GOODRICH CORP
Form 10-Q
April 30, 2007

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 March 31, 2007

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 **2730 West Tyvola Road** **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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer þ Accelerated Filer o Non-Accelerated Filer 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

As of March 31, 2007, there were 125,166,048 shares of common stock outstanding (excluding 14,000,000 shares held by a wholly owned subsidiary). There is only one class of common stock.

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 March 31, 2007, and the related condensed consolidated statement of income for the three-month periods ended March 31, 2007 and 2006, and the condensed consolidated statement of cash flows for the three-month periods ended March 31, 2007 and 2006. 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, 2006, 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 19, 2007, 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, 2006, 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
April 26, 2007

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions, except per share amounts)	
Sales	$ 1,588.5	$ 1,423.8
Operating costs and expenses:		
Cost of sales	1,133.7	1,043.9
Selling and administrative costs	255.8	237.2
	1,389.5	1,281.1
Operating Income	199.0	142.7
Interest expense	(31.6)	(32.0)
Interest income	1.8	1.1
Other income (expense) net	(15.6)	(10.6)
Income from continuing operations before income taxes	153.6	101.2
Income tax benefit (expense)	(53.8)	99.1
Income From Continuing Operations	99.8	200.3
Income from discontinued operations net of income taxes		0.6
Cumulative effect of change in accounting		0.6
Net Income	$ 99.8	$ 201.5
Basic Earnings Per Share		
Continuing operations	$ 0.80	$ 1.62
Discontinued operations		
Cumulative effect of change in accounting		0.01
Net Income	$ 0.80	$ 1.63
Diluted Earnings Per Share		
Continuing operations	$ 0.78	$ 1.59
Discontinued operations		
Cumulative effect of change in accounting		0.01
Net Income	$ 0.78	$ 1.60
Dividends Declared Per Common Share	$ 0.20	$ 0.20

See Notes to Condensed Consolidated Financial Statements (Unaudited)

CONSENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2007	December 31, 2006
	(Dollars in millions, except share amounts)	
Current Assets		
Cash and cash equivalents	$ 231.9	$ 201.3
Accounts and notes receivable, less allowances for doubtful receivables ($20.5 million at March 31, 2007 and $19.8 million at December 31, 2006)	1,009.4	912.4
Inventories net	1,647.5	1,551.8
Deferred income taxes	232.1	250.3
Prepaid expenses and other assets	76.9	91.7
Total Current Assets	3,197.8	3,007.5
Property, plant and equipment net	1,323.7	1,327.7
Prepaid pension	2.3	2.3
Goodwill	1,344.3	1,341.3
Identifiable intangible assets net	468.3	472.0
Deferred income taxes	32.3	35.5
Other assets	707.4	714.9
Total Assets	$ 7,076.1	$ 6,901.2
Current Liabilities		
Short-term debt	$	$ 11.8
Accounts payable	669.3	584.6
Accrued expenses	829.5	819.0
Income taxes payable	87.2	212.5
Deferred income taxes	3.3	3.3
Current maturities of long-term debt and capital lease obligations	1.2	1.4
Total Current Liabilities	1,590.5	1,632.6
Long-term debt and capital lease obligations	1,722.1	1,721.7
Pension obligations	607.9	612.1
Postretirement benefits other than pensions	378.5	379.1
Long-term income taxes payable	143.3	
Deferred income taxes	41.3	57.2
Other non-current liabilities	517.1	521.8
Commitments and contingent liabilities		
Shareholders Equity		
Common stock $5 par value		
Authorized 200,000,000 shares; issued 140,398,499 shares at March 31, 2007 and 139,041,884 shares at December 31, 2006 (excluding 14,000,000 shares held by a wholly owned subsidiary)	702.0	695.2
Additional paid-in capital	1,358.8	1,313.3

Income retained in the business	751.1	666.5
Accumulated other comprehensive income (loss)	(241.1)	(260.8)
Common stock held in treasury, at cost (15,232,451 shares at March 31, 2007 and 14,090,913 shares at December 31, 2006)	(495.4)	(437.5)
Total Shareholders Equity	2,075.4	1,976.7
Total Liabilities And Shareholders Equity	$ 7,076.1	$ 6,901.2

See Notes to Condensed Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
Operating Activities		
Net income	$ 99.8	$ 201.5
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations		(0.6)
Cumulative effect of change in accounting		(0.6)
Restructuring and consolidation:		
Expenses	0.2	1.5
Payments	(0.6)	(1.8)
Pension and postretirement benefits:		
Expenses	31.6	33.6
Contributions and benefit payments	(10.4)	(7.1)
Asset impairments		0.9
Depreciation and amortization	61.4	56.3
Excess tax benefits related to share-based payment arrangements	(4.0)	(1.2)
Share-based compensation expense	16.2	21.9
Deferred income taxes	(9.0)	(4.2)
Change in assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	(93.5)	(96.6)
Inventories, net of pre-production and excess-over-average	(57.6)	(54.2)
Pre-production and excess-over-average inventories	(32.8)	(28.4)
Other current assets	4.2	9.1
Accounts payable	81.8	62.8
Accrued expenses	0.3	(17.7)
Income taxes payable	51.4	(87.7)
Other non-current assets and liabilities	(15.9)	(21.9)
Net Cash Provided By Operating Activities	123.1	65.6
Investing Activities		
Purchases of property, plant and equipment	(36.9)	(43.2)
Proceeds from sale of property, plant and equipment	0.1	0.1
Net Cash Used In Investing Activities	(36.8)	(43.1)
Financing Activities		
Increase (decrease) in short-term debt, net	(11.8)	6.1
Repayment of long-term debt and capital lease obligations	(0.4)	(0.4)
Proceeds from issuance of common stock	36.8	18.5
Purchases of treasury stock	(57.8)	(0.4)
Dividends	(25.1)	(24.6)
Excess tax benefits related to share-based payment arrangements	4.0	1.2
Distributions to minority interest holders	(1.7)	(1.0)

Net Cash Used In Financing Activities	(56.0)	(0.6)
Discontinued Operations		
Net cash provided by (used in) operating activities	(0.3)	9.1
Net cash provided by (used in) investing activities		
Net cash provided by (used in) financing activities		
Net cash (used) provided by discontinued operations	(0.3)	9.1
Effect of exchange rate changes on cash and cash equivalents	0.6	0.7
Net increase in cash and cash equivalents	30.6	31.7
Cash and cash equivalents at beginning of period	201.3	251.3
Cash and cash equivalents at end of period	$ 231.9	$ 283.0

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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 footnotes required by accounting principles generally accepted in the United States for complete financial statements. Unless indicated otherwise or the context requires, the terms we, our, us, Goodrich or Comp refer to Goodrich Corporation and its subsidiaries. The Company believes that all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be achieved for the twelve months ending December 31, 2007. For further information, refer to the consolidated financial statements and footnotes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006. Unless otherwise noted, disclosures pertain to the Company s continuing operations.

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 months ended March 31, 2007, the Company changed its estimate of revenue on certain long term contracts primarily as a result of improved cost performance. The changes in estimate increased income from continuing operations by approximately $10 million after tax.

Note 2. New Accounting Standards Not Yet Adopted

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option would also be required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS 159 is effective for the fiscal years beginning after November 15, 2007. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. The Company is currently evaluating the impact of the adoption of SFAS 159 on the Company s financial condition and results of operations.

Fair Value Measurement

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for the fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS 157 on the Company s financial condition and results of operations.

Accounting for Postretirement Benefits Associated with Split-Dollar Life Insurance

In September 2006, the FASB ratified Emerging Issues Task Force No. 06-4, Accounting for Deferred Compensation and Postretirement Benefits Associated with Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4) and in March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements. EITF 06-4 requires deferred compensation or postretirement benefit aspects of an endorsement-type split-dollar life insurance arrangement to be recognized as a liability by the employer and states the obligation is not effectively settled by the purchase of a life insurance policy. The liability for future benefits should be recognized based on the substantive agreement with the employee, which may be either to provide a future death benefit or to pay for the future cost of the life insurance. EITF 06-10 provides recognition guidance for postretirement benefit liabilities related to collateral assignment split-dollar life insurance arrangements, as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment split -dollar life insurance arrangement. EITF 06-4 and EITF 06-10 are effective for fiscal years beginning after December 15, 2007. The Company is currently evaluating the impact of the adoption of EITF 06-4 and EITF 06-10 on the Company s financial condition, results of operations and cash flows.

Note 3. Business Segment Information

Effective January 1, 2007, the Company realigned its businesses within its three reporting segments. Under the new organizational structure, several businesses were combined into larger strategic business units and several businesses were moved into different segments from the prior reporting structure. The segment reporting structure was designed to accelerate the Company s focus on operational excellence and to further enhance the Company s alignment with its key product and technology areas. Along with the segment realignment, the results of the Company s customer services business were allocated to the business that manufactures the product or system. Additionally, Enterprise Resource Planning (ERP) implementation costs that are not directly associated with a specific business were reported as a component of corporate administrative expense. Prior period results have been reclassified to conform to the new organizational structure. Effective January 1, 2007, 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, as well as engine components, including fuel delivery systems and rotating assemblies, and airframe maintenance.

