\$	\$ 1.0
Accounts payable	518.4	509.5
Accrued expenses	696.7	731.9
Income taxes payable	328.9	294.4
Deferred income taxes	22.0	22.0
Current maturities of long-term debt and capital lease obligations	83.8	2.4
Liabilities from discontinued operations		4.0
Total Current Liabilities	1,649.8	1,565.2
Long-term debt and capital lease obligations	1,711.8	1,899.4
Pension obligations	768.3	761.7
Postretirement benefits other than pensions	297.8	302.7
Deferred income taxes	8.9	33.7
Other non-current liabilities	328.7	311.9
Commitments and contingent liabilities		
Shareholders Equity		
Common stock \$5 par value Authorized 200,000,000 shares; issued 135,152,924 shares at June 30, 2005 and 132,709,310 shares at December 31, 2004 (excluding 14,000,000 shares held by a wholly owned subsidiary)	675.8	663.5
Additional paid-in capital	1,145.5	1,077.9

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Income retained in the business	204.4	119.5
Accumulated other comprehensive loss	(197.9)	(103.7)
Common stock held in treasury, at cost (13,588,968 shares at June 30, 2005 and 13,566,071 shares at December 31, 2004)	(415.1)	(414.3)
Total Shareholders Equity	1,412.7	1,342.9
Total Liabilities And Shareholders Equity	\$6,178.0	\$6,217.5

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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	Six Months Ended June 30,	
	2005	2004
	(Dollars in millions)	
Operating Activities		
Income from continuing operations	\$ 119.2	\$ 68.8
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Restructuring and consolidation:		
Expenses	3.7	4.9
Payments	(5.8)	(15.1)
Depreciation and amortization	112.2	109.8
Stock-based compensation expense	10.4	9.6
Loss on extinguishment of debt	5.7	
Deferred income taxes	(25.3)	(1.6)
Change in assets and liabilities, net of effects of acquisitions and dispositions of businesses:		
Receivables	(136.2)	(45.2)
Change in receivables sold, net	28.8	
Inventories	(111.5)	(51.6)
Other current assets	50.4	(11.7)
Accounts payable	29.9	6.4
Accrued expenses	(22.8)	47.2
Income taxes payable	60.3	6.6
Tax benefit on non-qualified options	8.8	2.2
Other non-current assets and liabilities	(20.4)	(3.5)
Net Cash Provided By Operating Activities	107.4	126.8
Investing Activities		
Purchases of property, plant and equipment	(66.4)	(51.3)
Proceeds from sale of property, plant and equipment	5.3	0.2
Payments made in connection with acquisitions, net of cash acquired	(9.3)	(0.5)
Net Cash Used By Investing Activities	(70.4)	(51.6)
Financing Activities		
Decrease in short-term debt, net	(1.0)	(1.8)
Repayment of long-term debt and capital lease obligations	(106.1)	(70.0)
Proceeds from issuance of common stock	51.3	18.3
Purchases of treasury stock	(0.6)	(0.2)
Dividends	(47.9)	(47.2)
Distributions to minority interest holders	(2.4)	
Net Cash Used By Financing Activities	(106.7)	(100.9)
Discontinued Operations		

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Net cash provided by discontinued operations	27.2	3.0
Effect of exchange rate changes on cash and cash equivalents	(4.1)	0.5
Net decrease in cash and cash equivalents	(46.6)	(22.2)
Cash and cash equivalents at beginning of year	297.9	378.4
Cash and cash equivalents at end of period	\$ 251.3	\$ 356.2

See Notes to Condensed Consolidated Financial Statements (Unaudited).

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Table of Contents**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)****Note 1. Basis of Interim Financial Statement Preparation**

The accompanying unaudited condensed consolidated financial statements of Goodrich Corporation and its subsidiaries have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Unless indicated otherwise or the context requires, the terms we, our, us, Goodrich or Company refer to Goodrich Corporation and its subsidiaries. The Company believes that all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation. Operating results for the three months and six months ended June 30, 2005 are not necessarily indicative of the results that may be achieved for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004. Unless otherwise noted, disclosures pertain to the Company's continuing operations.

Note 2. New Accounting Standards**Accounting Changes and Error Corrections**

During May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). Under APB Opinion No. 20, most voluntary changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of change. SFAS 154 will require retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS 154 will apply to all accounting changes made after adoption of the statement, which is required by the fiscal year beginning after December 15, 2005. The Company plans to adopt SFAS 154 no later than January 1, 2006. The Company does not expect the adoption of SFAS 154 to have a material impact on its financial condition, results of operations or cash flows.

Inventory Costs

The FASB recently issued Statement of Financial Accounting Standards No. 151, Inventory Costs (SFAS 151), an amendment of ARB No. 43, Chapter 4. Adoption of SFAS 151 is required by the year beginning January 1, 2006. The Company plans to adopt SFAS 151 no later than that date. The amendments made by SFAS 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. While SFAS 151 enhances ARB 43 and clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage), the statement also removes inconsistencies between ARB 43 and International Accounting Standards (IAS) 2 and amends ARB 43 to clarify that abnormal amounts of costs should be recognized as period costs. Under some circumstances, according to ARB 43, the above listed costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires these items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal and requires allocation of fixed production overheads to the costs of conversion. This statement will apply to the Company's businesses if they become subject to abnormal costs as defined in SFAS 151. The Company is currently evaluating the impact, if any, that adoption of SFAS 151 will have on its consolidated financial statements.

Share-Based Payment

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. The Company adopted the SFAS 123 fair-value-based method of accounting for share-based payments effective January 1, 2004 using the modified prospective method described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS 123(R) requires that the Company use the valuation technique that

best fits the circumstances. The Company currently uses the Black-Scholes formula to estimate the fair value of stock options granted to

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employees, and is evaluating other valuation techniques. SFAS 123(R) requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow, which is the Company's current practice. As a result, the adoption of SFAS 123(R) will reduce net operating cash flows and increase net financing cash flows in the periods after the effective date. SFAS 123(R) also requires that the Company estimate the number of awards that are expected to vest and to revise the estimate as the actual forfeitures differ from the estimate. The Company's current policy is to recognize forfeitures as they occur. The effect of these items and other changes required by SFAS 123(R) is currently being evaluated. On April 14, 2005, the U.S. Securities and Exchange Commission (SEC) announced that registrants that are not small business issuers must adopt SFAS 123(R) no later than the beginning of the first fiscal year beginning after June 15, 2005. The Company will adopt SFAS 123(R) on January 1, 2006.

In accordance with SFAS 123(R), the explicit service period for employees that become eligible to retire is considered to be nonsubstantive, which would require compensation cost to be recognized over the period through the date that the employee first becomes eligible to retire and is no longer required to provide service to earn the award. The Company's current policy is to recognize compensation cost over the explicit service period (i.e., up to the date of actual retirement) as opposed to through the date the employee first becomes eligible to retire. Upon adoption of SFAS 123(R), the Company will be required to change its policy and to recognize compensation expense for awards granted subsequent to January 1, 2006 over a period ending with the date the employee first becomes eligible for retirement. If the Company had previously applied the nonsubstantive vesting provisions of SFAS 123(R) when it adopted SFAS 123 on January 1, 2004, recognized compensation cost would have decreased by approximately \$1 million for the three months ended June 30, 2005 and 2004 and increased by approximately \$7 million and \$6 million for the six months ended June 30, 2005 and 2004, respectively.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). SAB 107 provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. SAB 107 also requires disclosures within filings made with the SEC relating to the accounting for share-based payment transactions, particularly during the transition to SFAS 123(R). The Company will incorporate the SAB 107 guidance in conjunction with its adoption of SFAS 123(R) on January 1, 2006.

Accounting for Conditional Asset Retirement Obligations

During March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which is an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). The Interpretation clarifies that the term *conditional asset retirement obligation* refers to the legal obligation to perform an asset retirement activity in which the timing or method of settlement is conditional on a future event that may or may not be within the control of the entity. Adoption of FIN 47 is required by the fiscal year ending after December 15, 2005. The Company plans to adopt FIN 47 no later than December 31, 2005. The Company does not expect the adoption of FIN 47 to have a material impact on its financial condition, results of operations or its cash flows.

FASB Staff Position 109-1 (FSP 109-1) and 109-2 (FSP 109-2)

On December 21, 2004, the FASB issued FASB Staff Position 109-1 (FSP 109-1) and 109-2 (FSP 109-2). FSP 109-1 provides guidance on the application of SFAS 109, *Accounting for Income Taxes*, with regard to the tax deduction on qualified production activities provision within H.R. 4520, The American Jobs Creation Act of 2004 (Act) that was enacted on October 22, 2004. FSP 109-2 provides guidance on a special one-time dividends received deduction on the repatriation of certain foreign earnings to qualifying U.S. taxpayers. The Act contains numerous provisions related to corporate domestic and international taxation, including repeal of the Extraterritorial Income (ETI) deduction, creation of a new Domestic Production Activities (DPA) deduction and temporary dividends received deduction related to repatriation of foreign earnings. The Act contains various effective dates and transition periods related to its provisions. Under the guidance provided in FSP 109-1 the new DPA deduction will be treated as a special deduction as described in SFAS 109. As such, the special deduction had no effect on the Company's deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company's income tax return. The Company does not expect the net effect of the

phase-out of the ETI deduction and phase-in of the new DPA deduction to result in a material impact on its effective income tax rate in 2005. In FSP 109-2, the FASB acknowledged that, due to the proximity of the Act's enactment date to many companies' year-ends and the fact that numerous provisions within the Act are complex and pending further regulatory guidance, many companies may not be in a position to assess the impact of the Act on their plans for repatriation or reinvestment of foreign earnings. Therefore, the FSP provided companies with a practical exception to the permanent reinvestment standards of SFAS 109 and APB No. 23 by providing additional time to determine the amount of earnings, if any, that they intend to repatriate under the Act's provisions. Although the deduction is subject to a number of limitations

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and, as of today, significant uncertainty remains regarding the interpretation of many of the Act's provisions, the Company believes that it has the information necessary to make an informed decision on the impact of the Act on its repatriation plans. Based on that decision, the Company plans to repatriate approximately \$100 million in extraordinary dividends, as defined in the Act, during 2005 and accordingly has recorded a tax liability of approximately \$5.3 million as of June 30, 2005. In accordance with SFAS 109 and APB 23, the Company has not provided U.S. deferred income taxes or foreign withholding tax on basis differences in its non-U.S. subsidiaries of approximately \$265.6 million that result primarily from the remaining undistributed earnings the Company intends to reinvest indefinitely. Determination of the liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Note 3. Restructuring and Consolidation Costs

The Company incurred restructuring and consolidation costs and activity related to two types of restructuring and consolidation programs: (1) the Company's employee termination and facility closure programs other than the opening balance sheet restructuring and consolidation programs related to the October 2002 acquisition of Aeronautical Systems (Aeronautical Systems business restructuring programs) in October 2002; and (2) the Aeronautical Systems business restructuring programs. Information regarding each type of restructuring program is disclosed separately as follows:

Restructuring and Consolidation Costs excluding Aeronautical Systems Business Restructuring Programs

The Company recorded restructuring and consolidation net provisions as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Personnel-related costs	\$0.2	\$2.2	\$2.7	\$3.6
Facility closure and other costs	0.3	0.9	1.0	1.3
	\$0.5	\$3.1	\$3.7	\$4.9

The net provisions were recorded across the Company's segments as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Airframe Systems	\$0.2	\$0.1	\$2.4	\$0.1
Engine Systems	0.2	0.8	0.4	1.1
Electronic Systems	0.1	2.2	0.9	3.7
	\$0.5	\$3.1	\$3.7	\$4.9

The net provisions were recorded to Cost of Sales and Selling and Administrative Costs as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Cost of sales	\$0.3	\$1.8	\$3.3	\$2.8
Selling and administrative costs	0.2	1.3	0.4	2.1

\$0.5

\$3.1

\$3.7

\$4.9

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Restructuring and consolidation reserves at December 31, 2004 and June 30, 2005, as well as activity during the six months ended June 30, 2005, consisted of:

	Balance December 31, 2004	Provision	Return to Profit (Dollars in millions)	Cash Payments	Balance June 30, 2005
Personnel-related costs	\$0.8	\$3.2	\$(0.5)	\$(2.9)	\$0.6
Facility closure and other costs	2.6	1.2	(0.2)	(1.7)	1.9
	\$3.4	\$4.4	\$(0.7)	\$(4.6)	\$2.5

During the six months ended June 30, 2005, approximately 50 employees were terminated as part of personnel-related restructuring activities. As of June 30, 2005, the Company expects to further reduce employment levels by approximately 20 employees as part of these restructuring activities.

Of the \$2.5 million balance in restructuring and consolidation reserves at June 30, 2005, \$0.6 million is reserved for employee terminations and benefit payments as well as benefit payments for recently terminated employees, \$1.4 million is reserved for facility closure and related costs and \$0.5 million is reserved for environmental expenses associated with the closure of two facilities.

The balance, by segment, of the restructuring reserves at December 31, 2004 and June 30, 2005 as well as the activity during the six months ended June 30, 2005 consisted of:

	Balance December 31, 2004	Provision	Return to Profit (Dollars in millions)	Employee Termination Benefits	Facility Closure Costs	Balance June 30, 2005
Airframe Systems	\$0.8	\$2.9	\$(0.5)	\$ (1.7)	\$(0.5)	\$1.0
Engine Systems	1.0	0.4		(0.2)	(0.7)	0.5
Electronic Systems	1.6	1.1	(0.2)	(1.0)	(0.5)	1.0
	\$3.4	\$4.4	\$(0.7)	\$ (2.9)	\$(1.7)	\$2.5

Restructuring and Consolidation Costs Provision

The following is a description of key components of the \$4.4 million provision for restructuring and consolidation costs recorded during the six months ended June 30, 2005:

Airframe Systems: The segment recorded a \$2.9 million charge of which \$2.5 million was for employee severance and benefits and \$0.4 million was for equipment relocation costs, all related to the closure of a foreign facility. The reserve was reduced by a \$0.5 million return to profit of previously recorded employee severance and benefit charges not required.

Engine Systems: The segment recorded a \$0.4 million charge for facility closure costs consisting of \$0.2 million for employee relocations and \$0.2 million related to the closure of a domestic service facility.

Electronic Systems: The segment recorded a \$1.1 million charge which included \$0.5 million for employee benefits and severance costs, \$0.3 million for facility closure costs related to the closure of a foreign manufacturing and service facility and \$0.3 million in facility closure costs related to the closure of a domestic manufacturing and service facility. The reserve was reduced by a \$0.2 million return to profit of previously recorded facility closure costs related to a domestic facility.

Future Restructuring and Consolidation Costs for Programs Announced and Initiated by January 1, 2005

The Company expects to incur additional expenses of approximately \$2 million for restructuring programs announced and initiated by January 1, 2005. The Company expects to incur most of these restructuring charges during the third and fourth quarters of 2005. Of the expected charges, approximately \$0.6 million relates to facility closure costs, \$0.2 million is for equipment relocation and \$1.2 million is for expected employee terminations, relocations and benefits related to these facility closures. Of the \$2 million in expected charges to restructuring and consolidation costs, the Electronic Systems segment expects to incur \$1 million for the closure of a foreign manufacturing facility and the Engine Systems segment expects to incur \$1 million for the closure of a domestic manufacturing and service facility.

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Restructuring reserves were recorded in the opening balance sheet related to the acquisition of the Aeronautical Systems business. These consolidation and restructuring reserves relate primarily to personnel-related costs for employee termination benefits that the Company recorded as part of its integration effort in accordance with EITF Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination.

No additional restructuring reserves have been recorded related to the Aeronautical Systems acquisition. Restructuring and consolidation reserves at December 31, 2004 and June 30, 2005 as well as the activity during the six months ended June 30, 2005 consisted of:

	Balance December 31, 2004	Cash Payments (Dollars in millions)	Foreign Currency Translation	Balance June 30, 2005
Personnel-related costs	\$3.9	\$(0.8)	\$ (0.3)	\$2.8
Facility closure and other costs	0.8	(0.4)		0.4
	\$4.7	\$(1.2)	\$ (0.3)	\$3.2

The balance at June 30, 2005, by segment, of the opening balance sheet restructuring reserves as well as the activity during the six months ended June 30, 2005 consisted of:

	Balance December 31, 2004	Employee Termination Benefits (Dollars in millions)	Facility Closure Costs	Foreign Currency Translation	Balance June 30, 2005
Airframe Systems	\$0.3	\$	\$	\$	\$0.3
Engine Systems	3.5	(0.5)		(0.3)	2.7
Electronic Systems	0.9	(0.3)	(0.4)		0.2
	\$4.7	\$ (0.8)	\$(0.4)	\$ (0.3)	\$3.2

During the six months ended June 30, 2005, no employees were terminated as part of the restructuring activities related to the acquisition of the Aeronautical Systems business. The \$0.8 million paid for employee termination benefits were for retirement benefits related to previous employee terminations at a foreign operation and a domestic operation. As of June 30, 2005, the Company expects to reduce employment levels by approximately 30 employees as part of the opening balance sheet restructuring activities. The remaining reserves will be used for future lease payments related to a redundant facility, costs to complete the closure of a redundant facility and return it to its original condition and a special early retirement program at a foreign operation.

