

GOODRICH CORP  
Form 10-Q  
July 29, 2010

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

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

**For the quarterly period ended June 30, 2010**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number 1-892**

**GOODRICH CORPORATION**

*(Exact name of registrant as specified in its charter)*

**New York**

*(State of Incorporation)*

**34-0252680**

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

**Four Coliseum Centre  
2730 West Tyvola Road**

**Charlotte, North Carolina**

*(Address of Principal Executive Offices)*

**28217**

*(Zip Code)*

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No   
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

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

At June 30, 2010, there were 125,282,498 shares of common stock outstanding (excluding 14,000,000 shares held by a wholly owned subsidiary). There is only one class of common stock.



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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We have reviewed the condensed consolidated balance sheet of Goodrich Corporation as of June 30, 2010, and the related condensed consolidated statements of income for the three and six-month periods ended June 30, 2010 and 2009, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 2010 and 2009. 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, 2009, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein; and in our report dated February 16, 2010, 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, 2009, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP  
Charlotte, North Carolina  
July 29, 2010

**Table of Contents****CONDENSED CONSOLIDATED STATEMENT OF INCOME**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions, except per share amounts)</b>			
<b>Sales</b>	\$ 1,717.5	\$ 1,699.7	\$ 3,412.7	\$ 3,395.6
Operating costs and expenses:				
Cost of sales	1,172.9	1,203.9	2,377.2	2,384.0
Selling and administrative costs	269.3	254.4	539.2	502.4
	1,442.2	1,458.3	2,916.4	2,886.4
<b>Operating Income</b>	275.3	241.4	496.3	509.2
Interest expense	(33.6)	(30.7)	(67.1)	(59.5)
Interest income	0.3	0.1	0.4	0.7
Other income (expense) net	(4.4)	(6.4)	(10.8)	(10.8)
Income from continuing operations before income taxes	237.6	204.4	418.8	439.6
Income tax expense	(76.3)	(54.8)	(144.9)	(116.7)
<b>Income From Continuing Operations</b>	161.3	149.6	273.9	322.9
Income from discontinued operations net of income taxes	0.1	31.2	1.3	31.7
<b>Consolidated Net Income</b>	161.4	180.8	275.2	354.6
Net income attributable to noncontrolling interests	(2.4)	(3.7)	(5.0)	(7.7)
<b>Net Income Attributable to Goodrich</b>	\$ 159.0	\$ 177.1	\$ 270.2	\$ 346.9
<b>Amounts attributable to Goodrich:</b>				
Income from continuing operations	\$ 158.9	\$ 145.9	\$ 268.9	\$ 315.2
Income from discontinued operations net of income taxes	0.1	31.2	1.3	31.7
<b>Net Income Attributable to Goodrich</b>	\$ 159.0	\$ 177.1	\$ 270.2	\$ 346.9
<b>Earnings per common share attributable to Goodrich:</b>				
<b>Basic Earnings Per Share</b>				
Continuing operations	\$ 1.25	\$ 1.16	\$ 2.12	\$ 2.51
Discontinued operations		0.25	0.01	0.25
<b>Net Income Attributable to Goodrich</b>	\$ 1.25	\$ 1.41	\$ 2.13	\$ 2.76
<b>Diluted Earnings Per Share</b>				

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Continuing operations	\$ 1.24	\$ 1.15	\$ 2.10	\$ 2.49
Discontinued operations		0.25	0.01	0.25
<b>Net Income Attributable to Goodrich</b>	<b>\$ 1.24</b>	<b>\$ 1.40</b>	<b>\$ 2.11</b>	<b>\$ 2.74</b>
<b>Dividends Declared Per Common Share</b>	<b>\$ 0.27</b>	<b>\$ 0.25</b>	<b>\$ 0.54</b>	<b>\$ 0.50</b>

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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**Table of Contents****CONDENSED CONSOLIDATED BALANCE SHEET**

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in millions, except share amounts)</b>	
<b>Current Assets</b>		
Cash and cash equivalents	\$ 866.4	\$ 811.0
Accounts and notes receivable, less allowances for doubtful receivables (\$17.2 at June 30, 2010 and \$18 at December 31, 2009)	1,132.6	1,073.2
Inventories net	2,386.3	2,290.4
Deferred income taxes	173.3	165.2
Prepaid expenses and other assets	37.1	59.6
Income taxes receivable		15.0
<b>Total Current Assets</b>	<b>4,595.7</b>	<b>4,414.4</b>
Property, plant and equipment net	1,401.5	1,451.2
Prepaid pension	0.9	0.8
Goodwill	1,584.8	1,587.0
Identifiable intangible assets net	617.1	633.2
Deferred income taxes	16.1	16.7
Other assets	575.4	638.1
<b>Total Assets</b>	<b>\$ 8,791.5</b>	<b>\$ 8,741.4</b>
<b>Current Liabilities</b>		
Short-term debt	\$ 20.7	\$ 3.1
Accounts payable	562.8	547.8
Accrued expenses	1,072.8	1,037.4
Income taxes payable	36.5	0.5
Deferred income taxes	23.9	23.8
Current maturities of long-term debt and capital lease obligations	1.3	0.5
<b>Total Current Liabilities</b>	<b>1,718.0</b>	<b>1,613.1</b>
Long-term debt and capital lease obligations	2,007.9	2,008.1
Pension obligations	802.2	908.7
Postretirement benefits other than pensions	293.1	301.1
Long-term income taxes payable	171.1	171.1
Deferred income taxes	261.2	257.2
Other non-current liabilities	526.3	514.5
<b>Shareholders Equity</b>		
Common stock \$5 par value		
Authorized 200,000,000 shares; issued 147,233,266 shares at June 30, 2010 and 145,241,995 shares at December 31, 2009 (excluding 14,000,000 shares held by a wholly owned subsidiary)	736.2	726.2
Additional paid-in capital	1,679.7	1,597.0



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Income retained in the business	2,289.8	2,088.0
Accumulated other comprehensive income (loss)	(844.7)	(673.2)
Common stock held in treasury, at cost (21,950,768 shares at June 30, 2010 and 20,854,137 shares at December 31, 2009)	(889.6)	(817.0)
<b>Total Shareholders Equity</b>	2,971.4	2,921.0
Noncontrolling interests	40.3	46.6
<b>Total Equity</b>	3,011.7	2,967.6
<b>Total Liabilities And Equity</b>	\$ 8,791.5	\$ 8,741.4