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, as well as reconnaissance and surveillance systems.

The Company measures each reporting segments 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 accounting policies of the reportable segments are the same as those for the Company s consolidated financial statements.

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
Sales:		
Actuation and Landing Systems	$ 609.2	$ 538.4
Nacelles and Interior Systems	546.9	493.8
Electronic Systems	432.4	391.6
	$ 1,588.5	$ 1,423.8
Intersegment sales:		
Actuation and Landing Systems	$ 6.7	$ 6.1
Nacelles and Interior Systems	4.4	3.6
Electronic Systems	9.6	9.7
	$ 20.7	$ 19.4
Operating income:		
Actuation and Landing Systems	$ 49.9	$ 23.3
Nacelles and Interior Systems	126.3	104.8
Electronic Systems	54.8	42.9
	231.0	171.0
Corporate general and administrative expenses	(28.7)	(27.2)
ERP implementation costs	(3.3)	(1.1)
Total operating income	$ 199.0	$ 142.7

	March 31, 2007	December 31, 2006
Total assets:		
Actuation and Landing Systems	$ 2,241.9	$ 2,182.0
Nacelles and Interior Systems	2,236.4	2,150.1
Electronic Systems	1,925.9	1,904.7
Corporate	671.9	664.4
	$ 7,076.1	$ 6,901.2

Note 4. Other Income (Expense) Net

Other Income (Expense) Net consisted of the following:

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
Retiree health care expenses related to previously owned businesses	$ (4.8)	$ (4.8)
Expenses related to previously owned businesses	(5.7)	(1.4)
Minority interest and equity in affiliated companies	(5.6)	(3.8)
Other net	0.5	(0.6)
Other income (expense) net	$ (15.6)	$ (10.6)

Expenses related to previously owned businesses primarily relates to litigation and costs to remediate environmental issues.

Note 5. Discontinued Operations

Discontinued operations were as follows:

	Three Months Ended March 31,	
	2007	2006
	(Dollars in millions)	
Sales	$	$
Operating income	$	$ 1.0
Income tax expense	$	(0.4)
Income from discontinued operations	$	$ 0.6

Income from discontinued operations for the three months ended March 31, 2006 included insurance settlements with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation, net of related expenses.

Note 6. Earnings Per Share

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

	Three Months Ended March 31,	
	2007	2006
	(In millions, except per share amounts)	
Numerator		
Numerator for basic and diluted earnings per share income from continuing operations	$ 99.8	$ 200.3
Denominator		
Denominator for basic earnings per share weighted-average shares	125.2	123.5
Effect of dilutive securities:		
Stock options, employee stock purchase plan, restricted shares and restricted share units	2.5	2.0
Other deferred compensation shares	0.1	0.1
	2.6	2.1
Denominator for diluted earnings per share adjusted weighted-average shares and assumed conversion	127.8	125.6
Per share income from continuing operations		
Basic	$ 0.80	$ 1.62
Diluted	$ 0.78	$ 1.59

At March 31, 2007 and 2006, the Company had outstanding approximately 6.1 million and 7.1 million stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. For the three months ended March 31, 2007,

diluted earnings per share excludes approximately 4,000 of stock options that are anti-dilutive, due to the current market price of the Company s stock being less than the exercise price, and 715,000 of stock options, that vest solely based upon a market condition. For additional information see Note 17, Share-Based Compensation . For the three months ended March 31, 2006, approximately 830,000 anti-dilutive stock options were excluded from diluted earnings per share.

During the three months ended March 31, 2007 and 2006, the Company issued approximately 1.4 million and 0.8 million, respectively, of shares of common stock pursuant to stock option exercises and other stock-based compensation plans.

During the three months ended March 31, 2007, the Company repurchased approximately 1 million shares under the share repurchase program that was approved by the Board of Directors on October 24, 2006.

Note 7. Sale of Receivables

At March 31, 2006, the Company had in place a variable rate trade receivables securitization program pursuant to which the Company could sell receivables up to a maximum of $140 million. Accounts receivable sold under this program were $97.1 million at March 31, 2006.

Effective June 30, 2006, the Company terminated the variable rate trade receivable securitization program and repaid the balance of $97.1 million.

Note 8. Inventories

Inventories consist of the following:

	March 31, 2007	December 31, 2006
	(Dollars in millions)	
FIFO or average cost (which approximates current costs):		
Finished products	$ 328.1	$ 334.9
In-process	953.4	880.9
Raw materials and supplies	445.1	416.0
	1,726.6	1,631.8
Less:		
Reserve to reduce certain inventories to LIFO basis	(49.0)	(48.5)
Progress payments and advances	(30.1)	(31.5)
Total	$ 1,647.5	$ 1,551.8

In-process inventory includes $431.8 million and $399 million as of March 31, 2007 and December 31, 2006, respectively, for the following: (1) pre-production and excess-over-average inventory accounted for under long-term contract accounting; and (2) engineering costs recoverable under long-term contractual arrangements. The March 31, 2007 balance of $431.8 million includes $242.7 million related to Boeing 787 contracts.

The Company uses the last-in, first-out (LIFO) method of valuing inventory. 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. Accordingly, interim LIFO calculations are based on management s estimates of expected year end inventory levels and costs and are subject to the final year end LIFO inventory valuation.

Note 9. Goodwill and Identifiable Intangible Assets

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

	Balance December 31, 2006	Business Combinations Completed or Finalized	Foreign Currency Translation	Balance March 31, 2007
		(Dollars in millions)		
Actuation and Landing Systems	$ 326.3	$	$ 1.4	$ 327.7
Nacelles and Interior Systems	422.9		1.3	424.2
Electronic Systems	592.1		0.3	592.4

$ 1,341.3	$	$ 3.0	$ 1,344.3

Note 10. Financing Arrangements

The Company has a $500 million committed global syndicated revolving credit facility that expires in May 2011. At March 31, 2007, there were $34.9 million in borrowings and $20.4 million in letters of credit outstanding under the facility. At December 31, 2006, there were $34.9 million in borrowings and $20.4 million in letters of credit outstanding under the facility. The level of unused borrowing capacity under the Company s committed syndicated revolving credit facility varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement, including the consolidated net worth requirement and maximum leverage ratio. The Company is currently in compliance with all such covenants. As of March 31, 2007, the Company had borrowing capacity under this facility of $444.7 million, after reductions for borrowings and letters of credit outstanding under the facility.

At March 31, 2007, the Company also maintained $75 million of uncommitted domestic money market facilities and $148 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At March 31, 2007, there were no borrowings outstanding under these facilities. At December 31, 2006, there was $11.8 million outstanding in borrowings under these facilities. These credit facilities are provided by a small number of commercial banks that also provide the Company with committed credit through the syndicated revolving credit facility described above and with various cash management, trust and other services.

The Company s committed syndicated revolving credit facility contains various restrictive covenants that, among other things, place limitations on the payment of cash dividends and the repurchase of the Company s common stock. Under the most restrictive of these covenants, $1,088.9 million of income retained in the business and additional paid in capital was free from such limitations at March 31, 2007.

Lease Commitments

The Company finances certain of its office and manufacturing facilities as well as machinery and equipment, including corporate aircraft, under various committed lease arrangements provided by financial institutions. Certain of these arrangements allow the Company to claim a deduction for tax depreciation on the assets, rather than the lessor, and allow the Company to lease aircraft and equipment having a maximum unamortized value of $55 million at March 31, 2007. These leases are priced at a spread over LIBOR and are automatically extended periodically, unless notice is provided, through the end of the lease terms, which range from 2011 to 2012. At March 31, 2007, future payments under these leases total $15.5 million through the end of the lease terms.

At March 31, 2007, the Company had guarantees of residual values on lease obligations of $32.3 million. The Company is obligated to either purchase or remarket the leased assets at the end of the lease term. Future minimum lease payments under the standard operating leases approximated $127.5 million at March 31, 2007.

Note 11. Pensions and Postretirement Benefits
Pensions
The following table sets forth the components of net periodic benefit costs (income) for the three months ended March 31, 2007 and 2006. The net periodic benefit costs (income) for divested or discontinued operations retained by the Company are included in the amounts below.

	U.S. Plans Three Months Ended March 31,		U.K. Plans Three Months Ended March 31,		Other Non-U.S. Plans Three Months Ended March 31,	
	2007	2006	2007	2006	2007	2006
			(Dollars in millions)			
Service cost	$ 11.3	$ 13.7	$ 7.5	$ 7.2	$ 1.1	$ 1.1
Interest cost	40.0	38.3	10.0	8.1	1.3	1.2
Expected rate of return on plan assets	(48.8)	(45.9)	(14.8)	(11.8)	(1.4)	(1.4)
Amortization of prior service cost	1.9	2.2	(0.3)			
Amortization of actuarial (gain) loss	15.6	16.0		0.3	0.3	0.3
Periodic benefit cost (income)	20.0	24.3	2.4	3.8	1.3	1.2
Settlements and curtailments (gain) loss						
Special termination benefit charge (credit)						
Net benefit cost (income)	$ 20.0	$ 24.3	$ 2.4	$ 3.8	$ 1.3	$ 1.2

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

	U.S. Plans Three Months Ended March 31,		U.K. Plans Three Months Ended March 31,		Other Non-U.S. Plans Three Months Ended March 31,	
	2007	2006	2007	2006	2007	2006
Discount rate	5.89%	5.64%	5.00%	4.75%	4.88%	4.76%
Expected long-term return on assets	9.00%	9.00%	8.50%	8.50%	8.28%	8.34%
Rate of compensation increase	3.86%	3.63%	3.50%	3.50%	3.36%	3.34%

Postretirement Benefits Other Than Pensions
The following table sets forth the components of net periodic postretirement benefit costs for the three months ended March 31, 2007 and 2006. Other postretirement benefits (OPEB) related to divested and discontinued operations retained by the Company are included in the amounts below.