Note 4. Other Income (Expense) Net

Other Income (Expense) Net consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Retiree health care expenses related to divested businesses	\$ (3.8)	\$ (4.1)	\$ (8.5)	\$ (9.4)

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Loss on extinguishment of debt	(5.7)		(5.7)	
Expenses related to divested businesses	(0.1)	(3.0)	(1.5)	(6.4)
Minority interest and equity in affiliated companies	(3.9)	(3.3)	(6.7)	(5.3)
Impairment of a note receivable				(7.0)
Other net	(0.8)	(1.3)	(2.0)	(1.6)
Other income (expense) net	\$ (14.3)	\$ (11.7)	\$ (24.4)	\$ (29.7)

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Note 5. Asset Impairments

As shown in Note 4, Other Income (Expense) Net, the Company recorded a non-cash \$7 million before tax asset impairment charge to Other Income (Expense) Net during the first six months of 2004 which resulted from the write-off of a certain note receivable due to insufficient collateral value arising out of the divestiture of a business.

Note 6. Cumulative Effect of Change in Accounting

In conjunction with the Audit Review Committee of the Company's Board of Directors, management reassessed the application of contract accounting at its aerostructures business that is included in the Engines Systems segment. Specifically, consideration was given to whether or not the accounting methods used by the Company were appropriate given the predominance of an alternative method used by peer companies and changes in the nature of contractual relationships with the Company's customers. Effective January 1, 2004, the Company changed two aspects of the application of contract accounting to preferable methods at its aerostructures business.

The Company changed its method of accounting for revisions in estimates of total revenue, total costs or extent of progress of a contract from the reallocation method to the cumulative catch-up method. Although both methods are used in practice to account for changes in estimates, American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1), indicates that the cumulative catch-up method is preferable. A contemporaneous review of accounting policy disclosures of peer companies in the same or similar industries indicated that the cumulative catch-up method was the predominant method of accounting for changes in estimates. The Company believes that consistency in financial reporting with peer companies, as well as with less significant business units within the consolidated group which already use the cumulative catch-up method, will enhance the comparability of financial data. The change was effected by adjusting contract profit rates from the balance to complete gross profit rate to the estimated gross profit rate at completion of the contract.

The Company also changed its accounting for pre-certification costs. Under the previous policy, pre-certification costs exceeding the level anticipated in the Company's original investment model used to negotiate contractual terms were expensed when determined regardless of overall contract profitability. This policy was appropriate in the past because aircraft and engine manufacturers typically reimbursed component suppliers directly for pre-certification costs up to an agreed-upon level. Recently, however, aircraft and engine manufacturers have begun to require component suppliers to participate more in the initial design and certification costs for products and are no longer specifically reimbursing non-recurring costs. Instead, the component supplier now typically absorbs these non-recurring costs and recovers those costs over the contract term through the price and margin of its product sales. Under the new policy, which was adopted January 1, 2004, pre-certification costs, including those in excess of original estimated levels, are included in total contract costs used to evaluate overall contract profitability. The Company believes the new method better reflects the substance of its current contractual arrangements and is more consistent with SOP 81-1, which indicates that all direct costs and indirect costs allocable to contracts should be included in the total contract cost. The impact of the changes in accounting methods was to record a before tax gain of \$23.3 million (\$16.2 million after tax) as a Cumulative Effect of Change in Accounting representing the cumulative profit that would have been recognized prior to January 1, 2004 had these methods of accounting been in effect in prior periods.

Table of Contents**Note 7. Earnings Per Share**

The computation of basic and diluted earnings per share for income from continuing operations is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(In millions, except per share amounts)		(In millions, except per share amounts)	
Numerator:				
Numerator for basic and diluted earnings per share income from continuing operations	\$ 62.4	\$ 38.4	\$ 119.2	\$ 68.8
Denominator:				
Denominator for basic earnings per share weighted-average shares	121.1	118.5	120.4	118.3
Effect of dilutive securities:				
Stock options, employee stock purchase plan, restricted shares and restricted share units	2.4	1.5	2.4	1.6
Other deferred compensation shares	0.1	0.1	0.1	0.1
	2.5	1.6	2.5	1.7
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversion	123.6	120.1	122.9	120.0
Per share income from continuing operations:				
Basic	\$ 0.52	\$ 0.33	\$ 0.99	\$ 0.58
Diluted	\$ 0.51	\$ 0.32	\$ 0.97	\$ 0.57

At June 30, 2005 and 2004, the Company had outstanding approximately 8.5 million and 10.5 million stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. Of the 8.5 million and 10.5 million stock options outstanding, 0.1 million and 5.3 million were anti-dilutive stock options excluded from the diluted earnings per share calculation at June 30, 2005 and 2004, respectively.

During the six months ended June 30, 2005 and 2004, the Company issued approximately 2.4 million and 1 million shares of common stock, respectively, pursuant to stock option exercises and other stock-based compensation.

Note 8. Inventories

Inventories consist of the following:

	June 30, 2005	December 31, 2004
	(Dollars in millions)	
FIFO or average cost (which approximates current costs):		
Finished products	\$ 197.3	\$ 185.3
In process	853.3	773.7
Raw materials and supplies	300.7	290.7

Total	1,351.3	1,249.7
Less:		
Reserve to reduce certain inventories to LIFO basis	(40.5)	(40.3)
Progress payments and advances	(54.8)	(45.9)
Total	\$1,256.0	\$1,163.5

The pre-production and excess-over-average in-process inventory balance and deferred engineering costs recoverable under long-term contractual arrangements, which are included in in-process inventory, were \$263 million and \$239.8 million as of June 30, 2005 and December 31, 2004, respectively.

Table of Contents**Note 9. Goodwill**

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2005 are as follows:

	Balance December 31, 2004	Business Combinations Completed or Finalized (Dollars in millions)	Foreign Currency Translation	Balance June 30, 2005
Airframe Systems	\$ 260.2	\$	\$(12.4)	\$ 247.8
Engine Systems	509.4		(14.8)	494.6
Electronic Systems	488.9	8.8(a)	40.2(b)	537.9
	\$1,258.5	\$ 8.8	\$ 13.0	\$1,280.3

(a) During the six months ended June 30, 2005, the Company completed its acquisition of the remaining five percent interest in Goodrich Hella Aerospace Lighting Systems Holding GmbH from Hella Hueck & Co. KG. At the time of the transaction, the Company increased Goodwill by \$8.8 million.

(b) Included in the \$40.2 million of foreign currency translation was an adjustment related to the foreign currency translation of certain goodwill

amounts that
 resulted in a
 \$27.3 million
 increase in
 Goodwill and
 Accumulated
 Other
 Comprehensive
 Income/(Loss).

Note 10. Financing Arrangements

Credit Facilities

In May 2005, the Company replaced its \$500 million committed global syndicated revolving credit facility expiring in August 2006 with a new \$500 million committed global syndicated revolving credit facility that expires in May 2010. The new facility has similar terms and is with substantially the same group of global banks as the previous facility. At June 30, 2005 there were no borrowings under the new facility. Borrowings under this facility bear interest, at the Company's option, at rates tied to the agent bank's prime rate or for U.S. Dollar or Great Britain Pounds Sterling borrowings, the London interbank offered rate, and for Euro Dollar borrowings, the EURIBO rate. The Company is required to pay a facility fee of 15 basis points per annum on the total \$500 million committed line. Further, if the amount outstanding exceeds 50 percent of the total commitment, a usage fee of 12.5 basis points per annum on the amount outstanding is payable by the Company. These fees and the interest rate margin on outstanding revolver borrowings are subject to change as the Company's credit ratings change. At June 30, 2005, there were no borrowings and \$20.1 million in letters of credit outstanding under the new facility. At December 31, 2004, there were no borrowings and \$26.2 million in letters of credit outstanding under the old facility. The level of unused borrowing capacity under the Company's committed syndicated revolving credit facility varies from time to time depending in part upon its consolidated net worth and leverage ratio levels. In addition, the Company's ability to borrow under this facility is conditioned upon compliance with financial and other covenants set forth in the related agreement, including the consolidated net worth requirement and maximum leverage ratio. The Company is currently in compliance with all such covenants. As of June 30, 2005, the Company had borrowing capacity under this facility of \$446.4 million, after reductions for letters of credit outstanding and borrowing limitations from financial covenants. The Company also maintains \$75 million of uncommitted domestic money market facilities and \$34.5 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At June 30, 2005 and December 31, 2004, there were no borrowings under these facilities. These credit facilities are provided by a small number of commercial banks that also provide the Company with committed credit through the syndicated revolving credit facility and with various cash management, trust and other services. The Company's credit facilities do not contain any credit rating downgrade triggers that would accelerate the maturity of its indebtedness. However, a ratings downgrade would result in an increase in the interest rate and fees payable under its committed syndicated revolving credit facility. Such a downgrade also could adversely affect the Company's ability to renew existing or obtain access to new credit facilities in the future and could increase the cost of such new facilities. Weighted-average interest rates on the Company's short-term borrowings were 3.3 percent as of June 30, 2005.

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The Company has an outstanding contingent liability for guaranteed debt and lease payments of \$2.6 million, outstanding Coltec Capital Trust 5 1/4 % convertible trust preferred securities (TIDES) of \$145 million, and letters of credit and bank guarantees of \$52.7 million. It is not practical to obtain independent estimates of the fair values for the contingent liability for guaranteed debt and lease payments and for letters of credit.

The Company's committed syndicated revolving credit facility contains various restrictive covenants that, among other things, place limitations on the payment of cash dividends and the repurchase of the Company's capital stock. Under the most restrictive of these covenants, \$602.6 million of income retained in the business and additional capital was free from such limitations at June 30, 2005.

Long-Term Debt

On March 24, 2005, the Company called for the redemption of \$100 million in aggregate principal amount of its 6.45 percent notes due in 2007. The notes were redeemed on April 26, 2005 and the Company recorded \$6.4 million of debt premiums and associated costs in Other Income (Expense) Net in the second quarter of 2005. The redemption price per \$1,000 principal amount of notes was \$1,058.25 plus accrued and unpaid interest to the redemption date. On March 29, 2005, the Company entered into a \$100 million reverse treasury lock to offset changes in the redemption price of the 6.45 percent notes due to movements in treasury rates prior to the redemption date. The reverse treasury lock matured on April 21, 2005 and the Company recorded a \$0.7 million gain in Other Income (Expense) Net in the second quarter 2005.

As further discussed in Note 20, Subsequent Events, on July 28, 2005, the Company called for the redemption of the remaining outstanding 6.45 percent notes due in 2007 in the aggregate principal amount of \$82.1 million. The redemption date for the notes is August 30, 2005. The Company expects to record expense in the third quarter of 2005 of approximately \$6 million for debt premiums and other costs associated with the redemption, including the gain or loss on an underlying interest rate swap, which will be terminated when the notes are priced for redemption.

Note 11. Off Balance Sheet Arrangements**Lease Commitments**

The Company finances its use of certain of its office and manufacturing facilities as well as machinery and equipment, including corporate aircraft, under various committed lease arrangements provided by financial institutions. Certain of these arrangements allow the Company to claim a deduction for tax depreciation on the assets, rather than the lessor, and allow the Company to lease equipment having a maximum unamortized value of \$90 million at June 30, 2005. At June 30, 2005, \$22.1 million of future minimum lease payments were outstanding under these arrangements. The other arrangements are standard operating leases. Future minimum lease payments under the standard operating leases approximated \$143.8 million at June 30, 2005.

Sale of Receivables

At June 30, 2005, the Company had in place a variable rate trade receivables securitization program pursuant to which the Company could sell receivables up to a maximum of \$140 million. Accounts receivable sold under this program were \$101.1 million at June 30, 2005. Continued availability of the securitization program is conditioned upon compliance with covenants, related primarily to operation of the securitization, set forth in the related agreements. The Company is currently in compliance with all such covenants. The securitization does not contain any credit rating downgrade triggers.

Table of Contents**Note 12. Pensions and Postretirement Benefits****Pensions**

The following table sets forth the components of net periodic benefit costs (income) for the three months and six months ended June 30, 2005 and 2004:

	U.S. Plans Three Months Ended June 30,		U.K. Plans Three Months Ended June 30,		Other Non-U.S. Plans Three Months Ended June 30,	
	2005	2004	2005	2004	2005	2004
	(Dollars in millions)					
Service cost	\$ 13.1	\$ 8.9	\$ 6.2	\$ 5.0	\$ 0.7	\$ 0.6
Interest cost	37.7	38.1	7.8	6.5	1.1	1.0
Expected rate of return on plan assets	(43.0)	(40.9)	(10.7)	(10.1)	(1.1)	(0.9)
Amortization of transition obligation						
Amortization of prior service cost	2.2	2.4				
Amortization of actuarial (gain) loss	13.0	12.7	(0.1)		0.3	
Periodic benefit cost (income)	23.0	21.2	3.2	1.4	1.0	0.7
Settlements and curtailments (gain) loss						
Special termination benefit charge (credit)						
Net benefit cost (income)	\$ 23.0	\$ 21.2	\$ 3.2	\$ 1.4	\$ 1.0	\$ 0.7

	U.S. Plans Six Months Ended June 30,		U.K. Plans Six Months Ended June 30,		Other Non-U.S. Plans Six Months Ended June 30,	
	2005	2004	2005	2004	2005	2004
	(Dollars in millions)					
Service cost	\$ 23.9	\$ 19.3	\$ 12.3	\$ 10.0	\$ 1.5	\$ 1.2
Interest cost	74.1	74.0	15.5	12.6	2.2	1.9
Expected rate of return on plan assets	(85.6)	(81.3)	(21.6)	(19.1)	(2.0)	(1.7)
Amortization of transition obligation						
Amortization of prior service cost	4.4	4.8				
Amortization of actuarial (gain) loss	24.2	21.7	(0.1)		0.3	

Periodic benefit cost (income)	41.0	38.5	6.1	3.5	2.0	1.4
Settlements and curtailments (gain) loss						
Special termination benefit charge (credit)						
Net benefit cost (income)	\$ 41.0	\$ 38.5	\$ 6.1	\$ 3.5	\$ 2.0	\$ 1.4

The following table provides the weighted average assumptions used to determine the net periodic benefit costs (income).

	U.S. Plans		U.K. Plans		Other Non-U.S. Plans	
	Three Months Ended June 30,		Three Months Ended June 30,		Three Months Ended June 30,	
	2005	2004	2005	2004	2005	2004
Discount rate	5.875%	6.25%	5.50%	5.75%	5.75%	6.25%
Expected long-term return on assets	9.00%	9.00%	8.50%	8.50%	8.50%	8.50%
Rate of compensation increase	3.63%	3.63%	3.50%	3.25%	3.50%	3.25%

Table of Contents**Postretirement Benefits Other Than Pensions**

The following table sets forth the components of net periodic benefit costs (income) for the three months and six months ended June 30, 2005 and 2004:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Service cost	\$ 0.5	\$0.4	\$ 0.8	\$ 0.7
Interest cost	5.0	5.7	11.3	12.5
Expected rate of return on plan assets				
Amortization of transition obligation				
Amortization of prior service cost	(0.1)		(0.1)	
Amortization of actuarial (gain) loss	0.3		0.8	0.9
Periodic benefit cost (income)	5.7	6.1	12.8	14.1
Settlements and curtailments (gain) loss				
Special termination benefit charge (credit)				
Net benefit cost (income)	\$ 5.7	\$6.1	\$12.8	\$14.1

The following table provides the assumptions used to determine the net periodic benefit costs (income).

