GOODRICH CORP
Form 10-Q
July 23, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**
**Form 10-Q**

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

**For the quarterly period ended June 30, 2009**

**OR**

o **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** | **34-0252680** |
| *(State of Incorporation)* | *(I.R.S. Employer Identification No.)* |
| **Four Coliseum Centre**<br>**2730 West Tyvola Road**<br>**Charlotte, North Carolina** | **28217** |
| *(Address of Principal Executive Offices)* | *(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| | | | |
|---|---|---|---|
| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

At June 30, 2009, there were 123,982,974 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, 2009, and the related condensed consolidated statement of income for the three- and six- month periods ended June 30, 2009 and 2008, and the condensed consolidated statement of cash flows for the six-month period ended June 30, 2009 and 2008. 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 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, 2008, 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 16, 2009, 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, 2008, 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
July 23, 2009

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## CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions, except per share amounts) | | | |
| **Sales** | $ 1,699.7 | $ 1,849.3 | $ 3,395.6 | $ 3,594.3 |
| Operating costs and expenses: | | | | |
| Cost of sales | 1,203.9 | 1,286.9 | 2,384.0 | 2,500.3 |
| Selling and administrative costs | 254.4 | 273.9 | 502.4 | 531.0 |
| | 1,458.3 | 1,560.8 | 2,886.4 | 3,031.3 |
| **Operating Income** | 241.4 | 288.5 | 509.2 | 563.0 |
| Interest expense | (30.7) | (27.7) | (59.5) | (58.5) |
| Interest income | 0.1 | 0.6 | 0.7 | 3.7 |
| Other income (expense) net | (6.4) | (3.0) | (10.8) | (12.8) |
| Income from continuing operations before income taxes | 204.4 | 258.4 | 439.6 | 495.4 |
| Income tax expense | (54.8) | (69.5) | (116.7) | (148.4) |
| **Income From Continuing Operations** | 149.6 | 188.9 | 322.9 | 347.0 |
| Income from discontinued operations net of income taxes | 31.2 | 3.0 | 31.7 | 7.3 |
| **Consolidated Net Income** | 180.8 | 191.9 | 354.6 | 354.3 |
| Net income attributable to noncontrolling interests | (3.7) | (5.3) | (7.7) | (9.8) |
| **Net Income Attributable to Goodrich** | $ 177.1 | $ 186.6 | $ 346.9 | $ 344.5 |
| **Amounts attributable to Goodrich:** | | | | |
| Income from continuing operations | $ 145.9 | $ 183.6 | $ 315.2 | $ 337.2 |
| Income from discontinued operations net of income taxes | 31.2 | 3.0 | 31.7 | 7.3 |
| **Net Income Attributable to Goodrich** | $ 177.1 | $ 186.6 | $ 346.9 | $ 344.5 |
| **Earnings per common share attributable to Goodrich:** | | | | |
| **Basic Earnings Per Share** | | | | |
| Continuing operations | $ 1.16 | $ 1.45 | $ 2.51 | $ 2.65 |
| Discontinued operations | 0.25 | 0.02 | 0.25 | 0.06 |
| **Net Income Attributable to Goodrich** | $ 1.41 | $ 1.47 | $ 2.76 | $ 2.71 |
| **Diluted Earnings Per Share** | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Continuing operations | $ | 1.15 | $ | 1.43 | $ | 2.49 | $ | 2.62 |
| Discontinued operations | | 0.25 | | 0.02 | | 0.25 | | 0.06 |
| **Net Income Attributable to Goodrich** | $ | 1.40 | $ | 1.45 | $ | 2.74 | $ | 2.68 |
| **Dividends Declared Per Common Share** | $ | 0.25 | $ | 0.225 | $ | 0.50 | $ | 0.45 |

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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## CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (Dollars in millions, except share amounts) | |
| **Current Assets** | | |
| Cash and cash equivalents | $ 619.4 | $ 370.3 |
| Accounts and notes receivable, less allowances for doubtful receivables ($17.7 at June 30, 2009 and $17.2 at December 31, 2008) | 1,138.7 | 1,048.9 |
| Inventories net | 2,125.7 | 1,974.7 |
| Deferred income taxes | 147.0 | 153.5 |
| Prepaid expenses and other assets | 49.9 | 47.2 |
| Income taxes receivable | 18.0 | 73.7 |
| **Total Current Assets** | 4,098.7 | 3,668.3 |
| Property, plant and equipment net | 1,389.7 | 1,391.4 |
| Prepaid pension | 0.6 | 0.6 |
| Goodwill | 1,415.9 | 1,390.2 |
| Identifiable intangible assets net | 423.5 | 402.8 |
| Deferred income taxes | 92.3 | 92.0 |
| Other assets | 606.8 | 537.6 |
| **Total Assets** | $ 8,027.5 | $ 7,482.9 |
| **Current Liabilities** | | |
| Short-term debt | $ 40.4 | $ 37.7 |
| Accounts payable | 651.2 | 646.4 |
| Accrued expenses | 896.3 | 1,005.3 |
| Income taxes payable | 74.8 | 5.6 |
| Deferred income taxes | 25.0 | 25.0 |
| Current maturities of long-term debt and capital lease obligations | 0.5 | 121.3 |
| **Total Current Liabilities** | 1,688.2 | 1,841.3 |
| Long-term debt and capital lease obligations | 1,708.2 | 1,410.4 |
| Pension obligations | 885.0 | 973.9 |
| Postretirement benefits other than pensions | 278.9 | 309.4 |
| Long-term income taxes payable | 164.2 | 172.3 |
| Deferred income taxes | 92.7 | 62.3 |
| Other non-current liabilities | 499.0 | 561.1 |
| **Shareholders Equity** | | |
| Common stock $5 par value | | |
| Authorized 200,000,000 shares; issued 144,571,258 shares at June 30, 2009 and 143,611,254 shares at December 31, 2008 (excluding 14,000,000 shares held by a wholly owned subsidiary) | 722.9 | 718.1 |
| Additional paid-in capital | 1,556.2 | 1,525.3 |

| | | |
|---|---|---|
| Income retained in the business | 1,903.3 | 1,619.2 |
| Accumulated other comprehensive income (loss) | (732.2) | (978.1) |
| Common stock held in treasury, at cost (20,588,284 shares at June 30, 2009 and 20,410,556 shares at December 31, 2008) | (800.2) | (793.2) |
| **Total Shareholders Equity** | 2,650.0 | 2,091.3 |
| Noncontrolling interests | 61.3 | 60.9 |
| **Total Equity** | 2,711.3 | 2,152.2 |
| **Total Liabilities and Equity** | $ 8,027.5 | $ 7,482.9 |

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

| | Six Months Ended June 30, 2009 | 2008 |
|---|---|---|
| | (Dollars in millions) | |
| **Operating Activities** | | |
| Consolidated net income | $ 354.6 | $ 354.3 |
| Adjustments to reconcile consolidated net income to net cash provided by operating activities: | | |
| Income from discontinued operations | (31.7) | (7.3) |
| Pension and postretirement benefits: | | |
| Expenses | 98.2 | 51.4 |
| Contributions and benefit payments | (178.9) | (35.2) |
| Depreciation and amortization | 123.6 | 127.2 |
| Excess tax benefits related to share-based payment arrangements | (0.9) | (8.1) |
| Share-based compensation expense | 31.6 | 15.7 |
| Deferred income taxes | 3.8 | (10.7) |
| Change in assets and liabilities, net of effects of acquisitions and divestitures: | | |
| Receivables | (67.7) | (175.1) |
| Inventories, net of pre-production and excess-over-average | (41.9) | (70.4) |
| Pre-production and excess-over-average inventories | (76.6) | (56.5) |
| Other current assets | 1.6 | 0.4 |
| Accounts payable | (35.2) | 105.0 |
| Accrued expenses | (104.0) | (76.9) |
| Income taxes payable/receivable | 125.9 | 122.4 |
| Other non-current assets and liabilities | (27.9) | (16.7) |
| **Net Cash Provided By Operating Activities** | 174.5 | 319.5 |
| **Investing Activities** | | |
| Purchases of property, plant and equipment | (73.2) | (116.3) |
| Proceeds from sale of property, plant and equipment | 0.9 | 2.7 |
| Payments made for acquisitions, net of cash acquired | (29.8) | (93.6) |
| Investments in and advances to equity investees | (1.0) | |
| **Net Cash Used In Investing Activities** | (103.1) | (207.2) |
| **Financing Activities** | | |
| Increase (decrease) in short-term debt, net | 2.7 | (1.6) |
| Proceeds (repayments) of long-term debt and capital lease obligations | 177.5 | (197.7) |
| Proceeds from issuance of common stock | 15.3 | 24.0 |
| Purchases of treasury stock | (7.0) | (37.4) |
| Dividends paid | (62.5) | (57.0) |
| Excess tax benefits related to share-based payment arrangements | 0.9 | 8.1 |
| Distributions to noncontrolling interests | (7.3) | (6.3) |
| **Net Cash Provided By (Used In) Financing Activities** | 119.6 | (267.9) |

| | | |
|---|---|---|
| **Discontinued Operations** | | |
| Net cash provided by (used in) operating activities | 49.6 | (2.3) |
| Net cash provided by (used in) investing activities | | 15.8 |
| Net cash provided by (used in) financing activities | | |
| **Net cash provided by discontinued operations** | 49.6 | 13.5 |
| Effect of exchange rate changes on cash and cash equivalents | 8.5 | 1.6 |
| **Net increase (decrease) in cash and cash equivalents** | 249.1 | (140.5) |
| Cash and cash equivalents at beginning of period | 370.3 | 406.0 |
| Cash and cash equivalents at end of period | $ 619.4 | $ 265.5 |

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

### Note 1. Basis of Interim Financial Statement Preparation and Use of Estimates

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 notes 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 refe 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 and six months ended June 30, 2009 are not necessarily indicative of the results that may be achieved for the twelve months ending December 31, 2009. For further information, refer to the consolidated financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The preparation of financial statements requires management to make estimates and assumptions that affect amounts recognized. Estimates and assumptions are reviewed and updated regularly as new information becomes available. During the three and six months ended June 30, 2009 and 2008, the Company changed its estimates of revenues and costs on certain long-term contracts primarily in its aerostructures and aircraft wheels and brakes businesses. The changes in estimates increased income from continuing operations before income taxes during the three months ended June 30, 2009 and 2008 by $9 million and $8.6 million, respectively ($5.6 million and $5.3 million after tax, respectively). The changes in estimates increased income from continuing operations before income taxes during the six months ended June 30, 2009 and 2008 by $13.5 million and $48.7 million, respectively ($8.5 million and $29.9 million after tax, respectively).

### Note 2. New Accounting Standards

### New Accounting Standards Adopted in 2009

***Fair Value Measurements***

The Company adopted Financial Accounting Standards Board (FASB) Staff Position No. 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delayed the effective date of Statement of Financial Accounting Standards No. 157 Fair Value Measurements (SFAS 157) for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value on a recurring basis (at least annually). This standard did not have a material impact on the Company s financial condition and results of operations. See Note 8, Fair Value Measurements .

The Company adopted FASB Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1), which requires additional disclosures about assets held in an employer s defined benefit pension or other postretirement plan. Since FSP 132(R)-1 requires only additional disclosures about the Company s pension and other postretirement plan assets, the adoption of FSP 132(R)-1 will not affect the Company s financial condition or results of operations.

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***Two-class Method of Computing Earnings Per Share***

The Company adopted FASB Staff Position No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP 03-6-1). In FSP 03-6-1, unvested share-based payment awards that contain rights to receive nonforfeitable dividends or dividend equivalents (whether paid or unpaid) are participating securities, and thus, should be included in the two-class method of computing earnings per share (EPS). This standard did not have a material impact on the Company s disclosure of EPS. See Note 7, Earnings Per Share .

***Disclosures about Derivative Instruments and Hedging Activities***

The Company adopted FASB No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires entities to provide greater transparency through additional disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 Accounting for Derivative Instruments and Hedging Activities (SFAS 133) and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, results of operations and cash flows. See Note 18, Derivatives and Hedging Activities .

***Business Combinations and Noncontrolling Interests***

The Company adopted FASB No. 160, Accounting and Reporting of Noncontrolling Interests in consolidated financial statements, an amendment of ARB No. 51 (SFAS 160). The Company changed the presentation of its noncontrolling (minority) interests in compliance with this standard. See Note 14, Noncontrolling Interests .

The Company adopted FASB No. 141(R), Business Combinations (SFAS 141(R)) which significantly changed the accounting for and reporting of business combination transactions. This standard was effective for the Company for business combination transactions for which the acquisition date was on or after January 1, 2009. See Note 10, Goodwill , for business combination transactions during the six months ended June 30, 2009.

***Subsequent Events***

In May 2009, the FASB issued SFAS No. 165, Subsequent Events (SFAS No. 165). The Company adopted SFAS No. 165 which requires an entity to recognize in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet. For nonrecognized subsequent events that must be disclosed to keep the financial statements from being misleading, an entity will be required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such an estimate cannot be made. In addition, SFAS No. 165 requires an entity to disclose the date through which subsequent events have been evaluated. The Company has evaluated subsequent events through the issuance of its condensed consolidated financial statements on July 23, 2009.

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**New Accounting Standards Not Yet Adopted**

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R) (SFAS 167). This statement amends the consolidation guidance applicable to variable interest entities and is effective as of the beginning of the first annual reporting period that begins after November 15, 2009. Upon adoption, the Company does not expect this standard to have a material impact on its financial condition or results of operations.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 (SFAS 168). The FASB Accounting Standards Codification (the Codification) will become the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP). The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. The Codification is not intended to change or alter existing U.S. GAAP.

**Note 3. Business Segment Information**

The Company s three business segments are as follows:

The Actuation and Landing Systems segment provides systems, components and related services pertaining to aircraft taxi, take-off, flight control, landing and stopping, and engine components, including fuel delivery systems and rotating assemblies.

The Nacelles and Interior Systems segment produces products and provides maintenance, repair and overhaul services associated with aircraft engines, including thrust reversers, cowlings, nozzles and their components, and aircraft interior products, including slides, seats, cargo and lighting systems.

The Electronic Systems segment produces a wide array of systems and components that provide flight performance measurements, flight management, fuel controls, electrical systems, and control and safety data, and reconnaissance and surveillance systems.