	Three Months Ended March 31,	
	2007	2006

	(Dollars in millions)	
Service cost	$ 0.5	$
Interest cost	5.9	4.6
Amortization of prior service cost		(0.1)
Amortization of actuarial (gain) loss	1.5	(0.2)
Periodic benefit cost	7.9	4.3
Settlements and curtailments (gain) loss		
Special termination benefit charge (credit)		
Net periodic benefit cost	$ 7.9	$ 4.3

The net periodic postretirement benefit cost for the three months ended March 31, 2006 includes a non-recurring reduction of $3.2 million for a revision in the plan provisions used in the actuarial valuation of other postretirement benefits related to the acquisition of the aeronautical systems businesses. The $3.2 million reduction of net periodic postretirement benefit cost consists of $0.4 million reduction to service cost, $1.2 million reduction to interest cost and $1.6 million reduction to the amortization of actuarial (gains) losses.
The following table provides the assumptions used to determine the net periodic postretirement benefit costs.

	Three Months Ended March 31,	
	2007	**2006**
Discount rate	5.79%	5.55%
Healthcare trend rate	9% in 2007 to 5% in 2013	9% in 2006 to 5% in 2010

Note 12. Comprehensive Income/(Loss)
Total comprehensive income consisted of the following:

	Three Months Ended March 31,	
	2007	**2006**
	(Dollars in millions)	
Comprehensive Income/(Loss)		
Net income	$ 99.8	$ 201.5
Other comprehensive income/(loss):		
Unrealized foreign currency translation gains (losses) during period	11.4	11.8
Pension/OPEB liability adjustments during the period	16.6	
Gain (loss) on cash flow hedges	(8.3)	3.6
Total	$ 119.5	$ 216.9

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

	March 31, 2007	**December 31, 2006**
	(Dollars in millions)	
Accumulated Other Comprehensive Income/(Loss)		
Cumulative unrealized foreign currency translation gains (losses)	$ 259.8	$ 248.4
Pension/OPEB liability adjustments	(547.0)	(563.6)
Accumulated gains (losses) on cash flow hedges	46.1	54.4
Total	$ (241.1)	$ (260.8)

The pension/OPEB liability amounts above are net of deferred taxes of $340 million and $341.8 million at March 31, 2007 and December 31, 2006, respectively. The accumulated gain on cash flow hedges above is net of deferred taxes of $25.7 million and $30.1 million at March 31, 2007 and December 31, 2006, respectively. No income taxes are provided on foreign currency translation gains as foreign earnings are considered permanently invested.

Note 13. Income Taxes

The Company s effective tax rate for the three months ended March 31, 2007 was 35%. Significant items that had an impact on the effective tax rate included tax benefit from domestic production activities which reduced the effective tax rate by approximately 1 percentage point, domestic and foreign tax credits which reduced the effective tax rate by approximately 4 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 3 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 3 percentage points.

In July 2006, FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 creates a single model for accounting and disclosure of uncertain tax positions. This interpretation prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Additionally, FIN 48 provides guidance on derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions.

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized approximately a $10 million increase to the January 1, 2007 balance of retained earnings with a corresponding decrease to reserves for tax contingencies. The Company had a $209.2 million liability recorded for unrecognized tax benefits as of January 1, 2007, which included interest and penalties of $118 million. The Company continues to record interest and penalties related to unrecognized tax benefits in income tax expense. The total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was $163 million.

As of March 31, 2007, the Company had a $217.7 million liability recorded for unrecognized tax benefits, which included interest and penalties of $120.9 million. The total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was $170.3 million.

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, various U.S. state jurisdictions and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local examinations for years before 2000 and non-U.S. income tax examinations by tax authorities for years before 2002. The current Internal Revenue Service (IRS) examination cycle began in 2005 and involves the taxable years ended December 31, 2000 through December 31, 2004. The examination team has substantially completed field work. There were numerous issues raised by the IRS as part of the current examination, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, depreciation, amortization and the proper timing for certain other deductions for income tax purposes. The Company believes that agreement could be reached with the IRS on most of these issues during 2007. The Company cannot predict the ultimate outcome of the current IRS examination. However, it is reasonably possible that during the next 12 months some portion of previously unrecognized tax benefits could be recognized which could be material to the Company s results of operations and cash flows.

Note 14. Contingencies

General

There are pending or threatened against the Company or its subsidiaries various claims, lawsuits and administrative proceedings, arising from the ordinary course of business, including commercial, product liability, asbestos and environmental matters, 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 flow. From time to time, the Company is also involved in legal proceedings as a plaintiff involving tax, contract, patent protection, environmental and other matters. Gain contingencies, if any, are recognized when they are realized. Legal costs are generally expensed as incurred.

Environmental

The Company is subject to various domestic and international 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, including divested sites for which the Company has contractual obligations relating to the environmental conditions of such site. 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 these laws.

Estimates of the Company s environmental liabilities are based on current facts, laws, regulations and technology, and take into consideration the Company s prior experience and professional judgment of the Company s environmental specialists in consultation with outside environmental specialists, when necessary. Estimates of the Company s environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and 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 results of operations 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 its financial condition. There can be no assurance, however, that future developments will not have a material adverse effect on its results of operations or cash flows in a given period.

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

The Company s Condensed Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of $72.6 million and $74.3 million at March 31, 2007 and at December 31, 2006, respectively. At March 31, 2007 and December 31, 2006, $17.5 million and $17.7 million, respectively, of the accrued liability for environmental remediation were included in current liabilities as accrued expenses. At March 31, 2007 and December 31, 2006, $30.1 million and $31 million, respectively, was associated with ongoing operations and $42.5 million and $43.3 million, respectively, was associated with businesses previously owned or discontinued.

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

Asbestos

The Company and a number of its subsidiaries have been named as defendants in various actions by plaintiffs alleging injury or death as a result of exposure to asbestos fibers in products, or which may have been present in its facilities. A number of these cases involve maritime claims, which have been and are expected to continue to be administratively dismissed by the court. These actions primarily relate to previously owned businesses. The Company believes that pending and reasonably anticipated future actions, net of anticipated insurance recoveries, are not likely to have a material adverse effect on the Company s financial condition, results of operations or cash flows. There can be no assurance, however, that future legislative or other developments will not have a material adverse effect on the Company s results of operations in a given period.

Insurance Coverage

The Company believes that it has substantial insurance coverage available to it related to third party claims against the Company. However, the pre-1976 primary layer of insurance coverage was provided by the Kemper Insurance Companies (Kemper). Kemper has indicated that, due to capital constraints and downgrades from various rating agencies, it has ceased underwriting new business and now focuses on administering policy commitments from prior years. Kemper has also indicated that it is currently operating under a run-off plan under the supervision of the Illinois Division of Insurance. The Company cannot predict the impact of Kemper s financial position on the availability of the Kemper insurance.

In addition, 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 or undergoing solvent schemes of arrangement. 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, some of which are subject to increase under certain circumstances. These settlements represent negotiated payments for the Company s loss of insurance coverage, as it no longer has insurance available for claims that may have qualified for coverage. These settlements have been recorded as income for reimbursement of past claim payments under the settled insurance policies and as a deferred settlement credit for future claim payments.

At March 31, 2007, the deferred settlement credit was approximately $38 million for which approximately $3 million is reported in accrued expenses and approximately $35 million 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 Products (EIP) segment, which at the time of the spin-off included EnPro Industries, Inc. (EnPro) and Coltec Industries Inc (Coltec). At that time, two subsidiaries of Coltec were defendants in a significant number of personal injury claims relating to alleged asbestos-containing products sold by those subsidiaries. It is possible that asbestos-related claims might be asserted against the Company on the theory that it has some responsibility for the asbestos-related liabilities of EnPro, Coltec or its subsidiaries, even though the activities that led to those claims occurred prior to the Company s ownership of any of those subsidiaries. Also, it is possible that a claim might be asserted against the Company that Coltec s dividend of its aerospace business to the Company prior to the spin-off was made at a time when Coltec was insolvent or caused Coltec to become insolvent. Such a claim could seek recovery from the Company on behalf of Coltec of the fair market value of the dividend.