	Three Months Ended June 30,	
	2005	2004
Discount rate	5.875%	6.25%
Healthcare trend rate	9% in 2005 to 5% in 2008	10% in 2004 to 5% in 2008

Note 13. Comprehensive Income/(Loss)

Total comprehensive income consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Comprehensive Income/(Loss)				
Net income	\$ 75.7	\$ 38.8	\$133.2	\$ 85.6
Other comprehensive income/(loss):				
Unrealized foreign currency translation gains (losses) during period	(48.0)	(11.7)	(47.3)	3.6
Gains (losses) on cash flow hedges	(28.7)	(8.6)	(46.9)	(11.2)
Total	\$ (1.0)	\$ 18.5	\$ 39.0	\$ 78.0

Accumulated other comprehensive income/(loss) consisted of the following:

June 30,	December 31,
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	2005	2004
	(Dollars in millions)	
Accumulated Other Comprehensive Income/(Loss)		
Cumulative unrealized foreign currency translation gains (losses)	\$ 165.4	\$ 212.7
Minimum pension liability adjustments	(388.1)	(388.1)
Accumulated gains (losses) on cash flow hedges	24.8	71.7
Total	\$(197.9)	\$(103.7)

The minimum pension liability amounts above are net of deferred taxes of \$209 million at June 30, 2005 and December 31, 2004. The accumulated gain on cash flow hedges above is net of deferred taxes of \$13.3 million and \$38.6 million at June 30, 2005 and December 31, 2004, respectively. No income taxes are provided on foreign currency translation gains as foreign earnings are considered permanently invested.

Table of Contents**Note 14. Income Taxes**

The Company's effective tax rate for the three months ended June 30, 2005 was 30.5 percent. The effective tax rate varies from the statutory rate of 35 percent primarily due to an adjustment to the valuation allowance associated with certain deferred tax assets in foreign jurisdictions which reduced the effective rate by approximately 7 percent, tax benefits from export sales and domestic production activities which reduced the effective rate by approximately 5 percent, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate, including the impact of tax holidays, which reduced the effective rate by approximately 5 percent, adjustments to tax contingencies, including interest thereon, net of tax, which increased the effective rate by approximately 6 percent, and the anticipated repatriation of foreign undistributed earnings under the American Jobs Creation Act which increased the effective rate by approximately 6 percent.

The Company's effective tax rate for the six months ended June 30, 2005 was 32.6 percent. The effective tax rate varies from the statutory rate of 35 percent primarily due to tax benefits from export sales and domestic production activities which reduced the effective rate by approximately 5 percent, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate, including the impact of tax holidays, which reduced the effective rate by approximately 5 percent, and adjustments to tax contingencies, including interest thereon, net of tax, which increased the effective rate by approximately 6 percent.

In accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* (SFAS 5), the Company records tax contingencies when the exposure item becomes probable and the amount is reasonably estimable. As of December 31, 2004, the Company had tax contingency reserves of approximately \$315.8 million. During the six months ended June 30, 2005, the Company recorded a provision of \$12.6 million, made payments of \$2.7 million (net of federal tax benefit), and had other miscellaneous adjustments of (\$0.4) million. As of June 30, 2005, the Company had recorded tax contingency reserves of approximately \$325.3 million. The contingencies that comprise the reserves are more fully described in Note 17, *Contingencies*.

On October 22, 2004, the President signed the American Jobs Creation Act of 2004 (the *Act*). The Act provides a deduction for income from qualified domestic production activities, which will be phased in from 2005 through 2010. The Act provides for a two-year phase-out of the existing Extraterritorial Income (ETI) deduction for export sales that was ruled by the World Trade Organization to be inconsistent with international trade protocols. Under the guidance provided in FASB Staff Position No. FAS 109-1, *Application of SFAS 109, Accounting for Income Taxes*, to the Tax Deduction on Qualified Production Activities Provided by the American Jobs Creation Act of 2004, the deduction will be treated as a special deduction as described in SFAS 109. As such, the special deduction had no effect on the Company's deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on the Company's tax return.

The Act also created a temporary incentive for U.S. corporations to repatriate accumulated income earned abroad by providing an 85 percent dividends received deduction for certain dividends from controlled foreign corporations. Although the deduction is subject to a number of limitations and, as of today, significant uncertainty remains regarding the interpretation of many of the Act's provisions, the Company believes that it has the information necessary to make an informed decision on the impact of the Act on its repatriation plans. Based on that decision, the Company plans to repatriate approximately \$100 million in extraordinary dividends, as defined in the Act, during 2005 and accordingly has recorded a tax liability of approximately \$5.3 million as of June 30, 2005. In accordance with SFAS 109 and APB 23, the Company has not provided for U.S. deferred income taxes or foreign withholding tax on basis differences in its non-U.S. subsidiaries of approximately \$265.6 million that result primarily from the remaining undistributed earnings the Company intends to reinvest indefinitely. Determination of the liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Table of Contents**Note 15. Business Segment Information**

The Company has three business segments: Airframe Systems, Engine Systems and Electronic Systems.

Airframe Systems

Airframe Systems provides systems and components pertaining to aircraft taxi, take-off, landing and stopping. Several business units within the segment are linked by their ability to contribute to the integration, design, manufacture and service of entire aircraft undercarriage systems, including landing gear, wheels and brakes and certain brake controls. Airframe Systems also includes the aviation technical services business unit, which performs comprehensive total aircraft maintenance, repair, overhaul and modification services for many commercial airlines, independent operators, aircraft leasing companies and airfreight carriers. The segment includes the actuation systems and flight controls business units that were acquired as part of Aeronautical Systems. The actuation systems business unit provides systems that control the movement of steering systems for missiles and electro-mechanical systems that are characterized by high power, low weight, low maintenance, resistance to extreme temperatures and vibrations and high reliability. The actuation systems business unit also provides actuators for primary flight control systems that operate elevators, ailerons and rudders, and secondary flight controls systems such as flaps and slats. The engineered polymer products business unit provides large-scale marine composite structures, marine acoustic materials, acoustic/vibration damping structures, fireproof composites and high performance elastomer formulations to government and commercial customers.

Engine Systems

Engine Systems includes the aerostructures business unit, a leading supplier of nacelles, pylons, thrust reversers and related aircraft engine housing components. The segment also produces engine and fuel controls, pumps, fuel delivery systems, and structural and rotating components such as discs, blisks, shafts and airfoils for both aerospace and industrial gas turbine applications. The segment includes the cargo systems, engine controls and customer services business units, which were acquired as part of Aeronautical Systems. The cargo systems business unit produces fully integrated main deck and lower lobe cargo systems for wide body aircraft. The engine controls business unit provides engine control systems and components for jet engines used on commercial and military aircraft, including fuel metering controls, fuel pumping systems, electronic control software and hardware, variable geometry actuation controls, afterburner fuel pump and metering unit nozzles, and engine health monitoring systems. The customer services business unit provides support for aftermarket products and services for the Company.

Electronic Systems

Electronic Systems produces a wide array of products that provide flight performance measurements, flight management, and control and safety data. Included are a variety of sensors systems that measure and manage aircraft fuel and monitor oil debris, engine and transmission, and structural health. The segment's products also include ice detection systems, aircraft lighting systems, landing gear cables and harnesses, satellite control, data management and payload systems, launch and missile telemetry systems, airborne surveillance and reconnaissance systems, laser warning systems, aircraft evacuation systems, de-icing systems, ejection seats, and crew and attendant seating. The power systems business unit, which was acquired as part of Aeronautical Systems, provides systems that produce and control electrical power for commercial and military aircraft, including electric generators for both main and back-up electrical power, electric starters and electric starter generating systems and power management and distribution systems. Also acquired as part of Aeronautical Systems was the hoists and winches business unit, which provides airborne hoists and winches used on both helicopters and fixed wing aircraft, and a business that produces engine shafts primarily for helicopters.

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Segment operating income is total segment revenue reduced by operating expenses identifiable with that business segment. The accounting policies of the reportable segments are the same as those for Goodrich consolidated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)		(Dollars in millions)	
Net customer sales:				
Airframe Systems	\$ 464.0	\$ 403.8	\$ 906.7	\$ 806.4
Engine Systems	565.8	449.2	1,093.9	947.7
Electronic Systems	322.9	275.0	627.6	530.4
Total sales	\$1,352.7	\$1,128.0	\$2,628.2	\$2,284.5
Intersegment sales:				
Airframe Systems	\$ 13.0	\$ 12.3	\$ 25.9	\$ 27.9
Engine Systems	7.3	4.7	16.4	9.8
Electronic Systems	9.1	7.8	17.0	15.9
Total intersegment sales	\$ 29.4	\$ 24.8	\$ 59.3	\$ 53.6
Segment operating income:				
Airframe Systems	\$ 10.8	\$ 25.3	\$ 38.6	\$ 46.4
Engine Systems	108.8	69.4	199.3	143.8
Electronic Systems	37.7	31.2	70.0	53.9
	157.3	125.9	307.9	244.1
Corporate general and administrative expenses	(21.2)	(23.4)	(41.7)	(42.9)
Total operating income	\$ 136.1	\$ 102.5	\$ 266.2	\$ 201.2

Segment assets include assets directly identifiable with each segment. Corporate assets include assets not specifically identified with a business segment, including cash.

	June 30, 2005	December 31, 2004
	(Dollars in millions)	
Assets:		
Airframe Systems	\$1,783.3	\$1,796.1
Engine Systems	2,298.6	2,266.7
Electronic Systems	1,440.4	1,401.2
Assets from Discontinued Operations		17.8
Corporate	655.7	735.7
Total assets	\$6,178.0	\$6,217.5

Note 16. Derivatives and Hedging Activities**Cash Flow Hedges**

The Company has subsidiaries that conduct a substantial portion of their business in Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys, but have significant sales contracts that are denominated in U.S. Dollars. Periodically, the Company enters into forward contracts to exchange U.S. Dollars for Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys.

The forward contracts described above are used to mitigate the potential volatility to earnings and cash flow arising from changes in currency exchange rates. The forward contracts are being accounted for as cash flow hedges. The forward contracts are recorded in the Company's Unaudited Condensed Consolidated Balance Sheet at fair value with the offset reflected in Accumulated Other Comprehensive Income/(Loss), net of deferred taxes. The notional value of the forward contracts at June 30, 2005 was \$749.2 million. The fair value of the forward contracts at June 30, 2005 was an asset of \$38.1 million, of which \$37.9 million was recorded in Prepaid Expenses and Other Assets and \$6.3 million was recorded in Other Assets, offset by \$6.1 million recorded in Accrued Expenses.

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The total fair value of the forward contracts of \$38.1 million (before deferred taxes of \$13.3 million) was recorded in Accumulated Other Comprehensive Income/(Loss) and will be reflected in income as the individual contracts mature which will offset the earnings effect of the hedged item. As of June 30, 2005, the portion of the \$38.1 million fair value that would be reclassified into earnings as an increase in sales to offset the effect of the hedged item in the next 12 months is a gain of \$37.9 million.

In March 2005, the Company called for the redemption of \$100 million in aggregate principal amount of its 6.45 percent notes due in 2007 and entered into a \$100 million reverse treasury lock to offset changes in the redemption price due to movements in treasury rates prior to the redemption date. In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), at March 31, 2005, the reverse treasury lock was accounted for as a cash flow hedge and was recorded in the Company's Unaudited Condensed Consolidated Balance Sheet at fair value with the offset reflected in Accumulated Other Comprehensive Income/(Loss), net of deferred taxes. The fair value of the reverse treasury lock at March 31, 2005 was an asset of \$0.2 million, which was recorded in Prepaid Expenses and Other Assets. The reverse treasury lock matured on April 21, 2005 and the Company recorded a \$0.7 million gain in Other Income (Expense) - Net and eliminated the asset accrued at March 31, 2005.

Fair Value Hedges

In July 2003, the Company entered into a \$100 million fixed-to-floating interest rate swap on the 6.45 percent notes due in 2007. In April 2005, the Company terminated \$17.9 million of this interest rate swap so that the outstanding notional amount of the swap would match the outstanding principal amount of the 6.45 percent notes due in 2007. The Company paid \$0.4 million in cash to terminate this portion of the swap and recorded the amount as an expense in Other Income (Expense) - Net.

In October 2003, the Company entered into two \$50 million fixed-to-floating interest rate swaps. One \$50 million swap is on the Company's 7.5 percent notes due in 2008 and the other \$50 million swap is on the Company's 6.45 percent notes due in 2008. In December 2003, the Company entered into another \$50 million fixed-to-floating interest rate swap on its 7.5 percent notes due in 2008.

The purpose of entering into these swaps was to increase the Company's exposure to variable interest rates. The settlement and maturity dates on each swap are the same as those on the referenced notes. In accordance with SFAS 133, the interest rate swaps are being accounted for as fair value hedges and the carrying value of the notes has been adjusted to reflect the fair values of the interest rate swaps. The fair value of the interest rate swaps was a liability (loss) of \$3.3 million at June 30, 2005.

Other Forward Contracts

As a supplement to the foreign exchange cash flow hedging program, in January 2004, the Company began to enter into forward contracts to manage its foreign currency risk related to the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency. These forward contracts mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. The gains or losses on these forward contracts are being recorded in earnings when realized in order to mitigate the earnings impact of the translation of net monetary assets. Under this program, as of June 30, 2005, the Company had forward contracts with a notional value of \$87.3 million to buy Great Britain Pounds Sterling, forward contracts with a net notional value of \$19.8 million to buy Euros, forward contracts with a notional value of \$22.7 million to sell Canadian Dollars and forward contracts with a notional value of \$6.2 million to buy Singapore Dollars.

Note 17. Contingencies**General**

There are pending or threatened against the Company or its subsidiaries various claims, lawsuits and administrative proceedings, arising from the ordinary course of business with respect to commercial, product liability, asbestos and environmental matters, which seek remedies or damages. The Company believes that any liability that may finally be determined with respect to commercial and non-asbestos product liability claims should not have a material effect on its consolidated financial position, results of operations or cash flows. From time to time, the Company is also involved in legal proceedings as a plaintiff involving tax, contract, patent protection, environmental and other matters. Gain contingencies, if any, are recognized when they are realized. Legal costs are generally expensed when incurred.

Table of Contents**Environmental**

The Company is subject to various domestic and international environmental laws and regulations which may require that it investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which it has been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. The Company is currently involved in the investigation and remediation of a number of sites under these laws.

The measurement of environmental liabilities by the Company is based on currently available facts, present laws and regulations and current technology. Such estimates take into consideration the Company's prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities and the professional judgment of the Company's environmental specialists in consultation with outside environmental specialists, when necessary. Estimates of the Company's environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

Accordingly, as investigation and remediation of these sites proceed, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, the Company does not believe that future environmental costs in excess of those accrued with respect to sites for which it has been identified as a potentially responsible party are likely to have a material adverse effect on its financial condition. There can be no assurance, however, that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on the results of operations or cash flows in a given period.

Environmental liabilities are recorded when the liability is probable and the costs are reasonably estimable, which generally is not later than at completion of a feasibility study or when the Company has recommended a remedy or has committed to an appropriate plan of action. The liabilities are reviewed periodically and, as investigation and remediation proceed, adjustments are made as necessary. Liabilities for losses from environmental remediation obligations do not consider the effects of inflation and anticipated expenditures are not discounted to their present value. The liabilities are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

The Company's Unaudited Condensed Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of \$85.7 million and \$88.5 million at June 30, 2005 and December 31, 2004, respectively. At June 30, 2005 and December 31, 2004, \$14.9 million and \$16.2 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as Accrued Expenses. At June 30, 2005 and December 31, 2004, \$30.6 million was associated with ongoing operations and \$55.1 million and \$58.9 million, respectively, was associated with businesses previously disposed of or discontinued.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. The Company expects that it will expend present accruals over many years, and will complete remediation in less than 30 years on all sites for which it has been identified as a potentially responsible party. This period includes operation and monitoring costs that are generally incurred over 15 to 25 years.

Asbestos

The Company and a number of its subsidiaries have been named as defendants in various actions by plaintiffs alleging injury or death as a result of exposure to asbestos fibers in products, or which may have been present in its facilities. A number of these cases involve maritime claims, which have been and are expected to continue to be administratively dismissed by the court. These actions primarily relate to previously owned businesses. The Company believes that

pending and reasonably anticipated future actions, net of anticipated insurance recoveries, are not likely to have a material adverse effect on the Company's financial condition, results of operations or cash flows. There can be no assurance, however, that future legislative or other developments will not have a material adverse effect on the results of operations in a given period.

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The Company believes that substantial insurance coverage is available to it related to any remaining claims. However, the primary layer of insurance coverage for some of these claims is provided by the Kemper Insurance Companies. Kemper has indicated that, due to capital constraints and downgrades from various rating agencies, it has ceased underwriting new business and now focuses on administering policy commitments from prior years. Kemper has also indicated that it is currently operating under a run-off plan approved by the Illinois Department of Insurance. The Company cannot predict the impact of Kemper's financial position on the availability of the Kemper insurance.