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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**Table of Contents****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>	
<b>Operating Activities</b>		
Consolidated net income	\$ 275.2	\$ 354.6
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Income from discontinued operations	(1.3)	(31.7)
Pension and postretirement benefits:		
Expenses	90.1	98.2
Contributions and benefit payments	(129.8)	(177.3)
Depreciation and amortization	134.9	123.6
Excess tax benefits related to share-based payment arrangements	(12.9)	(0.9)
Share-based compensation expense	33.2	31.6
Deferred income taxes	7.8	3.8
Change in assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	(90.1)	(67.7)
Inventories, net of pre-production and excess-over-average	0.4	(41.9)
Pre-production and excess-over-average inventories	(130.5)	(76.6)
Other current assets	2.4	1.6
Accounts payable	44.0	(35.2)
Accrued expenses	(12.0)	(104.0)
Income taxes payable/receivable	66.4	125.9
Other non-current assets and liabilities	(24.8)	(29.5)
<b>Net Cash Provided By Operating Activities</b>	<b>253.0</b>	<b>174.5</b>
<b>Investing Activities</b>		
Purchases of property, plant and equipment	(51.6)	(73.2)
Proceeds from sale of property, plant and equipment	0.1	0.9
Payments made for acquisitions, net of cash acquired	(61.6)	(29.8)
Investments in and advances to equity investees	(1.0)	(1.0)
<b>Net Cash Used In Investing Activities</b>	<b>(114.1)</b>	<b>(103.1)</b>
<b>Financing Activities</b>		
Increase (decrease) in short-term debt, net	17.8	2.7
Proceeds (repayments) of long-term debt and capital lease obligations	(0.1)	177.5
Proceeds from issuance of common stock	53.0	15.3
Purchases of treasury stock	(72.6)	(7.0)
Dividends paid	(68.3)	(62.5)
Excess tax benefits related to share-based payment arrangements	12.9	0.9
Distributions to noncontrolling interests	(11.3)	(7.3)
<b>Net Cash Provided By (Used In) Financing Activities</b>	<b>(68.6)</b>	<b>119.6</b>

**Discontinued Operations**

Net cash (used in) provided by operating activities	(0.4)	49.6
Net cash (used in) provided by investing activities		
Net cash (used in) provided by financing activities		
<b>Net cash (used in) provided by discontinued operations</b>	(0.4)	49.6
Effect of exchange rate changes on cash and cash equivalents	(14.5)	8.5
<b>Net increase (decrease) in cash and cash equivalents</b>	55.4	249.1
Cash and cash equivalents at beginning of period	811.0	370.3
Cash and cash equivalents at end of period	\$ 866.4	\$ 619.4

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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

The accompanying unaudited condensed consolidated financial statements of Goodrich Corporation and its subsidiaries have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Unless indicated otherwise or the context requires, the terms we, our, us, Goodrich or Company 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 and six months ended June 30, 2010 are not necessarily indicative of the results that may be achieved for the twelve months ending December 31, 2010. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**Discontinued Operations.** Net income from discontinued operations was \$0.1 million and \$1.3 million for the three and six months ended June 30, 2010, respectively. Income from discontinued operations was \$31.2 million (net of income taxes of \$18.6 million) and \$31.7 million (net of income taxes of \$18.9 million) for the three and six months ended June 30, 2009, respectively. The income in the three and the six month period of 2009 related primarily to the resolution of litigation for an environmental matter at a divested business that had been previously reported as a discontinued operation.

**Use of Estimates.** The preparation of financial statements requires management to make estimates and assumptions that affect amounts recognized. Estimates and assumptions are reviewed and updated regularly as new information becomes available. During the three and six months ended June 30, 2010 and 2009, the Company changed its estimates of revenues and costs on certain long-term contracts primarily in its aerostructures and aircraft wheels and brakes businesses. The changes in estimates increased income from continuing operations before income taxes during the three months ended June 30, 2010 and 2009 by \$32.8 million and \$9 million, respectively (\$20.6 million and \$5.6 million after tax or \$0.16 and \$0.04 per diluted share, respectively). The changes in estimates increased income from continuing operations before income taxes during the six months ended June 30, 2010 and 2009 by \$48.8 million and \$13.5 million, respectively (\$30.6 million and \$8.5 million after tax or \$0.24 and \$0.07 per diluted share, respectively). These revisions were primarily related to favorable cost and operational performance, changes in volume expectations and sales pricing improvements and finalization of contract terms on current and/or follow-on contracts.

**Note 2. New Accounting Standards Adopted in 2010*****Variable Interest Entities***

On January 1, 2010, the Company adopted new accounting guidance that is included in Accounting Standards Codification (ASC) Topic 810, Consolidation. This guidance amends the consolidation guidance applicable to variable interest entities. This standard did not have a material impact on the Company's financial condition and results of operations.

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***Fair Value Measurements***

On January 1, 2010, the Company adopted new accounting guidance that is included in ASC Topic 820, Fair Value Measurements and Disclosures . This guidance requires the Company to disclose the amount of significant transfers between Level 1 and Level 2 of the fair value hierarchy and the reasons for these transfers and the reasons for any transfers in or out of Level 3 of the fair value hierarchy. In addition, the guidance clarifies certain existing disclosure requirements. This standard did not have a material impact on the Company's disclosures in its condensed consolidated financial statements. See Note 7, Fair Value Measurements .

**Note 3. Business Segment Information**

The Company's business segments are as follows:

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

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

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

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

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	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>			
<b>Sales:</b>				
Actuation and Landing Systems	\$ 608.1	\$ 637.2	\$ 1,221.2	\$ 1,249.9
Nacelles and Interior Systems	577.4	595.2	1,133.2	1,227.4
Electronic Systems	532.0	467.3	1,058.3	918.3
	\$ 1,717.5	\$ 1,699.7	\$ 3,412.7	\$ 3,395.6
<b>Intersegment sales:</b>				
Actuation and Landing Systems	\$ 8.0	\$ 6.8	\$ 14.8	\$ 13.7
Nacelles and Interior Systems	2.9	2.3	4.8	4.0
Electronic Systems	6.0	9.2	12.7	15.9
	\$ 16.9	\$ 18.3	\$ 32.3	\$ 33.6
<b>Operating income:</b>				
Actuation and Landing Systems	\$ 60.5	\$ 62.8	\$ 129.9	\$ 138.9
Nacelles and Interior Systems	151.4	135.2	270.2	283.9
Electronic Systems	95.1	73.9	165.9	141.0
	307.0	271.9	566.0	563.8
Corporate general and administrative expenses	(27.7)	(27.1)	(61.6)	(47.2)
ERP costs	(4.0)	(3.4)	(8.1)	(7.4)
Total operating income	\$ 275.3	\$ 241.4	\$ 496.3	\$ 509.2

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

Other Income (Expense) Net consisted of the following:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>			
Retiree health care expenses related to previously owned businesses	\$ (2.6)	\$ (2.7)	\$ (5.3)	\$ (6.1)
Expenses related to previously owned businesses	(3.1)	(1.3)	(4.3)	(2.2)
Equity in affiliated companies	1.1	(2.3)	(0.8)	(2.0)
Other net	0.2	(0.1)	(0.4)	(0.5)
Other income (expense) net	\$ (4.4)	\$ (6.4)	\$ (10.8)	\$ (10.8)