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

Other

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

Aerostructures Long-Term Contracts

The aerostructures business has several long-term contracts in the pre-production and early production phases (e.g., Boeing 787, Airbus A380 and A350 XWB). The pre-production phase includes design of the product to meet customer specifications as well as design of the manufacturing processes to manufacture the product. Also involved in this phase is securing supply of material and subcomponents produced by third party suppliers that are generally accomplished through long-term supply agreements. In addition to these factors, 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 over the life of the contract. Cost estimates over the life of the contract are affected by estimates of future cost reductions including learning curve efficiencies. Because these contracts cover periods of up to 20 years or more, there is risk that estimates of future costs made during the pre-production and early production phases will be different from actual costs and that difference could be significant.

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 current IRS examination cycle began in 2005 and involves the taxable years ended December 31, 2000 through December 31, 2004. The examination team has substantially completed field work. There were numerous issues raised by the IRS, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, depreciation, amortization and the proper timing for certain other deductions for income tax purposes. The Company believes that agreement could be reached with the IRS on most of these issues during 2007. The Company cannot, however, predict the ultimate outcome of the current IRS examination.

The prior examination cycle, which began in 2002, includes the consolidated income tax groups in 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 related to the prior examination cycle. The Company anticipates filing a petition with the U.S. Tax Court to contest the remaining unresolved issue which involves the proper timing of certain deductions. 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 this matter.

Rohr has been under examination by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr s subsidiaries in connection with the lease of certain tangible property. California s Franchise Tax Board 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 approximately $4.5 million. The amount of accrued interest associated with the additional tax is approximately $21 million as of March 31, 2007. 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 $10.5 million as of March 31, 2007. The tax and interest amounts continue to be contested by Rohr. The Company believes that it is adequately reserved for this contingency. During 2005, Rohr made payments of approximately $3.9 million ($0.6 million for tax and $3.3 million for interest) related to items that were not being contested and approximately $4.5 million related to items that are being contested. No payment has been made for the $21 million of interest or $10.5 million of penalty interest. Under California law, Rohr may be required to pay the full amount of interest prior to filing any suit for refund. If required, Rohr expects to make this payment and file suit for a refund in late 2007 or early 2008.

Note 15. Guarantees

The Company extends financial and product performance guarantees to third parties. As of March 31, 2007, the following environmental remediation indemnification and financial guarantees were outstanding:

	Maximum Potential Payment	Carrying Amount of Liability
Environmental remediation indemnification (Note 14)	No limit	$13.2
Debt and lease payments	$ 2.0	$
Residual value on leases	$32.3	$
Letter of credit and bank guarantees	$54.1	$

The letters of credit and bank guarantees of $54.1 million are inclusive of $20.4 million in letters of credit outstanding under the Company s syndicated revolving credit facility, which are discussed in Note 10, Financing Arrangements .

The debt and lease payments primarily represent obligations of the Company under industrial development revenue bonds to finance additions to facilities that have since been divested. Each of these obligations was assumed by a third party in connection with the Company s divestiture of the related facilities. If the assuming parties default, the Company will be liable for payment of the obligations. The industrial development revenue bonds mature in February 2008. It is not practical to obtain independent estimates of the fair values for the contingent liability for guaranteed debt and lease payments and for letters of credit.

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 three months ended March 31, 2007 are as follows:

		(Dollars in millions)
Balance at December 31, 2006	$	160.3
Net provisions for warranties issued during the year		11.3
Net (benefit) provisions for warranties existing at the beginning of the year		(0.6)
Payments		(9.0)
Foreign currency translation		0.8
Balance at March 31, 2007	$	162.8

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

	March 31, 2007		December 31, 2006
	(Dollars in millions)		
Short-term liabilities	$ 66.4	$	57.5
Long-term liabilities	96.4		102.8
Total	$ 162.8	$	160.3

Note 16. Derivatives and Hedging Activities

The Company utilizes certain financial instruments to manage risk, including foreign currency and interest rate exposures that exist as part of ongoing business operations. A description of the Company s use of derivative instruments is included in Note 19, Derivatives and Hedging Activities of the Company s Annual Report on Form 10-K for the year ended December 31, 2006.

Foreign Currency Contracts

The Company enters forward contracts to manage its Great Britain Pounds Sterling, Euros, Canadian Dollars and Polish Zloty foreign currency exposures.

The total fair value of the Company s forward contracts accounted for as cash flow hedges was a gain of $73.9 million (before deferred taxes of $25.7 million) at March 31, 2007. The notional value of the forward contracts at March 31, 2007 was $1,765.6 million. As of March 31, 2007, the amount of accumulated other comprehensive income that would be reclassified into earnings as an increase in sales to offset the effect of the hedged item in the next 12 months is a gain of $37.7 million. These forward contracts mature on a monthly basis with maturity dates that range from April 2007 to December 2011. During the three months ended March 31, 2007 and 2006, there was a negligible amount of ineffectiveness.

The Company also uses 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 are not designated as hedges. Accordingly, the gains or losses on these contracts are recorded in cost of sales. The notional amounts are adjusted periodically to reflect changes in net monetary asset balances. Under this program, as of March 31, 2007, the Company had forward contracts with a notional value of $252 million, of which approximately $223 million matures monthly and $29 million matures through 2011.

Interest Rate Swaps

The notional amounts of outstanding interest rate swaps accounted for as fair value hedges at March 31, 2007 totaled $193 million with maturity dates ranging from 2008 to 2016. The fair value of the interest rate swaps was a net liability/loss of $1.9 million at March 31, 2007.

Note 17. Share-Based Compensation

During the three months ended March 31, 2007 and 2006, the Company expensed share-based compensation awards under the Goodrich Corporation 2001 Equity Compensation Plan and the Goodrich Corporation 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, 2006.

Share-Based Compensation Expense

Total share-based compensation expense recorded in continuing operations during the three months ended March 31, 2007 and 2006 was as follows:

	Three Months Ended March 31,	
	2007	2006
	(In millions, except per share amount)	
Share-based compensation expense before income taxes	$ 16.2	$ 21.9
Share-based compensation expense after income taxes	$ 9.9	$ 14.2
Basic earnings per share	$ 0.08	$ 0.11
Diluted earnings per share	$ 0.08	$ 0.11

Share-based compensation expense during the three months ended March 31, 2006 included approximately $11 million of compensation expense that resulted from accelerated expense on awards granted to employees who were retirement eligible on the grant date. The three months ended March 31, 2007 did not include a similar charge. Accelerated expense of $9.6 million was recognized related to 2007 grants to individuals eligible for retirement on the December 2006 approval date.

Grants

Share-based compensation is primarily comprised of expense related to stock option, restricted stock unit and performance unit grants. A summary of the Company s stock option, restricted stock unit and performance unit grants during the three months ended March 31, 2007 and 2006 and the grant date weighted-average fair value are as follows:

	Stock Options		Restricted Stock Units		Performance Units	
Three months ended:	Shares	Weighted Average Fair Value	Shares	Weighted Average Fair Value	Shares	Weighted Average Fair Value
March 31, 2007	1,346,350(a)	$ 13.29	555,900	$ 46.08	149,700	$ 51.46
March 31, 2006	696,300	$ 13.43	586,400	$ 40.44	189,100	$ 46.21

(a) Includes 715,000 of stock options that vest solely based upon a market condition.

Stock Options

During the three months ended March 31, 2007 and 2006, the Company granted the following types of stock options:

Granted in 2007 and 2006: stock options that have a three-year service condition.

Granted in 2007 only: special stock options with a seven-year term that include a market condition whereby the options vest when the price per share of the Company s stock closes at or above $65.00 per share for any 5 business days during a 20 consecutive-business-day-period.

The grant date fair value for the stock options with the three-year service condition was estimated under the Black-Scholes-Merton formula using the following weighted-average assumptions:

2007 grants: risk-free rate of 4.5%, dividend yield of 1.7%, volatility factor of 34.6% and weighted-average expected life of 5.5 years.

2006 grants: risk-free rate of 4.3%, dividend yield of 2%, volatility factor of 36.1% and weighted-average expected life of 5.5 years.

The grant date fair value for the 2007 special stock options was estimated using a Monte Carlo Simulation approach in a risk-neutral framework with the following assumptions: risk-free rate range from 4.95% to 4.82%, dividend yield of 1.76% and a volatility factor of 31.78%. Since the special stock options only vest if the market condition is met, a service period of 1.5 years was derived using a real-world simulation framework using a 12% cost of equity.

Restricted Stock Units

The grant date fair value was determined based upon the average of the high and low prices of the Company s stock on the grant date.

Performance Units

Performance units have a three-year term and are paid in cash. Accordingly, the units are recorded as liability awards, and the fair value is adjusted on a quarterly basis. The value of one-half of the units is based upon the Company s actual return on invested capital (ROIC) as compared to a target ROIC, which is approved by the Compensation Committee of the Board of Directors. The value of the other one-half of the units is based upon the Company s relative total shareholder return (RTSR) as compared to the RTSR of a peer group of companies.

At each reporting period, the fair value of the ROIC-based units is determined based upon the average of the high and low prices of the Company s stock multiplied by the number of ROIC units, which are adjusted based upon current expectations regarding achievement of the ROIC target. The maximum adjustment to the number ROIC-based units is 200 percent of the number of ROIC-based units granted and their reinvested dividends.