Liabilities of Divested Businesses***Asbestos***

In May 2002, the Company completed the tax free spin-off of its Engineered Products (EIP) segment, which at the time of the spin-off included EnPro Industries, Inc. (EnPro) and Coltec Industries Inc (Coltec). At that time, two subsidiaries of Coltec were defendants in a significant number of personal injury claims relating to alleged asbestos-containing products sold by those subsidiaries. It is possible that asbestos-related claims might be asserted against the Company on the theory that it has some responsibility for the asbestos-related liabilities of EnPro, Coltec or its subsidiaries, even though the activities that led to those claims occurred prior to the Company's ownership of any of those subsidiaries. Also, it is possible that a claim might be asserted against the Company that Coltec's dividend of its aerospace business to the Company prior to the spin-off was made at a time when Coltec was insolvent or caused Coltec to become insolvent. Such a claim could seek recovery from the Company on behalf of Coltec of the fair market value of the dividend.

A limited number of asbestos-related claims have been asserted against the Company as successor to Coltec or one of its subsidiaries. The Company believes that it has substantial legal defenses against these claims, as well as against any other claims that may be asserted against the Company on the theories described above. In addition, the agreement between EnPro and the Company that was used to effectuate the spin-off provides the Company with an indemnification from EnPro covering, among other things, these liabilities. The success of any such asbestos-related claims would likely require, as a practical matter, that Coltec's subsidiaries were unable to satisfy their asbestos-related liabilities and that Coltec was found to be responsible for these liabilities and was unable to meet its financial obligations. The Company believes any such claims would be without merit and that Coltec was solvent both before and after the dividend of its aerospace business to the Company. If the Company is ultimately found to be responsible for the asbestos-related liabilities of Coltec's subsidiaries, it believes it would not have a material adverse effect on its financial condition, but could have a material adverse effect on the results of operations and cash flows in a particular period. However, because of the uncertainty as to the number, timing and payments related to future asbestos-related claims, there can be no assurance that any such claims will not have a material adverse effect on the Company's financial condition, results of operations and cash flows. If a claim related to the dividend of Coltec's aerospace business were successful, it could have a material adverse impact on the Company's financial condition, results of operations and cash flows.

Other

In connection with the divestiture of the Company's tire, vinyl and other businesses, the Company has received contractual rights of indemnification from third parties for environmental and other claims arising out of the divested businesses. Failure of these third parties to honor their indemnification obligations could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Guarantees

The Company has guaranteed amounts owed by Coltec Capital Trust with respect to the \$145 million of outstanding TIDES and has guaranteed Coltec's performance of its obligations with respect to the TIDES and the underlying Coltec convertible subordinated debentures. Following the spin-off of the EIP segment, the TIDES remained outstanding as an obligation of Coltec Capital Trust and the Company's guarantee with respect to the TIDES remains the Company's obligation. EnPro, Coltec and Coltec Capital Trust have agreed to indemnify the Company for any costs and liabilities arising under or related to the TIDES after the spin-off.

In addition to the Company's guarantee of the TIDES, at June 30, 2005, the Company had an outstanding contingent liability for guarantees of debt and lease payments of \$2.6 million, letters of credit and bank guarantees of \$52.7 million and residual value of leases of \$51.2 million (see Note 18, Guarantees).

Table of Contents**Commercial Airline Customers**

Several of the Company's commercial airline customers are experiencing financial difficulties. The Company performs ongoing credit evaluations on the financial condition of all of its customers and maintains reserves for uncollectible accounts receivable based upon expected collectibility. Although the Company believes its reserves are adequate, it is not able to predict the future financial stability of these customers. Any material change in the financial status of any one or group of customers could have a material adverse effect on the Company's financial condition, results of operations or cash flows. The extent to which extended payment terms are granted to customers may negatively affect future cash flows.

Tax

In 2000, Coltec, the Company's former subsidiary, made a \$113.7 million payment to the Internal Revenue Service (IRS) for an income tax assessment and the related accrued interest arising out of certain capital loss deductions and tax credits taken in 1996. On February 13, 2001, Coltec filed suit against the U.S. Government in the U.S. Court of Federal Claims seeking a refund of this payment. The trial portion of the case was completed in May 2004. On November 2, 2004, the Company was notified that the trial court ruled in favor of Coltec and ordered the Government to refund federal tax payments of \$82.8 million to Coltec. This tax refund would also bear interest to the date of payment. As of June 30, 2005, the interest amount was approximately \$48.9 million before tax, or \$31.8 million after tax. The U.S. Court of Federal Claims entered a final judgment in this case on February 15, 2005. During July 2005, the Government filed its brief related to its appeal of the decision with the United States Court of Appeals for the Federal Circuit. If the trial court's decision is ultimately upheld, the Company will be entitled to this tax refund and related interest pursuant to an agreement with Coltec. If the Company receives these amounts, it expects to record net income of approximately \$147 million, based on interest through June 30, 2005, and including the release of previously established reserves. If the IRS were to ultimately prevail in this case, Coltec will not owe any additional interest or taxes with respect to 1996. The Company may, however, be required by the IRS to pay up to \$32.7 million plus accrued interest with respect to the same items claimed by Coltec in its tax returns for 1997 through 2000. The amount of the previously estimated tax liability if the IRS were to prevail for the 1997 through 2000 period remains fully reserved.

In 2000, the IRS issued a statutory notice of deficiency asserting that Rohr, Inc. (Rohr), the Company's subsidiary, was liable for \$85.3 million of additional income taxes for the fiscal years ended July 31, 1986 through 1989. In 2003, the IRS issued an additional statutory notice of deficiency asserting that Rohr was liable for \$23 million of additional income taxes for the fiscal years ended July 31, 1990 through 1993. The proposed assessments relate primarily to the timing of certain tax deductions and tax credits. Rohr has filed petitions in the U.S. Tax Court opposing the proposed assessments. At the time of settlement or final determination by the court, there will be a net cash cost to the Company due at least in part to the reversal of a timing item. The Company believes that its total net cash cost is unlikely to exceed \$100 million. The Company is reserved for the estimated liability associated with these cases and as a result, it does not expect a charge to earnings to result from the resolution of these matters. The Company is in advanced stages of discussion with the IRS to settle the Rohr case and to resolve the open issues in the audit periods identified below and anticipates a settlement in late 2005 or early 2006.

The Company is continuously undergoing examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by the Company on its income tax returns. In accordance with SFAS 109, *Accounting for Income Taxes*, and SFAS 5, *Accounting for Contingencies*, the Company establishes reserves for tax contingencies that reflect its best estimate of the deductions and credits that it may be unable to sustain, or that it could be willing to concede as part of a broader tax settlement. As of June 30, 2005, the Company had recorded tax contingency reserves of approximately \$325.3 million. The current IRS examination audit cycle began in March 2002 and relates to the following consolidated income tax groups for the following years:

Rohr, Inc. and Subsidiaries	July, 1995 – December, 1997 (through date of acquisition)
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Coltec Industries Inc and Subsidiaries

December, 1997 July, 1999 (through date of
acquisition)

Goodrich Corporation and Subsidiaries

1998-1999 (including Rohr and Coltec)
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There are numerous tax issues that have been raised during the examination by the IRS, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, tax accounting for stock options, depreciation, amortization and the proper timing for certain other deductions for income tax purposes.

Rohr has been under examination by the State of California for the tax years ending July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr's subsidiaries in connection with the lease of certain tangible property. California's Franchise Tax Board has held that the deductions associated with the leased equipment were non-business deductions. Rohr made a voluntary payment during the quarter ended March 31, 2005 of approximately \$3.9 million related to items that were not being contested, consisting of approximately \$0.6 million related to tax and approximately \$3.3 million related to interest on the tax. The remaining tax assessment of approximately \$4.6 million continues to be contested by Rohr. The State of California enacted an amnesty provision that imposes a nondeductible penalty interest equal to 50 percent of the unpaid interest amounts relating to taxable years ended before 2003. Therefore, the amount of interest on the remaining tax assessment is approximately \$27.8 million (including penalty interest of approximately \$9.3 million). The Company believes that it is adequately reserved for this contingency. Under California law, Rohr will be required to pay the full amount of tax and interest prior to filing any suit for refund. Rohr expects to make this payment and file suit for a refund in late 2005 or early 2006.

Note 18. Guarantees

The Company extends financial and product performance guarantees to third parties. As of June 30, 2005, the following environmental remediation indemnification and financial guarantees were outstanding:

	Maximum Potential Payment (Dollars in millions)	Carrying Amount of Liability
Environmental remediation indemnification (Note 17, Contingencies)	No limit	\$ 17.4
Financial Guarantees:		
TIDES	\$ 145.0	\$
Debt and lease payments	\$ 2.6	\$
Residual value on leases	\$ 51.2	\$

TIDES

In connection with the Company's acquisition of Coltec on July 12, 1999, the Company guaranteed amounts owed by Coltec Capital Trust with respect to the \$145 million of outstanding TIDES and has guaranteed Coltec's performance of its obligations with respect to Coltec's guarantee of the TIDES and the underlying Coltec convertible junior subordinated debentures. Following the spin-off of the Company's EIP segment, the TIDES remained outstanding as an obligation of Coltec Capital Trust and the Company's guarantee with respect to the TIDES remains an obligation of the Company. EnPro, Coltec and Coltec Capital Trust have agreed to indemnify the Company for any costs and liabilities arising under or relating to the TIDES after the spin-off.

The Company's guarantee requires that the Company pay, to the extent not paid by Coltec Capital Trust, distributions or other payments on the TIDES to the extent that Coltec Capital Trust has funds available therefore at such time, and that it pay or perform, to the extent not paid or performed by Coltec, Coltec's obligations under its guarantee of the TIDES and under the underlying Coltec convertible junior subordinated debentures. The Company's guarantee is unsecured and is subordinated in right of payment to all of the Company's senior debt that is currently outstanding or that may be incurred in the future.

The Company's guarantee will terminate upon full payment of the redemption price for the TIDES, the distribution of the Coltec convertible junior subordinated debentures or full payment of the amounts payable upon liquidation of Coltec Capital Trust.

Debt and Lease Payments

The debt and lease payments primarily represent obligations of the Company under industrial development revenue bonds to finance additions to facilities that have since been divested. Each of these obligations was assumed by a third party in connection with the Company's divestiture of the related facilities. If the assuming parties default, the Company will be liable for payment of the obligations. The industrial development revenue bonds mature in February 2008.

Table of Contents**Residual Value on Leases**

Residual value on leases relate to corporate aircraft and production equipment leases pursuant to which the Company is obligated to either purchase the leased equipment at the end of the lease term or remarket the leased equipment. The residual values were established at lease inception. The lease terms for the corporate aircraft mature in 2011 and 2012. The lease term for the production equipment has been extended from July 2005 to January 2006.

Service and Product Warranties

The Company provides service and warranty policies on its products. Liability under service and warranty policies is based upon specific claims and a review of historical warranty and service claim experience. Adjustments are made to accruals as claim data and historical experience change. In addition, the Company incurs discretionary costs to service its products in connection with product performance issues.

The changes in the carrying amount of service and product warranties for the six months ended June 30, 2005 are as follows:

	(Dollars in millions)
Balance at December 31, 2004	\$ 165.8
Service and product warranty provision	37.4
Return to profit	(5.6)
Payments	(35.8)
Foreign currency translation	(5.5)
 Balance at June 30, 2005	 \$ 156.3

The current and long-term portions of service and product warranties were as follows:

	June 30, 2005	December 31, 2004
	(Dollars in millions)	
Short-term liabilities	\$ 66.4	\$ 69.0
Long-term liabilities	89.9	96.8
 Total	 \$156.3	 \$ 165.8

Note 19. Discontinued Operations

On April 19, 2005, the Company completed the sale of its JcAIR Test Systems business (Test Systems) to Aeroflex Incorporated (Aeroflex) of Plainview, New York, for \$35 million in cash, or approximately \$28 million after tax. The purchase price is subject to certain post-closing adjustments. The results of operations for the Test Systems business were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Dollars in millions)			
Sales	\$ 1.5	\$ 6.0	\$ 8.0	\$11.6
 Operating income	 \$ 0.2	 \$ 0.6	 \$ 1.3	 \$ 0.8
Gain on sale	20.2		20.2	

Income tax expense	(7.1)	(0.2)	(7.5)	(0.2)
Income from discontinued operations	\$ 13.3	\$ 0.4	\$ 14.0	\$ 0.6

Test Systems was previously reported in the Electronic Systems segment. The Company reported an after tax gain on the sale of Test Systems of \$13.1 million, or \$0.10 per diluted share, for the three months and six months ended June 30, 2005.

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Note 20. Subsequent Events

Redemption of Outstanding 6.45% Notes due 2007

On July 28, 2005, the Company called for the redemption of all of its outstanding 6.45 percent notes due in 2007 in the aggregate principal amount of \$82.1 million. The redemption date for the notes is August 30, 2005. The redemption price for each note is equal to the greater of (1) 100% of the principal amount of such note and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of any payment of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined in the related indenture) plus 40 basis points, plus, in each case, accrued and unpaid interest thereon to the redemption date. The Company expects to record expense in the third quarter of 2005 of approximately \$6 million for premiums and other costs associated with the redemption, including the gain or loss on an underlying interest rate swap that will be terminated when the redemption price for the notes is determined.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS DOCUMENT.

THIS MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTAINS FORWARD-LOOKING STATEMENTS. SEE FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY FOR A DISCUSSION OF CERTAIN OF THE UNCERTAINTIES, RISKS AND ASSUMPTIONS ASSOCIATED WITH THESE STATEMENTS. UNLESS OTHERWISE NOTED HEREIN, DISCLOSURES PERTAIN ONLY TO OUR CONTINUING OPERATIONS.

OVERVIEW

We are one of the largest worldwide suppliers of aerospace components, systems and services to the commercial, regional, business and general aviation markets. We are also a leading supplier of systems and products to the global military and space markets. Our business is conducted globally with manufacturing, service and sales undertaken in various locations throughout the world. Our products and services are principally sold to customers in North America, Europe and Asia.

For the quarter ended June 30, 2005, we reported net income of \$76 million, or \$0.61 per diluted share, on sales of \$1,353 million. This compares to net income for the quarter ended June 30, 2004 of \$39 million, or \$0.32 per diluted share, on sales of \$1,128 million. The improved results were primarily due to increased sales for commercial aerospace original equipment (OE) and aftermarket products, as well as higher sales volume in all of our other market channels and the favorable impact of our enterprise initiatives, such as lean manufacturing and supply chain management. In addition, net income in the quarter ended June 30, 2005 was affected by a number of additional items including those listed below. There were no such items in the quarter ended June 30, 2004.

Gain on the sale of our JcAIR Test Systems business (Test Systems) The sale to Aeroflex Incorporated (Aeroflex) was completed in April 2005 and resulted in an after tax gain of \$13.1 million, or \$0.10 per diluted share. All prior periods have been reclassified to reflect the business as a discontinued operation.

Charges associated with the A380 Actuation program In the quarter ended June 30, 2005, we recorded a charge of approximately \$10 million after tax (\$0.08 per diluted share) to reserve for costs associated with the retrofit of actuators on the A380 aircraft.

Debt retirement We recorded a charge of \$4 million after tax (\$0.03 per diluted share) for premiums and costs associated with the early retirement of \$100 million of long-term debt in April 2005.

For the six months ended June 30, 2005, net income was \$133 million, or \$1.08 per diluted share, on sales of \$2,628 million. For the six months ended June 30, 2004, net income was \$86 million, or \$0.71 per diluted share, on sales of \$2,285 million. The increased sales of \$343 million were primarily attributable to double-digit percentage sales growth in all of our major market channels consisting of commercial aircraft OE sales, regional, business and general aviation OE sales, commercial aircraft aftermarket sales for these same aircraft and for aircraft heavy maintenance, military and space, and other areas including industrial gas turbine components. In addition to the income from higher sales, net income in the six months ended June 30, 2005 as compared to the six months ended June 30, 2004 was also affected by a number of additional items including those listed below.

Gain on the sale of Test Systems The sale to Aeroflex was completed in April 2005 and resulted in an after tax gain of \$13.1 million, or \$0.10 per diluted share. All prior periods have been reclassified to reflect the business as a discontinued operation.

Charges associated with the A380 Actuation program In the six months ended June 30, 2005, we recorded a charge of approximately \$10 million after tax (\$0.08 per diluted share) to reserve for costs associated with the retrofit of actuators on the A380 aircraft.

Effective tax rate For the six months ended June 30, 2005, our effective tax rate was 32.6 percent, as compared to an effective rate of 31 percent for the six months ended June 30, 2004.

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Debt retirement We recorded premiums and other costs of \$4 million after tax (\$0.03 per diluted share) associated with the early retirement of \$100 million of long-term debt in April 2005.

Absence of write-off of notes and accounts receivable During the six months ended June 30, 2004, we wrote off notes and accounts receivable of \$5 million after tax (\$0.04 per diluted share). There were no similar charges in the six months ended June 30, 2005.