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The Company measures each reporting segment s profit based upon operating income. Accordingly, the Company does not allocate net interest expense, other income (expense) net and income taxes to its reporting segments. The company-wide Enterprise Resource Planning (ERP) implementation costs that are not directly associated with a specific business were not allocated to the segments. The accounting policies of the reportable segments are the same as those for the Company s condensed consolidated financial statements.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions) | | | |
| **Sales:** | | | | |
| Actuation and Landing Systems | $ 637.2 | $ 689.6 | $ 1,249.9 | $ 1,371.7 |
| Nacelles and Interior Systems | 595.2 | 665.1 | 1,227.4 | 1,285.6 |
| Electronic Systems | 467.3 | 494.6 | 918.3 | 937.0 |
| | $ 1,699.7 | $ 1,849.3 | $ 3,395.6 | $ 3,594.3 |
| **Intersegment sales:** | | | | |
| Actuation and Landing Systems | $ 6.8 | $ 9.3 | $ 13.7 | $ 17.9 |
| Nacelles and Interior Systems | 2.3 | 5.2 | 4.0 | 9.4 |
| Electronic Systems | 9.2 | 6.6 | 15.9 | 12.7 |
| | $ 18.3 | $ 21.1 | $ 33.6 | $ 40.0 |
| **Operating income:** | | | | |
| Actuation and Landing Systems | $ 62.8 | $ 84.5 | $ 138.9 | $ 158.6 |
| Nacelles and Interior Systems | 135.2 | 160.7 | 283.9 | 339.5 |
| Electronic Systems | 73.9 | 71.5 | 141.0 | 120.5 |
| | 271.9 | 316.7 | 563.8 | 618.6 |
| Corporate general and administrative expenses | (27.1) | (24.1) | (47.2) | (46.7) |
| ERP implementation costs | (3.4) | (4.1) | (7.4) | (8.9) |
| Total operating income | $ 241.4 | $ 288.5 | $ 509.2 | $ 563.0 |

**Note 4. Other Income (Expense) net**

Other Income (Expense) net consisted of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions) | | | |
| Retiree health care expenses related to previously owned businesses | $ (2.7) | $ (3.0) | $ (6.1) | $ (10.8) |
| Expenses related to previously owned businesses | (1.3) | (1.3) | (2.2) | (3.8) |
| Equity in affiliated companies | (2.3) | 0.2 | (2.0) | 1.0 |
| Other net | (0.1) | 1.1 | (0.5) | 0.8 |

| | | | | |
|---|---|---|---|---|
| Other income (expense) net | $ (6.4) | $ (3.0) | $ (10.8) | $ (12.8) |

**Note 5. Share-Based Compensation**

During the three and six months ended June 30, 2009 and 2008, the Company expensed share-based compensation awards under the Goodrich Equity Compensation Plan and the Goodrich Corporation 2008 Global Employee Stock Purchase Plan for employees and under the Outside Director Deferral and Outside Director Phantom Share plans for non-employee directors. A detailed description of the awards under these plans is included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

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The compensation cost recorded for share-based compensation plans during the three months ended June 30, 2009 and 2008 was $18.2 and $7.9 million, respectively. The compensation cost recorded for share-based compensation plans during the six months ended June 30, 2009 and 2008 was $31.6 million and $15.7 million, respectively.

**Note 6. Discontinued Operations**

Income from discontinued operations was $31.2 million (net of income taxes of $18.6 million) and $31.7 million (net of income taxes of $18.9 million) for the three and six months ended June 30, 2009, respectively. The income in the three and six month period related primarily to the resolution of litigation for an environmental matter at a divested business that had been previously reported as a discontinued operation. Those amounts are net of reserves related to discontinued operations. See Note 16, Contingencies for a discussion of this matter.

Income from discontinued operations was $3 million (net of income taxes of $0.6 million) and $7.3 million (net of income taxes of $1 million) for the three and six months ended June 30, 2008, respectively. During the three months ended June 30, 2008, discontinued operations included recovery of prior environmental costs from a third party related to a former business previously recorded as a discontinued operation. The six months ended June 30, 2008 also included a gain on the sale of a previously discontinued business.

**Note 7. Earnings Per Share**

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (In millions, except per share amounts) | | | |
| **Numerator** | | | | |
| Numerator for basic and diluted earnings per common share income from continuing operations attributable to Goodrich | $ 145.9 | $ 183.6 | $ 315.2 | $ 337.2 |
| Percentage allocated to common shareholders (1) | 98.6% | 98.6% | 98.6% | 98.6% |
| Numerator for basic and diluted earnings per common share | $ 143.9 | $ 181.0 | $ 310.8 | $ 332.4 |
| **Denominator** | | | | |
| Denominator for basic earnings per common share weighted-average shares | 123.9 | 125.2 | 123.9 | 125.1 |
| Effect of dilutive securities: | | | | |
| Stock options and employee stock purchase plan | 1.0 | 1.3 | 0.7 | 1.3 |
| Other deferred compensation shares | 0.1 | 0.1 | 0.1 | 0.1 |
| | 1.1 | 1.4 | 0.8 | 1.4 |
| Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion | 125.0 | 126.6 | 124.7 | 126.5 |
| **Per common share income from continuing operations** | | | | |
| Basic | $ 1.16 | $ 1.45 | $ 2.51 | $ 2.65 |
| Diluted | $ 1.15 | $ 1.43 | $ 2.49 | $ 2.62 |

| | | | | |
|---|---|---|---|---|
| (1) Basic weighted-average common shares outstanding | 123.9 | 125.2 | 123.9 | 125.1 |
| Basic weighted-average common shares outstanding and unvested restricted share units expected to vest | 125.7 | 127.0 | 125.6 | 126.9 |
| Percentage allocated to common shareholders | 98.6% | 98.6% | 98.6% | 98.6% |

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As described in Note 2, New Accounting Standards , the Company adopted FSP 03-6-1 on January 1, 2009. The Company s unvested restricted share units contain rights to receive nonforfeitable dividends, and thus, are participating securities requiring the two-class method of computing EPS. The calculation of earnings per share for common stock shown above excludes the income attributable to the unvested restricted share units from the numerator and excludes the dilutive impact of those units from the denominator.

At June 30, 2009 and 2008, the Company had 5.3 million and 4.7 million of outstanding 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. For the six months ended June 30, 2009 and 2008, 0.9 million anti-dilutive stock options were excluded from the diluted earnings per share calculation.

During the six months ended June 30, 2009 and 2008, the Company issued approximately 1 million of shares of common stock pursuant to stock option exercises and other share-based compensation plans.

The Company s share repurchase program was initially approved by the Board of Directors on October 24, 2006 and increased by the Board of Directors on February 19, 2008, for $600 million in total. During the six months ended June 30, 2009, there were no share repurchases. From inception of the program through June 30, 2009, the Company has repurchased 6.4 million shares for approximately $354 million under its share repurchase program. During the six months ended June 30, 2008, the Company repurchased 0.4 million shares.

**Note 8. Fair Value Measurements**

SFAS 157 defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also describes three levels of inputs that may be used to measure fair value:

Level 1 quoted prices in active markets for identical assets and liabilities.

Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities.

Level 3 unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

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The Company s financial assets and (liabilities) measured at fair value on a recurring basis were as follows:

| | Fair Value June 30, 2009 | Level 1 | Level 2 | Level 3 | Fair Value December 31, 2008 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|---|---|---|---|
| | | | | (Dollars in millions) | | | | |
| Cash Equivalents (1) | $ 361.4 | $361.4 | $ | $ | $ 291.5 | $291.5 | $ | $ |
| Derivative Financial Instruments (2) | | | | | | | | |
| Cash Flow Hedges | (8.4) | | (8.4) | | (156.1) | | (156.1) | |
| Other Forward Contracts | (4.0) | | (4.0) | | | | | |
| Rabbi Trust Assets (3) | 37.8 | 37.8 | | | 41.9 | 41.9 | | |
| Long-term debt and capital lease obligations (4) | 1,718.7 | | 1,718.7 | | 1,546.7 | | 1,546.7 | |

(1) Because of their short maturities, the carrying value of these assets approximates fair value.

(2) See Note 18, Derivatives and Hedging Activities . Estimates of the fair value of the derivative financial instruments represent the Company s best estimates based on its valuation models, which incorporate industry data and trends and relevant market

rates and transactions.

(3) Rabbi trust assets include mutual funds and cash equivalents for payment of certain non-qualified benefits for retired, terminated and active employees. The fair value of these assets was based on quoted market prices.

(4) The carrying amount of the Company s long-term debt and capital lease obligations was $1,708.7 million and $1,531.7 million at June 30, 2009 and December 31, 2008, respectively. The fair value of long-term debt and capital lease obligations is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

**Note 9. Inventories**

Inventories consist of the following:

| | June 30, | December 31, |
|---|---|---|

| | 2009 | 2008 |
|---|---|---|
| | (Dollars in millions) | |
| **FIFO or average cost (which approximates current costs):** | | |
| Finished products | $ 246.3 | $ 225.2 |
| In-process | 1,327.8 | 1,253.6 |
| Raw materials and supplies | 652.0 | 595.7 |
| | 2,226.1 | 2,074.5 |
| Less: | | |
| Reserve to reduce certain inventories to LIFO basis | (57.7) | (56.2) |
| Progress payments and advances | (42.7) | (43.6) |
| Total | $ 2,125.7 | $ 1,974.7 |

In-process inventory included $713.2 million and $633.1 million at June 30, 2009 and December 31, 2008, respectively, for the following: (1) pre-production and excess-over-average inventory accounted for under long-term contract accounting; and (2) engineering costs guaranteed of recovery under long-term contractual arrangements. The June 30, 2009 balance of $713.2 million included $432.2 million related to the Boeing 787 and $101.3 million related to the Airbus A350 XWB contracts.

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The Company uses the last-in, first-out (LIFO) method of valuing inventory for certain of the Company s legacy aerospace manufacturing businesses, primarily the aircraft wheels and brakes business unit in the Actuation and Landing Systems segment. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time.

**Note 10. Goodwill**

The changes in the carrying amount of goodwill by segment were as follows:

| | Balance December 31, 2008 | Business Combinations (1) | Foreign Currency Translation | Balance June 30, 2009 |
|---|---|---|---|---|
| | (Dollars in millions) | | | |
| Actuation and Landing Systems | $ 289.6 | $ | $ 14.7 | $ 304.3 |
| Nacelles and Interior Systems | 439.8 | | (2.1) | 437.7 |
| Electronic Systems | 660.8 | 14.1(2) | (1.0) | 673.9 |
| | $ 1,390.2 | $ 14.1 | $ 11.6 | $ 1,415.9 |

(1) Goodwill amounts for acquisitions prior to January 1, 2009 are preliminary and may be adjusted when certain pre-acquisition contingencies are resolved.

(2) On May 1, 2009, the Company acquired Cloud Cap Technology, Inc. (Cloud Cap) for $29.1 million, net of cash acquired. Based upon an independent valuation, identifiable intangibles were $13.6 million and will be amortized over a weighted-average useful life of

11 years.

**Note 11. Financing Arrangements**

The Company has a $500 million committed global syndicated revolving credit facility, which expires in May 2012. Interest rates under this facility vary depending upon:

- The amount borrowed;
- The Company s public debt rating by Standard & Poor s, Moody s and Fitch; and
- At the Company s option, rates tied to the agent bank s prime rate or, for U.S. Dollar and Great Britain Pounds Sterling borrowings, the London Interbank Offered Rate and for Euro Dollar borrowings, the Euro Interbank Offered Rate.

At June 30, 2009, there were no borrowings and $52 million in letters of credit outstanding under the facility. At December 31, 2008, there were no borrowings and $35.6 million in letters of credit outstanding under the facility. The level of unused borrowing capacity varies from time to time depending, in part, upon the Company s 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. Under the most restrictive of these covenants, $1,791.7 million of income retained in the business and additional paid-in capital was free from such limitations at June 30, 2009. At June 30, 2009, the Company had borrowing capacity under this facility of $448 million, after reductions for borrowings and letters of credit outstanding under the facility.

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At June 30, 2009, the Company had letters of credit and bank guarantees of $82.8 million, inclusive of $52 million in letters of credit outstanding under the Company s syndicated revolving credit facility, as discussed above.

At June 30, 2009, the Company also maintained $75 million of uncommitted domestic money market facilities and $158.5 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At June 30, 2009 and December 31, 2008, there were $40.4 million and $37.7 million, respectively, in borrowings outstanding 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 described above and with various cash management, trust and other services.

In February 2009, the Company issued $300 million principal amount of 6.125% senior notes due 2019, which were issued below par. The discount will be amortized over the life of the senior notes. In addition, the Company deferred approximately $2 million of transaction costs which will be amortized over the life of the 6.125% senior notes.

**Long-term Debt Repayments**

The Company used a portion of the proceeds from the issuance of the $300 million senior notes to repay $120 million for the 6.6% senior notes, which matured on May 15, 2009.

**Lease Commitments**

The Company leases 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. Future minimum lease payments under operating leases were $176.5 million at June 30, 2009.

One of these arrangements allows the Company, rather than the lessor, to claim a deduction for tax depreciation on the asset and allows the Company to lease a corporate aircraft with a total commitment amount of $43.8 million. This lease is priced at a spread over LIBOR. Lease payments under this arrangement are expected to commence in the first quarter of 2011. At June 30, 2009, there were no future payments outstanding under this arrangement.

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**Note 12. Pensions and Postretirement Benefits Other Than Pensions**

The following table sets forth the components of net periodic benefit cost. The net periodic benefit cost for divested or discontinued operations retained by the Company are included in the amounts below:

| | U.S. Plans Three Months Ended June 30, | | U.K. Plans Three Months Ended June 30, | | Other Plans Three Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions) | | | | | |
| Service cost | $ 11.9 | $ 11.1 | $ 3.3 | $ 7.8 | $ 0.9 | $ 1.7 |
| Interest cost | 43.0 | 42.4 | 9.5 | 11.1 | 1.8 | 1.5 |
| Expected return on plan assets | (45.3) | (50.1) | (10.6) | (17.0) | (1.4) | (1.7) |
| Amortization of prior service cost | 1.9 | 1.3 | (0.2) | (0.3) | 0.4 | 0.1 |
| Amortization of actuarial loss | 24.3 | 12.6 | 2.2 | | 0.3 | 0.2 |
| Net periodic benefit cost | $ 35.8 | $ 17.3 | $ 4.2 | $ 1.6 | $ 2.0 | $ 1.8 |

| | U.S. Plans Six Months Ended June 30, | | U.K. Plans Six Months Ended June 30, | | Other Plans Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions) | | | | | |
| Service cost | $ 21.4 | $ 21.4 | $ 7.6 | $ 15.0 | $ 1.8 | $ 2.9 |
| Interest cost | 85.9 | 83.8 | 17.8 | 22.1 | 3.2 | 3.2 |
| Expected return on plan assets | (87.1) | (100.1) | (20.3) | (33.9) | (2.5) | (3.5) |
| Amortization of prior service cost | 3.7 | 2.8 | (0.3) | (0.5) | 0.4 | 0.1 |
| Amortization of actuarial loss | 52.6 | 24.4 | 3.5 | | 0.6 | 0.5 |
| Gross periodic benefit cost | 76.5 | 32.3 | 8.3 | 2.7 | 3.5 | 3.2 |
| Settlement (gain) loss | | | | | (0.4) | |
| Net periodic benefit cost | $ 76.5 | $ 32.3 | $ 8.3 | $ 2.7 | $ 3.1 | $ 3.2 |

The following table provides the weighted-average assumptions used to determine the net periodic benefit cost.

| | U.S. Plans Three and Six Months Ended June 30, | | U.K. Plans Three and Six Months Ended June 30, | | Other Plans Three and Six Months Ended June 30, | |
|---|---|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 | 2009 | 2008 |
| Discount rate | 6.47% | 6.30% | 5.88% | 5.50% | 6.17% | 5.28% |
| Expected long-term rate of return on assets | 8.75% | 9.00% | 8.50% | 8.50% | 8.12% | 8.24% |
| Rate of compensation increase | 4.10% | 4.10% | 3.75% | 3.75% | 3.31% | 3.38% |

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**Post Retirement Benefits Other Than Pensions**

The following table sets forth the components of net periodic postretirement benefit cost. Other postretirement benefits (OPEB) related to the divested and discontinued operations retained by the Company are included in the amounts below.