The fair value of the RTSR-based units was determined using a Monte Carlo Simulation approach in a risk-neutral framework based upon historical volatility, risk free rates and correlation matrixes of the Company s historical performance as compared to the peer group of companies. In accordance with the plan, the maximum adjustment to the fair value of the RTSR-based units is 200 percent of the fair value of the Company s stock on the last day of the three-year term.

Share-Based Compensation Benefits Realized

The following share-based compensation benefits were realized:

Stock Option Exercises: During the three months ended March 31, 2007 and 2006, approximately 878,400 and 522,300 stock options were exercised, respectively. The cash received by the Company from the exercise of stock options totaled $29 million and $11.6 million during the three months ended March 31, 2007 and 2006, respectively.

Restricted Stock Units Paid in Common Stock: Approximately 253,300 and 16,600 shares of common stock were issued during the three months ended March 31, 2007 and 2006, respectively.

Performance Units Paid in Cash: The total cash payments during the three months ended March 31, 2007 and 2006, approximated $11.9 million and $10.1 million, respectively.

Employee Stock Purchase Plan Shares Issued: Approximately 225,000 and 251,200 shares of common stock were issued during the three months ended March 31, 2007 and 2006, respectively. Employee contributions of $7.8 million and $6.9 million during the years ended December 31, 2006 and 2005, respectively, were used to purchase stock during the three months ended March 31, 2007 and 2006, respectively.

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

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

THIS MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTAINS FORWARD-LOOKING STATEMENTS. SEE FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY FOR A DISCUSSION OF CERTAIN OF THE UNCERTAINTIES, RISKS AND ASSUMPTIONS ASSOCIATED WITH THESE STATEMENTS.

UNLESS OTHERWISE NOTED HEREIN, DISCLOSURES PERTAIN ONLY TO OUR CONTINUING OPERATIONS.

OVERVIEW

We are one of the largest worldwide suppliers of aerospace components, systems and services to the commercial 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 and general aviation airplane original equipment (OE); commercial and general aviation airplane aftermarket; and defense and space.

Commercial and General Aviation Airplane OE

Commercial and general aviation airplane OE includes sales of products and services for new airplanes produced by Airbus S.A.S. (Airbus) and The Boeing Company (Boeing), as well as regional, business and small airplane manufacturers.

The key growth drivers in this market channel include the number of orders for new airplanes, which will be delivered to the manufacturers customers over a period of several years, OE manufacturer production and delivery rates and introductions of new airplane models such as the Boeing 787 and 747-8, the Airbus A380 and A350 XWB and the Embraer 190 airplanes.

We have significant sales content on most of the airplanes manufactured in this market channel. 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. We were also awarded several new contracts for our products on airplanes currently in a pre-production or early development stage, including the Boeing 787 and 747-8 and the Airbus A380 and A350 XWB, which should provide substantial future sales growth for us.

The commercial airplane manufacturers have a significant backlog of orders and are continuing to experience strong new order flow. Airlines worldwide continue to increase capacity, and it now appears that the U.S. airlines will largely return to profitability in 2007. These trends bode very well for large commercial aircraft production over the next several years.

Commercial and General Aviation Airplane Aftermarket

The commercial 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 and activity level of the airplane fleet. Other important factors affecting growth in this market channel are the age of the airplanes in the fleet and Gross Domestic Product (GDP) trends in countries and regions around the world.

We estimate that capacity in the global airline system, as measured by ASMs, will grow approximately 4% to 5% annually in 2007 through 2011. We expect that the global airplane fleet will continue to grow in 2007 and beyond, as the OE manufacturers are expected to deliver more airplanes than are retired.

We have significant product content on most of the airplane models that are currently in service. We have benefited from growth in ASMs, especially in Asia, and from the aging of the worldwide fleet of airplanes.

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.

The market for our defense and space products is global, and is not dependent on any single program, platform or customer. While we anticipate fewer new platform starts over the next several years, which are expected to negatively affect OE sales, we anticipate that upgrades on existing defense and space platforms will be necessary and will provide long-term growth 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 our commercial airplane OE and aftermarket and defense and space 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 Embraer 190, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and F-22 Raptor;
- Growing commercial airplane fleet, which should fuel sustained 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 opportunities for our systems and components, particularly in Europe, Asia and the Middle East, where we are expanding our capacity; and
- Expansion of our product offerings in support of high growth areas in the defense and space market channel, such as intelligence, surveillance and reconnaissance products.

First Quarter 2007 Sales Content by Market Channel

During first quarter 2007, 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	16%
Boeing Commercial OE	10%
Regional and General Aviation Airplane OE	7%
Total Commercial and General Aviation Airplane OE	**33%**
Large Commercial Airplane Aftermarket	29%
Regional and General Aviation Airplane Aftermarket	7%
Heavy Airplane Maintenance	3%
Total Commercial and General Aviation Airplane Aftermarket	**39%**
Total Defense and Space	**23%**
Other	5%
Total	**100%**

Summary Performance First Quarter 2007 as Compared to First Quarter 2006

	First Quarter		
	2007	**2006**	**% Change**
	(Dollars in millions, except diluted EPS)		
Sales	$ 1,588.5	$ 1,423.8	11.6
Segment operating income(1)	$ 231.0	$ 171.0	35.1
Percent of sales	14.5%	12.0%	
Income from continuing operations before income taxes	$ 153.6	$ 101.2	54.4
Income from continuing operations	$ 99.8	$ 200.3	(50.2)
Net income	$ 99.8	$ 201.5	(50.5)
Effective tax rate (benefit)(2)	35%	(98)%	
Diluted EPS:			
Continuing operations	$ 0.78	$ 1.59	(50.9)
Net income	$ 0.78	$ 1.60	(51.3)

(1) Segment operating income is total segment revenue reduced by operating expenses directly identifiable with our business segments. Segment operating income is used by management to assess the operating performance of 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) The change in our effective tax rate resulted primarily from the reversal of tax reserves in connection with the favorable Rohr and Coltec tax settlements, which reduced the tax rate by approximately 130 percentage points, or $1.05 per diluted share, for the first quarter 2006.

The sales increase of 11.6% in the first quarter 2007 as compared to the first quarter 2006 was driven primarily by growth in each of our major market channels as follows:

- Large commercial airplane original equipment sales increased by approximately 4%;
- Regional, business and general aviation airplane original equipment sales increased by approximately 7%;
- Large commercial, regional and general aviation airplane aftermarket sales increased by approximately 21%; and
- Defense and space sales of both original equipment and aftermarket products and services increased by approximately 8%.

The segment operating income growth of 35.1% was generated by higher volume in all of our segments, including strong aftermarket sales growth in all of our major businesses, and improved product performance in our aircraft wheel and brake business unit.

The change in income from continuing operations before income taxes during the first quarter 2007 as compared to the first quarter 2006 was also impacted by the following items:

	Increase (Decrease)		
	Before Tax	**After Tax**	**Diluted EPS**
	(Dollars in millions, except diluted EPS)		

Foreign exchange rate impact, including net monetary asset remeasurement	$ (10.7)	$ (6.7)	$ (0.05)
Lower share-based compensation	$ 5.7	$ 4.3	$ 0.03
Lower pension expense	$ 5.6	$ 3.5	$ 0.03

Net cash provided by operating activities for the first quarter 2007 was $123.1 million, an increase of $57.5 million from net cash provided by operating activities of $65.6 million for first quarter 2006. The increase was primarily due to increased before tax income and lower working capital growth, partially offset by higher net tax payments.

2007 Outlook

We expect the following results for the year ending December 31, 2007:

	2007 Outlook	2006 Actual
Sales	$6.3-$6.5 billion	$5.9 billion
Diluted EPS Net Income	$3.20-$3.35 per share	$3.81 per share*
Capital Expenditures	$270-$290 million	$256.8 million
Operating Cash Flow net of Capital Expenditures	60%-75% of income from continuing operations	4% of income from continuing operations

* includes a tax benefit of $1.15 related primarily to the Rohr and Coltec tax settlements in 2006.

We continue to expect that 2007 will be another year of strong sales growth with improving segment operating income margins. We expect that full year 2007 sales will be in the range of $6.3 - $6.5 billion, compared with prior expectations of $6.2 $6.4 billion as reported in our 2006 Form 10-K. The outlook for 2007 net income per diluted share has been increased to $3.20 $3.35**,** compared with prior expectations of $2.95 $3.15, reflecting income and margin expansion associated with sales growth in all major market channels and improved operating efficiencies.

The 2007 outlook assumes, among other factors, a full-year effective tax rate of 31% to 33%, which may vary from quarter-to-quarter depending on many factors, including settlements with state, federal and international tax authorities.

To provide the most meaningful comparison between 2006 results and the outlook for 2007 net income per diluted share, we believe that the 2006 net income per diluted share of $3.81 should be adjusted for the impact of the $1.15 per diluted share related to tax settlements that were completed during 2006. Excluding these tax settlements, net income per diluted share for 2006 was $2.66, compared to expected results of $3.20 $3.35 for 2007.