**Note 5. Share-Based Compensation**

During the three and six months ended June 30, 2010 and 2009, the Company expensed share-based compensation awards under the Goodrich Equity Compensation Plan and the Goodrich Corporation 2008 Global Employee Stock Purchase Plan for employees and under the Outside Director Deferral and Outside Director Phantom Share plans for

non-employee directors. A detailed description of the awards under these plans is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

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The compensation cost recorded for share-based compensation plans during the three months ended June 30, 2010 and 2009 was \$15 million and \$18.2 million, respectively. The decrease from 2009 to 2010 was primarily due to changes in the Company's share price for the Performance Units and Outside Director Phantom Share plans, partially offset by a higher grant date fair value for the Restricted Stock Units and Stock Option plans. The compensation cost recorded for share-based compensation plans during the six months ended June 30, 2010 and 2009 was \$33.2 million and \$31.6 million, respectively. The increase from 2009 to 2010 was primarily due to a higher grant date fair value for the Restricted Stock Units and Stock Option plans, partially offset by changes in the Company's share price for the Performance Units and Outside Director Phantom Share plans.

**Note 6. Earnings Per Share**

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(In millions, except per share amounts)</b>			
<b>Numerator</b>				
Numerator for basic and diluted earnings per common share income from continuing operations attributable to Goodrich	\$ 158.9	\$ 145.9	\$ 268.9	\$ 315.2
Percentage allocated to common shareholders (1)	98.6%	98.6%	98.6%	98.6%
Numerator for basic and diluted earnings per common share	\$ 156.8	\$ 143.9	\$ 265.2	\$ 310.8
<b>Denominator</b>				
Denominator for basic earnings per common share weighted-average shares	125.4	123.9	125.2	123.9
Effect of dilutive securities:				
Stock options, employee stock purchase plan and other deferred compensation shares	1.1	1.1	1.2	0.8
Denominator for diluted earnings per common share adjusted weighted-average shares and assumed conversion	126.5	125.0	126.4	124.7
<b>Per common share income from continuing operations</b>				
Basic	\$ 1.25	\$ 1.16	\$ 2.12	\$ 2.51
Diluted	\$ 1.24	\$ 1.15	\$ 2.10	\$ 2.49
(1) Basic weighted-average common shares outstanding	125.4	123.9	125.2	123.9
Basic weighted-average common shares outstanding and unvested restricted share units expected to vest	127.1	125.7	126.9	125.6



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Percentage allocated to common shareholders	98.6%	98.6%	98.6%	98.6%
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The Company's unvested restricted share units contain rights to receive nonforfeitable dividend equivalents, and thus, are participating securities requiring the two-class method of computing EPS. The calculation of EPS for common stock shown above excludes the income attributable to the unvested restricted share units from the numerator and excludes the dilutive impact of those units from the denominator.

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At June 30, 2010 and 2009, the Company had 4.2 million and 5.3 million, respectively, of outstanding stock options. Stock options are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. For the six months ended June 30, 2010 and 2009, 0.7 million and 0.9 million anti-dilutive stock options, respectively, were excluded from the diluted EPS calculation. During the six months ended June 30, 2010 and 2009, the Company issued approximately 2 million and 1 million, respectively, of shares of common stock pursuant to stock option exercises and other share-based compensation plans. The Company's share repurchase program was initially approved by the Board of Directors on October 24, 2006 and increased by the Board of Directors on February 19, 2008, for \$600 million in total. During the six months ended June 30, 2010, the Company repurchased 0.9 million shares. During the six months ended June 30, 2009, there were no share repurchases. From inception of the program through June 30, 2010, the Company has repurchased 7.6 million shares for \$430.5 million under its share repurchase program.

**Note 7. Fair Value Measurements**

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

- Level 1 quoted prices in active markets for identical assets and liabilities.
- Level 2 observable inputs other than quoted prices in active markets for identical assets and liabilities.
- Level 3 unobservable inputs in which there is little or no market data available, which require the reporting entity to develop its own assumptions.

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

	Fair Value				Fair Value			
	June 30,		December 31,		June 30,		December 31,	
	2010	Level 1	Level 2	Level 3	2009	Level 1	Level 2	Level 3
Cash Equivalents (1)	\$ 768.4	\$768.4	\$	\$	\$ 470.1	\$470.1	\$	\$
Derivative Financial Instruments (2)								
Cash Flow Hedges	(83.2)		(83.2)		56.8		56.8	
Other Forward Contracts					(2.5)		(2.5)	
Rabbi Trust Assets (3)	46.3	46.3			45.0	45.0		
Long-term debt (4)	(2,280.6)		(2,280.6)		(2,144.0)		(2,144.0)	

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

(2) See Note 17, Derivatives and Hedging Activities. Estimates of the fair value of the derivative financial instruments represent the Company's best estimates based on its valuation models, which incorporate industry data and trends and relevant market rates and transactions.

(3) Rabbi trust assets include mutual funds and

cash equivalents for payment of certain non-qualified benefits for retired, terminated and active employees. The fair value of these assets was based on quoted market prices.

- (4) The carrying amount of the Company's long-term debt was \$2,001.4 million and \$2,001.9 million at June 30, 2010 and December 31, 2009, respectively. The fair value of long-term debt is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

**Note 8. Inventories**

Inventories consist of the following:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	(Dollars in millions)	
<b>Average or actual cost (which approximates current costs):</b>		
Finished products	\$ 229.2	\$ 225.6
In-process	1,632.9	1,485.6
Raw materials and supplies	638.5	667.6
	2,500.6	2,378.8
Less:		

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Reserve to reduce certain inventories to LIFO basis	(52.5)	(51.5)
Progress payments and advances	(61.8)	(36.9)
Total	\$ 2,386.3	\$ 2,290.4

In-process inventory included \$954.7 million and \$827.7 million at June 30, 2010 and December 31, 2009, respectively, for the following: (1) pre-production and excess-over-average inventory accounted for under long-term contract accounting; and (2) engineering costs with a guaranteed right of recovery. The June 30, 2010 balance of \$954.7 million included \$488.4 million related to the Boeing 787, \$187.7 million related to the Airbus A350 XWB and \$88.3 million related to the Pratt and Whitney PurePower PW 1000G engine contracts.

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

**Note 9. Goodwill**

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

	<b>Balance December 31, 2009</b>	<b>Business Combinations (Dollars in millions)</b>	<b>Foreign Currency Translation/ Other</b>	<b>Balance June 30, 2010</b>
Actuation and Landing Systems(1)	\$ 302.6	\$ 29.3	\$ (14.1)	\$ 317.8
Nacelles and Interior Systems	441.2		(12.1)	429.1
Electronic Systems	843.2		(5.3)	837.9
	<b>\$ 1,587.0</b>	<b>\$ 29.3</b>	<b>\$ (31.5)</b>	<b>\$ 1,584.8</b>

- (1) On June 9, 2010, the Company acquired Crompton Technology Group, Ltd. (CTG) for \$51.7 million in cash, net of cash acquired. Based on the Company's preliminary purchase price allocation, \$28.6 million was identifiable intangible assets and \$28.4 million was goodwill. The fair value of the intangible assets was based upon an independent valuation, and will be amortized over a weighted-average useful life of 15 years. The

ultimate purchase price allocation will be based on information that provides a better estimate of the fair value of assets acquired and liabilities assumed.