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions) | | | |
| Service cost | $ 0.3 | $ 0.4 | $ 0.7 | $ 0.9 |
| Interest cost | 4.4 | 5.1 | 9.7 | 11.0 |
| Amortization of prior service cost | (0.1) | | (0.1) | (0.1) |
| Amortization of actuarial (gain) loss | | (0.5) | | 1.4 |
| Net periodic benefit cost | $ 4.6 | $ 5.0 | $ 10.3 | $ 13.2 |

The following table provides the assumptions used to determine the net periodic postretirement benefit cost.

| | Three and Six Months Ended June 30, | |
|---|---|---|
| | 2009 | 2008 |
| Discount rate | 6.38% | 6.12% |
| Healthcare trend rate | 7.8% in 2009 to 5% in 2015 | 8.3% in 2008 to 5% in 2015 |

**Note 13. Comprehensive Income (Loss)**

Total comprehensive income (loss) consisted of the following:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions) | | | |
| Net income attributable to Goodrich | $ 177.1 | $ 186.6 | $ 346.9 | $ 344.5 |
| Other comprehensive income (loss): | | | | |
| Unrealized foreign currency translation gains (losses) during period | 133.3 | 4.8 | 84.0 | 30.4 |
| Pension/OPEB liability adjustments during the period, net of tax for the three and six months ended June 30, 2009 of $(8.4) and $22.5, respectively; net of tax for the three and six months ended June 30, 2008 of $2.2 and $(6.1), respectively | 9.0 | (1.6) | 60.3 | 6.9 |
| Gain (loss) on cash flow hedges, net of tax for the three and six months ended June 30, 2009 of $(61.0) and $(54.5), respectively; net of tax for the three and six months ended June 30, 2008 of $0.5 and $6.3, respectively | 121.7 | (1.0) | 101.6 | (12.0) |
| Less: Other comprehensive income (loss) attributable to noncontrolling interests | | | | |
| Total comprehensive income (loss) | $ 441.1 | $ 188.8 | $ 592.8 | $ 369.8 |

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

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (Dollars in millions) | |
| Cumulative unrealized foreign currency translation gains | $ 135.6 | $ 51.6 |
| Pension/OPEB liability adjustments, net of deferred taxes of $509.4 and $486.9, respectively | (845.2) | (905.5) |
| Accumulated gains (losses) on cash flow hedges, net of deferred taxes of $11.3 and $65.8, respectively | (22.6) | (124.2) |
| Total accumulated other comprehensive income (loss) | $ (732.2) | $ (978.1) |

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No income taxes are provided on unrealized foreign currency translation gains as foreign earnings are considered permanently invested.

**Note 14. Noncontrolling Interests**

As described in Note 2, New Accounting Standards , the Company adopted SFAS 160 on January 1, 2009. The changes in the Company s noncontrolling interests were as follows:

| | Six months ended June 30, | |
|---|---|---|
| | **2009** | **2008** |
| | **(Dollars in millions)** | |
| **Balance at January 1** | $ 60.9 | $ 52.5 |
| Distributions to noncontrolling interests | (7.3) | (6.3) |
| Comprehensive income: | | |
| Net income attributable to noncontrolling interests | 7.7 | 9.8 |
| Other comprehensive income, net of tax | | |
| Comprehensive income | 7.7 | 9.8 |
| **Balance at June 30** | $ 61.3 | $ 56.0 |

**Note 15. Income Taxes**

The Company s effective tax rate for the three months ended June 30, 2009 was 26.9%. Significant items that impacted the Company s effective tax rate as compared to the U.S. federal statutory rate of 35% included foreign and domestic tax credits which reduced the effective tax rate by approximately 3 percentage points, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate which reduced the effective tax rate by approximately 6 percentage points, deemed repatriation of non-U.S. earnings which increased the effective tax rate by approximately 2 percentage points, adjustments to reserves for tax contingencies, including interest thereon (net of related tax benefit), which increased the effective tax rate by approximately 2 percentage points and state income taxes (net of related tax benefit) which increased the effective tax rate by approximately 2 percentage points.

During the three months ended June 30, 2008, the Company reported an effective tax of 26.9%, including a benefit from amended state returns primarily for additional research and development credits and changes in apportionment which reduced the effective tax rate by approximately 9 percentage points, a benefit related to amended returns following the settlement of a foreign tax audit which reduced the effective tax rate by approximately 7 percentage points, foreign and domestic tax credits which reduced the effective tax rate by approximately 2 percentage points, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate which reduced the effective tax rate by approximately 2 percentage points, deemed repatriation of non-U.S. earnings which increased the effective tax rate by approximately 2 percentage points, adjustments to reserves for tax contingencies, including interest thereon (net of related tax benefit), which increased the effective tax rate by approximately 7 percentage points and state income taxes (net of related tax benefit) which increased the effective tax rate by approximately 3 percentage points.

For the six months ended June 30, 2009, the Company reported an effective tax rate of 26.6%, including a benefit from an adjustment to state tax reserves which reduced the effective tax rate by approximately 3 percentage points. For the six months ended June 30, 2008, the Company reported an effective tax rate of 30%, including a benefit of approximately 5 percentage points for amended state returns primarily for additional research and development credits and changes in apportionment, and a benefit of approximately 4 percentage points related to amended returns following the settlement of a foreign tax audit.

At June 30, 2009, the Company had a $279.5 million liability recorded for unrecognized tax benefits, which included interest and penalties of $150.1 million. The total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was $203.7 million. At December 31, 2008, the Company had a $289.4 million liability recorded for unrecognized tax benefits, which included interest and penalties of $158.1 million. The total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was $212.1 million. The Company reported interest and penalties related to unrecognized tax benefits in income tax expense.

## Note 16. Contingencies

### General

There are various pending or threatened claims, lawsuits and administrative proceedings against the Company or its subsidiaries, arising from the ordinary course of business which seek remedies or damages. Although no assurance can be given with respect to the ultimate outcome of these matters, 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. Legal costs are expensed as incurred.

### Environmental

The Company is subject to environmental laws and regulations which may require that the Company investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. At certain sites, the Company 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 applicable laws.

Estimates of the Company s environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration the Company s prior experience and professional judgment of the Company s environmental specialists. 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 cost estimates, 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 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 Company s results of operations or cash flows in a given period. 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 the Company has been identified as a potentially responsible party are likely to have a material adverse effect on the Company s financial condition.

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, third party indemnity obligations, and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

The Company s condensed consolidated balance sheet included an accrued liability for environmental remediation obligations of $64 million and $62.3 million at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009 and December 31, 2008, $20.8 million and $20.9 million, respectively, of the accrued liability for environmental remediation were included in current liabilities as accrued expenses. At June 30, 2009 and December 31, 2008, $25.3 million and $24 million, respectively, was associated with ongoing operations and $38.7 million and $38.3 million, respectively, was associated with previously owned businesses.

The Company expects that it will expend present accruals over many years, and will generally complete remediation in less than 30 years at 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. Recently, certain states in the U.S. and countries globally are promulgating or proposing new or more demanding regulations or legislation impacting the use of various chemical substances by all companies. The Company is currently evaluating the potential impact, if any, of complying with such regulations and legislation.

During the three months ended June 30, 2009, a judgment in favor of the Company became final when the initial verdict was upheld on appeal. As a result of the favorable verdict, the Company received $79.1 million from Commercial Union Insurance Company for reimbursement of environmental remediation costs, attorney fees and interest. A former subsidiary of the Company, however, has a claim for a portion of the insurance proceeds. Accordingly, the Company has recorded a reserve for amounts it believes may be paid to the former subsidiary related to this matter. As the above relates to a divested business that had previously been reported as a discontinued operation, the Company s estimate of the net amount it will realize as a result of the favorable verdict has been reported within Discontinued Operations. See Note 6, Discontinued Operations .

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**Asbestos**

The Company and some of its subsidiaries have been named as defendants in various actions by plaintiffs alleging damages as a result of exposure to asbestos fibers in products or at 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. The Company believes that pending and reasonably anticipated future actions 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 Company s results of operations and cash flows in a given period.

**Insurance Coverage**

The Company maintains a comprehensive portfolio of insurance policies, including aviation products liability insurance which covers most of its products. The aviation products liability insurance provides first dollar coverage for defense and indemnity of third party claims.

A portion of the Company s primary and excess layers of pre-1986 insurance coverage for third party claims was provided by certain insurance carriers who are either insolvent, undergoing solvent schemes of arrangement or in run-off. The Company has entered into settlement agreements with a number of these insurers pursuant to which the Company agreed to give up its rights with respect to certain insurance policies in exchange for negotiated payments. These settlements represent negotiated payments for the Company s loss of insurance coverage, as it no longer has this insurance available for claims that may have qualified for coverage. A portion of these settlements was recorded as income for reimbursement of past claim payments under the settled insurance policies and a portion was recorded as a deferred settlement credit for future claim payments.

At June 30, 2009 and December 31, 2008, the deferred settlement credit was $46.6 million and $49.4 million, respectively, for which $6.3 million and $6.4 million, respectively, was reported in accrued expenses and $40.3 million and $43 million, respectively, was reported in other non-current liabilities. The proceeds from such insurance settlements were reported as a component of net cash provided by operating activities in the period payments were received.

**Liabilities of Divested Businesses**

***Asbestos***

In May 2002, the Company completed the tax-free spin-off of its Engineered Industrial 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 prior to the Company s ownership. 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. 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 and other such claims. 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 Company

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believes that such claims would not have a material adverse effect on its financial condition, but could have a material adverse effect on its results of operations and cash flows in a particular period.

***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.

**Aerostructures Long-term Contracts**

The Company s aerostructures business in the Nacelles and Interior Systems segment has several long-term contracts in the pre-production phase including the Boeing 787 and Airbus A350 XWB, and in the early production phase including the Airbus A380. These contracts are accounted for in accordance with the 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).

The pre-production phase includes design of the product to meet customer specifications as well as design of the processes to manufacture the product. Also involved in this phase is securing the supply of material and subcomponents produced by third party suppliers that are generally accomplished through long-term supply agreements.

Contracts in the early production phase include excess-over-average inventories, which represent the excess of current manufactured cost over the estimated average manufactured cost during the life of the contract.

Cost estimates over the lives of contracts are affected by estimates of future cost reductions including learning curve efficiencies. Because these contracts cover manufacturing periods of up to 20 years or more, there is risk associated with the estimates of future costs made during the pre-production and early production phases. These estimates may be different from actual costs due to the following:

- Ability to recover costs incurred for change orders and claims;
- Costs, including material and labor costs and related escalation;
- Labor improvements due to the learning curve experience;
- Anticipated cost productivity improvements related to new manufacturing methods and processes;
- Supplier pricing, including escalation where applicable, supplier claims (see Boeing 787 Contract below), and the supplier s ability to perform;
- The cost impact of product design changes that frequently occur during the flight test and certification phases of a program; and
- Effect of foreign currency exchange fluctuations.

Additionally, total contract revenue is based on estimates of future units to be delivered to the customer, the ability to recover costs incurred for change orders and claims and sales price escalation, where applicable. There is a risk that there could be differences between the actual units delivered and the estimated total units to be delivered under the contract and differences in actual sales price escalation compared to estimates. Changes in estimates could have a material impact on the Company s results of operations and cash flows.

Provisions for estimated losses on uncompleted contracts are recorded in the period such losses are determined to the extent total estimated costs exceed total estimated contract revenues.

***Boeing 787 Contract***

During 2004, the Company s aerostructures business entered into a long-term supply contract with Boeing on the 787 program. The Company s latest outlook projects approximately $5 billion of original equipment sales for this program. Aftermarket sales associated with this program are not accounted for using the percentage-of-completion method of accounting.

The Boeing 787 program has experienced delays in its development schedule and Boeing has requested numerous changes in the design of the Company s product and scope of its work. Under the terms of the Company s contract, it is entitled to reimbursement of certain costs and equitable price adjustments under certain circumstances. Discussions with Boeing are ongoing. If the Company is unable to reach a fair and equitable resolution with Boeing or if any of the actual costs or revenues differ from the estimates, it could have a material adverse effect on the Company s financial position, results of operations and/or cash flows in a given period.

On July 21, 2008, Alenia Aermacchi, S.p.A. (AAeM) filed a Demand for Arbitration with the American Arbitration Association against Rohr, Inc. (Rohr), a wholly-owned subsidiary of the Company (its aerostructures business), in connection with a contract for the supply of fan cowls used in the nacelles that Rohr provides to Boeing on the 787 program. According to its Statement of Claims filed on August 15, 2008, AAeM seeks declaratory relief, rescission of the supply contract and monetary damages, based upon allegations of commercial impracticability, lack of compensation for costs associated with design changes and Rohr s mismanagement of the program. On September 22, 2008, Rohr filed its answer, seeking to uphold the contract and denying liability, and instituted a counterclaim against AAeM, seeking damages for breach of contract and breach of covenant of good faith and fair dealing. On October 31, 2008, AAeM filed its answer generally denying the allegations made against it in Rohr s counterclaims. On December 17, 2008, the Company amended its counterclaim to seek declaratory relief regarding ownership of certain intellectual property. An arbitrator was selected on April 20, 2009. The arbitration stay, which had been in place since December 22, 2008, expired on May 1, 2009 and AAeM filed an Amended Statement of Claims on the same day. On May 29, 2009 Goodrich filed its Answering Statement to AAeM s May 1, 2009 Amended Statement of Claims. Initial discovery began on June 16, 2009 when the parties exchanged their first Requests for Production of Documents. The arbitration hearing is scheduled for February 22, 2010. Notwithstanding the expiration of the arbitration stay and the resumption of the arbitration proceedings, the parties are currently involved in discussions regarding a possible settlement and mutual release of claims. The Company believes that it has substantial legal and factual defenses to AAeM s claims, and intends to defend its interests and pursue its counterclaims vigorously. Given the nature and status of this proceeding, the Company cannot yet determine the amount or a reasonable range of potential

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loss, if any. If the Company is unable to adequately resolve the dispute with AAeM, it could have a material adverse effect on the Company s financial position, results of operations and/or cash flows in a given period.