We continue to expect net cash provided by operating activities, minus capital expenditures, to be in the range of 60% to 75% of net income in 2007. This outlook reflects a continuation of cash expenditures for investments in the Boeing 787 Dreamliner and the Airbus A350 XWB and capital expenditures for facility expansions to support increased aftermarket demand, low cost country manufacturing and productivity initiatives that are expected to enhance margins over the near and long-term. We continue to expect capital expenditures for 2007 to be in a range of $270 $290 million. Of these capital expenditures, approximately 40% are expected to be associated with investments in low cost country manufacturing, previously announced MRO facility expansions and new facilities to support aftermarket sales growth, and expenditures related to the implementation of a company-wide Enterprise Resource Planning (ERP) system.

The current sales, net income and net cash provided by operating activities outlook for 2007 does not include the impact of acquisitions or divestitures or resolution of an A380 claim against Northrop Grumman.

Our 2007 outlook is based on certain market assumptions, including the following:

Our deliveries of Airbus and Boeing large commercial aircraft is expected to increase by approximately 8% to 10% in 2007 compared to 2006. Our sales of large commercial aircraft original equipment products are projected to grow by about the same rate as the increase in deliveries in 2007.

Capacity in the global airline system, as measured by available seat miles (ASMs), is expected to grow at approximately 4% to 5% in 2007. Our sales to airlines and package carriers for large commercial and regional aircraft aftermarket parts and services are expected to grow by more than 10% in 2007 compared to 2006.

Total regional and business aircraft production is expected to increase slightly in 2007 compared to 2006. Deliveries to Embraer in support of its Embraer 190 aircraft, which includes a significant amount of our content, are expected to enable us to increase sales in this market channel by more than 10% in 2007 compared to 2006.

Defense and space sales (original equipment and aftermarket) are expected to grow by approximately 7% in 2007 compared to 2006. Growth is expected in all three segments.

RESULTS OF OPERATIONS

First quarter 2007 Compared to First quarter 2006

	First Quarter		**$**
	2007	**2006**	**Change**
	(Dollars in millions)		
Sales	$ 1,588.5	$ 1,423.8	$ 164.7
Segment Operating Income	$ 231.0	$ 171.0	$ 60.0
Corporate General and Administrative Costs	(28.7)	(27.2)	(1.5)
ERP Implementation Costs	(3.3)	(1.1)	(2.2)
Total Operating Income	199.0	142.7	56.3
Net Interest Expense	(29.8)	(30.9)	1.1
Other Income (Expense) Net	(15.6)	(10.6)	(5.0)
Income Tax (Expense) Benefit	(53.8)	99.1	(152.9)
Income from Continuing Operations	99.8	200.3	(100.5)
Income from Discontinued Operations		0.6	(0.6)
Cumulative Effect of Change in Accounting		0.6	(0.6)
Net Income	$ 99.8	$ 201.5	$ (101.7)

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

ERP implementation costs increased for the first quarter 2007 as compared to the first quarter 2006, due to additional efforts related to the company-wide ERP system implementation, which began in early 2006.

Net interest expense decreased for the first quarter 2007 as compared to the first quarter 2006, primarily due to the interest savings as a result of the debt exchange completed during the second quarter 2006.

Other income (expense) net increased for the first quarter 2007 as compared to the first quarter 2006, primarily as a result of increased expenses relating to previously owned businesses of $4 million, primarily for litigation and remediation of environmental issues.

In the quarter ended March 31, 2006 we recorded a tax benefit of $131.5 million, or $1.05 per diluted share, primarily from the reversal of tax reserves in connection with the Rohr and Coltec tax settlements.

Income from discontinued operations, after tax, was $0.6 million during the first quarter 2006, which primarily reflected a gain recognized as a result of our settlement with several insurers related to the recovery of environmental remediation costs at a former plant. For additional information, see Note 5, Discontinued Operations to our Condensed Consolidated Financial Statements.

The cumulative effect from the change in accounting resulted in a gain of $0.6 million from the adoption of Statement of Financial Accounting Standards No. 123(R), Accounting for Share-Based Compensation (SFAS 123(R)) on January 1, 2006.

BUSINESS SEGMENT PERFORMANCE

Effective January 1, 2007, we realigned our businesses within our three reporting segments. Under the new organizational structure, several businesses were combined into larger strategic business units and several businesses were moved into different segments from the prior reporting structure. The current segment reporting structure was designed to accelerate our focus on operational excellence and to further enhance our alignment within key product and technology areas. Along with the segment realignment, the results of our customer services business were allocated to the business that manufactures the product or system. Additionally, ERP implementation costs that are not directly associated with a specific business were reclassified as a component of corporate administrative expense. Prior period results have been reclassified to conform to the new organizational structure.

Effective January 1, 2007, 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, as well as engine components, including fuel delivery systems and rotating assemblies, and airframe maintenance.

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.

We measure each reporting segments profit based upon operating income, excluding the indirect costs related to the company-wide ERP implementation. Accordingly, we do not allocate net interest expense, other income (expense) net and income taxes to the reporting 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.

First quarter 2007 Compared to First quarter 2006

	First Quarter					
			Increase/	%	% of Sales	
	2007	2006	(Decrease)	Change	2007	2006
NET CUSTOMER SALES						
Actuation and Landing Systems	$ 609.2	$ 538.4	$ 70.8	13.2		
Nacelles and Interior Systems	546.9	493.8	53.1	10.8		
Electronic Systems	432.4	391.6	40.8	10.4		
	$ 1,588.5	$ 1,423.8	$ 164.7	11.6		
SEGMENT OPERATING INCOME						
Actuation and Landing Systems	$ 49.9	$ 23.3	$ 26.6	114.2	8.2	4.3
Nacelles and Interior Systems	126.3	104.8	21.5	20.5	23.1	21.2
Electronic Systems	54.8	42.9	11.9	27.7	12.7	11.0
	$ 231.0	$ 171.0	$ 60.0	35.1	14.5	12.0

Actuation and Landing Systems: Actuation and Landing Systems segment sales for the first quarter 2007 increased from the first quarter 2006 primarily due to the following:

Higher large commercial airplane aftermarket sales of approximately $26 million, primarily in our landing gear, aircraft wheel and brake and actuation systems business units;

Higher large commercial airplane OE sales of approximately $16 million, primarily in our landing gear business unit;

Higher regional and business OE and aftermarket sales of approximately $17 million, primarily in our aircraft wheel and brake, landing gear and actuation systems business units; and

Higher airframe heavy maintenance sales of approximately $5 million.

Actuation and Landing Systems segment operating income for the first quarter 2007 increased from the first quarter 2006 primarily a result of the following:

Higher sales volume and favorable product mix across all businesses, which generated income of approximately $17 million; and

Higher operating income of approximately $16 million, driven primarily by improved brake-life performance in the aircraft wheel and brake business unit and higher pricing across all business units, including landing gear. These margin improvements are net of increased operating costs, including raw material price escalation and higher labor and overhead expenses in the landing gear business unit.

These favorable impacts were also partially offset by unfavorable foreign exchange impacts of approximately $7 million, primarily in our landing gear and actuation system business units.

Nacelles and Interior Systems: Nacelles and Interior Systems segment sales for the first quarter 2007 increased from the first quarter 2006 primarily due to the following:

- Higher large commercial airplane aftermarket sales, including spare parts and MRO volume of approximately $44 million, primarily in our aerostructures and interior systems business units; and

- Higher defense OE and aftermarket sales of approximately $8 million, primarily in our interior systems business unit.

Nacelles and Interior Systems segment operating income for the first quarter 2007 increased from the first quarter 2006, primarily as a result of higher sales volume and favorable product mix, primarily in our aerostructures and interior systems business units, which generated income of approximately $24 million. This increase in segment operating income was partially offset by cost increases, primarily in our aerostructures business unit.

Electronic Systems: Electronic Systems segment sales for the first quarter 2007 increased from the first quarter 2006 primarily due to:

- Higher defense and space OE and aftermarket sales of approximately $16 million across all of our business units;

- Higher regional and general aviation airplane OE and aftermarket sales of approximately $16 million in nearly all of our business units; and

- Higher sales of products to the helicopter market of approximately $9 million in our sensors and integrated systems and engine controls and power business units.

Electronic Systems operating income for the first quarter 2007 increased from the first quarter 2006 primarily as a result of higher sales volume, generating operating income of approximately $18 million. This increase in segment operating income was partially offset by cost increases of approximately $6 million, primarily in our sensors and integrated systems business unit.

LIQUIDITY AND CAPITAL RESOURCES

We currently expect to fund expenditures for capital requirements, as well as 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.

Cash

At March 31, 2007, we had cash and marketable securities of $231.9 million, as compared to $201.3 million at December 31, 2006.

Credit Facilities

We have the following amounts available under our credit facilities:

$500 million committed global revolving credit facility that expires in May 2011, of which $444.7 million was available, as of March 31, 2007;and

$75 million of uncommitted domestic money market facilities and $148 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements, all of which was available as of March 31, 2007.

Off-Balance Sheet Arrangements

Lease Commitments

We finance some of our office and manufacturing facilities and machinery and equipment, including corporate aircraft, under committed lease arrangements provided by financial institutions. Some of these arrangements allow us to claim a deduction for the tax depreciation on the assets, rather than the lessor, and allow us to lease aircraft and equipment having a maximum unamortized value of $55 million at March 31, 2007 for which $15.5 million of future lease payments were outstanding under these arrangements. Future minimum lease payments under the standard operating leases approximated $127.5 million at March 31, 2007.