Cumulative Effect of Change in Accounting Effective January 1, 2004, we changed two aspects of the application of contract accounting for our aerostructures business which resulted in a \$16.2 million after tax gain (\$23.3 million before tax gain) that was recorded as a Cumulative Effect of Change in Accounting in the six months ended June 30, 2004. There were no similar changes in the six months ended June 30, 2005.

Net cash provided by operating activities decreased \$19.4 million from \$126.8 million during the six months ended June 30, 2004 to \$107.4 million during the six months ended June 30, 2005. The decrease in net cash from operations was primarily due to higher working capital requirements to support the increase in sales and production rates for large commercial aircraft, offset partially by higher income. Net cash provided by operating activities in the six months ended June 30, 2005 also included an increase in the accounts receivable sold under our securitization program of \$28.8 million and worldwide pension contributions of \$6.9 million. Net cash provided by operating activities in the six months ended June 30, 2004 included cash received from the termination of certain life insurance policies of \$23.4 million and prepayment of a receivable from Northrop Grumman of \$10 million, offset in part by the acquisition of certain aftermarket rights of \$15 million and worldwide pension contributions of \$41.2 million. Net cash used by investing activities was \$70.4 million in the six months ended June 30, 2005 and \$51.6 million in the six months ended June 30, 2004. Net cash used by investing activities for the six months ended June 30, 2005 included capital expenditures of \$66.4 million and an acquisition of the minority interest in one of our businesses of \$8.8 million. Net cash used by investing activities in the six months ended June 30, 2004 included capital expenditures of \$51.3 million.

Net cash used by financing activities was \$106.7 million in the six months ended June 30, 2005, compared to \$100.9 million for the six months ended June 30, 2004. During the six months ended June 30, 2005, we redeemed \$100 million of our 6.45 percent notes due in 2007. Also during the six months ended June 30, 2005, we issued common stock of \$51.3 million, primarily due to the exercise of stock options, and paid dividends to shareholders of \$47.9 million. During the six months ended June 30, 2004, we repaid the balance of the 8.30% Cumulative Quarterly Income Preferred Securities, Series A (QUIPS) of \$63.5 million and paid dividends to shareholders of \$47.2 million. We also issued common stock, primarily due to the exercise of stock options, of \$18.3 million in the six months ended June 30, 2004.

Net cash provided by discontinued operations was \$27.2 million in the six months ended June 30, 2005 and \$3 million in the six months ended June 30, 2004. After tax proceeds from the sale of Test Systems of approximately \$28 million were included in the net cash provided by discontinued operations in the six months ended June 30, 2005.

Long-term debt and capital lease obligations, including current maturities of long-term debt and capital lease obligations, at June 30, 2005 were \$1,796 million, compared to \$1,902 million at December 31, 2004. At June 30, 2005, we had cash and marketable securities of \$251 million as compared to \$298 million at December 31, 2004. In May 2005, we replaced our \$500 million committed global syndicated revolving credit facility expiring in August 2006 with a new \$500 million committed global syndicated revolving credit facility that expires in May 2010. The new facility has similar terms and is with substantially the same group of global banks as the previous facility. The new facility permits borrowing, including letters of credit, up to a maximum of \$500 million. At June 30, 2005, there were no borrowings and \$20.1 million in letters of credit outstanding under this facility. At June 30, 2005, we had borrowing capacity under this facility of \$446.4 million, after reductions for letters of credit outstanding and borrowing limitations from financial covenants. At June 30, 2005, we maintained \$75 million of uncommitted domestic money market facilities and \$34.5 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At June 30, 2005, there were no borrowings under these facilities. We maintain a shelf registration that allows us to issue up to \$1.4 billion of debt securities, series preferred stock, common stock, stock purchase contracts and stock purchase units.

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We have increased our 2005 outlook from that provided in our Form 10-Q for the quarter ended March 31, 2005. Our full year 2005 outlook for sales has been increased from \$5.1 billion \$5.2 billion to \$5.2 billion \$5.3 billion, due primarily to expected stronger commercial aftermarket sales growth. The revised outlook represents a sales increase of about 11 to 13 percent from 2004 levels. We also increased our outlook for net income per diluted share from \$1.80 \$1.95 to \$2.00 \$2.10, reflecting margin expansion associated with the sales growth and an expected effective tax rate in the 32 to 33 percent range compared to 34 percent in our prior outlook. We expect cash flow from operations, minus capital expenditures, to exceed 75 percent of net income from continuing operations in 2005. We now expect 2005 capital expenditures to be in the range of \$170 \$190 million, compared to the prior range of \$190 \$210 million. Refer to Outlook for specific assumptions relating to our current outlook for 2005.

Our business balance across the aerospace and defense markets continues to be an important strategic aspect of our business. We believe that trends in these markets will have an important impact on future sales. Looking at sales by market channel for the six months ended June 30, 2005, military and space sales represented approximately 28 percent of sales, total commercial aircraft OE sales, including regional, business and general aviation OE sales, represented approximately 31 percent of our sales and total commercial aircraft aftermarket sales for these same aircraft and for aircraft heavy maintenance represented approximately 35 percent of sales. Other areas, including industrial gas turbine components, made up the remaining 6 percent. Overall, our aftermarket sales for both commercial aircraft and military and space markets represented approximately 42 percent of total sales.

OUTLOOK

We have increased our 2005 outlook from that provided in our Form 10-Q for the quarter ended March 31, 2005. The full year 2005 outlook for sales has been increased from \$5.1 billion \$5.2 billion to \$5.2 billion \$5.3 billion, due primarily to expected stronger commercial aftermarket sales growth. The revised outlook represents a sales increase of about 11 to 13 percent from 2004 levels. We also increased our outlook for net income per diluted share from \$1.80 \$1.95 to \$2.00 \$2.10, reflecting margin expansion associated with the sales growth and an expected effective tax rate in the 32 to 33 percent range compared to 34 percent in our prior outlook. The revised outlook for net income per diluted share, which includes higher expected after tax pension expenses of approximately \$6 million (\$0.05 per diluted share) and all premiums and costs associated with completed and anticipated early retirement of long-term debt, represents an increase of 40 to 47 percent over 2004 net income per diluted share.

Our revised 2005 outlook is based on the following market assumptions:

Deliveries of Airbus and Boeing large commercial aircraft are expected to increase by 10 to 15 percent annually in both 2005 and 2006, based on the announced plans by Airbus and Boeing. Our sales of commercial aircraft OE are now projected to increase by approximately 20 percent in 2005, compared to 2004.

Capacity in the global airline system, as measured by available seat miles (ASMs), is expected to continue to grow. Our sales to airlines for large commercial and regional aircraft aftermarket parts and services are now expected to grow approximately 10 percent in 2005, compared to 2004, somewhat above expectations for global ASM increases due to the continuing strong demand for aftermarket components and services.

Total regional and business aircraft production is expected to be relatively flat in 2005, compared to 2004, as deliveries of business jets are expected to increase, offsetting the expected decrease in regional aircraft deliveries. Deliveries to Embraer in support of its EMBRAER 190 aircraft, which includes significant Goodrich content, are expected to enable us to increase our OE sales in this market channel for the full year 2005, compared to 2004.

Our military sales (OE and aftermarket) are expected to increase 5 to 6 percent in 2005, compared to 2004, representing a growth rate slightly greater than global military budgets.

We expect cash flow from operations, minus capital expenditures, to exceed 75 percent of net income from continuing operations in 2005. We now expect 2005 capital expenditures to be in the range of \$170 \$190 million, compared to the prior range of \$190 \$210 million.

The current outlook for net income and cash flow from operations for 2005 does not include resolution of the previously disclosed Rohr and Coltec tax litigation or divestitures other than the Test Systems business.

Table of Contents**RESULTS OF OPERATIONS****Changes in Accounting Method**

Effective January 1, 2004, we changed two aspects of the application of contract accounting to preferable methods for our aerostructures business, which is included in the Engine Systems segment. The first is a change to the cumulative catch-up method from the reallocation method for accounting for changes in contract estimates of revenue and costs. The change was effected by adjusting contract profit rates from the balance to complete gross profit rate to the estimated gross profit rate at completion of the contract. The second change related to pre-certification costs. Under the old policy, pre-certification costs exceeding the level anticipated in our original investment model used to negotiate contractual terms were expensed when determined regardless of overall contract profitability. Under the new policy, pre-certification costs, including those in excess of original estimated levels, will be included in total contract costs used to evaluate overall contract profitability. The impact of the changes in accounting method was to record a \$16.2 million after tax gain (\$23.3 million before tax gain) as a Cumulative Effect of Change in Accounting.

Discontinued Operations

On April 19, 2005, we sold Test Systems to Aeroflex for \$35 million in cash. The purchase price is subject to certain post-closing adjustments. We reported an after tax gain on the sale of Test Systems of \$13.1 million, or \$0.10 per diluted share, in the quarter ended June 30, 2005. Prior periods have been reclassified to reflect Test Systems as a discontinued operation.

Quarter Ended June 30, 2005 Compared with Quarter Ended June 30, 2004

	Quarter Ended June 30,	
	2005	2004
	(Dollars in millions)	
Sales	\$ 1,352.7	\$ 1,128.0
Segment Operating Income	\$ 157.3	\$ 125.9
Corporate General and Administrative Costs	(21.2)	(23.4)
Total Operating Income	136.1	102.5
Net Interest Expense	(32.0)	(35.2)
Other Income (Expense) Net	(14.3)	(11.7)
Income from Continuing Operations Before Income Taxes	89.8	55.6
Income Tax Expense	(27.4)	(17.2)
Income from Continuing Operations	62.4	38.4
Discontinued Operations	13.3	0.4
Cumulative Effect of Change in Accounting		
Net Income	\$ 75.7	\$ 38.8

Changes in sales and segment operating income are discussed within the Business Segment Performance section below.

Corporate general and administrative costs of \$21.2 million for the quarter ended June 30, 2005 decreased \$2.2 million, or 9.4 percent, from \$23.4 million for the quarter ended June 30, 2004 primarily due to lower administrative costs and the absence of a loss on the sale of an administrative building in 2004. Corporate general and administrative costs as a percentage of sales were 1.6 percent in the quarter ended June 30, 2005 and 2.1 percent in the quarter ended June 30, 2004.

Net interest expense of \$32 million in the quarter ended June 30, 2005 decreased \$3.2 million, or 9.1 percent, from \$35.2 million in the quarter ended June 30, 2004 primarily due to lower debt levels.

Other Income (Expense) Net increased by \$2.6 million, or 22.2 percent, to expense of \$14.3 million in the quarter ended June 30, 2005 from expense of \$11.7 million in the quarter ended June 30, 2004. The increase in expense resulted primarily from the loss on the early retirement of long-term debt of \$5.7 million, partially offset by lower expenses related to divested operations of \$2.9 million.

Our effective tax rate was 30.5 percent during the quarter ended June 30, 2005 and 30.9 percent during the quarter ended June 30, 2004. The quarter-to-quarter comparison reflects no significant change in the effective tax rate. The decrease in our effective tax rate is primarily attributable to a partial reversal of a valuation allowance previously recorded on certain foreign losses, offset by the U.S. income tax associated with anticipated dividends from certain foreign subsidiaries.

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Discontinued operations income increased as a result of the after tax gain on the sale of Test Systems of \$13.1 million that was recorded in the quarter ended June 30, 2005. Test Systems generated income of \$0.2 million and \$0.4 million in the quarters ended June 30, 2005 and 2004, respectively, which was also included in Discontinued Operations.

Six Months Ended June 30, 2005 Compared with Six Months Ended June 30, 2004

	Six Months Ended June 30,	
	2005	2004
	(Dollars in millions)	
Sales	\$2,628.2	\$2,284.5
Segment Operating Income	\$ 307.9	\$ 244.1
Corporate General and Administrative Costs	(41.7)	(42.9)
Total Operating Income	266.2	201.2
Net Interest Expense	(65.0)	(71.8)
Other Income (Expense) Net	(24.4)	(29.7)
Income from Continuing Operations Before Income Taxes	176.8	99.7
Income Tax Expense	(57.6)	(30.9)
Income from Continuing Operations	119.2	68.8
Discontinued Operations	14.0	0.6
Cumulative Effect of Change in Accounting		16.2
Net Income	\$ 133.2	\$ 85.6

Changes in sales and segment operating income are discussed within the Business Segment Performance section below.

Corporate general and administrative costs of \$41.7 million for the six months ended June 30, 2005 decreased \$1.2 million, or 2.8 percent, from \$42.9 million for the six months ended June 30, 2004 primarily due to lower administrative costs and the absence of a loss on the sale of an administrative building in 2004, partially offset by higher incentive compensation expense. Corporate general and administrative costs as a percentage of sales were 1.6 percent in the six months ended June 30, 2005 and 1.9 percent in the six months ended June 30, 2004.

Net interest expense of \$65 million for the six months ended June 30, 2005 decreased \$6.8 million, or 9.5 percent, from \$71.8 million in the six months ended June 30, 2004 primarily due to lower debt levels.

Other Income (Expense) Net decreased by \$5.3 million, or 17.9 percent, to expense of \$24.4 million in the six months ended June 30, 2005 from expense of \$29.7 million in the six months ended June 30, 2004. The decrease in expense resulted primarily from the absence in the six months ended June 30, 2005 of a \$7 million impairment of a note receivable that was recorded in the six months ended June 30, 2004 and lower expenses related to divested operations of \$4.9 million, partially offset by the loss on the early retirement of long-term debt of \$5.7 million

Our effective tax rate was 32.6 percent during the six months ended June 30, 2005 and 31 percent during the six months ended June 30, 2004. The increase in our effective tax rate resulted from U.S. income tax associated with anticipated dividends from certain foreign subsidiaries, growth in before tax book income relative to our significant permanent items, and the phase-in of the American Jobs Creation Act of 2004, which replaces certain export sales deductions with a deduction for income from qualified domestic production activities, offset in part by the partial reversal of a valuation allowance previously recorded against certain foreign losses.

Discontinued operations income increased as a result of the after tax gain on the sale of Test Systems of \$13.1 million that was recorded in the six months ended June 30, 2005. Test Systems generated income of \$0.9 million and

\$0.6 million in the six months ended June 30, 2005 and 2004, respectively, which was also included in Discontinued Operations.

As noted above, effective January 1, 2004, we changed two aspects of the application of contract accounting for our aerostructures business which resulted in a \$16.2 million after tax gain (\$23.3 million before tax gain) that was recorded as a Cumulative Effect of Change in Accounting in the six months ended June 30, 2004.

Table of Contents**BUSINESS SEGMENT PERFORMANCE**

Our operations are reported as three business segments: Airframe Systems, Engine Systems and Electronic Systems. In the following table, segment operating income represents total segment revenue reduced by operating expenses directly identifiable with the applicable business segment.

Quarter Ended June 30, 2005 Compared with the Quarter Ended June 30, 2004

	Quarter Ended June 30,				
	2005	2004	%	% of Sales	
	Change			2005	2004
	(Dollars in millions)				
NET CUSTOMER SALES					
Airframe Systems	\$ 464.0	\$ 403.8	14.9		
Engine Systems	565.8	449.2	26.0		
Electronic Systems	322.9	275.0	17.4		
Total Sales	\$1,352.7	\$1,128.0	19.9		
SEGMENT OPERATING INCOME					
Airframe Systems	\$ 10.8	\$ 25.3	(57.3)	2.3	6.3
Engine Systems	108.8	69.4	56.8	19.2	15.5
Electronic Systems	37.7	31.2	20.8	11.7	11.3
Segment Operating Income	\$ 157.3	\$ 125.9	24.9	11.6	11.2

Airframe Systems: Airframe Systems segment sales of \$464 million in the quarter ended June 30, 2005 increased \$60.2 million, or 14.9 percent, from \$403.8 million in the quarter ended June 30, 2004. The increase was primarily due to the following:

Higher landing gear commercial and regional OE sales volume;

Higher large commercial, regional and military aircraft wheel and brake sales volume;

Higher actuation systems sales volume;

Higher sales of airframe heavy maintenance services; and

Favorable currency translation on non-U.S. dollar sales, primarily in the actuation systems and landing gear businesses.

Airframe Systems segment operating income decreased \$14.5 million, or 57.3 percent, from \$25.3 million in the quarter ended June 30, 2004 to \$10.8 million in the quarter ended June 30, 2005. The positive impact of the higher sales volume described above was more than offset by:

A \$15 million charge for the retrofit of redesigned parts for the A380 actuation system, including reserves for related obsolete inventory, supplier claims and impaired assets; and

Higher operating costs in the landing gear and actuation businesses.