**Tax**

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. The Company establishes reserves for tax contingencies in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109) and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). See Note 15 Income Taxes , for additional detail.

***Tax Years 2000 to 2004***

During 2007, the IRS and the Company reached agreement on substantially all of the issues raised with respect to the examination of taxable years 2000 to 2004. The Company submitted a protest to the Appeals Division of the IRS with respect to the remaining unresolved issues. The Company believes the amount of the estimated tax liability if the IRS were to prevail is fully reserved. The Company cannot predict the timing or ultimate outcome of a final resolution of the remaining unresolved issues.

***Tax Years Prior to 2000***

The previous examination cycle included the consolidated income tax groups for the audit periods identified below:

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

The IRS and the Company previously reached final settlement on all but one of the issues raised in this examination cycle. The Company received statutory notices of deficiency dated June 14, 2007 related to the remaining unresolved issue which involves the proper timing of certain deductions. The Company filed a petition with the U.S. Tax Court in September 2007 to contest the notices of deficiency. The Company believes the amount of the estimated tax liability if the IRS were to prevail is fully reserved. Although it is reasonably possible that this matter could be resolved during the next 12 months, the timing or ultimate outcome is uncertain.

Rohr was examined by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California disallowed certain expenses incurred by one of Rohr s subsidiaries in connection with the lease of certain tangible property. California s Franchise Tax Board held that the deductions associated with the leased equipment were non-business deductions. The additional tax associated with the Franchise Tax Board s position is $4.5 million. The amount of accrued interest associated with the additional tax is approximately $28 million at June 30, 2009. In addition, the State of California enacted an amnesty provision that imposes nondeductible penalty interest equal to 50% of the unpaid interest amounts relating to taxable years ended before 2003. The penalty interest is approximately $14 million at June 30, 2009. The tax and interest amounts continue to be contested by Rohr. No payment has been made for the $28 million of interest or $14 million of penalty interest.

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In April 2009, the Superior Court of California issued a ruling, granting the Company s motion for summary judgment. The State of California has 60 days from entry of the judgment, which occurred in June 2009, to appeal the ruling. Once the State s appeals have been exhausted, if the Superior Court s decision is not overturned, the Company will be entitled to a refund of the $4.5 million of tax, together with interest from the date of payment.

**Note 17. Guarantees**

The Company extends financial and product performance guarantees to third parties. At June 30, 2009, the following environmental remediation and other indemnifications and financial guarantees were outstanding, in millions:

| | Maximum Potential Payment | Carrying Amount of Liability |
|---|---|---|
| Environmental remediation and other indemnifications (Note 16, Contingencies ) | No limit | $18.6 |
| Guarantees of residual value on leases | $27.2 | $ 0.5 |
| Guarantees of JV debt and other financial instruments | $24.7 | $ |

The Company has guarantees of residual values on certain lease obligations in which the Company is obligated to either purchase or remarket the assets at the end of the lease term.

The Company is guarantor on a revolving credit agreement totaling £20 million between Rolls-Royce Goodrich Engine Control Systems Limited (JV) and a financial institution. In addition, the Company guarantees the JV s foreign exchange credit line and is indemnified by Rolls-Royce for 50% of the amount.

**Service and Product Warranties**

The Company provides service and warranty policies on certain of its products. The Company accrues liabilities under service and warranty policies based upon specific claims and a review of historical warranty and service claim experience in accordance with Statement of Financial Accounting Standards No. 5, Accounting for Contingencies . 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, 2009, in millions, are as follows:

| | |
|---|---|
| **Balance at December 31, 2008** | $ 139.2 |
| Net provisions for warranties issued during the period | 22.4 |
| Net provisions for warranties existing at the beginning of the year | (1.9) |
| Payments | (29.5) |
| Foreign currency translation | 3.8 |
| **Balance at June 30, 2009** | $ 134.0 |

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

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (Dollars in millions) | |
| Accrued expenses | $ 61.7 | $ 66.4 |
| Other non-current liabilities | 72.3 | 72.8 |
| Total | $ 134.0 | $ 139.2 |

**Note 18. 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 to hedge a portion of the Company s exposure from U.S. Dollar sales. The forward contracts described above are used to mitigate the potential volatility to earnings and cash flow arising from changes in currency exchange rates that impact the Company s U.S. Dollar sales for certain foreign operations. The forward contracts are accounted for as cash flow hedges and are recorded in the Company s condensed consolidated balance sheet at fair value, with the offset reflected in accumulated other comprehensive income (loss) (AOCI), net of deferred taxes. The gain or loss on the forward contracts is reported as a component of other comprehensive income (loss) (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The notional value of the forward contracts at June 30, 2009 and December 31, 2008 was $1,967.8 million and $1,897.2 million, respectively. At June 30, 2009 and December 31, 2008, the total fair value before taxes of the Company s forward contracts and the accounts in the condensed consolidated balance sheet in which the fair value amounts are included are shown below:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| | (Dollars in millions) | |
| Prepaid expenses and other assets | $12.7 | $ 9.8 |
| Other assets | 53.2 | 6.2 |
| Accrued expenses | 35.5 | 70.0 |
| Other non-current liabilities | 38.8 | 102.1 |

The amounts recognized in OCI and reclassified from AOCI into earnings are shown below:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| | (Dollars in millions) | | | |
| Amount of gain/(loss) recognized in OCI, net of tax for the three and six months ended June 30, 2009 of $(61.0) and $(54.5), respective; net of tax for the three and six months ended June 30, 2008 of $0.5 and $6.3, respectively | $121.7 | $ (1.0) | $101.6 | $(12.0) |
| Amount of gain/(loss) reclassified from AOCI into earnings | $ (15.8) | $21.0 | $ (40.1) | $ 41.3 |

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As of June 30, 2009, the fair value of the Company s forward contracts of a $8.4 million net liability and $23.5 million of losses on previously matured hedges of intercompany sales and gains from forward contracts terminated prior to the original maturity dates, totaling $31.9 million (net of deferred taxes of $11.3 million), is recorded in AOCI and will be reflected in income as earnings are affected by the hedged items. As of June 30, 2009, the portion of the $8.4 million 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 loss of $22.8 million. These forward contracts mature on a monthly basis with maturity dates that range from July 2009 to December 2013. There was a de minimis amount of both ineffectiveness and hedge components excluded from the assessment of effectiveness during the three and six months ended June 30, 2009 and 2008.

**Fair Value Hedges**

The Company enters into interest rate swaps 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 accounted for as fair value hedges and the carrying value of the notes are adjusted to reflect the fair values of the interest rate swaps. At June 30, 2009 and December 31, 2008, the Company had no outstanding interest rate swaps.

For the three months ended June 30, 2009 and 2008, net gains of $0.6 million and $0.3 million, after tax of $0.4 million and $0.2 million, respectively, were recorded as a reduction to interest expense. For the six months ended June 30, 2009 and 2008, net gains of $1.4 million and $0.5 million, after tax of $0.9 million and $0.4 million, respectively, were recorded as a reduction to interest expense. These amounts include previously terminated swaps which are amortized over the life of the underlying debt.

**Other Forward Contracts**

As a supplement to the foreign exchange cash flow hedging program, the Company enters into other 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 contracts generally mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. Since these contracts are not designated as hedges, the gains or losses on these contracts are recorded in cost of sales. These contracts are utilized to mitigate the earnings impact of the translation of net monetary assets and liabilities. Under this program, as of June 30, 2009, the Company had contracts outstanding with a notional value of $36.1 million and a fair value liability of $4 million. As of December 31, 2008, the Company had no such contracts outstanding.

During the three months ended June 30, 2009, the Company recorded a transaction loss on its monetary assets of $22.3 million, which was partially offset by gains on the other forward contracts described above of $22.1 million. During the three months ended June 30, 2008, the Company recorded a transaction gain on its monetary assets of $1.1 million, which was partially offset by losses on the other forward contracts described above of $0.1 million.

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During the six months ended June 30, 2009, the Company recorded a transaction loss on its monetary assets of $7.2 million, which was entirely offset by gains on the other forward contracts described above of $13 million. During the six months ended June 30, 2008, the Company recorded a transaction loss on its monetary assets of $11.8 million, which was partially offset by gains on the other forward contracts described above of $8.2 million.

## 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 IN ITEM 1 OF 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 and general aviation airplane markets. We are also a leading supplier of systems and products to the global defense 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.

### Key Market Channels for Products and Services, Growth Drivers and Industry and our Highlights

We participate in three key market channels: commercial, regional, business and general aviation airplane original equipment (OE); commercial, regional, business and general aviation airplane aftermarket; and defense and space.

#### *Commercial, Regional, Business and General Aviation Airplane OE*

Commercial, regional, business and general aviation airplane OE includes sales of products and services for new airplanes produced by Airbus and Boeing, and regional, business and small airplane manufacturers.

The key growth drivers in this market channel include the number of orders for their airplanes, which will be delivered to the manufacturers customers over a period of several years, OE manufacturer production and delivery rates for in-service airplanes such as the Airbus A320 and Boeing 737NG, and introductions of new airplane models such as the Boeing 787 and 747-8, the Airbus A380 and A350 XWB, and engine types such as the Pratt and Whitney PurePower PW1000G.

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We have significant sales content on most of the airplanes manufactured in this market channel. Over the last few years, we have benefited from increased production rates and deliveries of Airbus and Boeing airplanes and from our substantial content on many of the regional and general aviation airplanes. Delivery of new commercial, regional, business, and general aviation aircraft in 2009 and beyond, however, may be negatively impacted by the current economic conditions which may influence customers willingness and/or ability to purchase new aircraft.

On June 23, 2009, Boeing announced a further delay in its 787 airplane program. While Boeing did not announce specific details of the delay, we continue to expect 787 deliveries to commence during 2010. Based on the information available to us, we do not expect the most recent delay to have a material impact on our results of operations and cash flows.

***Commercial, Regional, Business and General Aviation Airplane Aftermarket***

The commercial, regional, business and general aviation airplane aftermarket channel includes sales of products and services for existing commercial and general aviation airplanes, primarily to airlines and package carriers around the world.

The key growth drivers in this channel include worldwide passenger capacity growth measured by Available Seat Miles (ASM) and the size, type and activity levels of the worldwide airplane fleet. Other important factors affecting growth in this market channel are the age and types of the airplanes in the fleet, fuel prices, Gross Domestic Product (GDP) trends in countries and regions around the world and domestic and international air freight activity.

Capacity in the global airline system, as measured by ASMs, is expected to decrease 5% to 8% in 2009. ASM growth could deteriorate further if airlines choose to fly their in-service airplanes less frequently, or temporarily ground airplanes due to decreased demand, high fuel prices and other factors including the downturn of the global economy.

While we have significant product content on most of the airplane models that are currently in service, we enjoy the benefit of having excellent positions on the newer, more fuel-efficient airplanes currently in service. Even though many airlines have announced that they will remove some of their older airplanes, such as Boeing MD-80 and 737 Classic airplanes, from their fleets, we do not expect these removals to have a significant impact on our results in 2009.

***Defense and Space***

Worldwide defense and space sales include sales to prime contractors such as Boeing, Northrop Grumman, Lockheed Martin, the U.S. Government and foreign companies and governments.

The key growth drivers in this channel include the level of defense spending by the U.S. and foreign governments, the number of new platform starts, the level of military flight operations and the level of upgrade, overhaul and maintenance activities associated with existing platforms.

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The market for our defense and space products is global, and is not dependent on any single program, platform or customer. We anticipate fewer new fighter and transport aircraft platform starts over the next several years. We also anticipate that the introduction of the F-35 Lightning II and new helicopter platforms, along with upgrades on existing defense and space platforms, will provide long-term growth opportunities in this market channel. Additionally, we are participating in, and developing new products for, the rapidly expanding homeland security and intelligence, surveillance and reconnaissance sectors, which should further strengthen our position in this market channel.

**Long-term Sustainable Growth**

We believe that we are well positioned to continue to grow overall sales due to:

- Awards for key products on important new and expected programs, including the Airbus A380 and A350 XWB, the Boeing 787 and 747-8, the Pratt & Whitney PurePower PW1000G, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II;
- The large installed base of commercial airplanes and our strong positions on newer, more fuel-efficient airplanes, which should fuel sustained long-term aftermarket strength;
- Balance in the large commercial airplane market, with strong sales to both Airbus and Boeing;
- Aging of the existing large commercial and regional airplane fleets, which should result in increased aftermarket support;
- Increased number of long-term agreements for product sales on new and existing commercial airplanes;
- Increased opportunities for aftermarket growth due to airline outsourcing;
- Growth in global maintenance, repair and overhaul (MRO) opportunities for our systems and components, particularly in Europe, Asia and the Middle East, where we have expanded our capacity; and
- Expansion of our product offerings in support of high growth areas in the defense and space market channel, such as helicopter products and systems and intelligence, surveillance and reconnaissance products.

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**Second Quarter 2009 Sales Content by Market Channel**

During the second quarter 2009, approximately 95% of our sales were from our three primary market channels described above. Following is a summary of the percentage of sales by market channel:

| | |
|---|---|
| Airbus Commercial OE | 17% |
| Boeing Commercial OE | 10% |
| Regional, Business and General Aviation Airplane OE | 7% |
| **Total Commercial, Regional, Business and General Aviation Airplane OE** | **34%** |
| Large Commercial Airplane Aftermarket | 27% |
| Regional, Business and General Aviation Airplane Aftermarket | 5% |
| **Total Commercial, Regional, Business and General Aviation Airplane Aftermarket** | **32%** |
| **Total Defense and Space** | **29%** |
| Other | 5% |
| **Total** | **100%** |

**Results of Operations Second Quarter 2009 as Compared to Second Quarter 2008**

| | Second Quarter | | | % |
|---|---|---|---|---|
| | 2009 | 2008 | Change | Change |
| | (Dollars in millions, except diluted EPS) | | | |
| Sales | $ 1,699.7 | $ 1,849.3 | $ (149.6) | 8.1 |
| Segment operating income (1) | $ 271.9 | $ 316.7 | $ (44.8) | 14.1 |
| Corporate general and administrative costs | (30.5) | (28.2) | (2.3) | 8.2 |
| Total operating income | 241.4 | 288.5 | (47.1) | 16.3 |
| Net interest expense | (30.6) | (27.1) | (3.5) | 12.9 |
| Other income (expense) net | (6.4) | (3.0) | (3.4) | 113.3 |
| Income from continuing operations before income taxes | 204.4 | 258.4 | (54.0) | 20.9 |
| Income tax expense | (54.8) | (69.5) | 14.7 | 21.2 |
| Income from continuing operations | 149.6 | 188.9 | (39.3) | 20.8 |
| Income from discontinued operations | 31.2 | 3.0 | 28.2 | 940.0 |
| Consolidated net income | 180.8 | 191.9 | (11.1) | 5.8 |
| Net income attributable to noncontrolling interests (2) | (3.7) | (5.3) | 1.6 | 30.2 |
| Net income attributable to Goodrich | $ 177.1 | $ 186.6 | $ (9.5) | 5.1 |
| Effective tax rate | 26.9% | 26.9% | | |

| | | | | |
|---|---|---|---|---|
| Diluted EPS: (3) | | | | |
| Continuing operations | $ 1.15 | $ 1.43 | $ (0.28) | 19.6 |
| Net income attributable to Goodrich | $ 1.40 | $ 1.45 | $ (0.05) | 3.4 |

(1) We measure each reporting segment s profit based upon operating income. Accordingly, we do not allocate net interest expense, other income (expense) net and income taxes to our reporting segments. The company-wide Enterprise Resource Planning (ERP) implementation costs that were not directly associated with a specific business were not allocated to the segments. For a reconciliation of total segment operating income to total operating income, see Note 3, Business Segment Information to our condensed consolidated financial statements.