Additionally, at March 31, 2007, we had guarantees of residual values of lease obligations of $32.3 million. The residual values relate primarily to the leased assets, which we are obligated to either purchase at the end of the lease term or remarket. Under some of these operating lease agreements, we receive rent holidays, which represent periods of free or reduced rent. In addition, we may receive incentives or allowances from the lessor as part of the lease agreement.

Sale of Receivables

Effective June 30, 2006, we terminated the variable rate trade receivables securitization program and repaid the outstanding balance of $97.1 million.

Derivatives

The Company utilizes certain financial instruments to enhance its ability to manage risk, including foreign currency and interest rate exposures that exist as part of ongoing business operations. A summary of our outstanding contracts as of March 31, 2007 is as follows:

Foreign Currency Contracts Designated as Cash Flow Hedges: Our contracts had a notional amount of $1,765.6 million, fair value of $73.9 million and maturity dates ranging from April 2007 to December 2011. The amount of accumulated other comprehensive income that would be reclassified into earnings in the next 12 months is a gain of $37.7 million. During the first quarter of 2007 and 2006, we realized net gains of $15.5 million and $7.8 million, respectively, related to contracts that settled.

Foreign Currency Contracts not Designated as Hedges: Our contracts, most of which mature monthly, had a notional amount of $252 million and a fair value of a net liability/loss of $0.2 million. During the first quarter of 2007, we realized a net loss of $1 million related to contracts that settled. During the first quarter of 2006, we realized a net gain of $1.9 million related to contracts that settled.

Interest Rate Swaps Designated as Fair Value Hedges: Our contracts had a notional amount of $193 million, fair value of $1.9 million net liability/loss and maturity dates ranging from April 2008 to July 2016.

Contractual Obligations and Other Commercial Commitments

There have been no material changes to the table presented in our Annual Report on Form 10-K for the year ended December 31, 2006. The table excludes our liability for unrecognized tax benefits, which totaled $209.2 million as of January 1, 2007 and $217.7 million as of March 31, 2007, since we cannot predict with reasonable reliability the timing of cash settlements with the respective taxing authorities.

CASH FLOW

The following table summarizes our cash flow activity for the first quarter 2007 and first quarter 2006:

	First Quarter		$
	2007	2006	Change
	(Dollars in millions)		
Operating activities of continuing operations	$ 123.1	$ 65.6	$ 57.5
Investing activities of continuing operations	$ (36.8)	$ (43.1)	$ 6.3
Financing activities of continuing operations	$ (56.0)	$ (0.6)	$ (55.4)
Discontinued operations	$ (0.3)	$ 9.1	$ (9.4)

First quarter 2007 as Compared to First quarter 2006

Operating Activities of Continuing Operations

The increase in net cash provided by operating activities for the first quarter 2007 from the first quarter 2006 was primarily comprised of the following:

Increased before tax income of approximately $52 million; and

Improved working capital management of approximately $14 million; partially offset by

Increased net tax payments of approximately $13 million.

During 2007, we expect cash flow from operating activities net of capital expenditures to approximate 60% to 75% of net income. We expect to contribute $100 million to $125 million to our worldwide qualified and non-qualified pension plans and to make net payments of approximately $37 million related to our postretirement benefit plans.

Investing Activities of Continuing Operations

The decrease in net cash used in investing activities for the first quarter 2007 from the first quarter 2006 was primarily comprised of a decrease in capital expenditures of $6.3 million to $36.9 million during first quarter 2007 as compared to $43.2 million during first quarter 2006.

We expect capital expenditures in 2007 to be in the range of $270 million to $290 million, reflecting continued cash expenditures for investments in programs such as the Boeing 787 and the Airbus A350 XWB, capital expenditures for facility expansions to support increased aftermarket demand, low cost country manufacturing and productivity initiatives that are expected to enhance margins over the near and long-term. Of these capital expenditures, approximately 40% are expected to be associated with investments in low cost country manufacturing, previously announced MRO facility expansions and new facilities to support aftermarket sales growth, and expenditures related to the company-wide implementation of an ERP system.

Financing Activities of Continuing Operations

The increase in net cash used in financing activities for the first quarter 2007 from the first quarter 2006 was primarily comprised of the following:

- Purchases of our common stock during first quarter 2007 totaling $57.8 million, primarily in conjunction with the share repurchase program announced on October 24, 2006;

- Repayments of short-term debt totaling $11.8 million during first quarter 2007, as compared to increased short-term debt of $6.1 million during first quarter 2006; and

- An increase of $18.3 million of proceeds from the issuance of common stock, primarily for share-based compensation awards, to $36.8 million during first quarter 2007, as compared to $18.5 million during first quarter 2006.

On October 24, 2006, our Board of Directors approved a program that authorizes us to repurchase up to $300 million of our common stock. The primary purpose of the program is to reduce dilution to existing shareholders from our share-based compensation plans. While no time limit was set for completion of the program, we expect repurchases to occur over a three year period. Repurchases under the program may be made through open market or privately negotiated transactions at times and in such amounts as we deem appropriate, subject to market conditions, regulatory requirements and other factors. The program does not obligate us to repurchase any particular amount of common stock, and may be suspended or discontinued at any time without notice. As of March 31, 2007, we have purchased approximately 1.4 million shares for approximately $71 million.

On February 20, 2007, our Board of Directors declared a quarterly dividend of $0.20 per share on our common stock, paid April 2, 2007 to shareholders of record as of March 5, 2007.

Discontinued Operations

Net cash provided by discontinued operations was $9.1 million in the first quarter 2006 primarily from insurance settlements, net of tax, with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation.

CONTINGENCIES

General

There are pending or threatened against us or our subsidiaries various claims, lawsuits and administrative proceedings, arising in the ordinary course of business, including commercial, product liability, asbestos and environmental matters, 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. From time to time, we are also involved in legal proceedings as a plaintiff involving tax, contract, patent protection, environmental and other matters. Gain contingencies, if any, are recognized when they are realized. Legal costs are generally expensed when incurred.

Environmental

We are subject to various domestic and international environmental laws and regulations which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including divested sites for which we have contractual obligations relating to the environmental condition of such site. 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 these 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 in consultation with outside environmental specialists, when necessary. Estimates of our environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and 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 our accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on our results of operations in a given period. Based on currently available information, however, we do not believe that future environmental costs in excess of those accrued with respect to sites for which we have been identified as a potentially responsible party are likely to have a material adverse effect on our financial condition. There can be no assurance, however, that future developments will not have a material adverse effect on our results of operations or cash flows in a given period.

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

Our Condensed Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of $72.6 million and $74.3 million at March 31, 2007 and December 31, 2006, respectively. At March 31, 2007 and December 31, 2006 $17.5 million, and $17.7 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as accrued expenses. At March 31, 2007 and December 31, 2006, $30.1 million and $31 million, respectively, was associated with ongoing operations and $42.5 million and $43.3 million, respectively, was associated with businesses previously disposed of or discontinued.

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

Asbestos

We and a number of our subsidiaries have been named as defendants in various actions by plaintiffs alleging injury or death as a result of exposure to asbestos fibers in products, or which may have been present in our facilities. A number of these cases involve maritime claims, which have been and are expected to continue to be administratively dismissed by the court. These actions primarily relate to previously owned businesses. We believe that pending and reasonably anticipated future actions, net of anticipated insurance recoveries, are not likely to have a material adverse effect on our financial condition, results of operations or cash flows. There can be no assurance, however, that future legislative or other developments will not have a material adverse effect on our results of operations in a given period.

Insurance Coverage

We believe that we have substantial insurance coverage available to us related to third party claims. However, the pre-1976 primary layer of insurance coverage was provided by the Kemper Insurance Companies (Kemper). Kemper has indicated that, due to capital constraints and downgrades from various rating agencies, it has ceased underwriting new business and now focuses on administering policy commitments from prior years. Kemper has also indicated that it is currently operating under a run-off plan under the supervision of the Illinois Division of Insurance. We cannot predict the impact of Kemper s financial position on the availability of the Kemper insurance.

In addition, a portion of our primary and excess layers of pre-1986 insurance coverage for third party claims was provided by certain insurance carriers who are either insolvent or undergoing solvent schemes of arrangement. 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, some of which are subject to increase under certain circumstances. These settlements represent negotiated payments for our loss of insurance coverage, as we no longer have insurance available for claims that may have qualified for coverage. These settlements have been recorded as income for reimbursement of past claim payments under the settled insurance policies and as a deferred settlement credit for future claim payments.

At March 31, 2007, the deferred settlement credit was approximately $38 million for which approximately $3 million was reported in accrued expenses and approximately $35 million as a long-term liability. 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 Products (EIP) segment, which at the time of the spin-off included EnPro Industries, Inc. (EnPro) and Coltec Industries Inc (Coltec). At that time, two subsidiaries of Coltec were defendants in a significant number of personal injury claims relating to alleged asbestos-containing products sold by those subsidiaries. It is possible that asbestos-related claims might be asserted against us on the theory that we have some responsibility for the asbestos-related liabilities of EnPro, Coltec or its subsidiaries, even though the activities that led to those claims occurred prior to our ownership of any of those subsidiaries. Also, it is possible that a claim might be asserted against us that Coltec s dividend of its aerospace business to us prior to the spin-off was made at a time when Coltec was insolvent or caused Coltec to become insolvent. Such a claim could seek recovery from us on behalf of Coltec of the fair market value of the dividend.