On December 21, 2009, the Company acquired AIS Global Holdings LLC (AIS), reported in the Electronics Systems segment, for \$362.4 million in cash, net of cash acquired. Based on the Company's purchase price allocation, \$228.6 million was identifiable intangible assets, \$165 million was goodwill and \$76.8 million was net deferred tax liabilities primarily related to the intangible assets. The AIS acquisition provides the Company another high growth platform in the defense market that builds on the Company's existing capabilities. The amount of the purchase price that was assigned to goodwill primarily represents the synergy of combining AIS and the Company's engineering capabilities as well as enhancing the Company's manufacturing capabilities, enabling the Company to expand its access in the rapidly growing guided munitions market. The goodwill related to the AIS acquisition is not deductible for tax purposes.

**Note 10. Financing Arrangements**

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

The amount borrowed;

The Company's public debt rating by Standard & Poor's, Moody's and Fitch; and

At the Company's option, rates tied to the agent bank's prime rate or, for U.S. Dollar and Great Britain Pounds Sterling borrowings, the London Interbank Offered Rate and for Euro Dollar borrowings, the Euro Interbank Offered Rate.

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At June 30, 2010, there were no borrowings and \$64.1 million in letters of credit outstanding under the facility. At December 31, 2009, there were no borrowings and \$68 million in letters of credit outstanding under the facility. The level of unused borrowing capacity varies from time to time depending, in part, upon the Company's compliance with financial and other covenants set forth in the related agreement, including the consolidated net worth requirement and maximum leverage ratio. The Company is currently in compliance with all such covenants. Under the most restrictive of these covenants, \$1,771.6 million of income retained in the business and additional paid-in capital was free from such limitations at June 30, 2010. At June 30, 2010, the Company had borrowing capacity under this facility of \$435.9 million, after reductions for letters of credit outstanding under the facility.

At June 30, 2010, the Company had letters of credit and bank guarantees of \$116.7 million, inclusive of \$64.1 million in letters of credit outstanding under the Company's syndicated revolving credit facility, as discussed above.

At June 30, 2010, the Company also maintained \$75 million of uncommitted U.S. money market facilities and \$146.9 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At June 30, 2010 and December 31, 2009, there were \$18.5 million and \$3.1 million, respectively, in borrowings and \$20.5 million and \$0.3 million, respectively, in letters of credit and bank guarantees outstanding under these facilities. These credit facilities are provided by a small number of commercial banks that also provide the Company with committed credit through the syndicated revolving credit facility described above and with various cash management, trust and other services.

**Lease Commitments**

The Company leases certain of its office and manufacturing facilities, machinery and equipment and corporate aircraft under various committed lease arrangements provided by financial institutions. Future minimum lease payments under operating leases were \$175.1 million at June 30, 2010.

One of these arrangements allows the Company, rather than the lessor, to claim a deduction for tax depreciation on the asset and allows the Company to lease a corporate aircraft with a total commitment amount of \$43.8 million. For accounting purposes, the Company was deemed to be the owner of the aircraft during the construction period and recorded an asset with an offsetting lease obligation of approximately \$32 million. This lease will qualify for sales-leaseback treatment upon lease commencement in 2011 and will be priced at a spread over LIBOR.



**Table of Contents****Note 11. Pensions and Postretirement Benefits Other Than Pensions****Pensions**

The following table sets forth the components of net periodic benefit cost and the weighted-average assumptions used to determine the net periodic benefit cost. The net periodic benefit cost for divested or discontinued operations retained by the Company is included in the amounts below:

	<b>U.S. Plans</b>		<b>U.K. Plans</b>		<b>Other Plans</b>	
	<b>Three Months</b>		<b>Three Months</b>		<b>Three Months</b>	
	<b>Ended</b>		<b>Ended</b>		<b>Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>					
Service cost	\$ 11.4	\$ 11.9	\$ 3.6	\$ 3.3	\$ 1.2	\$ 0.9
Interest cost	42.1	43.0	9.5	9.5	1.7	1.8
Expected return on plan assets	(47.9)	(45.3)	(12.7)	(10.6)	(1.8)	(1.4)
Amortization of prior service cost	1.7	1.9	(0.2)	(0.2)	0.1	0.4
Amortization of actuarial loss	28.2	24.3	0.7	2.2	0.4	0.3
Net periodic benefit cost	\$ 35.5	\$ 35.8	\$ 0.9	\$ 4.2	\$ 1.6	\$ 2.0

	<b>U.S. Plans</b>		<b>U.K. Plans</b>		<b>Other Plans</b>	
	<b>Six Months Ended</b>		<b>Six Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>					
Service cost	\$ 23.1	\$ 21.4	\$ 7.7	\$ 7.6	\$ 2.4	\$ 1.8
Interest cost	84.3	85.9	19.3	17.8	3.5	3.2
Expected return on plan assets	(93.8)	(87.1)	(25.9)	(20.3)	(3.5)	(2.5)
Amortization of prior service cost	3.5	3.7	(0.3)	(0.3)	0.1	0.4
Amortization of actuarial loss	58.4	52.6	1.3	3.5	0.8	0.6
Gross periodic benefit cost	75.5	76.5	2.1	8.3	3.3	3.5
Settlement (gain) loss						(0.4)
Net periodic benefit cost	\$ 75.5	\$ 76.5	\$ 2.1	\$ 8.3	\$ 3.3	\$ 3.1

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

	<b>U.S. Plans</b>		<b>U.K. Plans</b>		<b>Other Plans</b>	
	<b>Three and Six Months</b>		<b>Three and Six Months</b>		<b>Three and Six Months</b>	
	<b>Ended June 30,</b>		<b>Ended June 30,</b>		<b>Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Discount rate	5.90%	6.47%	5.88%	5.88%	5.75%	6.17%
Expected long-term rate of return on assets	8.75%	8.75%	8.50%	8.50%	8.32%	8.12%
	4.10%	4.10%	3.75%	3.75%	3.38%	3.31%

Rate of compensation  
increase

15

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>			
Service cost	\$ 0.2	\$ 0.3	\$ 0.6	\$ 0.7
Interest cost	4.4	4.4	8.7	9.7
Amortization of prior service cost	(0.1)	(0.1)	(0.1)	(0.1)
Amortization of actuarial (gain) loss				
Net periodic benefit cost	\$ 4.5	\$ 4.6	\$ 9.2	\$ 10.3