(2) On January 1, 2009, we adopted Statement of Financial Accounting Standards No. 160. See Note 2, New Accounting Standards to our condensed consolidated financial statements.

(3) On January 1, 2009, we adopted Financial Accounting Standards Board Staff Position

No. EITF 03-6-1. See Note 2, New Accounting Standards to our condensed consolidated financial statements.

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**Sales**

The sales decrease in the second quarter 2009 as compared to the second quarter 2008 was driven by changes in each of our major market channels as follows:

Large commercial airplane original equipment sales decreased by approximately $34 million, or 7%;

Regional, business and general aviation airplane original equipment sales decreased by approximately $53 million, or 32%; and

Large commercial, regional, business and general aviation airplane aftermarket sales decreased by approximately $101 million, or 16%; partially offset by

Defense and space sales of both original equipment and aftermarket products and services increased by approximately $49 million, or 11%.

**Segment operating income**

See discussion in the Business Segment Performance section.

**Corporate general and administrative costs**

Corporate general and administrative costs increased primarily due to higher share based compensation, as discussed below, partially offset by reductions in discretionary spending.

**Other income (expense) net**

Other income (expense) net increased for the second quarter 2009 as compared to the second quarter 2008, primarily as a result of lower income from equity in affiliated companies of approximately $2 million.

**Income from continuing operations**

In addition to the items described above, income from continuing operations during the second quarter 2009 as compared to the second quarter 2008 was also impacted by the following items:

| | Increase (Decrease) | | |
|---|---|---|---|
| | Before Tax | After Tax | Diluted EPS |
| | (Dollars in millions, except diluted EPS) | | |
| Higher pension expense | $ (21.2) | $ (13.5) | $ (0.11) |
| Higher share based compensation | $ (10.3) | $ (6.6) | $ (0.05) |

***Higher pension expense***

The increase in pension expense was primarily due to the investment losses of our plan assets in 2008 partially offset by the effect of a higher discount rate.

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***Higher share based compensation***

The increase in share based compensation was primarily due to the increase in our share price.

**Effective tax rate**

We reported an effective tax rate of 26.9% for both periods. See Note 15, Income Taxes to our condensed consolidated financial statements.

**Income from discontinued operations**

Income from discontinued operations increased for the second quarter 2009 as compared to the second quarter 2008, due to the favorable resolution of a past environmental claim. See Note 6, Discontinued Operations to our condensed consolidated financial statements.

**Results of Operations Six Months Ended June 30, 2009 as Compared to Six Months Ended June 30, 2008**

| | **Second Quarter** | | **$** | **%** |
|---|---|---|---|---|
| | **2009** | **2008** | **Change** | **Change** |
| | **(Dollars in millions, except diluted EPS)** | | | |
| Sales | $ 3,395.6 | $ 3,594.3 | $ (198.7) | 5.5 |
| Segment operating income (1) | $ 563.8 | $ 618.6 | $ (54.8) | 8.9 |
| Corporate general and administrative costs | (54.6) | (55.6) | 1.0 | 1.8 |
| Total operating income | 509.2 | 563.0 | (53.8) | 9.6 |
| Net interest expense | (58.8) | (54.8) | (4.0) | 7.3 |
| Other income (expense) net | (10.8) | (12.8) | 2.0 | 15.6 |
| Income from continuing operations before income taxes | 439.6 | 495.4 | (55.8) | 11.3 |
| Income tax expense | (116.7) | (148.4) | 31.7 | 21.4 |
| Income from continuing operations | 322.9 | 347.0 | (24.1) | 6.9 |
| Income from discontinued operations | 31.7 | 7.3 | 24.4 | 334.2 |
| Consolidated net income | 354.6 | 354.3 | 0.3 | 0.1 |
| Net income attributable to noncontrolling interests (2) | (7.7) | (9.8) | 2.1 | 21.4 |
| Net income attributable to Goodrich | $ 346.9 | $ 344.5 | $ 2.4 | 0.7 |
| Effective tax rate | 26.6% | 30.0% | | |
| Diluted EPS: (3) | | | | |
| Continuing operations | $ 2.49 | $ 2.62 | $ (0.13) | 5.0 |
| Net income attributable to Goodrich | $ 2.74 | $ 2.68 | $ 0.06 | 2.2 |

(1) We measure each reporting segment s profit based upon operating income. Accordingly, we do

not allocate net interest expense, other income (expense) net and income taxes to our reporting segments. The company-wide Enterprise Resource Planning (ERP) implementation costs that were not directly associated with a specific business were not allocated to the segments. For a reconciliation of total segment operating income to total operating income, see Note 3, Business Segment Information to our condensed consolidated financial statements.

(2) On January 1, 2009, we adopted Statement of Financial Accounting Standards No. 160. See Note 2, New Accounting Standards to our condensed consolidated financial statements.

(3) On January 1, 2009, we adopted Financial Accounting Standards Board Staff Position No. EITF 03-6-1. See Note 2, New Accounting Standards to our condensed consolidated financial statements.

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**Sales**

The sales decrease in the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 was driven by changes in each of our major market channels as follows:

Large commercial airplane original equipment sales decreased by approximately $68 million, or 7%;

Regional, business and general aviation airplane original equipment sales decreased by approximately $55 million, or 18%; and

Large commercial, regional, business and general aviation airplane aftermarket sales decreased by approximately $154 million, or 12%; partially offset by

Defense and space sales of both original equipment and aftermarket products and services increased by approximately $94 million, or 11%.

**Segment operating income**

See discussion in the Business Segment Performance section.

**Corporate general and administrative costs**

Corporate general and administrative costs increased primarily due to higher share based compensation, as discussed below, partially offset by reductions in discretionary spending.

**Other income (expense) net**

Other income (expense) net decreased for the six months ended June 30, 2009 as compared to the six months ended June 30, 2008, primarily as a result of lower expenses for retiree health expenses for previously owned businesses of approximately $5 million offset by lower income from equity in affiliated companies of approximately $3 million.

**Income from continuing operations**

In addition to the items described above, income from continuing operations during the six months ended June 30, 2009 as compared to the six months ended June 30, 2008 was also impacted by the following items:

| | Increase (Decrease) | | |
|---|---|---|---|
| | Before Tax | After Tax | Diluted EPS |
| | (Dollars in millions, except diluted EPS) | | |
| Lower effective tax rate | $ | $ 15.0 | $ 0.12 |
| Higher pension expense | $ (50.1) | $ (31.8) | $ (0.25) |
| Changes in estimates on long-term contracts | $ (35.2) | $ (21.4) | $ (0.17) |
| Higher share based compensation | $ (15.9) | $ (9.8) | $ (0.07) |

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***Lower effective tax rate***

For the six months ended June 30, 2009, we reported an effective tax rate of 26.6% as compared to 30% for the six months ended June 30, 2008. The decrease in the effective tax rate was primarily due to amended state returns and a favorable adjustment to state tax reserves. See Note 15, Income Taxes to our condensed consolidated financial statements.

***Higher pension expense***

The increase in pension expense was primarily due to the investment losses of our plan assets in 2008 partially offset by the effect of a higher discount rate.

***Changes in estimates on long-term contracts***

During the six months ended June 30, 2009 and 2008, we revised estimates on certain of our long-term contracts, primarily in our aerostructures and aircraft wheels and brakes businesses, which resulted in before tax income of $13.5 million and $48.7 million, respectively.

***Higher share based compensation***

The increase in share based compensation was primarily due to the increase in our share price.

**Income from discontinued operations**

Income from discontinued operations increased primarily due to the favorable resolution of a past environmental claim partially offset by a gain on the sale of a previously discontinued business in March 2008 that did not recur in 2009.

**2009 OUTLOOK**

We expect the following approximate results for the year ending December 31, 2009:

| | **2009 Outlook** |
|---|---|
| Sales | $6.9 billion |
| Diluted EPS Net Income | $4.60 to $4.75 per share |
| Capital Expenditures | $200 to $220 million |
| Operating Cash Flow minus Capital Expenditures | Exceed 75% of net income from continuing operations |

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Full year 2009 sales expectations are approximately $6.9 billion. These sales expectations, compared to 2008, include unfavorable sales impacts of approximately $163 million related to foreign currency exchange rate fluctuations and lower sales of approximately $125 million related to the engine controls joint venture (JV) with Rolls-Royce that was formed in the fourth quarter of 2008. Net income per diluted share is expected to be in a range of $4.60 to $4.75, compared with prior expectations of $4.50 to $4.75.

Our 2009 outlook assumes, among other factors:

- Higher pre-tax pension expense of $101 million, or $0.51 per diluted share, compared to 2008;
- Restructuring charges totaling about $0.09 per diluted share. About one-half of the expected charges were incurred during the first half of 2009; and
- A full year 2009 effective tax rate of 29% to 30%.

**Sales**

Our current market assumptions, for each of our major market channels, for the full year 2009 outlook, compared with the full year 2008, include the following:

- Large commercial airplane original equipment sales are expected to increase slightly in 2009, compared to 2008. This expectation is based on the latest 2009 delivery estimates from Boeing and Airbus of about 480 deliveries each;
- Regional, business and general aviation airplane original equipment sales are expected to decrease by slightly more than 25%. Regional airplane original equipment sales are expected to decrease by 15% to 20%, and business and general aviation original equipment sales are expected to decrease by more than 40%;
- Large commercial, regional, business and general aviation airplane aftermarket sales are expected to decrease by 8% to 10%. These expectations include double-digit decreases in sales in support of freighters and regional, business and general aviation airplanes; and
- Defense and space sales of both original equipment and aftermarket products and services are expected to increase by approximately 12% in 2009, compared to 2008.

**Cash Flow**

We continue to expect net cash provided by operating activities, minus capital expenditures to exceed 75% of net income from continuing operations. Our outlook reflects ongoing investments to support the current schedule for the Boeing 787 and Airbus A350 XWB airplane programs, and low-cost country manufacturing and productivity initiatives that are expected to enhance margins over the near and long term. We now expect capital expenditures for 2009 to be in a range of $200 million to $220 million compared to our prior expectation of $220 million to $240 million.

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## BUSINESS SEGMENT PERFORMANCE

Our three business segments are as follows:

The Actuation and Landing Systems segment provides systems, components and related services pertaining to aircraft taxi, take-off, flight control, landing and stopping, and engine components, including fuel delivery systems and rotating assemblies.

The Nacelles and Interior Systems segment produces products and provides maintenance, repair and overhaul services associated with aircraft engines, including thrust reversers, cowlings, nozzles and their components, and aircraft interior products, including slides, seats, cargo and lighting systems.

The Electronic Systems segment produces a broad array of systems and components that provide flight performance measurements, flight management information, engine controls, fuel controls, electrical power systems, safety data, and reconnaissance and surveillance systems.

We measure each reporting segment s profit based upon operating income. Accordingly, we do not allocate net interest expense, other income (expense) net and income taxes to the reporting segments. The company-wide ERP implementation costs that were not directly associated with a specific business were not allocated to the segments. The accounting policies of the reportable segments are the same as those for our condensed consolidated financial statements. For a reconciliation of total segment operating income to total operating income, see Note 3, Business Segment Information to our condensed consolidated financial statements.

**Second Quarter 2009 Compared with Second Quarter 2008**

| | Second Quarter 2009 | Second Quarter 2008 | Increase/ (Decrease) | % Change | % of Sales 2009 | % of Sales 2008 |
|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | |
| **NET CUSTOMER SALES** | | | | | | |
| Actuation and Landing Systems | $ 637.2 | $ 689.6 | $ (52.4) | 7.6 | | |
| Nacelles and Interior Systems | 595.2 | 665.1 | (69.9) | 10.5 | | |
| Electronic Systems | 467.3 | 494.6 | (27.3) | 5.5 | | |
| | $ 1,699.7 | $ 1,849.3 | $ (149.6) | 8.1 | | |
| **SEGMENT OPERATING INCOME** | | | | | | |
| Actuation and Landing Systems | $ 62.8 | $ 84.5 | $ (21.7) | 25.7 | 9.9 | 12.3 |
| Nacelles and Interior Systems | 135.2 | 160.7 | (25.5) | 15.9 | 22.7 | 24.2 |
| Electronic Systems | 73.9 | 71.5 | 2.4 | 3.4 | 15.8 | 14.5 |
| | $ 271.9 | $ 316.7 | $ (44.8) | 14.1 | 16.0 | 17.1 |

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***Actuation and Landing Systems:*** Actuation and Landing Systems segment sales for the second quarter 2009 decreased from the second quarter 2008 primarily due to the following:

- Lower large commercial, regional, business and general aviation airplane aftermarket sales across all businesses of approximately $33 million;
- Lower regional, business and general aviation OE sales across all businesses of approximately $11 million; and
- Lower defense and space sales of approximately $4 million, primarily in our aircraft wheels and brakes business.

Actuation and Landing Systems segment operating income for the second quarter 2009 decreased from the second quarter 2008 primarily as a result of the following:

- Unfavorable product mix across most businesses, resulting in lower income of approximately $19 million; and
- Lower sales volume across most businesses resulting in lower income of approximately $16 million; partially offset by
- Favorable pricing partially offset by higher operating costs across all businesses, including higher pension expense, which resulted in higher income of approximately $9 million; and
- Higher income of approximately $2 million related to changes in estimates for certain long-term contracts in our wheels and brakes business that were more favorable in 2009.