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

Other

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

Guarantees

At March 31, 2007, we had an outstanding contingent liability for guarantees of debt and lease payments of $2 million, letters of credit and bank guarantees of $54.1 million and residual value of lease obligations of $32.3 million. See Note 15, Guarantees to our Condensed Consolidated Financial Statements.

Aerostructures Long-Term Contracts

Our aerostructures business has several long-term contracts in the pre-production and early production phases (e.g., Boeing 787, Airbus A380 and A350 XWB). The pre-production phase includes design of the product to meet customer specifications as well as design of the manufacturing processes to manufacture the product. Also involved in this phase is securing supply of material and subcomponents produced by third party suppliers that are generally accomplished through long-term supply agreements. In addition to these factors, 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 over the life of the contract. Cost estimates over the life of the contract are affected by estimates of future cost reductions including learning curve efficiencies. Because these contracts cover periods of up to 20 years or more, there is risk that estimates of future costs made during the pre-production and early production phases will be different from actual costs and that difference could be significant.

Tax

We are continuously undergoing examination by the Internal Revenue Service (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.

The current IRS examination cycle began in 2005 and involves the taxable years ended December 31, 2000 through December 31, 2004. The examination team has substantially completed field work. There were numerous issues raised by the IRS, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, depreciation, amortization and the proper timing for certain other deductions for income tax purposes. We believe that agreement could be reached with the IRS on most of these issues during 2007. We cannot, however, predict the ultimate outcome of the current IRS examination.

The prior examination cycle, which began in 2002, includes the consolidated income tax groups in 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 related to the prior examination cycle. We anticipate filing a petition with the U.S. Tax Court to contest the remaining unresolved issue which involves the proper timing of certain deductions. 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 this matter.

Rohr has been under examination by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr s subsidiaries in connection with the lease of certain tangible property. California s Franchise Tax Board 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 approximately $4.5 million. The amount of accrued interest associated with the additional tax is approximately $21 million as of March 31, 2007. 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 $10.5 million as of March 31, 2007. The tax and interest amounts continue to be contested by Rohr. We believe that we are adequately reserved for this contingency. During 2005, Rohr made payments of approximately $3.9 million ($0.6 million for tax and $3.3 million for interest) related to items that were not being contested and approximately $4.5 million related to items that are being contested. No payment has been made for the $21 million of interest or $10.5 million of penalty interest. Under California law, Rohr may be required to pay the full amount of interest prior to filing any suit for refund. If required, Rohr expects to make this payment and file suit for a refund in late 2007 or early 2008.

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option would also be required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. SFAS 159 is effective for the fiscal years beginning after November 15, 2007. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. We are currently evaluating the impact of the adoption of SFAS 159 on our financial condition, results of operations and cash flows.

Fair Value Measurement

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 is effective for the fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of SFAS 157 on our financial condition, results of operations and cash flows.

Accounting for Postretirement Benefits Associated with Split-Dollar Life Insurance

In September 2006, the FASB ratified Emerging Issues Task Force No. 06-4, Accounting for Deferred Compensation and Postretirement Benefits Associated with Endorsement Split-Dollar Life Insurance Arrangements (EITF 06-4) and in March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements. EITF 06-4 requires deferred compensation or postretirement benefit aspects of an endorsement-type split-dollar life insurance arrangement to be recognized as a liability by the employer and states the obligation is not effectively settled by the purchase of a life insurance policy. The liability for future benefits should be recognized based on the substantive agreement with the employee, which may be either to provide a future death benefit or to pay for the future cost of the life insurance. EITF 06-10 provides recognition guidance for postretirement benefit liabilities related to collateral assignment split-dollar life insurance arrangements, as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment split -dollar life insurance arrangement. EITF 06-4 and EITF 06-10 are effective for fiscal years beginning after December 15, 2007. We are currently evaluating the impact of the adoption of EITF 06-4 and EITF 06-10 on our financial condition, results of operations and cash flows.

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, intangible assets, income taxes, financing obligations, warranty obligations, excess component order cancellation costs, restructuring, long-term service contracts, pensions and other postretirement benefits, and contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

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

Contract Accounting-Percentage of Completion

Revenue Recognition

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 Statement of Position 81-1 (SOP 81-1), Accounting for Performance of Construction-Type and Certain Production-Type Contracts (the contract method of accounting), using the cumulative catch-up method in accounting for revisions in estimates. Under the cumulative catch-up method, the impact of revisions in estimates related to units shipped to date is recognized immediately when changes in estimated contract profitability are known.

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:

Projected number of units to be delivered under the contracts;

Escalation of future sales prices under the contracts;

Costs, including material and labor costs and related escalation;

Labor improvements due to the learning curve experience; and

Supplier pricing including escalation where applicable.

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 exceeds the anticipated remaining sales value of such contract, such excess is charged to cost of sales in the period recognized, thus reducing inventory to estimated realizable value.

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 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.

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.

Participation Payments

Certain of our businesses make cash payments under long-term contractual arrangements to OE manufacturers (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 cost of sales. The carrying amount of participation payments is evaluated for recovery at least annually or when other indicators of impairment, 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.

Entry Fees

Certain businesses in our Nacelles and Interior Systems and Electronic Systems segments make cash payments to an OEM under long-term contractual arrangements related to new engine programs. 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 on a straight-line basis to cost of sales or as a reduction of sales, as appropriate. 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 for the amount by which the carrying amount of the entry fee exceeds its fair value.

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

- Changes in market conditions that may affect product sales under the program, including market acceptance and competition from others;
- Performance of subcontract suppliers and other production risks;
- Bankruptcy or other less significant financial difficulties of other program participants, including the aircraft manufacturer, the OEM and other program suppliers or the aircraft customer; and
- Availability of specialized raw materials in the marketplace.

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. 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.

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. 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.

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 its 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.

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 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 rate was 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.

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 Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and F-22 Raptor;
- our ability to extend our commercial original equipment contracts beyond the initial contract periods;
- cancellation or delays of orders or contracts by customers or with suppliers;
- 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 resolution of contractual disputes with Northrop Grumman related to the purchase of aeronautical systems;
- the resolution of items in IRS examination cycles;
- the possibility of restructuring and consolidation actions beyond those previously announced by us;
- 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;

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

possible assertion of claims against us on the theory that we, as the former corporate parent of Coltec Industries Inc, bear some responsibility for the asbestos-related liabilities of Coltec and its subsidiaries, or that Coltec s dividend of its aerospace business to us prior to the EnPro spin-off was made at a time when Coltec was insolvent or caused Coltec to become insolvent;

the effect of changes in accounting policies;

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, deflation, recession and other external factors over which we have no control; and

the outcome of contingencies including completion of acquisitions, divestitures, tax audits, litigation and environmental remediation efforts.

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 intend to use such derivative financial instruments as risk management tools and not for speculative investment purposes. Our discussion of market risk in our 2006 Annual Report on Form 10-K provides more discussion as to the types of instruments used to manage risk. Refer to Note 16, Derivatives and Hedging Activities of our Unaudited 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 March 31, 2007, a hypothetical 100 basis point increase in reference interest rates would increase annual interest expense by approximately $2.4 million. At March 31, 2007, a hypothetical 10 percent strengthening of the U.S. dollar against other foreign currencies would decrease the value of our forward contracts by $189 million. The fair value of these forward contracts was $73.9 million at March 31, 2007. 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 Senior 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 Senior 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 Senior 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 and Tax in Note 14, Contingencies to the Unaudited Condensed Consolidated Financial Statements included in Part 1, Item 1, of this Form 10-Q, which disclosure is incorporated herein by reference.

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, 2006, 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 March 31, 2007:

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 (2)
January 2007	38,429	$ 45.29	37,300	
February 2007	892,227	50.95	803,800	
March 2007	210,882	50.75	206,000	
Total	1,141,538	$ 50.72	1,047,100	$229 million

(1) The category includes 94,438 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 our repurchase program that was announced on October 24, 2006 (the Program). Under the Program we are authorized to repurchase up to $300 million of our common stock. Unless terminated earlier by resolution of our Board of Directors, the Program will expire when we have purchased all shares authorized for repurchase.

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 4(B) to Goodrich Corporation s Registration Statement on Form S-3 (File No. 333-98165), 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 10.1	Amendment Number Two to the Goodrich Corporation 2001 Equity Compensation Plan
Exhibit 15	Letter Re: Unaudited Interim Financial Information.
Exhibit 31	Rule 13a-14(a)/15d-14(a) Certifications.
Exhibit 32	Section 1350 Certifications.

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.

April 30, 2007	GOODRICH CORPORATION
	/s/ SCOTT E. KUECHLE Scott E. Kuechle Senior Vice President and Chief Financial Officer
	/s/ SCOTT A. COTTRILL Scott A. Cottrill Vice President and Controller (Principal Accounting Officer)

EXHIBIT INDEX

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* Submitted electronically herewith.