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Engine Systems: Engine Systems segment sales of \$565.8 million in the quarter ended June 30, 2005 increased \$116.6 million, or 26 percent, from \$449.2 million in the quarter ended June 30, 2004. The increase was due to the following:

Higher aerostructures engine OE, U.S. military and commercial spare parts and maintenance, repair and overhaul (MRO) sales volume;

Higher sales volume of turbomachinery products for U.S. military and regional aircraft applications and in the power generation market;

Higher revenues from military customers for aftermarket support from our customer services business; and

Favorable currency translation on non-U.S. dollar sales, primarily in the engine controls business.

Engine Systems segment operating income increased \$39.4 million, or 56.8 percent, from \$69.4 million in the quarter ended June 30, 2004 to \$108.8 million in the quarter ended June 30, 2005. Segment operating income was higher due primarily to:

Higher sales volume as described above; and

Improved margins due to higher aftermarket sales, primarily for aerostructures products.

The increase in Engine Systems segment operating income was partially offset by a lower net change in the cumulative catch up contract accounting adjustment in our aerostructures business, which was unfavorable to operating income by \$6.4 million.

Electronic Systems: Electronic Systems segment sales of \$322.9 million in the quarter ended June 30, 2005 increased \$47.9 million, or 17.4 percent, from \$275 million in the quarter ended June 30, 2004. The increase was primarily due to:

Higher sales volume of regional and business jet aircraft OE and aftermarket products for the power systems, de-icing and specialty systems and sensor systems businesses;

Higher sales volume of military OE and aftermarket sales in nearly all of the segment's business units; and

Higher sales volume of commercial aircraft OE products for the aircraft interior products, de-icing and specialty systems, and fuel and utility systems businesses.

Electronic Systems segment operating income increased \$6.5 million, or 20.8 percent, from \$31.2 million in the quarter ended June 30, 2004 to \$37.7 million in the quarter ended June 30, 2005. The increased volume from sales described above favorably affected segment operating income.

The increase in segment operating income was partially offset by:

Unfavorable sales mix from aftermarket towards proportionately more OE sales in military and commercial markets; and

Increased research and development costs for new programs that have already been awarded.

Table of Contents**Six Months Ended June 30, 2005 Compared with the Six Months Ended June 30, 2004**

	Six Months Ended June 30,			% of Sales	
	2005	2004	% Change	2005	2004
NET CUSTOMER SALES					
Airframe Systems	\$ 906.7	\$ 806.4	12.4		
Engine Systems	1,093.9	947.7	15.4		
Electronic Systems	627.6	530.4	18.3		
Total Sales	\$2,628.2	\$2,284.5	15.0		
SEGMENT OPERATING INCOME					
Airframe Systems	\$ 38.6	\$ 46.4	(16.8)	4.3	5.8
Engine Systems	199.3	143.8	38.6	18.2	15.2
Electronic Systems	70.0	53.9	29.9	11.2	10.2
Segment Operating Income	\$ 307.9	\$ 244.1	26.1	11.7	10.7

Airframe Systems: Airframe Systems segment sales of \$906.7 million for the six months ended June 30, 2005 increased \$100.3 million, or 12.4 percent, from \$806.4 million for the six months ended June 30, 2004. The increase was primarily due to:

Higher commercial, regional and military aircraft wheel and brake sales volume;

Higher sales of airframe heavy maintenance services;

Higher landing gear commercial and regional OE sales volume;

Higher actuation systems commercial OE sales volume; and

Favorable currency translation on non-U.S. dollar sales, primarily in the actuation systems and landing gear businesses.

Airframe Systems segment operating income decreased \$7.8 million, or 16.8 percent, from \$46.4 million for the six months ended June 30, 2004 to \$38.6 million for the six months ended June 30, 2005. The positive impact of the higher sales volume described above was more than offset by the following:

A \$15 million charge for the retrofit of redesigned parts for the A380 actuation system, including reserves for related obsolete inventory, supplier claims and impaired assets; and

Higher operating costs in the landing gear and actuation businesses.

Engine Systems: Engine Systems segment sales of \$1,093.9 million in the six months ended June 30, 2005 increased \$146.2 million, or 15.4 percent, from \$947.7 million in the six months ended June 30, 2004. The increase was due to the following:

Higher aerostructures engine OE, U.S. military and commercial spare parts and MRO sales volume;

Higher sales volume of turbo-machinery products for U.S. military and regional aircraft applications and industrial gas turbine products;

Higher revenues from military and commercial customers for aftermarket support from our customer services business; and

Favorable currency translation on non-U.S. dollar sales, primarily in the engine controls business. The increase in sales was partially offset by lower military sales in our engine controls business.

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Engine Systems segment operating income increased \$55.5 million, or 38.6 percent, from \$143.8 million in the six months ended June 30, 2004 to \$199.3 million in the six months ended June 30, 2005. Segment operating income was higher due to:

Higher sales volume as described above;

Favorable currency translation on non-U.S. dollar costs, primarily in the aerostructures and engine controls businesses; and

Improved margins due to higher aftermarket sales, primarily for aerostructures products.

The increase in Engine Systems segment operating income was partially offset by a lower net change in the cumulative catch up contract accounting adjustment in our aerostructures business, which was unfavorable to operating income by \$9 million.

Electronic Systems: Electronic Systems segment sales of \$627.6 million in the six months ended June 30, 2005 increased \$97.2 million, or 18.3 percent, from \$530.4 million in the six months ended June 30, 2004. The increase was primarily due to:

Higher sales volume of military OE sales, primarily in the optical and space systems, sensor systems and fuel and utility systems businesses;

Higher sales volume of regional and business jet aircraft OE and aftermarket products for the power systems, de-icing and specialty systems and sensor systems businesses; and

Higher sales volume of commercial OE and aftermarket products in nearly all of the segment's business units. Electronic Systems segment operating income increased \$16.1 million, or 29.9 percent, from \$53.9 million in the six months ended June 30, 2004 to \$70 million in the six months ended June 30, 2005. The increased volume from sales described above favorably affected segment operating income.

The increase in segment operating income was partially offset by:

Unfavorable sales mix from aftermarket towards proportionately more OE sales in military and commercial markets; and

Increased research and development costs for new programs that have already been awarded.

LIQUIDITY AND CAPITAL RESOURCES

We currently expect to fund expenditures for capital requirements and the anticipated retirement of long-term debt as well as liquidity needs from a combination of cash, internally generated funds and financing arrangements. We believe that our internal liquidity, together with access to external capital resources, will be sufficient to satisfy existing commitments and plans and also provide adequate financial flexibility.

Cash

At June 30, 2005, we had cash and cash equivalents of \$251.3 million, as compared to \$297.9 million at December 31, 2004.

Credit Facilities

In May 2005, we replaced our \$500 million committed global syndicated revolving credit facility expiring in August 2006 with a new \$500 million committed global syndicated revolving credit facility that expires in May 2010. The new facility has similar terms and is with substantially the same group of global banks as the previous facility. At June 30, 2005 there were no borrowings under the new facility. This facility permits borrowing, including letters of credit, up to a maximum of \$500 million. At June 30, 2005, there were no borrowings and \$20.1 million in letters of credit outstanding under this facility. At December 31, 2004, there were no borrowings and \$26.2 million in letters of credit outstanding under the old facility.

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The level of unused borrowing capacity under our committed syndicated revolving credit facility varies from time to time depending in part upon our consolidated net worth and leverage ratio levels. In addition, our ability to borrow under this facility is conditioned upon compliance with financial and other covenants set forth in the related agreement, including the consolidated net worth requirement and maximum leverage ratio. We are currently in compliance with all such covenants. As of June 30, 2005, we had borrowing capacity under this facility of \$446.4 million, after reductions for letters of credit outstanding and borrowing limitations from financial covenants. At June 30, 2005, we maintained \$75 million of uncommitted domestic money market facilities and \$34.5 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. As of June 30, 2005 and December 31, 2004, there were no borrowings under these facilities. These credit facilities are provided by a small number of commercial banks that also provide us with committed credit through the syndicated revolving credit facility and with various cash management, trust and other services. Our credit facilities do not contain any credit rating downgrade triggers that would accelerate the maturity of our indebtedness. However, a ratings downgrade would result in an increase in the interest rate and fees payable under our committed syndicated revolving credit facility. Such a downgrade also could adversely affect our ability to renew existing or obtain access to new credit facilities in the future and could increase the cost of such new facilities.

Long-Term Financing

At June 30, 2005, we had long-term debt and capital lease obligations, including current maturities, of \$1,795.6 million with maturities ranging from 2005 to 2046. The earliest maturity of a material long-term debt obligation, other than the notes called for redemption on August 30, 2005, is April 2008. We also maintain a shelf registration statement that allows us to issue up to \$1.4 billion of debt securities, series preferred stock, common stock, stock purchase contracts and stock purchase units.

On March 24, 2005, we called for the redemption of \$100 million in aggregate principal amount of our 6.45 percent notes due in 2007. The notes were redeemed on April 26, 2005 and we recorded \$6.4 million of debt premiums and associated costs in Other Income (Expense) Net in the quarter ending June 30, 2005. On March 29, 2005, we entered into a \$100 million reverse treasury lock to offset changes in the redemption price of the 6.45 percent notes due to movements in treasury rates prior to the redemption date. The reverse treasury lock matured on April 21, 2005 and we received \$0.7 million in cash, which was recorded as a gain in Other Income (Expense) Net in the quarter ending June 30, 2005. On April 4, 2005, we terminated \$17.9 million of a \$100 million fixed-to-floating interest rate swap on our 6.45 percent notes due in 2007. We paid \$0.4 million in cash to terminate this portion of the interest rate swap and the amount was recorded as an expense in Other Income (Expense) Net in the quarter ending June 30, 2005. This portion of the interest rate swap was terminated so that the outstanding notional amount of the fixed-to-floating interest rate swap would match the outstanding principal amount, subsequent to the redemption, of the 6.45 percent notes due in 2007.

On July 28, 2005, we called for the redemption of all of the outstanding 6.45 percent notes due in 2007 in the aggregate principal amount of \$82.1 million. The redemption date for the notes is August 30, 2005. The redemption price for each note is equal to the greater of (1) 100% of the principal amount of such note and (2) the sum of the present values of the remaining scheduled payments of principal and interest thereon (not including any portion of any payment of interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined in the related indenture) plus 40 basis points, plus, in each case, accrued and unpaid interest thereon to the redemption date. We expect to record expense in the third quarter of 2005 of approximately \$6 million for premiums and other costs associated with the redemption, including the gain or loss on an underlying interest rate swap that will be terminated when the redemption price for the notes is determined.

Table of Contents**Off-Balance Sheet Arrangements**

We utilize several forms of off-balance sheet financing arrangements. At June 30, 2005, these arrangements included:

	Undiscounted Minimum Future Lease Payments	Receivables Sold
	(Dollars in millions)	
Tax Advantaged Operating Leases	\$ 22.1	
Standard Operating Leases	143.8	
	\$ 165.9	
Short-term Receivables Securitization Program		\$ 101.1

Lease Agreements

We finance our use of certain equipment, including corporate aircraft, under committed lease arrangements provided by financial institutions. Certain of these arrangements allow us to claim a deduction for the tax depreciation on the assets, rather than the lessor, and allow us to lease equipment having a maximum unamortized value of \$90 million at June 30, 2005. At June 30, 2005, \$22.1 million of future minimum lease payments were outstanding under these arrangements. The other arrangements are standard operating leases. Future minimum lease payments under the standard operating leases approximated \$143.8 million at June 30, 2005.

Under certain operating lease agreements, we receive rent holidays, which represent periods of free or reduced rent. Rent holidays are recorded as a liability and recognized on a straight-line basis over the lease term. In addition, we may receive incentives or allowances from the lessor as part of the lease agreement. We recognize these payments as a liability and amortize them as reductions to lease expense over the lease term. We capitalize leasehold improvements and amortize them over the lesser of the lease term or the asset's useful life.

Sale of Receivables

At June 30, 2005, we had in place a variable rate trade receivables securitization program pursuant to which we could sell receivables up to a maximum of \$140 million. Accounts receivable sold under this program were \$101.1 million at June 30, 2005. Continued availability of the securitization program is conditioned upon compliance with covenants, related primarily to operation of the securitization, set forth in the related agreements. We are currently in compliance with all such covenants. The securitization does not contain any credit rating downgrade triggers pursuant to which the program could be terminated.

Cash Flow Hedges

We have subsidiaries that conduct a substantial portion of their business in Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys, but have significant sales contracts that are denominated in U.S. Dollars. Approximately 10 percent of our revenues and approximately 25 percent of our costs are denominated in currencies other than the U.S. Dollar. Over 95 percent of these net costs are in Euros, Great Britain Pounds Sterling and Canadian Dollars. Periodically, we enter into forward contracts to exchange U.S. Dollars for Euros, Great Britain Pounds Sterling, Canadian Dollars, and Polish Zlotys to hedge a portion of our exposure. When the U.S. Dollar weakens, our unhedged net costs rise in U.S. Dollar terms and our average hedge rates also rise over time. The forward contracts described above are used to mitigate the potential volatility of earnings and cash flow arising from changes in currency exchange rates that impact our non-U.S. Dollar sales and expenses. The forward contracts are being accounted for as cash flow hedges. The forward contracts are recorded on our Unaudited Condensed Consolidated Balance Sheet at fair value with the net change in fair value reflected in Accumulated Other Comprehensive Income/(Loss), net of deferred taxes. The notional value of the forward contracts at June 30, 2005 was \$749.2 million. The fair value of the forward contracts at June 30, 2005 was an asset of \$38.1 million, of which \$37.9

million was recorded in Prepaid Expenses and Other Assets and \$6.3 million is recorded in Other Assets, offset by \$6.1 million recorded in Accrued Expenses.

The total fair value of the forward contracts of \$38.1 million (before deferred taxes of \$13.3 million) is recorded in Accumulated Other Comprehensive Income/(Loss) and will be reflected in income as the individual contracts mature, which will offset the earnings effect of the hedged item. As of June 30, 2005, the portion of the \$38.1 million fair value that would be reclassified into earnings as an increase in sales to offset the effect of the hedged item in the next 12 months is a gain of \$37.9 million.

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In March 2005, we called for the redemption of \$100 million in aggregate principal amount of our 6.45 percent notes due in 2007 and entered into a \$100 million reverse treasury lock to offset changes in the redemption price to movements in treasury rates prior to the redemption date. In accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133), at March 31, 2005, the reverse treasury lock was accounted for as a cash flow hedge and was recorded in our Unaudited Condensed Consolidated Balance Sheet at fair value with the offset reflected in Accumulated Other Comprehensive Income/(Loss), net of deferred taxes. The fair value of the reverse treasury lock at March 31, 2005 was an asset of \$0.2 million, which was recorded in Prepaid Expenses and Other Assets. The reverse treasury lock matured on April 21, 2005 and we recorded a \$0.7 million gain in Other Income (Expense) Net and eliminated the asset accrued at March 31, 2005. See Liquidity and Capital Resources-Long-Term Financing.

Fair Value Hedges

In July 2003, we entered into a \$100 million fixed-to-floating interest rate swap on the 6.45 percent notes due in 2007. In April 2005, we terminated \$17.9 million of this interest rate swap so that the outstanding notional amount of the swap would match the outstanding principal amount of the 6.45 percent notes due in 2007. We paid \$0.4 million in cash to terminate this portion of the swap and recorded the amount as an expense in Other Income (Expense) Net. See Liquidity and Capital Resources-Long-Term Financing.

In October 2003, we entered into two \$50 million fixed-to-floating interest rate swaps. One \$50 million swap is on our 7.5 percent notes due in 2008 and the other \$50 million swap is on our 6.45 percent notes due in 2008. In December 2003, we entered into another \$50 million fixed-to-floating interest rate swap on our 7.5 percent notes due in 2008.

The purpose of entering into these swaps was to increase our exposure to variable interest rates. The settlement and maturity dates on each swap are the same as those on the referenced notes. In accordance with SFAS 133, the interest rate swaps are being accounted for as fair value hedges and the carrying value of the notes has been adjusted to reflect the fair values of the interest rate swaps. The fair value of the interest rate swaps was a liability (loss) of \$3.3 million at June 30, 2005.

Other Forward Contracts

As a supplement to our foreign exchange cash flow hedging program, in January 2004 we began to enter into forward contracts to manage our foreign currency risk related to the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency. These forward contracts mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. The gains or losses on these forward contracts are being recorded in earnings when realized in order to mitigate the earnings impact of the translation of net monetary assets. Under this program, as of June 30, 2005, we had forward contracts with a notional value of \$87.3 million to buy Great Britain Pounds Sterling, forward contracts with a net notional value of \$19.8 million to buy Euros, forward contracts with a notional value of \$22.7 million to sell Canadian Dollars and forward contracts with a notional value of \$6.2 million to buy Singapore Dollars.