***Nacelles and Interior Systems:*** Nacelles and Interior Systems segment sales for the second quarter 2009 decreased from the second quarter 2008 primarily due to the following:

- Lower large commercial, regional, business and general aviation airplane aftermarket sales of approximately $40 million, primarily in our aerostructures and interiors businesses;
- Lower large commercial airplane OE sales of approximately $22 million, primarily in our aerostructures business; and
- Lower regional, business, and general aviation airplane OE sales of approximately $17 million, primarily in our aerostructures and interiors businesses; partially offset by
- Higher defense and space sales of approximately $12 million, primarily in our interiors business.

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Nacelles and Interior Systems segment operating income for the second quarter 2009 decreased from the second quarter 2008 primarily due to the following:

- Lower sales volume partially offset by favorable product mix, primarily in our interiors and aerostructures businesses, which resulted in lower income of approximately $40 million; partially offset by

- Favorable pricing partially offset by higher operating costs across all businesses, including higher pension expense, which resulted in higher income of approximately $12 million.

***Electronic Systems:*** Electronic Systems segment sales for the second quarter 2009 decreased from the second quarter 2008 primarily due to the following:

- Lower engine controls sales of approximately $29 million which are no longer being reported by us. Sales in 2009 will be recorded by the engine controls joint venture (JV) with Rolls-Royce that was formed in the fourth quarter of 2008;

- Lower regional, business and general aviation airplane OE sales of approximately $20 million, primarily in our engine controls and electrical power business; and

- Lower large commercial, regional, business and general aviation airplane aftermarket sales of approximately $23 million, primarily in our sensors and integrated systems, engine controls and electrical power businesses; partially offset by

- Higher defense and space sales of approximately $48 million, across all of our businesses, including sales of approximately $15 million associated with the acquisitions of Recon/Optical, Inc. (ROI) and Cloud Cap Technologies, Inc. (Cloud Cap), both of which occurred subsequent to the second quarter of 2008.

Electronic Systems segment operating income for the second quarter 2009 increased from the second quarter 2008 primarily due to the following:

- The favorable effect of the JV on the segment s operating income of approximately $7 million. We will record our portion of the JV s 2009 operating results in other income (expense) net; and

- Favorable pricing partially offset by increased operating costs across all businesses, including higher pension expense, which resulted in higher income of $2 million; partially offset by

- Lower sales volume partially offset by favorable product mix which resulted in lower income of approximately $6 million, primarily in our sensors and integrated systems and engine controls and electric power businesses.

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**Six Months Ended June 30, 2009 Compared with Six Months Ended June 30, 2008**

| | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 | Increase/ (Decrease) | % Change | % of Sales 2009 | % of Sales 2008 |
|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | |
| **NET CUSTOMER SALES** | | | | | | |
| Actuation and Landing Systems | $ 1,249.9 | $ 1,371.7 | $ (121.8) | 8.9 | | |
| Nacelles and Interior Systems | 1,227.4 | 1,285.6 | (58.2) | 4.5 | | |
| Electronic Systems | 918.3 | 937.0 | (18.7) | 2.0 | | |
| | $ 3,395.6 | $ 3,594.3 | $ (198.7) | 5.5 | | |
| **SEGMENT OPERATING INCOME** | | | | | | |
| Actuation and Landing Systems | $ 138.9 | $ 158.6 | $ (19.7) | 12.4 | 11.1 | 11.6 |
| Nacelles and Interior Systems | 283.9 | 339.5 | (55.6) | 16.4 | 23.1 | 26.4 |
| Electronic Systems | 141.0 | 120.5 | 20.5 | 17.0 | 15.4 | 12.9 |
| | $ 563.8 | $ 618.6 | $ (54.8) | 8.9 | 16.6 | 17.2 |

***Actuation and Landing Systems:*** Actuation and Landing Systems segment sales for the six months ended June 30, 2009 decreased from the six months ended June 30, 2008 primarily due to the following:

Lower large commercial, regional, business and general aviation airplane aftermarket sales across all businesses of approximately $52 million;

Lower large commercial airplane OE sales of approximately $41 million, primarily in our landing gear and actuation systems businesses;

Lower other non-aerospace OE and aftermarket sales of approximately $11 million, primarily in our engine components business;

Lower military and space OE and aftermarket sales of approximately $9 million, primarily in our aircraft wheels and brakes business; and

Lower regional, business and general aviation airplane OE sales, across most businesses, of approximately $9 million.

Actuation and Landing Systems segment operating income for the six months ended June 30, 2009 decreased from the six months ended June 30, 2008 primarily as a result of the following:

Lower sales volume across most businesses resulting in lower income of approximately $28 million;

Unfavorable product mix, primarily in our landing gear and aircraft wheels and brakes businesses, resulting in lower income of approximately $16 million; and

Lower income of approximately $13 million related to changes in estimates for certain long-term contracts in our wheels and brakes business that were more favorable in 2008; partially offset by

Favorable pricing and lower operating costs across all businesses, partially offset by higher pension expense, which resulted in higher income of approximately $33 million.

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***Nacelles and Interior Systems:*** Nacelles and Interior Systems segment sales for the six months ended June 30, 2009 decreased from the six months ended June 30, 2008 primarily due to the following:

- Lower large commercial, regional, business and general aviation airplane aftermarket sales of approximately $60 million, primarily in our aerostructures and interiors businesses; and
- Lower regional, business, and general aviation airplane OE sales of approximately $14 million, primarily in our aerostructures business; partially offset by
- Higher defense and space OE and aftermarket sales of approximately $21 million, primarily in our aerostructures and interiors businesses.

Nacelles and Interior Systems segment operating income for the six months ended June 30, 2009 decreased from the six months ended June 30, 2008 primarily due to the following:

- Lower sales volume partially offset by favorable product mix, primarily in our interiors and aerostructures businesses, which resulted in lower income of approximately $55 million; and
- Lower income of approximately $21 million related to changes in estimates for certain long-term contracts at our aerostructures business that were more favorable in 2008; partially offset by
- Favorable pricing partially offset by higher operating costs across all businesses, including higher pension and restructuring expenses, which resulted in higher income of approximately $12 million; and
- Favorable foreign exchange of approximately $8 million.

***Electronic Systems:*** Electronic Systems segment sales for the six months ended June 30, 2009 decreased from the six months ended June 30, 2008 primarily due to the following:

- Lower engine controls sales of approximately $54 million which are no longer being reported by us. Sales in 2009 will be recorded by the engine controls joint venture (JV) with Rolls-Royce that was formed in the fourth quarter of 2008;
- Lower large commercial, regional, business and general aviation airplane aftermarket sales across all businesses of approximately $32 million;
- Lower regional, business and general aviation airplane OE sales of approximately $24 million, primarily in our sensors and integrated systems and engine controls and electrical power businesses; partially offset by
- Higher defense and space sales across all businesses of approximately $93 million, including sales of approximately $33 million associated with the acquisitions of TEAC Aerospace Holdings, Inc. (TEAC), ROI, and Cloud Cap all of which occurred subsequent to the beginning of 2008.

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Electronic Systems segment operating income for the six months ended June 30, 2009 increased from the six months ended June 30, 2008 primarily due to the following:

The favorable effect of the JV on the segment s operating income of approximately $14 million. We will record our portion of the JV s 2009 operating results in other income (expense) net;

Higher sales volume, primarily in our sensors and integrated systems and intelligence, surveillance and reconnaissance businesses, and favorable product mix, primarily in our engine controls and electrical power business, which resulted in higher income of approximately $6 million; and

Favorable pricing partially offset by increased operating costs across all businesses, including higher pension expense, which resulted in higher income of approximately $4 million; partially offset by

Unfavorable foreign exchange of approximately $3 million.

## LIQUIDITY AND CAPITAL RESOURCES

We currently expect to fund expenditures for capital requirements and other 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 plans and commitments, including our stock repurchase program, and also provide adequate financial flexibility. The current economic conditions, including the turmoil in the banking sector and credit markets, are expected to be manageable due to our strong balance sheet, lack of any large near-term funding requirements and a strong banking group with a multi-year committed credit facility.

The following events have affected our liquidity and capital resources during 2009:

We paid quarterly dividends of $0.25 per share on January 2, April 1 and July 1;

On February 19, 2009, we issued $300 million in senior notes which mature on March 1, 2019. We used a portion of the proceeds to repay $120 million for the 6.6% senior notes which matured May 15, 2009 and to make a $137 million contribution to the U.S. defined benefit pension plan; and

On May 1, 2009, we completed the acquisition of Cloud Cap Technology, Inc. (Cloud Cap), a leading provider of proprietary avionics products for small, unmanned aerial vehicles and sensors for manned vehicles, for $29.1 million, net of cash acquired. Cloud Cap is reported in the Electronics Systems segment.

### Cash

At June 30, 2009, we had cash and cash equivalents of $619.4 million, as compared to $370.3 million at December 31, 2008.

**Credit Facilities**

We have the following amounts available under our credit facilities:

- $500 million committed global revolving credit facility that expires in May 2012, of which $448 million was available at June 30, 2009; and

- $75 million of uncommitted domestic money market facilities and $158.5 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements, of which $193.1 million was available at June 30, 2009.

**Off-Balance Sheet Arrangements**

***Lease Commitments***

We lease certain of our office and manufacturing facilities as well as machinery and equipment, including corporate aircraft, under various committed lease arrangements provided by financial institutions. Future minimum lease payments under operating leases were $176.5 million at June 30, 2009.

One of these arrangements allows us, rather than the lessor, to claim a deduction for tax depreciation on the asset and allows us to lease a corporate aircraft with a total commitment amount of $43.8 million. This lease is priced at a spread over LIBOR. Lease payments under this arrangement are expected to commence in the first quarter of 2011. At June 30, 2009, there were no future payments outstanding under this arrangement.

**Derivatives**

We utilize certain derivative financial instruments to enhance our ability to manage risk, including foreign currency and interest rate exposures that exist as part of ongoing business operations as follows:

- ***Foreign Currency Contracts Designated as Cash Flow Hedges:*** At June 30, 2009, our contracts had a notional amount of $1,967.8 million, fair value of a $8.4 million net liability and maturity dates ranging from July 2009 to December 2013. The amount of accumulated other comprehensive income that would be reclassified into earnings in the next 12 months is a loss of $22.8 million. During the six months ended June 30, 2009 and 2008, we realized net losses of $40.1 million and net gains of $41.3 million, respectively, related to contracts that settled. During the second quarter of 2009 and 2008, we realized net losses of $15.8 million and net gains of $21 million, respectively, related to contracts that settled.

- ***Foreign Currency Contracts not Designated as Hedges:*** At June 30, 2009, our contracts had a notional amount of $36.1 million and a fair value liability of $4 million. At December 31, 2008, there were no such contracts outstanding. During the six months ended June 30, 2009 and 2008, we realized net gains of $13 million and $8.2 million, respectively, for contracts entered into and settled during those periods. During the second quarter of 2009 and 2008, we realized net gains of $22.1 million and net losses of $0.1 million, respectively for contracts entered into and settled during those periods.

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Estimates of the fair value of our derivative financial instruments represent our best estimates based on our valuation models, which incorporate industry data and trends and relevant market rates and transactions. Counterparties to these financial instruments expose us to credit loss in the event of nonperformance; however, we do not expect any of the counterparties to fail to meet their obligations. Counterparties, in most cases, are large commercial banks that also provide us with our committed credit facilities. To manage this credit risk, we select counterparties based on credit ratings, limit our exposure to any single counterparty and monitor our market position with each counterparty.

**Contractual Obligations and Other Commercial Commitments**

As of June 30, 2009, there have been no material changes, other than the issuance of $300 million of 6.125% senior notes due in 2019, long-term debt repayments of $120 million and approximately a 10% decrease of our purchase obligations to the table presented in our Annual Report on Form 10-K for the year ended December 31, 2008. The table excludes our liability for unrecognized tax benefits, which was $279.5 million at June 30, 2009, since we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

**CASH FLOW**

The following table summarizes our cash flow activity for the six months ended June 30, 2009 and 2008:

| | 2009 | 2008 | Change |
|---|---|---|---|
| | | (Dollars in millions) | |
| Operating activities of continuing operations | $ 174.5 | $ 319.5 | $(145.0) |
| Investing activities of continuing operations | $(103.1) | $(207.2) | $ 104.1 |
| Financing activities of continuing operations | $ 119.6 | $(267.9) | $ 387.5 |
| Discontinued operations | $ 49.6 | $ 13.5 | $ 36.1 |

***Operating Activities of Continuing Operations***

The decrease in net cash provided by operating activities is primarily due to worldwide pension plan contributions of approximately $160 million during the six months ended June 30, 2009, compared to approximately $20 million during the six months ended June 30, 2008.

***Investing Activities of Continuing Operations***

Net cash used by investing activities for the six months ended June 30, 2009 and 2008 included capital expenditures of $73.2 million and $116.3 million, respectively. During the six months ended June 30, 2009, we completed the acquisition of Cloud Cap Technology, Inc. (Cloud Cap) for $29.1 million, net of cash acquired. During the six months ended June 30, 2008, we completed the acquisitions of Skyline Industries, Inc. for $9.5 million in cash and TEAC Aerospace Holdings, Inc. (TEAC) for $84 million, net of cash acquired.

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***Financing Activities of Continuing Operations***

The net cash provided by financing activities for the six months ended June 30, 2009 consisted primarily of the $300 million in proceeds from issuance of senior notes offset by long-term debt repayments of $120 million for notes which matured in May 2009. The net cash used in financing activities for the six months ended June 30, 2008 consisted primarily of long-term debt repayments of $197 million for notes which matured in April 2008.

***Discontinued Operations***

Net cash provided by discontinued operations for the six months ended June 30, 2009 was due to the resolution of a past environmental claim. Net cash provided by discontinued operations for the six months ended June 30, 2008 consisted of the finalization of the purchase price for Goodrich Aviation Technical Services, Inc. (ATS) which was sold during 2007 and proceeds from the sale of a previously discontinued operation.

## CONTINGENCIES

### General

There are various pending or threatened claims, lawsuits and administrative proceedings against us or our subsidiaries, arising in the ordinary course of business which seek remedies or damages. Although no assurance can be given with respect to the ultimate outcome of these matters, 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. Legal costs are expensed when incurred.

### Environmental

We are subject to 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. At certain sites 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 applicable laws.

Estimates of our environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration our prior experience and professional judgment of our environmental specialists. 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 cost estimates, 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.

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Accordingly, as investigation and remediation 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 or cash flows in a given period. 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.

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 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, third party indemnity obligations, and an assessment of the likelihood that such parties will fulfill their obligations at such sites.