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

	<b>Three and Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
Discount rate	5.55%	6.38%
Healthcare trend rate	7.3% in 2010 to 5% in 2015	7.8% in 2009 to 5% in 2015

**Note 12. Comprehensive Income (Loss)**

Total comprehensive income (loss) consisted of the following:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>			
Net income attributable to Goodrich	\$ 159.0	\$ 177.1	\$ 270.2	\$ 346.9
Other comprehensive income (loss):				
Unrealized foreign currency translation gains (losses) during period	(74.7)	133.3	(128.0)	84.0
Pension/OPEB liability adjustments during the period, net of tax for the three and six months ended June 30, 2010 of (\$12.7) and (\$25.8), respectively; net of tax for the three and six months ended June 30, 2009 of (\$8.4) and (\$22.5), respectively	23.3	9.0	45.0	60.3
Gain (loss) on cash flow hedges, net of tax for the three and six months ended June 30, 2010 of \$26.3 and \$44.3, respectively; net of tax for the three and six months ended June 30, 2009 of (\$61.0) and (\$54.5), respectively	(57.9)	121.7	(88.5)	101.6
Total comprehensive income (loss)	\$ 49.7	\$ 441.1	\$ 98.7	\$ 592.8

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in millions)</b>	
Cumulative unrealized foreign currency translation gains	\$ 42.8	\$ 170.8
Pension/OPEB liability adjustments, net of deferred taxes of \$498.4 and \$524.2, respectively	(823.3)	(868.3)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes of \$33.7 and (\$10.6), respectively	(64.2)	24.3
<b>TOTAL</b>	<b>\$ (844.7)</b>	<b>\$ (673.2)</b>

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During 2009, \$1.9 million of deferred tax liabilities were established for earnings that are expected to be repatriated to the U.S. No other income taxes are provided on foreign currency translation gains (losses) for comprehensive income (loss) and accumulated other comprehensive income (loss) as foreign earnings are considered permanently invested.

**Note 13. Noncontrolling Interests**

The changes in the Company's noncontrolling interests were as follows:

	<b>Six months ended June 30,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>	
<b>Balance at January 1</b>	\$ 46.6	\$ 60.9
Distributions to noncontrolling interests	(11.3)	(7.3)
Comprehensive income:		
Net income attributable to noncontrolling interests	5.0	7.7
Other comprehensive income, net of tax		
Comprehensive income	5.0	7.7
<b>Balance at June 30</b>	\$ 40.3	\$ 61.3

**Note 14. Income Taxes**

The Company's effective tax rate for the three months ended June 30, 2010 was 32.1%. Significant items that impacted the Company's effective tax rate as compared to the U.S. federal statutory rate of 35% included earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate which reduced the effective tax rate by approximately 6 percentage points, foreign and domestic tax credits and benefits related to domestic manufacturing 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, state income taxes (net of related tax benefit) which increased the effective tax rate by approximately 2 percentage points and adjustments to reserves for tax contingencies, including interest thereon (net of related tax benefit), which increased the effective tax rate by approximately 1 percentage point.

The Company's effective tax rate for the three months ended June 30, 2009 was 26.9%. Significant items that impacted the Company's effective tax rate as compared to the U.S. federal statutory rate of 35% included earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate which reduced the effective tax rate by approximately 6 percentage points, foreign and domestic tax credits and benefits related to domestic manufacturing which reduced the effective tax rate by approximately 5 percentage points, deemed repatriation of non-U.S. earnings which increased the effective tax rate by approximately 2 percentage points, adjustments to reserves for tax contingencies, including interest thereon (net of related tax benefit), which increased the effective tax rate by approximately 2 percentage points and state income taxes (net of related tax benefit) which increased the effective tax rate by approximately 2 percentage points.

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For the six months ended June 30, 2010, the Company reported an effective tax rate of 34.6%, including a charge of approximately \$10 million due to the enactment of health care reform legislation in the U.S., which increased the effective tax rate by approximately 2 percentage points. For the six months ended June 30, 2009, the Company reported an effective tax rate of 26.6%, including a benefit from an adjustment to state tax reserves which reduced the effective tax rate by approximately 3 percentage points.

At June 30, 2010, the Company had a \$303.1 million liability recorded for unrecognized tax benefits, which included interest and penalties of \$151.3 million. The total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was \$228.1 million. At December 31, 2009, the Company had a \$286.6 million liability recorded for unrecognized tax benefits, which included interest and penalties of \$148.6 million. The total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was \$210.3 million. The Company reported interest and penalties related to unrecognized tax benefits in income tax expense.

**Note 15. Contingencies**

**General**

There are various pending or threatened claims, lawsuits and administrative proceedings against the Company or its subsidiaries, arising from the ordinary course of business, which seek remedies or damages. Although no assurance can be given with respect to the ultimate outcome of these matters, the Company believes that any liability that may finally be determined with respect to commercial and non-asbestos product liability claims should not have a material effect on its consolidated financial position, results of operations or cash flows. Legal costs are expensed as incurred.

**Environmental**

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

Estimates of the Company's environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration the Company's prior experience and professional judgment of the Company's environmental specialists. Estimates of the Company's environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and cost estimates, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

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Accordingly, as investigation and remediation proceed, it is likely that adjustments in the Company's accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on the Company's results of operations or cash flows in a given period. Based on currently available information, however, the Company does not believe that future environmental costs in excess of those accrued with respect to sites for which the Company has been identified as a potentially responsible party are likely to have a material adverse effect on the Company's financial condition.

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

The Company's condensed consolidated balance sheet included an accrued liability for environmental remediation obligations of \$66.6 million and \$66.1 million at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010 and December 31, 2009, \$13.2 million and \$11.3 million, respectively, of the accrued liability for environmental remediation were included as accrued expenses. At June 30, 2010 and December 31, 2009, \$25.3 million was associated with ongoing operations and \$41.3 million and \$40.8 million, respectively, was associated with previously owned businesses.

The Company expects that it will expend present accruals over many years, and will generally complete remediation in less than 30 years at sites for which it has been identified as a potentially responsible party. This period includes operation and monitoring costs that are generally incurred over 15 to 25 years. Recently, certain states in the U.S. and countries globally are promulgating or proposing new or more demanding regulations or legislation impacting the use of various chemical substances by all companies. The Company is currently evaluating the potential impact, if any, of complying with such regulations and legislation.

**Asbestos**

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

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**Insurance Coverage**

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

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

At June 30, 2010 and December 31, 2009, the deferred settlement credit was \$46.7 million and \$45 million, respectively, for which \$5.6 million and \$6.1 million, respectively, was reported in accrued expenses and \$41.1 million and \$38.9 million, respectively, was reported in other non-current liabilities. The proceeds from such insurance settlements were reported as a component of net cash provided by operating activities in the period payments were received.

**Liabilities of Divested Businesses**

In connection with the divestitures of the Company's tire, vinyl, engineered industrial products and other businesses, the Company has received contractual rights of indemnification from third parties for environmental, asbestos 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 results of operations and cash flows.