CASH FLOW

The following table summarizes our cash flow activity for the six months ended June 30, 2005 and 2004.

Net Cash Provided by (Used by):	Six Months Ended June 30,	
	2005	2004
	(Dollars in millions)	
Operating activities	\$ 107.4	\$ 126.8
Investing activities	\$ (70.4)	\$ (51.6)
Financing activities	\$ (106.7)	\$ (100.9)
Discontinued operations	\$ 27.2	\$ 3.0

Table of Contents**Operating Activities**

Net cash provided by operating activities decreased \$19.4 million from \$126.8 million during the six months ended June 30, 2004 to \$107.4 million during the six months ended June 30, 2005. The decrease in net cash from operations was primarily due to higher working capital requirements to support the increase in sales and production rates for large commercial aircraft, offset partially by higher income. Net cash provided by operating activities in the six months ended June 30, 2005 also included an increase in the accounts receivable sold under our securitization program of \$28.8 million and worldwide pension contributions of \$6.9 million. Net cash provided by operating activities in the six months ended June 30, 2004 included cash received from the termination of certain life insurance policies of \$23.4 million and prepayment of a receivable from Northrop Grumman of \$10 million, offset in part by the acquisition of certain aftermarket rights of \$15 million and worldwide pension contributions of \$41.2 million. On July 5, 2005, we contributed \$30 million to our U.S. pension plan.

Investing Activities

Net cash used by investing activities was \$70.4 million in the six months ended June 30, 2005 and \$51.6 million in the six months ended June 30, 2004. Net cash used by investing activities for the six months ended June 30, 2005 included capital expenditures of \$66.4 million and an acquisition of the minority interest in one of our businesses of \$8.8 million. Net cash used by investing activities in the six months ended June 30, 2004 included capital expenditures of \$51.3 million.

Financing Activities

Net cash used by financing activities was \$106.7 million in the six months ended June 30, 2005, compared to \$100.9 million for the six months ended June 30, 2004. During the six months ended June 30, 2005, we redeemed \$100 million of our 6.45 percent notes due in 2007 for approximately \$106 million. Also during the six months ended June 30, 2005, we issued common stock of \$51.3 million, primarily from the exercise of stock options, and paid dividends to shareholders of \$47.9 million. During the six months ended June 30, 2004, we repaid the balance of the QUIPS of \$63.5 million and paid dividends to shareholders of \$47.2 million. We also issued common stock, primarily from the exercise of stock options, of \$18.3 million in the six months ended June 30, 2004.

On July 28, 2005, we called for the redemption of all of our outstanding 6.45 percent notes due in 2007 in the aggregate principal amount of \$82.1 million. The redemption date for the notes is August 30, 2005.

Discontinued Operations

Net cash provided by discontinued operations was \$27.2 million in the six months ended June 30, 2005 and \$3 million in the six months ended June 30, 2004. After tax proceeds of approximately \$28 million from the sale of Test Systems were included in the net cash provided by discontinued operations in the six months ended June 30, 2005.

CONTINGENCIES**General**

There are pending or threatened against us or our subsidiaries various claims, lawsuits and administrative proceedings, arising from the ordinary course of business with respect to commercial, product liability, asbestos and environmental matters, which seek remedies or damages. We believe that any liability that may finally be determined with respect to commercial and non-asbestos product liability claims should not have a material effect on our consolidated financial position, results of operations or cash flows. From time to time, we are also involved in legal proceedings as a plaintiff involving tax, contract, patent protection, environmental and other matters. Gain contingencies, if any, are recognized when they are realized. Legal costs are generally expensed when incurred.

Environmental

We are subject to various domestic and international environmental laws and regulations which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which we have been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. We are currently involved in the investigation and remediation of a number of sites under these laws.

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The measurement of environmental liabilities by us is based on currently available facts, present laws and regulations and current technology. Such estimates take into consideration our prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities and the professional judgment of our environmental specialists in consultation with outside environmental specialists, when necessary. Estimates of our environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

Accordingly, as investigation and remediation of these sites proceed, it is likely that adjustments in our accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on our results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, we do not believe that future environmental costs in excess of those accrued with respect to sites for which we have been identified as a potentially responsible party are likely to have a material adverse effect on our financial condition. There can be no assurance, however, that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on our results of operations or cash flows in a given period.

Environmental liabilities are recorded when our liability is probable and the costs are reasonably estimable, which generally is not later than at completion of a feasibility study or when we have recommended a remedy or have committed to an appropriate plan of action. The liabilities are reviewed periodically and, as investigation and remediation proceed, adjustments are made as necessary. Liabilities for losses from environmental remediation obligations do not consider the effects of inflation and anticipated expenditures are not discounted to their present value. The liabilities are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

Our Unaudited Condensed Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of \$85.7 million and \$88.5 million at June 30, 2005 and December 31, 2004, respectively. At June 30, 2005 and December 31, 2004, \$14.9 million and \$16.2 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as Accrued Expenses. At June 30, 2005 and December 31, 2004, \$30.6 million was associated with ongoing operations and \$55.1 million and \$58.9 million, respectively, was associated with businesses previously disposed of or discontinued.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. We expect that we will expend present accruals over many years, and will complete remediation in less than 30 years on all sites for which we have been identified as a potentially responsible party. This period includes operation and monitoring costs that are generally incurred over 15 to 25 years.

Asbestos

We and a number of our subsidiaries have been named as defendants in various actions by plaintiffs alleging injury or death as a result of exposure to asbestos fibers in products, or which may have been present in our facilities. A number of these cases involve maritime claims, which have been and are expected to continue to be administratively dismissed by the court. These actions primarily relate to previously owned businesses. We believe that pending and reasonably anticipated future actions, net of anticipated insurance recoveries, are not likely to have a material adverse effect on our financial condition, results of operations or cash flows. There can be no assurance, however, that future legislative or other developments will not have a material adverse effect on our results of operations in a given period. We believe that we have substantial insurance coverage available to us related to any remaining claims. However, the primary layer of insurance coverage for some of these claims is provided by the Kemper Insurance Companies. Kemper has indicated that, due to capital constraints and downgrades from various rating agencies, it has ceased underwriting new business and now focuses on administering policy commitments from prior years. Kemper has also

indicated that it is currently operating under a run-off plan approved by the Illinois Department of Insurance. We cannot predict the impact of Kemper's financial position on the availability of the Kemper insurance.

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Table of Contents**Liabilities of Divested Businesses*****Asbestos***

In May 2002, we completed the tax free spin-off of our Engineered Products (EIP) segment, which at the time of the spin-off included EnPro Industries, Inc. (EnPro) and Coltec Industries Inc (Coltec). At that time, two subsidiaries of Coltec were defendants in a significant number of personal injury claims relating to alleged asbestos-containing products sold by those subsidiaries. It is possible that asbestos-related claims might be asserted against us on the theory that we have some responsibility for the asbestos-related liabilities of EnPro, Coltec or its subsidiaries, even though the activities that led to those claims occurred prior to our ownership of any of those subsidiaries. Also, it is possible that a claim might be asserted against us that Coltec's dividend of its aerospace business to us prior to the spin-off was made at a time when Coltec was insolvent or caused Coltec to become insolvent. Such a claim could seek recovery from us on behalf of Coltec of the fair market value of the dividend.

A limited number of asbestos-related claims have been asserted against us as successor to Coltec or one of its subsidiaries. We believe that we have substantial legal defenses against these claims, as well as against any other claims that may be asserted against us on the theories described above. In addition, the agreement between EnPro and us that was used to effectuate the spin-off provides us with an indemnification from EnPro covering, among other things, these liabilities. The success of any such asbestos-related claims would likely require, as a practical matter, that Coltec's subsidiaries were unable to satisfy their asbestos-related liabilities and that Coltec was found to be responsible for these liabilities and was unable to meet its financial obligations. We believe any such claims would be without merit and that Coltec was solvent both before and after the dividend of its aerospace business to us. If we are ultimately found to be responsible for the asbestos-related liabilities of Coltec's subsidiaries, we believe it would not have a material adverse effect on our financial condition, but could have a material adverse effect on the results of operations and cash flows in a particular period. However, because of the uncertainty as to the number, timing and payments related to future asbestos-related claims, there can be no assurance that any such claims will not have a material adverse effect on our financial condition, results of operations and cash flows. If a claim related to the dividend of Coltec's aerospace business were successful, it could have a material adverse impact on our financial condition, results of operations and cash flows.

Other

In connection with the divestiture of our tire, vinyl and other businesses, we have received contractual rights of indemnification from third parties for environmental and other claims arising out of the divested businesses. Failure of these third parties to honor their indemnification obligations could have a material adverse effect on our financial condition, results of operations and cash flows.

Guarantees

We have guaranteed amounts owed by Coltec Capital Trust with respect to the \$145 million of outstanding TIDES and have guaranteed Coltec's performance of its obligations with respect to the TIDES and the underlying Coltec convertible subordinated debentures. Following the spin-off of the EIP segment, the TIDES remained outstanding as an obligation of Coltec Capital Trust and our guarantee with respect to the TIDES remains an obligation of ours. EnPro, Coltec and Coltec Capital Trust have agreed to indemnify us for any costs and liabilities arising under or related to the TIDES after the spin-off.

In addition to our guarantee of the TIDES, at June 30, 2005, we had an outstanding contingent liability for guarantees of debt and lease payments of \$2.6 million, letters of credit and bank guarantees of \$52.7 million and residual value of leases of \$51.2 million.

Commercial Airline Customers

Several of our commercial airline customers are experiencing financial difficulties. We perform ongoing credit evaluations on the financial condition of all of our customers and maintain reserves for uncollectible accounts receivable based upon expected collectibility. Although we believe our reserves are adequate, we are not able to predict the future financial stability of these customers. Any material change in the financial status of any one or group of customers could have a material adverse effect on our financial condition, results of operations or cash flows. The extent to which extended payment terms are granted to customers may negatively affect future cash flow.

Table of Contents**Tax**

In 2000, Coltec, our former subsidiary, made a \$113.7 million payment to the Internal Revenue Service (IRS) for an income tax assessment and the related accrued interest arising out of certain capital loss deductions and tax credits taken in 1996. On February 13, 2001, Coltec filed suit against the U.S. Government in the U.S. Court of Federal Claims seeking a refund of this payment. The trial portion of the case was completed in May 2004. On November 2, 2004, we were notified that the trial court ruled in favor of Coltec and ordered the Government to refund federal tax payments of \$82.8 million to Coltec. This tax refund would also bear interest to the date of payment. As of June 30, 2005, the interest amount was approximately \$48.9 million before tax, or \$31.8 million after tax. The U.S. Court of Federal Claims entered a final judgment in this case on February 15, 2005. During July 2005, the Government filed its brief related to its appeal of the decision with the United States Court of Appeals for the Federal Circuit. If the trial court's decision is ultimately upheld, we will be entitled to this tax refund and related interest pursuant to an agreement with Coltec. If we receive these amounts, we expect to record net income of approximately \$147 million, based on interest through June 30, 2005, and including the release of previously established reserves. If the IRS were to ultimately prevail in this case, Coltec will not owe any additional interest or taxes with respect to 1996. We may, however, be required by the IRS to pay up to \$32.7 million plus accrued interest with respect to the same items claimed by Coltec in its tax returns for 1997 through 2000. The amount of the previously estimated tax liability if the IRS were to prevail for the 1997 through 2000 period remains fully reserved.

In 2000, the IRS issued a statutory notice of deficiency asserting that Rohr, Inc. (Rohr), our subsidiary, was liable for \$85.3 million of additional income taxes for the fiscal years ended July 31, 1986 through 1989. In 2003, the IRS issued an additional statutory notice of deficiency asserting that Rohr was liable for \$23 million of additional income taxes for the fiscal years ended July 31, 1990 through 1993. The proposed assessments relate primarily to the timing of certain tax deductions and tax credits. Rohr has filed petitions in the U.S. Tax Court opposing the proposed assessments. At the time of settlement or final determination by the court, there will be a net cash cost to us due at least in part to the reversal of a timing item. We believe that our total net cash cost is unlikely to exceed \$100 million. We are reserved for the estimated liability associated with these cases and as a result, we do not expect a charge to earnings to result from the resolution of these matters. We are in advanced stages of discussion with the IRS to settle the Rohr case and to resolve the open issues in the audit periods identified below and anticipate a settlement in late 2005 or early 2006.

We are continuously undergoing examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by us on our income tax returns. In accordance with SFAS 109, Accounting for Income Taxes, and SFAS 5, Accounting for Contingencies, we establish reserves for tax contingencies that reflect our best estimate of the deductions and credits that we may be unable to sustain, or that we could be willing to concede as part of a broader tax settlement. As of June 30, 2005, we had recorded tax contingency reserves of approximately \$325.3 million.

The current IRS examination audit cycle began in March 2002 and relates to the following consolidated income tax groups for the following years:

Rohr, Inc. and Subsidiaries	July, 1995 – December, 1997 (through date of acquisition)
Coltec Industries Inc and Subsidiaries	December, 1997 – July, 1999 (through date of acquisition)
Goodrich Corporation and Subsidiaries	1998-1999 (including Rohr and Coltec)

There are numerous tax issues that have been raised during the examination by the IRS, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, tax accounting for stock options, depreciation and amortization and the proper timing for certain other deductions for income tax purposes.

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Rohr has been under examination by the State of California for the tax years ending July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr's subsidiaries in connection with the lease of certain tangible property. California's Franchise Tax Board has held that the deductions associated with the leased equipment were non-business deductions. Rohr made a voluntary payment during the quarter ended March 31, 2005 of approximately \$3.9 million related to items that were not being contested, consisting of approximately \$0.6 million related to tax and approximately \$3.3 million related to interest on the tax. The remaining tax assessment of approximately \$4.6 million continues to be contested by Rohr. The State of California enacted an amnesty provision that imposes a nondeductible penalty interest equal to 50 percent of the unpaid interest relating to taxable years ended before 2003. Therefore, the amount of interest on the remaining tax assessment is approximately \$27.8 million (including penalty interest of approximately \$9.3 million). We believe that we are adequately reserved for this contingency. Under California law, Rohr will be required to pay the full amount of tax and interest prior to filing any suit for refund. Rohr expects to make this payment and file suit for a refund in late 2005 or early 2006.

NEW ACCOUNTING STANDARDS**Accounting Changes and Error Corrections**

During May 2005, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 154, Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3 (SFAS 154). Under APB Opinion No. 20, most voluntary changes in accounting principle were recognized by including the cumulative effect of changing to the new accounting principle in net income in the period of change. SFAS 154 will require retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine the period-specific effects or the cumulative effect of the change. SFAS 154 will apply to all accounting changes made after adoption of the statement, which is required by the fiscal year beginning after December 15, 2005. We plan to adopt SFAS 154 no later than January 1, 2006. We do not expect the adoption of SFAS 154 to have a material impact on our financial condition, results of operations or cash flows.

Inventory Costs

The FASB recently issued Statement of Financial Accounting Standards No. 151, Inventory Costs (SFAS 151), an amendment of ARB No. 43, Chapter 4. Adoption of SFAS 151 is required by the year beginning January 1, 2006. We plan to adopt SFAS 151 no later than that date. The amendments made by SFAS 151 clarify that abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. While SFAS 151 enhances ARB 43 and clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage), the statement also removes inconsistencies between ARB 43 and International Accounting Standards (IAS) 2 and amends ARB 43 to clarify that abnormal amounts of costs should be recognized as period costs. Under some circumstances, according to ARB 43, the above listed costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires these items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal" and requires allocation of fixed production overheads to the costs of conversion. This statement will apply to our businesses if they become subject to "abnormal costs" as defined in SFAS 151. We are currently evaluating the impact, if any, that adoption of SFAS 151 will have on our consolidated financial statements.

Share-Based Payment

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation. SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows. Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. We adopted the SFAS 123 fair-value-based method of accounting for share-based payments effective January 1, 2004 using the "modified prospective method" described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. SFAS 123(R) requires that we use the valuation technique that best fits the circumstances. We currently use the Black-Scholes formula to estimate the fair value of stock options granted to employees, and are evaluating

other valuation techniques. SFAS 123(R) requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow, which is our current practice. As a result, the adoption of SFAS 123(R) will thus, reduce net operating cash flows and increase net financing cash flows in the periods after the effective date. SFAS 123(R) also requires that we estimate the number of awards that are expected to vest and to revise the estimate as the actual forfeitures differ from the estimate. Our current policy is to recognize forfeitures as they occur. The effect of these items and other changes required by SFAS 123(R) is currently being evaluated. On April 14, 2005, the SEC announced that registrants that are not small business issuers

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must adopt SFAS 123(R) no later than the beginning of the first fiscal year beginning after June 15, 2005. We will adopt SFAS 123(R) on January 1, 2006.