Our condensed consolidated balance sheet included an accrued liability for environmental remediation obligations of $64 million and $62.3 million at June 30, 2009 and December 31, 2008, respectively. At June 30, 2009 and December 31, 2008, $20.8 million and $20.9 million, respectively, of the accrued liability for environmental remediation were included in current liabilities as accrued expenses. At June 30, 2009 and December 31, 2008, $25.3 million and $24 million, respectively, was associated with ongoing operations and $38.7 million and $38.3 million, respectively, was associated with previously owned businesses.

We expect that we will expend present accruals over many years, and will generally complete remediation in less than 30 years at 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.

Certain states in the U.S. and countries globally are promulgating or proposing new or more demanding regulations or legislation impacting the use of various chemical substances by all companies. We are currently evaluating the potential impact, if any, of complying with such regulations and legislation.

During the three months ended June 30, 2009, a judgment in our favor became final when the initial verdict was upheld on appeal. As a result of the favorable verdict, we received $79.1 million from Commercial Union Insurance Company for reimbursement of environmental remediation costs, attorney fees and interest. A former subsidiary of ours, however, has a claim for a portion of the insurance proceeds. Accordingly, we have recorded a reserve for amounts we believe may be paid to the former subsidiary related to this matter. As the above relates to a divested business that had previously been reported as a discontinued operation, our estimate of the net amount we will realize as a result of the favorable verdict has been reported within Discontinued Operations. See Note 6, Discontinued Operations to our condensed consolidated financial statements.

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**Asbestos**

We and some of our subsidiaries have been named as defendants in various actions by plaintiffs alleging damages as a result of exposure to asbestos fibers in products or at 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. We believe that pending and reasonably anticipated future actions 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 or cash flows in a given period.

**Insurance Coverage**

We maintain a comprehensive portfolio of insurance policies, including aviation products liability insurance which covers most of our products. The aviation products liability insurance provides first dollar coverage for defense and indemnity of third party claims.

A portion of our historical primary and excess layers of pre-1986 insurance coverage for third party claims was provided by certain insurance carriers who are either insolvent, undergoing solvent schemes of arrangement or in run-off. We have entered into settlement agreements with a number of these insurers pursuant to which we agreed to give up our rights with respect to certain insurance policies in exchange for negotiated payments. These settlements represent negotiated payments for our loss of insurance coverage, as we no longer have this insurance available for claims that may have qualified for coverage. A portion of these settlements was recorded as income for reimbursement of past claim payments under the settled insurance policies and a portion was recorded as a deferred settlement credit for future claim payments.

At June 30, 2009 and December 31, 2008, the deferred settlement credit was $46.6 million and $49.4 million, respectively, for which $6.3 million and $6.4 million, respectively, was reported in accrued expenses and $40.3 million and $43 million, respectively, was reported in other non-current liabilities. The proceeds from such insurance settlements were reported as a component of net cash provided by operating activities in the period payments were received.

**Liabilities of Divested Businesses**

***Asbestos***

In May 2002, we completed the tax-free spin-off of our Engineered Industrial 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 prior to our ownership. 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. 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 and other such claims. 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. We believe that such claims would not have a material adverse effect on our financial condition, but could have a material adverse effect on our results of operations and cash flows in a particular period.

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*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**

At June 30, 2009, we had letters of credit and bank guarantees of $82.8 million and residual value guarantees of lease obligations of $27.2 million. See Note 11, Financing Arrangements and Note 17, Guarantees to our condensed consolidated financial statements. We are guarantor on a revolving credit agreement totaling £20 million between Rolls-Royce Goodrich Engine Control Systems Limited (JV) and a financial institution. In addition, we guarantee the JV s foreign exchange credit line and we are indemnified by Rolls-Royce for 50%.

**Aerostructures Long-term Contracts**

Our aerostructures business in the Nacelles and Interior Systems segment has several long-term contracts in the pre-production phase including the Boeing 787 and Airbus A350 XWB, and in the early production phase including the Airbus A380. These contracts are accounted for in accordance with the provisions of the 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).

The pre-production phase includes design of the product to meet customer specifications as well as design of the processes to manufacture the product. Also involved in this phase is securing the supply of material and subcomponents produced by third party suppliers that are generally accomplished through long-term supply agreements.

Contracts in the early production phase include excess-over-average inventories, which represent the excess of current manufactured cost over the estimated average manufactured cost during the life of the contract.

Cost estimates over the lives of contracts are affected by estimates of future cost reductions including learning curve efficiencies. Because these contracts cover manufacturing periods of up to 20 years or more, there is risk associated with the estimates of future costs made during the pre-production and early production phases. These estimates may be different from actual costs due to the following:

- Ability to recover costs incurred for change orders and claims;
- Costs, including material and labor costs and related escalation;
- Labor improvements due to the learning curve experience;
- Anticipated cost productivity improvements related to new manufacturing methods and processes;

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Supplier pricing including escalation where applicable, supplier claims (see Boeing 787 Contract below) and the supplier s ability to perform;

The cost impact of product design changes that frequently occur during the flight test and certification phases of a program; and

Effect of foreign currency exchange fluctuations.

Additionally, total contract revenue is based on estimates of future units to be delivered to the customer, the ability to recover costs incurred for change orders and claims and sales price escalation, where applicable. There is a risk that there could be differences between the actual units delivered and the estimated total units to be delivered under the contract and differences in actual sales escalation compared to estimates. Changes in estimates could have a material impact on our results of operations and cash flows.

Provisions for estimated losses on uncompleted contracts are recorded in the period such losses are determined to the extent total estimated costs exceed total estimated contract revenues.

***Boeing 787 Contract***

During 2004, our aerostructures business entered into a long-term supply contract with Boeing on the 787 program. Our latest outlook projects approximately $5 billion of original equipment sales for this program. Aftermarket sales associated with this program are not accounted for using the percentage-of-completion method of accounting.

The Boeing 787 program has experienced delays in its development schedule and Boeing has requested numerous changes in the design of our product and scope of our work. Under the terms of our contract, we are entitled to reimbursement of certain costs and equitable price adjustments under certain circumstances. Discussions with Boeing are ongoing. If we are unable to reach a fair and equitable resolution with Boeing or if any of the actual costs or revenues differ from the estimates, it could have a material adverse effect on our financial position, results of operations and/or cash flows in a given period.

On July 21, 2008, Alenia Aermacchi, S.p.A. (AAeM) filed a Demand for Arbitration with the American Arbitration Association against Rohr, Inc. (Rohr), a wholly-owned subsidiary of ours (our aerostructures business), in connection with a contract for the supply of fan cowls used in the nacelles that Rohr provides to Boeing on the 787 program. According to its Statement of Claims filed on August 15, 2008, AAeM seeks declaratory relief, rescission of the supply contract and monetary damages, based upon allegations of commercial impracticability, lack of compensation for costs associated with design changes and Rohr s mismanagement of the program. On September 22, 2008, Rohr filed its answer, seeking to uphold the contract and denying liability, and instituted a counterclaim against AAeM, seeking damages for breach of contract and breach of covenant of good faith and fair dealing. On October 31, 2008, AAeM filed its answer generally denying the allegations made against it in Rohr s counterclaims. On December 17, 2008, we amended our counterclaim to seek declaratory relief regarding ownership of certain intellectual property. An arbitrator was selected on April 20, 2009. The arbitration stay, which had been in place since December 22, 2008, expired on May 1, 2009 and AAeM filed an Amended Statement of Claims on the same day. On May 29, 2009 Goodrich filed its Answering Statement to AAeM s May 1, 2009 Amended Statement of Claims. Initial discovery began on June 16, 2009 when the parties exchanged their first Requests for Production of Documents. The arbitration

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hearing is scheduled for February 22, 2010. Notwithstanding the expiration of the arbitration stay and the resumption of the arbitration proceedings, the parties are currently involved in discussions regarding a possible settlement and mutual release of claims. We believe that we have substantial legal and factual defenses to AAeM s claims, and we intend to defend our interests and pursue our counterclaims vigorously. Given the nature and status of this proceeding, we cannot yet determine the amount or a reasonable range of potential loss, if any. If we are unable to adequately resolve the dispute with AAeM, it could have a material adverse effect on our financial position, results of operations and/or cash flows in a given period.

**Tax**

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.

***Tax Years 2000 to 2004***

During 2007, we reached agreement with the IRS on substantially all of the issues raised with respect to the examination of taxable years 2000 to 2004. We submitted a protest to the Appeals Division of the IRS with respect to the remaining unresolved issues. We believe the amount of the estimated tax liability if the IRS were to prevail is fully reserved. We cannot predict the timing or ultimate outcome of a final resolution of the remaining unresolved issues.

***Tax Years Prior to 2000***

The previous examination cycle included the consolidated income tax groups for the audit periods identified below:

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

We previously reached final settlement with the IRS on all but one of the issues raised in this examination cycle. We received statutory notices of deficiency dated June 14, 2007 related to the remaining unresolved issue which involves the proper timing of certain deductions. We filed a petition with the U.S. Tax Court in September 2007 to contest the notices of deficiency. We believe the amount of the estimated tax liability if the IRS were to prevail is fully reserved. Although it is reasonably possible that this matter could be resolved during the next 12 months, the timing or ultimate outcome is uncertain.

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Rohr was examined by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California disallowed certain expenses incurred by one of Rohr s subsidiaries in connection with the lease of certain tangible property. California s Franchise Tax Board held that the deductions associated with the leased equipment were non-business deductions. The additional tax associated with the Franchise Tax Board s position is $4.5 million. The amount of accrued interest associated with the additional tax is approximately $28 million at June 30, 2009. In addition, the State of California enacted an amnesty provision that imposes nondeductible penalty interest equal to 50% of the unpaid interest amounts relating to taxable years ended before 2003. The penalty interest is approximately $14 million at June 30, 2009. The tax and interest amounts continue to be contested by Rohr. No payment has been made for the $28 million of interest or $14 million of penalty interest.

In April 2009, the Superior Court of California issued a ruling, granting our motion for summary judgment. The State of California has 60 days from entry of the judgment, which occurred in June 2009, to appeal the ruling. Once the State s appeals have been exhausted, if the Superior Court s decision is not overturned, we will be entitled to a refund of the $4.5 million of tax, together with interest from the date of payment.

## CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of our financial condition and results of operations is based upon our 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, goodwill and intangible assets, income taxes, financing obligations, warranty obligations, excess component order cancellation costs, restructuring, long-term service contracts, share-based compensation, 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 condensed consolidated financial statements.

***Revenue Recognition***

### Contract Accounting-Percentage of Completion

We have sales under long-term 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 requirements of SOP 81-1, 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.

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Estimates of revenue and cost for our contracts span a period of many years from the inception of the contracts to the date of actual shipments and are based on a substantial number of underlying assumptions. We believe that the underlying factors are sufficiently reliable to provide a reasonable estimate of the profit to be generated. However, due to the significant length of time over which revenue streams will be generated, the variability of the assumptions of the revenue and cost streams can be significant if the factors change. The factors include but are not limited to estimates of the following:

- Escalation of future sales prices under the contracts;
- Ability to recover costs incurred for change orders and claims;
- Costs, including material and labor costs and related escalation;
- Labor improvements due to the learning curve experience;
- Anticipated cost productivity improvements related to new manufacturing methods and processes;
- Supplier pricing including escalation where applicable, supplier claims and the supplier s ability to perform;
- The cost impact of product design changes that frequently occur during the flight test and certification phases of a program; and
- Effect of foreign currency exchange fluctuations.

***Inventory***

Inventoried costs on long-term contracts include certain pre-production 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. During the early years of a contract, manufacturing costs per unit delivered are typically greater than the estimated average unit cost for the total contract. This excess manufacturing cost for units shipped 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 exceed the anticipated remaining sales value of such contract, such excess is charged to cost of sales in the period identified, thus reducing inventory to estimated realizable value.

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***Unbilled Receivables***

Our aerostructures business is party to a long-term supply arrangement whereby we receive cash payments for our performance over a period that extends beyond our performance period of the contract. The contract is accounted for using the percentage of completion method of contract accounting. Unbilled receivables include revenue recognized that will be realized from cash payments to be received beyond the period of performance. In estimating our revenues to be received under the contract, cash receipts that are expected to be received beyond the performance period are included at their present value as of the end of the performance period. Unbilled receivables that are expected to be realized by cash receipts within the performance period are classified as current in our condensed consolidated balance sheet whereas those expected to be realized by cash receipts beyond the performance period are classified as long-term. At June 30, 2009 and December 31, 2008, there were no unbilled receivables classified as long-term.

***Product Maintenance Arrangements***

We have entered into long-term product maintenance arrangements to provide specific products and services to customers for a specified amount per flight hour, brake landing and/or aircraft landings. We account for such contracts in accordance with FASB Technical Bulletin No. 90-1 Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts (FTB 90-1). As such, revenue is recognized as the service is performed and the costs are incurred. We have sufficient historical evidence that indicates that the costs of performing the service under the contract are incurred on other than a straight line basis.

**Income Taxes**

In accordance with SFAS 109, Accounting Principles Board Opinion No. 28, Interim Financial Reporting and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods, as of each interim reporting period, we estimate an effective income tax rate that is expected to be applicable for the full fiscal year. In addition, we establish reserves for tax contingencies in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). 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 subjective 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.

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**Goodwill and Identifiable Intangible Assets**

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. Changes to these assumptions could result in the recognition of impairment.

Goodwill is not amortized but is tested for impairment annually, or when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. Our annual testing date is November 30. We test goodwill for impairment by first comparing the book value of net assets to the fair value of the related reporting units. If the fair value is determined to be less than book value, a second step is performed to compute the amount of the impairment. In this process, a fair value for goodwill is estimated, based in part on the fair value of the operations, and is compared to its carrying value. The amount of the fair value below carrying value represents the amount of goodwill impairment.

We estimate the fair values of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future sales and operating costs, based primarily on existing firm orders, expected future orders, contracts with suppliers, labor agreements and general market conditions. Changes in these forecasts could significantly change the amount of impairment recorded, if any impairment exists. The cash flow forecasts are adjusted by a long-term growth rate and a discount rate derived from our weighted-average cost of capital at the date of evaluation.

**Other Assets**

As with any investment, there are risks inherent in recovering the value of participation payments, sales incentives, flight certification costs and 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 OE manufacturers (OEM) and other program suppliers or the aircraft customer; and
- Availability of specialized raw materials in the marketplace.

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***Participation Payments***

Certain of our businesses make cash payments under long-term contractual arrangements to OEM or system contractors in return for a secured position on an aircraft program. Participation payments are capitalized, when a contractual liability has been incurred, as other assets and amortized as a reduction to sales, as appropriate. At June 30, 2009 and December 31, 2008, the carrying amount of participation payments was $118.4 million and $118 million, respectively. The carrying amount of participation payments is evaluated for recovery at least annually or when other indicators of impairment exist, such as a change in the estimated number of units or a revision in the economics of the program. If such estimates change, amortization expense is adjusted and/or an impairment charge is recorded, as appropriate, for the effect of the revised estimates. No impairment charges were recorded in the three and six months ended June 30, 2009 or 2008.