**Aerostructures Long-term Contracts**

The Company's aerostructures business in the Nacelles and Interior Systems segment has several long-term contracts in the pre-production phase including the Airbus A350 XWB and the Pratt and Whitney PurePower PW 1000G engine contracts and the early production phase including the Boeing 787. These contracts are accounted for in accordance with long-term construction contract accounting.

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

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



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

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

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

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

***Aerostructures 787 Contract with Boeing***

During 2004, the Company's aerostructures business entered into a long-term contract with Boeing on the 787 program. The Company's latest outlook estimates original equipment sales in excess of \$5 billion for this contract. At June 30, 2010, the Company had \$721 million capitalized as in-process inventory related to this contract. Aftermarket sales associated with this program are not accounted for using the percentage-of-completion method of accounting.

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The Boeing 787 program has experienced delays in its development schedule. Boeing requested changes and enhancements in the design of the Company's product. Under the terms of the Company's contract, the Company is entitled to equitable adjustments. In accordance with these provisions, the Company asserted adjustments that were material. During the three months ended June 30, 2010, the Company entered into an agreement that resolved the asserted adjustments. The Company and Boeing are currently operating pursuant to this agreement and expect to finalize all terms of the agreement in the near term. The financial terms of the agreement were consistent with the Company's outlook and did not have a material effect on the Company's financial position, results of operations and/or cash flows during the six months ended June 30, 2010.

***JSTARS Program***

In 2002, Seven Q Seven, Ltd. (7Q7) was selected by Northrop Grumman Corporation to provide propulsion pods for the re-engine program for the JT3D engines used by the U.S. Air Force. The Company was selected by 7Q7 as a supplier for the inlet, thrust reverser, exhaust, EBU, strut systems and wing interface systems. As of June 30, 2010, the Company has \$28.7 million of pre-production costs reported as in-process inventory related to this program. Funding for the JSTARS program for the 2010 budget cycle was approved. Future funding remains uncertain. While the Company believes that program funding will continue and is included in the preliminary fiscal 2011 budget submitted, there can be no assurances of such funding. If the program were to be cancelled, the Company would recognize an impairment of its pre-production costs.

**U.S. Health Care Reform Legislation**

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Act of 2010 (the Act) was enacted. The primary focus of the Act is to significantly reform health care in the U.S. The financial impact on the Company was the elimination of a portion of the tax deduction available to companies that provide prescription drug coverage to retirees which was recorded in the three months ended March 31, 2010. See Note 14, *Income Taxes*. The Company is currently evaluating other prospective effects of the Act.

**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. See Note 14 *Income Taxes*, for additional detail.

**Table of Contents*****Tax Years 2005 and 2006***

During 2009, the IRS issued a Revenue Agent's Report for the tax years 2005 and 2006. In July 2009, the Company submitted a protest to the Appeals Division of the IRS with respect to certain unresolved issues which involve the proper timing of deductions. Although it is reasonably possible that these matters could be resolved during the next 12 months, the timing or ultimate outcome is uncertain.

***Tax Years 2000 to 2004***

During 2007, the IRS and the Company reached agreement on substantially all of the issues raised with respect to the examination of taxable years 2000 to 2004. The Company submitted a protest to the Appeals Division of the IRS with respect to the remaining unresolved issues which involve the proper timing of certain deductions. The Company and the IRS were unable to reach agreement on the remaining issues. In December 2009, the Company filed a petition to the U.S. Tax Court and in March 2010 the Company also filed a complaint in District Court. The Company believes the amount of the estimated tax liability if the IRS were to prevail is fully reserved. The Company cannot predict the timing or ultimate outcome of a final resolution of the remaining unresolved issues.

***Tax Years Prior to 2000***

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

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

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

Rohr was examined by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California disallowed certain expenses incurred by one of Rohr's subsidiaries in connection with the lease of certain tangible property. California's Franchise Tax Board held that the deductions associated with the leased equipment were non-business deductions. The additional tax associated with the Franchise Tax Board's position is \$4.5 million. The amount of accrued interest associated with the additional tax is approximately \$30 million at June 30, 2010. 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 \$15 million at June 30, 2010. The tax and interest amounts continue to be contested by Rohr. No payment has been made for the \$30 million of interest or \$15 million of penalty interest. In April 2009, the Superior Court of California issued a ruling granting the Company's motion for

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summary judgment. In August 2009 the State of California appealed the ruling. Once the State's appeals have been exhausted and if the Superior Court's decision is not overturned, the Company will be entitled to a refund of the \$4.5 million of tax, together with interest from the date of payment.

Following settlement of the U.S. Tax Court for Rohr's tax years 1986 to 1997, California audited the Company's amended tax returns and issued an assessment based on numerous issues including proper timing of deductions and allowance of tax credits. The Company submitted a protest of the assessment to the California Franchise Tax Board in November 2008. The Company believes that it is adequately reserved for this contingency. Although it is reasonably possible that this matter could be resolved during the next 12 months, the timing or ultimate outcome is uncertain.

**Note 16. Guarantees**

The Company extends financial and product performance guarantees to third parties. At June 30, 2010, the following environmental remediation and indemnification and financial guarantees were outstanding:

	<b>Maximum Potential Payment (Dollars in millions)</b>	<b>Carrying Amount of Liability</b>
	No	
Environmental remediation and other indemnifications (Note 15, Contingencies )	Limit	\$ 18.8
Guarantees of residual value on leases	\$ 11.0	\$
Guarantees of JV debt and other financial instruments	\$ 34.3	\$ 1.4

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

The Company is guarantor on a revolving credit agreement totaling £30 million between Rolls-Royce Goodrich Engine Control Systems Limited (JV) and a financial institution. In addition, the Company guarantees the JV's foreign exchange credit line with a notional amount of \$114 million at June 30, 2010. The Company is indemnified by Rolls-Royce for 50% of the gains/losses resulting from the foreign exchange hedges.

**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. Adjustments are made to accruals as claim data and historical experience change. In addition, the Company incurs discretionary costs to service its products in connection with product performance issues.