In accordance with SFAS 123(R), the explicit service period for employees that become eligible to retire is considered to be nonsubstantive, which would require compensation cost to be recognized over the period through the date that the employee first becomes eligible to retire and is no longer required to provide service to earn the award. Our current policy is to recognize compensation cost over the explicit service period (i.e., up to the date of actual retirement) as opposed to through the date the employee first becomes eligible to retire. Upon adoption of SFAS 123(R), we will be required to change our policy and to recognize compensation expense for awards granted subsequent to January 1, 2006 over a period ending with the date the employee first becomes eligible for retirement. If we had previously applied the nonsubstantive vesting provisions of SFAS 123(R) when we adopted SFAS 123 on January 1, 2004, recognized compensation cost would have decreased by approximately \$1 million for the quarters ended June 30, 2005 and 2004 and increased by approximately \$7 million and \$6 million for the six months ended June 30, 2005 and 2004, respectively.

On March 29, 2005, the SEC issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). SAB 107 provides interpretive guidance related to the interaction between SFAS 123(R) and certain SEC rules and regulations and provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. SAB 107 also requires disclosures within filings made with the SEC relating to the accounting for share-based payment transactions, particularly during the transition to SFAS 123(R). We will incorporate the SAB 107 guidance in conjunction with our adoption of SFAS 123(R) on January 1, 2006.

Accounting for Conditional Asset Retirement Obligations

During March 2005, the FASB issued FASB Interpretation No. 47, *Accounting for Conditional Asset Retirement Obligations* (FIN 47), which is an interpretation of Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations* (SFAS 143). The Interpretation clarifies that the term *conditional asset retirement obligation* refers to the legal obligation to perform an asset retirement activity in which the timing or method of settlement is conditional on a future event that may or may not be within the control of the entity. Adoption of FIN 47 is required by the fiscal year ending after December 15, 2005. We plan to adopt FIN 47 no later than December 31, 2005. We do not expect the adoption of FIN 47 to have a material impact on our financial condition, results of operations or cash flows.

FASB Staff Position 109-1 (FSP 109-1) and 109-2 (FSP 109-2)

On December 21, 2004, the FASB issued FASB Staff Position 109-1 (FSP 109-1) and 109-2 (FSP 109-2). FSP 109-1 provides guidance on the application of SFAS 109, *Accounting for Income Taxes*, with regard to the tax deduction on qualified production activities provision within H.R. 4520, The American Jobs Creation Act of 2004 (Act) that was enacted on October 22, 2004. FSP 109-2 provides guidance on a special one-time dividends received deduction on the repatriation of certain foreign earnings to qualifying U.S. taxpayers. The Act contains numerous provisions related to corporate domestic and international taxation, including repeal of the Extraterritorial Income (ETI) deduction, creation of a new Domestic Production Activities (DPA) deduction and temporary dividends received deduction related to repatriation of foreign earnings. The Act contains various effective dates and transition periods related to its provisions. Under the guidance provided in FSP 109-1 the new DPA deduction will be treated as a special deduction as described in SFAS 109. As such, the special deduction had no effect on our deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our income tax return. We do not expect the net effect of the phase-out of the ETI deduction and phase-in of the new DPA deduction to result in a material impact on our effective income tax rate in 2005. In FSP 109-2, the FASB acknowledged that, due to the proximity of the Act's enactment date to many companies' year-ends and the fact that numerous provisions within the Act are complex and pending further regulatory guidance, many companies may not be in a position to assess the impact of the Act on their plans for repatriation or reinvestment of foreign earnings. Therefore, the FSP provided companies with a practical exception to the permanent reinvestment standards of SFAS 109 and APB No. 23 by providing additional time to determine the amount of earnings, if any, that they intend to repatriate under the Act's provisions. Although the deduction is subject to a number of limitations and, as of today, significant uncertainty remains regarding the interpretation of many of the Act's provisions, we believe

that we have the information necessary to make an informed decision on the impact of the Act on our repatriation plans. Based on that decision, we plan to repatriate approximately \$100 million in extraordinary dividends, as defined in the Act, during 2005 and accordingly have recorded a tax liability of approximately \$5.3 million as of June 30, 2005. In accordance with SFAS 109 and APB 23, we have not provided U.S. deferred income taxes or foreign withholding tax on basis differences in our non-U.S. subsidiaries of \$265.6 that result primarily from the remaining undistributed earnings we intend to reinvest indefinitely. Determination of the liability on these basis differences is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Table of Contents**CRITICAL ACCOUNTING POLICIES**

Our discussion and analysis of our financial condition and results of operations is based upon our Unaudited Condensed Consolidated Financial Statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our estimates, including those related to customer programs and incentives, product returns, bad debts, inventories, investments, intangible assets, income taxes, financing obligations, warranty obligations, excess component order cancellation costs, restructuring, long-term service contracts, pensions and other postretirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our Unaudited Condensed Consolidated Financial Statements.

Revenue Recognition

For revenues not recognized under the contract method of accounting, we recognize revenues from the sale of products at the point of passage of title, which typically is at the time of shipment. Revenues earned from providing maintenance service are recognized when the service is complete.

Contract Accounting-Percentage of Completion***Revenue Recognition***

Included in contract costs, or estimated revenues, are the expected impact of specific contingencies that we believe are probable. In the event that actual experience differs from estimates or facts and circumstances change, estimated costs or revenues will be revised.

We have sales under long-term, fixed-priced contracts, many of which contain escalation clauses, requiring delivery of products over several years and frequently providing the buyer with option pricing on follow-on orders. Sales and profits on each contract are recognized in accordance with the percentage-of-completion method of accounting, primarily using the units-of-delivery method. We follow the guidelines of Statement of Position 81-1 (SOP 81-1),

Accounting for Performance of Construction-Type and Certain Production-Type Contracts (the contract method of accounting), using the cumulative catch-up method in accounting for revisions in estimates. Under the cumulative catch-up method, the impact of revisions in estimates related to units shipped to date is recognized immediately when changes in estimated contract profitability are known.

Profit is estimated based on the difference between total estimated revenue and total estimated cost of a contract. Changes in estimated total revenue and estimated total cost are recognized as business or economic conditions change and the impact on contract profitability is recorded immediately in that period using the cumulative catch-up method. Cost includes the estimated cost of the preproduction effort, primarily tooling and design, plus the estimated cost of manufacturing a specified number of production units. The specified number of production units used to establish the profit margin is predicated upon contractual terms adjusted for market forecasts and does not exceed the lesser of those quantities assumed in original contract pricing as adjusted to the date of certification, or those quantities which we now expect to deliver in the timeframe/period assumed in the original contract pricing or at the date of certification. Our policies only allow the estimated number of production units to be delivered to exceed the quantity assumed within the original contract pricing or at date of certification when we receive firm orders for additional units or we are required to begin manufacturing of units under contractual production lead time. The assumed timeframe/period is generally equal to the period specified in the contract. If the contract is a life of program contract, then such period is equal to the time period used in the original pricing model adjusted, if appropriate, to the expected period of production estimated at the date of certification. Option quantities are combined with prior orders when follow-on orders are released.

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The contract method of accounting involves the use of various estimating techniques to project costs at completion and includes estimates of recoveries asserted against the customer for changes in specifications. These estimates involve various assumptions and projections relative to the outcome of future events, including the quantity and timing of product deliveries. Also included are assumptions relative to future labor performance and rates, and projections relative to material and overhead costs. These assumptions involve various levels of expected performance improvements. We re-evaluate our contract estimates periodically and reflect changes in estimates immediately under the cumulative catch-up method for the impact on shipments to date.

Included in sales are amounts arising from contract terms that provide for invoicing a portion of the contract price at a date after delivery. Also included are negotiated values for units delivered and anticipated price adjustments for contract changes, claims, escalation and estimated earnings in excess of billing provisions, resulting from the percentage-of-completion method of accounting. Certain contract costs are estimated based on the learning curve concept discussed below.

Inventory

Inventoried costs on long-term contracts include certain preproduction costs, consisting primarily of tooling and design costs and production costs, including applicable overhead. The costs attributed to units delivered under long-term commercial contracts are based on the estimated average cost of all units expected to be produced and are determined under the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition. This usually results in an increase in inventory (referred to as excess-over-average) during the early years of a contract.

If in-process inventory plus estimated costs to complete a specific contract exceeds the anticipated remaining sales value of such contract, such excess is charged to current earnings, thus reducing inventory to estimated realizable value.

Income Taxes

In accordance with SFAS 109, APB Opinion No. 28, and FIN No. 18, as of each reporting period, we estimate an effective income tax rate that is expected to be applicable for the full fiscal year. The estimate of our effective income tax rate involves significant judgments regarding the application of complex tax regulations across many jurisdictions and estimates as to the amount and jurisdictional source of income expected to be earned during the full fiscal year. Further influencing this estimate are evolving interpretations of new and existing tax laws, rulings by taxing authorities and court decisions. Due to the subjectivity and complex nature of these underlying issues, our actual effective tax rate and related tax liabilities may differ from our initial estimates. Differences between our estimated and actual effective income tax rates and related liabilities are recorded in the period they become known. The resulting adjustment to our income tax expense could have a material effect on our results of operations in the period the adjustment is recorded.

In accordance with SFAS 5, we record tax contingencies when the exposure item becomes probable and the amount is reasonably estimable. As of June 30, 2005 and December 31, 2004, we had recorded tax contingency reserves of approximately \$325.3 million and \$315.8 million, respectively.

In accordance with SFAS 109, deferred tax assets and liabilities are recorded for tax carry forwards and the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes are measured using enacted tax laws and rates. A valuation allowance is provided on deferred tax assets if it is determined that it is more likely than not that the asset will not be realized.

Identifiable Intangible Assets

Identifiable intangible assets are recorded at cost, or when acquired as part of a business combination, at estimated fair value. These assets include patents and other technology agreements, sourcing contracts, trademarks, licenses, customer relationships and non-compete agreements. Intangible assets are generally amortized using the straight-line method over estimated useful lives of 5 to 25 years for all acquisitions completed on or prior to June 30, 2001. For acquisitions completed subsequent to June 30, 2001, identifiable intangible assets are amortized over their useful life using undiscounted cash flows, a method that reflects the pattern in which the economic benefits of the intangible assets are consumed.

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Impairments of identifiable intangible assets are recognized when events or changes in circumstances indicate that the carrying amount of the asset, or related groups of assets, may not be recoverable and our estimate of undiscounted cash flows over the assets' remaining useful lives is less than the carrying value of the assets. The determination of undiscounted cash flow is based on our segments' plans. The revenue growth is based upon aircraft build projections from aircraft manufacturers and widely available external publications. The profit margin assumption is based upon the current cost structure and anticipated cost reductions. Measurement of the amount of impairment may be based upon an appraisal, market values of similar assets or estimated discounted future cash flows resulting from the use and ultimate disposition of the asset.

Sales Incentives

We offer sales incentives to certain airline customers in connection with sales contracts. These incentives may consist of up-front cash payments, merchandise credits and/or free products. The cost of these incentives is recognized in the period incurred unless recovery of these costs is specifically guaranteed by the customer in the contract. If the contract contains such a guarantee, then the cost of the sales incentive is capitalized as Other Assets and amortized as Cost of Sales over the contract period. At June 30, 2005 and December 31, 2004, the carrying amount of sales incentives were \$68.3 million and \$56.5 million, respectively.

Entry Fees-Investment in Risk and Revenue Sharing Programs

Certain businesses in our Engine Systems Segment make cash payments, referred to as entry fees, to an original equipment manufacturer (OEM) under long-term contractual arrangements related to new engine programs. In return, we receive a controlled access supply contract and a percentage of program revenue generated by the OEM as part of these arrangements. The program revenue generated by the OEM may result from the sale of components produced by us or other program participants by selling OE or aftermarket products (spares).

At the time of payment, the aircraft manufacturer has launched a new aircraft platform, critical suppliers have been selected and we have deemed our product to be technologically feasible. Although our product is technologically feasible, we do not have access to information on the technological feasibility of the products of the OEM's other critical suppliers. However, we are not aware of any program for which we have entered into a contract that has been cancelled prior to engine delivery due to the lack of technological feasibility of the engine.

In our agreement with the OEM, there are no restrictions on the use of the entry fees by the OEM; however, in the OEM's annual report, it states that entry fees have enabled it to build a broad portfolio of engines, thereby reducing its exposure to individual product risk. The OEM also states that the primary financial benefit of entry fees to it is a reduction of its own funding of research and development on new programs.

We account for entry fees similar to an investment in future cash flows. We begin to receive cash payments from the OEM, at the latest, after aircraft certification, which typically occurs approximately four years after payment of the entry fee. However, if the OEM's customers place orders with the OEM prior to that time, which frequently occurs, we will receive a percentage of any related deposits. Activities during the four-year period following our initial payment of entry fees include continued refinement of the engine systems, certification of the engine systems, flight certification of the engine, flight certification of the aircraft and entry into service of the aircraft.

As with any investment, there are risks inherent in recovering the value of entry fees. Such risks are consistent with the risks associated in acquiring a revenue-producing asset in which market conditions may change or the risks that arise when a manufacturer of a product on which a royalty is based has business difficulties and cannot produce the product. Such risks include but are not limited to the following:

Changes in market conditions that may affect product sales under the program, including market acceptance and competition from others;

Performance of subcontract suppliers and other production risks;

Bankruptcy or other less significant financial difficulties of other program participants, including the aircraft manufacturer, the OEM and other program suppliers or the aircraft customer; and

Availability of specialized raw materials in the marketplace.

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Entry fees are recorded as Other Assets and are amortized on a straight-line basis to Cost of Sales over the program's estimated useful life following aircraft certification, which typically approximates 20 years. The net carrying amount of entry fees was \$110.6 million and \$111.3 million at June 30, 2005 and December 31, 2004, respectively. The carrying amount of entry fees is evaluated for impairment at least annually or when other indicators of impairment exist. Impairment is assessed based on the expected undiscounted cash flow from the program over the remaining program life as compared to the recorded amount of entry fees. If impairment exists, a charge would be recorded for the amount by which the carrying amount of the entry fee exceeds its fair value. No such impairment charges were recorded in the six months ended June 30, 2005 and 2004.

Pension and Postretirement Benefits Other Than Pensions

Assumptions used in determining the benefit obligations and the annual expense for our pension and postretirement benefits other than pensions are evaluated by us in consultation with an outside actuary. Changes in assumptions such as the rate of compensation increase and the long-term rate of return on plan assets are based upon our historical and benchmark data. Health care cost projections are evaluated annually. The discount rate is evaluated at the end of the year using the appropriate index (e.g., Moody's Aa long-term high quality bond rate for the U.S. Plans and iBoxx AA long-term high quality bond rate for the U.K. plans). The appropriate assumptions are used for the applicable country.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

Certain statements made in this document are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding our future plans, objectives and expected performance. Specifically, statements that are not historical facts, including statements accompanied by words such as believe, expect, anticipate, intend, should, estimate, or plan, are intended to identify forward-looking statements and convey the uncertainty of future events or outcomes. We caution readers that any such forward-looking statements are based on assumptions that we believe are reasonable, but are subject to a wide range of risks, and actual results may differ materially. Important factors that could cause actual results to differ include, but are not limited to:

demand for and market acceptance of new and existing products, such as the Airbus A350 and A380, the Boeing 787 Dreamliner, the EMBRAER 190, and the Lockheed Martin F-35 Joint Strike Fighter and F-22 Raptor;

our ability to extend our contracts with Boeing relating to the 787 Dreamliner beyond the initial contract period;

potential cancellation of orders by customers;

successful development of products and advanced technologies;

the health of the commercial aerospace industry, including the impact of bankruptcies in the airline industry;

global demand for aircraft spare parts and aftermarket services;

the actual amount of future liabilities assumed by us pursuant to the partial settlement with Northrop Grumman related to the purchase of Aeronautical Systems;

the possibility of additional contractual disputes with Northrop Grumman related to the purchase of Aeronautical Systems;

the resolution of tax litigation involving Coltec Industries Inc and Rohr, Inc.;

the possibility of restructuring and consolidation actions beyond those previously announced by us;

threats and events associated with and efforts to combat terrorism, including the current situation in Iraq;

the extent to which expenses relating to employee and retiree medical and pension benefits continue to rise;

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competitive product and pricing pressures;

our ability to recover from third parties under contractual rights of indemnification for environmental and other claims arising out of the divestiture of our tire, vinyl and other businesses;

possible assertion of claims against us on the theory that we, as the former corporate parent of Coltec Industr