***Sales Incentives***

We offer sales incentives such as up-front cash payments, merchandise credits and/or free products to certain airline customers in connection with sales contracts. 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 to cost of sales, or as a reduction to sales, as appropriate. At June 30, 2009 and December 31, 2008, the carrying amount of sales incentives was $61.9 million and $62.4 million, respectively. The carrying amount of sales incentives is evaluated for recovery when indicators of potential impairment exist. The carrying value of the sales incentives is also compared annually to the amount recoverable under the terms of the guarantee in the customer contract. If the amount of the carrying value of the sales incentives exceeds the amount recoverable in the contract, the carrying value is reduced. No impairment charges were recorded in the three and six months ended June 30, 2009 or 2008.

***Flight Certification Costs***

When a supply arrangement is secured, certain of our businesses may agree to supply hardware to an OEM to be used in flight certification testing and/or make cash payments to reimburse an OEM for costs incurred in testing the hardware. The flight certification testing is necessary to certify aircraft systems/components for the aircraft s airworthiness and allows the aircraft to be flown and thus sold in the country certifying the aircraft. Flight certification costs are capitalized in other assets and are amortized to cost of sales, or as a reduction to sales, as appropriate. At June 30, 2009 and December 31, 2008, the carrying amount of sales flight certification costs was $41.8 million and $34 million, respectively. The carrying amount of flight certification costs is evaluated for recovery when indicators of impairment exist or when the estimated number of units to be manufactured changes. No impairment charges were recorded in the three and six months ended June 30, 2009 or 2008.

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*Entry Fees*

Our aerostructures business in our Nacelles and Interior Systems segment made a cash payment to an OEM under a long-term contractual arrangement related to a new engine program. The payments are referred to as entry fees and entitle us to a controlled access supply contract and a percentage of total program revenue generated by the OEM. Entry fees are capitalized in other assets and are amortized over units of delivery as a reduction to sales. At June 30, 2009 and December 31, 2008, the carrying amount of entry fees was $25.2 million and $25.5 million, respectively. The carrying amount of entry fees is evaluated for recovery at least annually or when other significant assumptions or economic conditions change. Recovery of entry fees is assessed based on the expected cash flow from the program over the remaining program life as compared to the recorded amount of entry fees. If the carrying value of the entry fees exceeds the cash flow to be generated from the program, a charge would be recorded to reduce the entry fees to their recoverable amounts. No impairment charges were recorded in the three and six months ended June 30, 2009 or 2008.

**Service and Product Warranties**

We provide service and warranty policies on certain of our products. We accrue liabilities under service and warranty policies based upon specific claims and a review of historical warranty and service claim experience in accordance with Statement of Financial Accounting Standards No 5, Accounting for Contingencies . Adjustments are made to accruals as claim data and historical experience change. In addition, we incur discretionary costs to service our products in connection with product performance issues. Our service and product warranty reserves are based upon a variety of factors. Any significant change in these factors could have a material impact on our results of operations. Such factors include but are not limited to the following:

- The historical performance of our products and changes in performance of newer products;

- The mix and volumes of products being sold; and

- The impact of product changes.

**Share-Based Compensation**

We utilize the fair value method of accounting to account for share-based compensation awards.

***Assumptions***

***Stock Options***

We use the Black-Scholes-Merton formula to estimate the expected value that our employees will receive from the options based on a number of assumptions, such as interest rates, employee exercises, our stock price and expected dividend yield. Our weighted-average assumptions included:

| | 2009 | 2008 |
|---|---|---|
| Risk-free interest rate % | 1.8 | 3.3 |
| Expected dividend yield % | 2.6 | 1.3 |
| Historical volatility factor % | 33.3 | 31.2 |
| Weighted-average expected life of the options (years) | 5.6 | 5.6 |

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The expected life is a significant assumption as it determines the period for which the risk-free interest rate, historical volatility and expected dividend yield must be applied. The expected life is the period over which our employees are expected to hold their options. It is based on our historical experience with similar grants. The risk free interest rate is based on the expected U.S. Treasury rate over the expected life. Historical volatility reflects movements in our stock price over the most recent historical period equivalent to the expected life. Expected dividend yield is based on the stated dividend rate as of the date of grant.

***Restricted Stock Units***

The fair value of the restricted stock units is determined based upon the average of the high and low grant date fair value. The weighted-average grant date fair value during the first six months of 2009 and 2008 was $38.37 and $69.68 per unit, respectively.

***Performance Units***

The value of each award is determined based upon the average of the high and low fair value of our stock, as adjusted for a performance condition and a market condition. The performance condition is applied to 50% of the awards and is based upon our actual return on invested capital (ROIC) as compared to a target ROIC. The market condition is applied to 50% of the awards and is based on our relative total shareholder return (RTSR) as compared to the RTSR of a peer group of companies. Since the awards will be paid in cash, they are recorded as a liability award in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) Share-Based Payment and are marked to market each reporting period. As such, assumptions are revalued for each award on an ongoing basis.

**Pension and Postretirement Benefits Other Than Pensions**

We consult with an outside actuary as to the appropriateness for many of the assumptions used in determining the benefit obligations and the annual expense for our worldwide pension and postretirement benefits other than pensions. 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, as well as our outlook for the future. Health care cost projections and the mortality rate assumption are evaluated annually. The U.S. discount rate was determined based on a customized yield curve approach. Our projected pension and postretirement benefit payment cash flows were each plotted against a yield curve composed of a large, diverse group of Aa-rated corporate bonds. The resulting discount rates were used to determine the benefit obligations. In Canada and the U.K., a similar approach to determining discount rates in the U.S. was utilized. The appropriate benchmarks by applicable country were used for pension plans other than those in the U.S., U.K. and Canada to determine the discount rate assumptions.

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**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 from expected performance include, but are not limited to:

- demand for and market acceptance of new and existing products, such as the Airbus A350 XWB and A380, the Boeing 787 Dreamliner, the EMBRAER 190, the Mitsubishi Regional Jet (MRJ), the Bombardier CSeries, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and F-22 Raptor;
- our ability to extend our commercial OE contracts beyond the initial contract periods;
- cancellation or delays of orders or contracts by customers or with suppliers, including delays or cancellations associated with the Boeing 787 Dreamliner, the Airbus A380 and A350 XWB aircraft programs, and major military programs;
- our ability to obtain price adjustments pursuant to certain of our long-term contracts;
- the financial viability of key suppliers and the ability of our suppliers to perform under existing contracts;
- successful development of products and advanced technologies;
- the health of the commercial aerospace industry, including the impact of bankruptcies and/or consolidations in the airline industry;
- global demand for aircraft spare parts and aftermarket services;
- changing priorities or reductions in the defense budgets in the U.S. and other countries, U.S. foreign policy and the level of activity in military flight operations;
- the possibility of restructuring and consolidation actions;
- threats and events associated with and efforts to combat terrorism;
- the extent to which expenses relating to employee and retiree medical and pension benefits change;
- competitive product and pricing pressures;

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- our ability to recover 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 Industries Inc, bear some responsibility for the asbestos-related liabilities of Coltec and its subsidiaries;
- the effect of changes in accounting policies or tax legislation;
- cumulative catch-up adjustments or loss contract reserves on long-term contracts accounted for under the percentage of completion method of accounting;
- domestic and foreign government spending, budgetary and trade policies;
- economic and political changes in international markets where we compete, such as changes in currency exchange rates, inflation, fuel prices, deflation, recession and other external factors over which we have no control;
- the outcome of contingencies including completion of acquisitions, divestitures, tax audits, litigation and environmental remediation efforts; and
- the impact of labor difficulties or work stoppages at our, a customer s or a supplier s facilities.

We caution you not to place undue reliance on the forward-looking statements contained in this document, which speak only as of the date on which such statements are made. We undertake no obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date on which such statements were made or to reflect the occurrence of unanticipated events.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in interest rates and foreign currency exchange rates, which could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We use such derivative financial instruments as risk management tools and not for speculative investment purposes. Our discussion of market risk in our 2008 Annual Report on Form 10-K provides more discussion as to the types of instruments used to manage risk. Refer to Note 18, Derivatives and Hedging Activities of our condensed consolidated financial statements in Part 1 Item 1 of this Form 10-Q for a description of current developments involving our hedging activities.

At June 30, 2009, a hypothetical 100 basis point increase in reference interest rates would increase annual interest expense by $0.6 million. At June 30, 2009, a hypothetical 10 percent strengthening of the U.S. dollar against other foreign currencies would decrease the value of our forward contracts by $217.3 million. The fair value of these foreign currency forward contracts was a liability of $8.4 million at June 30, 2009. Because we hedge only a portion of our exposure, a strengthening of the U.S. Dollar as described above would have a more than offsetting benefit to our financial results in future periods.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our Chairman, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Management necessarily applied its judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance regarding management s disclosure control objectives.

We have carried out an evaluation, under the supervision and with the participation of our management, including our Chairman, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report (the Evaluation Date). Based upon that evaluation, our Chairman, President and Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of the Evaluation Date to provide reasonable assurance regarding management s disclosure control objectives.

**Changes in Internal Control**

There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We and certain of our subsidiaries are defendants in various claims, lawsuits and administrative proceedings. In addition, we have been notified that we are among potentially responsible parties under federal environmental laws, or similar state laws, relative to the cost of investigating and in some cases remediating contamination by hazardous materials at several sites. See the disclosure under the captions General , Environmental , Asbestos , Liabilities of Divested Businesses-Asbestos , Boeing 787 Contract and Tax in Note 16, Contingencies to the condensed consolidate financial statements included in Part 1, Item 1, of this Form 10-Q, which disclosure is incorporated herein by reference.

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**Item 1A. Risk Factors.**

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report of Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

(c) The following table summarizes Goodrich Corporation s purchases of its common stock for the three months ended June 30, 2009:

**ISSUER PURCHASES OF EQUITY SECURITIES**

| Period | (a) Total Number of Shares Purchased (1) | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2) | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3) |
|---|---|---|---|---|
| April 2009 | 4,430 | $ 40.59 | | |
| May 2009 | 3,007 | 41.92 | | |
| June 2009 | 4,832 | 51.62 | | |
| Total | 12,269 | 45.26 | | $ 246 million |

(1) The category includes shares delivered to us by employees to pay withholding taxes due upon vesting of a restricted unit award and to pay the exercise price of employee stock options.

(2) This balance represents the number of shares that were repurchased under the Company s repurchase program (the Program). The Program was initially announced on October 24, 2006. On February 19, 2008, the Company announced that its Board of Directors had increased the dollar amount of shares that could be purchased under the Program from $300 million to $600 million. Unless terminated earlier by resolution of the Company s Board of Directors, the Program will expire when the Company has purchased all shares authorized for repurchase. The Program does not obligate the Company to repurchase any particular amount of common stock,

and may be suspended or discontinued at any time without notice.

(3) This balance represents the value of shares that can be repurchased under the Program.

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**Item 4. Submission of Matters to a Vote of Security Holders**

The 2009 Annual Meeting of Shareholders was held on April 21, 2009 at 10:00 a.m. Eastern time at the Company s headquarters in Charlotte, North Carolina. As described in the 2009 Proxy Statement, the following occurred:

The eleven nominees for director were elected;

The appointment of Ernst & Young LLP as independent registered public accounting firm for the year 2008 was ratified; and

The shareholder proposal regarding an amendment to the Restated Certificate of Incorporation for majority election of Directors in uncontested elections received a majority of the votes cast.

The votes were as follows:

**Election of Directors:**

| | Number of Shares Voted For | Number of Shares Voted Withheld |
|---|---|---|
| Diane C. Creel | 108,628,877 | 1,603,211 |
| George A. Davidson, Jr. | 108,581,531 | 1,650,556 |
| Harris E. DeLoach, Jr. | 109,476,598 | 755,490 |
| James W. Griffith | 106,657,586 | 3,574,501 |
| William R. Holland | 109,284,227 | 947,860 |
| John P. Jumper | 108,874,137 | 1,357,950 |
| Marshall O. Larsen | 107,416,312 | 2,815,775 |
| Lloyd W. Newton | 108,556,797 | 1,675,290 |
| Douglas E. Olesen | 108,881,982 | 1,350,105 |
| Alfred M. Rankin, Jr. | 108,885,868 | 1,346,219 |
| A. Thomas Young | 108,709,933 | 1,522,154 |

**Appointment of Independent Registered Public Accounting Firm:**

108,710,598 shares voted for; 1,351,794 shares voted against; and 169,693 shares abstained from voting.

**Shareholder proposal regarding an amendment to the Restated Certificate of Incorporation for majority election of Directors in uncontested elections:**

60,292,450 shares voted for; 35,956,365 shares voted against; and 633,921 shares abstained from voting; and 13,349,351 shares were broker non-votes.

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**Item 6. Exhibits.**

The following exhibits have been filed with this report:

| | |
|---|---|
| Exhibit 3.1 | Restated Certificate of Incorporation of Goodrich Corporation, filed as Exhibit 3.1 to Goodrich Corporation s Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (File No. 1-892), is incorporated herein by reference. |
| Exhibit 3.2 | By-Laws of Goodrich Corporation, as amended, filed as Exhibit 10.9 to Goodrich Corporation s Current Report on Form 8-K dated December 12, 2008, is incorporated herein by reference. In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, Goodrich Corporation hereby undertakes to furnish to the Securities and Exchange Commission upon request, a copy of all instruments defining the rights of holders of long-term debt. |
| Exhibit 15 | Letter Re: Unaudited Interim Financial Information. |
| Exhibit 31.1 | Rule 13a-14(a)/15d-14(a) Certification. |
| Exhibit 31.2 | Rule 13a-14(a)/15d-14(a) Certification. |
| Exhibit 32 | Section 1350 Certifications. |
| Exhibit 101 | The following financial information from Goodrich Corporation s Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 filed with the SEC on July 23, 2009, formatted in XBRL includes: (i) Consolidated Income Statements for the fiscal periods ended June 30, 2009 and June 30, 2008, (ii) Consolidated Balance Sheets at June 30, 2009 and December 31, 2008, (iii) Consolidated Cash Flow Statements for the fiscal periods ended June 30, 2009 and June 30, 2008, and (iv) the Notes to Consolidated Financial Statements, tagged as blocks of text. |

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## SIGNATURE

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

| | | |
|---|---|---|
| July 23, 2009 | | GOODRICH CORPORATION |
| | By | /s/ SCOTT E. KUECHLE<br>Scott E. Kuechle<br>Executive Vice President and Chief Financial Officer |
| | By | /s/ SCOTT A. COTTRILL<br>Scott A. Cottrill<br>Vice President and Controller<br>(Principal Accounting Officer) |

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## EXHIBIT INDEX

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* Submitted electronically herewith.