The changes in the carrying amount of service and product warranties for the six months ended June 30, 2010, in millions, were as follows:

<b>Balance at December 31, 2009</b>	\$ 147.6
Net provisions for warranties issued during the period	23.6
Net provisions (return to earnings) for warranties existing at the beginning of the year	(5.4)
Payments	(24.1)
Foreign currency translation	(5.8)
<b>Balance at June 30, 2010</b>	\$ 135.9

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

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in millions)</b>	
Accrued expenses	\$ 83.0	\$ 88.2
Other non-current liabilities	52.9	59.4
<b>Total</b>	<b>\$ 135.9</b>	<b>\$ 147.6</b>

**Note 17. Derivatives and Hedging Activities****Cash Flow Hedges**

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

The forward contracts described above are used to mitigate the potential volatility to earnings and cash flow arising from changes in currency exchange rates that impact the Company's U.S. Dollar sales for certain foreign operations. The forward contracts are accounted for as cash flow hedges and are recorded in the Company's condensed consolidated balance sheet at fair value, with the offset reflected in accumulated other comprehensive income (loss) (AOCI), net of deferred taxes. The gain or loss on the forward contracts is reported as a component of other comprehensive income (loss) (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The notional value of the forward contracts at June 30, 2010 and December 31, 2009 was \$1,716.3 million and \$1,888 million, respectively. As of June 30, 2010 and December 31, 2009, the total fair value before taxes of the Company's forward contracts and the accounts in the condensed consolidated balance sheet in which the fair value amounts are included are shown below:

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
	<b>(Dollars in millions)</b>	
Prepaid expenses and other assets	\$ 5.2	\$ 24.5
Other assets	11.0	71.9
Accrued expenses	47.8	22.6
Other non-current liabilities	51.6	17.0

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
	<b>(Dollars in millions)</b>			
Amount of gain/(loss) recognized in OCI, net of tax for the three and six months ended June 30, 2010 of \$26.3 and \$44.3, respectively; net of tax for the three and six months ended June 30, 2009 of \$(61.0) and \$(54.5), respectively	\$(57.9)	\$121.7	\$(88.5)	\$101.6
	\$(11.7)	\$(15.5)	\$(16.9)	\$(39.8)

Amount of gain/(loss) reclassified from AOCI into  
earnings

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The total fair value of the Company's forward contracts of a \$83.2 million liability (before deferred taxes of \$28.4 million) at June 30, 2010, combined with \$14.2 million of losses on previously matured hedges of intercompany sales and gains from forward contracts terminated prior to the original maturity dates, is recorded in AOCI and will be reflected in income as earnings are affected by the hedged items. As of June 30, 2010, the portion of the net \$83.2 million liability that would be reclassified into earnings to offset the effect of the hedged item in the next 12 months is a loss of \$43.1 million. These forward contracts mature on a monthly basis with maturity dates that range from July 2010 to December 2014. There was a de minimis amount of both ineffectiveness and hedge components excluded from the assessment of effectiveness during the three and six months ended June 30, 2010 and 2009.

**Fair Value Hedges**

The Company enters into interest rate swaps to increase the Company's exposure to variable interest rates. The settlement and maturity dates on each swap are the same as those on the referenced notes. The interest rate swaps are accounted for as fair value hedges and the carrying value of the notes is adjusted to reflect the fair values of the interest rate swaps. At June 30, 2010 and December 31, 2009, the Company had no outstanding interest rate swaps. For the three months ended June 30, 2010 and 2009, net gains of \$0.5 million and \$0.6 million (after tax of \$0.3 million and \$0.4 million), respectively, were recorded as a reduction to interest expense. For the six months ended June 30, 2010 and 2009, net gains of \$1 million and \$1.4 million, (after tax of \$0.6 million and \$0.9 million, respectively), were recorded as a reduction to interest expense. These amounts represent previously terminated swaps which are amortized over the life of the underlying debt.

**Other Forward Contracts**

As a supplement to the foreign exchange cash flow hedging program, the Company enters into forward contracts to manage its foreign currency risk related to the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency. These forward contracts generally mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. Since these contracts are not designated as hedges, the gains or losses on these forward contracts are recorded in selling and administrative costs or cost of sales, as appropriate. These contracts are utilized to mitigate the earnings impact of the translation of net monetary assets and liabilities.

During the three months ended June 30, 2010, the Company recorded a transaction gain on its monetary assets of \$28.1 million, which was offset by losses on the other forward contracts described above of \$20 million. During the three months ended June 30, 2009, the Company recorded a transaction loss on its monetary assets of approximately \$22.3 million, which was partially offset by gains on the other forward contracts described above of approximately \$22.1 million.

During the six months ended June 30, 2010, the Company recorded a transaction gain on its monetary assets of \$39.7 million, which was partially offset by losses on the other forward contracts described above of \$32.5 million. During the six months ended June 30, 2009, the Company recorded a transaction loss on its monetary assets of \$7.2 million, which was entirely offset by gains on the other forward contracts described above of \$13 million.

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

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS INCLUDED IN ITEM 1 OF THIS DOCUMENT.

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

**OVERVIEW**

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

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

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

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

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



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

We have significant sales content on most of the airplanes manufactured in this market channel. Over the last few years, we have benefited from the historically high production rates and deliveries of Airbus and Boeing airplanes and from our substantial content on many of the regional and general aviation airplanes. Delivery of new commercial, regional, business, and general aviation aircraft are expected to be about the same in 2010 as they were in 2009. Boeing and Airbus have announced production rate increases for 2011 and beyond. However, production rates are always subject to change, and may be impacted by economic conditions which may influence customers' willingness and/or ability to purchase new aircraft.

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

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

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

Capacity in the global airline system, as measured by ASMs, is expected to grow slightly in 2010 as compared to 2009 due in large part to the expected global economic recovery. ASM expectations could be adversely affected if airlines choose to fly their in-service airplanes less frequently, or temporarily ground airplanes due to decreased demand, high fuel prices and other factors including weaker than expected global economic recovery.

While we have significant product content on most of the airplane models that are currently in service, we enjoy the benefit of having excellent positions on the newer, more fuel-efficient airplanes currently in service. Even though many airlines have announced that they will remove some of their older airplanes, such as Boeing MD-80 and 737 Classic airplanes, from their fleets, we do not expect these removals to have a significant impact on our results in 2010.

***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.

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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, the level of upgrade, overhaul and maintenance activities associated with existing platforms and demand for optical surveillance and reconnaissance systems.

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

**Long-term Sustainable Growth**

We believe that we are well positioned to grow our sales, organically and through acquisitions, over the long-term due to:

Awards for key products on important new and expected programs, including the Airbus A350 XWB, the Boeing 787 and 747-8, the Pratt & Whitney PurePower PW1000G engine and the Lockheed Martin F-35 Lightning II;

The large installed base of commercial airplanes and our strong positions on newer, more fuel-efficient airplanes, which should fuel sustained long-term aftermarket strength;

Balance in the large commercial airplane market, with strong sales to both Airbus and Boeing;

Aging of the existing large commercial and regional airplane fleets, which should result in increased aftermarket support;

Increased number of long-term agreements for product and service sales on new and existing commercial airplanes;

Increased opportunities for aftermarket growth due to airline outsourcing;

Growth in global maintenance, repair and overhaul (MRO) opportunities for our systems and components, particularly in Europe, Asia and the Middle East, where we have expanded our capacity; and

Expansion of our product offerings in support of high growth areas in the defense and space market channel, such as helicopter products and systems, intelligence, surveillance and reconnaissance products and precision guidance systems for munitions.

**Table of Contents****Second Quarter 2010 Sales Content by Market Channel**

During the second quarter 2010, approximately 96% of our sales were from our three key market channels described above. Following is a summary of the percentage of sales by market channel:

Airbus Commercial OE	17%
Boeing Commercial OE	10%
Regional, Business and General Aviation Airplane OE	6%
Total Large Commercial, Regional, Business and General Aviation Airplane OE	33%
Large Commercial Airplane Aftermarket	25%
Regional, Business and General Aviation Airplane Aftermarket	6%
Total Large Commercial, Regional, Business and General Aviation Airplane Aftermarket	31%
Total Defense and Space	32%
Other	4%
Total	100%

**Results of Operations Second Quarter 2010 as Compared to Second Quarter 2009**

	Second Quarter		Favorable \ (Unfavorable)	
	2010	2009	\$ Change	% Change
	(Dollars in millions, except diluted EPS)			
Sales	\$ 1,717.5	\$ 1,699.7	\$ 17.8	1.0
Segment operating income (1)	\$ 307.0	\$ 271.9	\$ 35.1	12.9
Corporate general and administrative costs	(31.7)	(30.5)	(1.2)	(3.9)
<b>Total operating income</b>	<b>275.3</b>	<b>241.4</b>	<b>33.9</b>	<b>14.0</b>
Net interest expense	(33.3)	(30.6)	(2.7)	(8.8)
Other income (expense) net	(4.4)	(6.4)	2.0	31.3
Income from continuing operations before income taxes	237.6	204.4	33.2	16.2
Income tax expense	(76.3)	(54.8)	(21.5)	(39.2)
Income from continuing operations	161.3	149.6	11.7	7.8
Income from discontinued operations	0.1	31.2	(31.1)	(99.7)
<b>Consolidated net income</b>	<b>161.4</b>	<b>180.8</b>	<b>(19.4)</b>	<b>(10.7)</b>
Net income attributable to noncontrolling interests	(2.4)	(3.7)	1.3	35.1
<b>Net income attributable to Goodrich</b>	<b>\$ 159.0</b>	<b>\$ 177.1</b>	<b>\$ (18.1)</b>	<b>(10.2)</b>

Effective tax rate	32.1%	26.9%
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**Diluted EPS:**

Continuing operations	\$ 1.24	\$ 1.15	\$ 0.09	7.8
Net income attributable to Goodrich	\$ 1.24	\$ 1.40	\$ (0.16)	(11.4)

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



**Table of Contents****Sales**

The sales increase in the second quarter 2010 as compared to the second quarter 2009 was driven by changes in each of our major market channels as follows:

Defense and space sales of both original equipment and aftermarket products and services increased by approximately \$55 million, or 11%; partially offset by

Regional, business and general aviation airplane original equipment sales decreased by approximately \$11 million, or 10%;

Large commercial, regional, business and general aviation airplane aftermarket sales decreased by approximately \$15 million, or 3%; and

Large commercial airplane original equipment sales decreased by approximately \$4 million, or 1%.

**Segment operating income**

See discussion in the Business Segment Performance section.

**Corporate general and administrative costs**

Corporate general and administrative costs increased primarily due to higher-lease related and incentive compensation expenses, partially offset by lower share-based compensation expense.

**Net interest expense**

Net interest expense increased primarily as a result of higher borrowings in the second quarter 2010 as compared to the second quarter 2009.

**Other income (expense) net**

Other income (expense) net decreased for the second quarter 2010 as compared to the second quarter 2009, primarily as a result of higher income of approximately \$3 million from equity in affiliated companies, partially offset by higher expenses related to previously owned businesses of approximately \$2 million.

**Income from continuing operations**

In addition to the items described above, income from continuing operations during the second quarter 2010 as compared to the second quarter 2009 also was affected by the following items:

	<b>Increase (Decrease)</b>		
	<b>Before Tax</b>	<b>After Tax</b>	<b>Diluted EPS</b>
	<b>(Dollars in millions, except diluted EPS)</b>		
Changes in estimates on long-term contracts	\$ 23.8	\$ 15.0	\$ 0.12
Foreign exchange, including remeasurement of monetary assets/liabilities	\$ 10.7	\$ 6.7	\$ 0.05
Higher effective tax rate	\$	\$ (12.4)	\$ (0.10)

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

During the second quarters of 2010 and 2009, we revised estimates on certain of our long-term contracts, primarily in our aerostructures and aircraft wheels and brakes businesses. These changes in estimates resulted in higher after-tax income of approximately \$15 million in the second quarter of 2010 compared to the second quarter of 2009. These revisions were primarily related to favorable cost and operational performance, changes in volume expectations and sales pricing improvements and finalization of contract terms on current and/or follow-on contracts.

***Foreign exchange***

The net favorable foreign exchange was primarily due to approximately \$50 million of increased net before tax transaction gains relating to re-measuring monetary assets/liabilities into the functional currency, partially offset by approximately \$42 million of higher before tax net losses on forward contracts we entered into to offset the impact of net monetary asset gains/losses.

***Higher effective tax rate***

For the second quarter of 2010 we reported an effective tax rate of 32.1% as compared to 26.9% for the second quarter of 2009. The lower effective tax rate for the second quarter of 2009 as compared to the second quarter of 2010 was primarily attributable to various items related to foreign jurisdictions, which reduced the effective tax rate by approximately 2 percentage points, foreign exchange losses, which reduced the effective tax rate by approximately 1 percentage point and the impact of the U.S. Research and Development Credit (R&D Credit) which has not been extended beyond December 31, 2009. See Note 14, *Income Taxes*, to our condensed consolidated financial statements.

***Income from discontinued operations***

The second quarter of 2009 results included after-tax income from discontinued operations of \$31.2 million, or \$0.25 per diluted share, primarily associated with the resolution of a past environmental claim. There were no significant items related to discontinued operations during the second quarter of 2010.

**Table of Contents****Results of Operations Six Months Ended June 30, 2010 as Compared to Six Months Ended June 30, 2009**

	Second Quarter		Favorable \ (Unfavorable)	
	2010	2009	\$ Change	% Change
	(Dollars in millions, except diluted EPS)			
Sales	\$ 3,412.7	\$ 3,395.6	\$ 17.1	0.5
Segment operating income (1)	\$ 566.0	\$ 563.8	\$ 2.2	0.4
Corporate general and administrative costs	(69.7)	(54.6)	(15.1)	(27.7)
<b>Total operating income</b>	<b>496.3</b>	<b>509.2</b>	<b>(12.9)</b>	<b>(2.5)</b>
Net interest expense	(66.7)	(58.8)	(7.9)	(13.4)
Other income (expense) net	(10.8)	(10.8)		
Income from continuing operations before income taxes	418.8	439.6	(20.8)	(4.7)
Income tax expense	(144.9)	(116.7)	(28.2)	(24.2)
Income from continuing operations	273.9	322.9	(49.0)	(15.2)
Income from discontinued operations	1.3	31.7	(30.4)	(95.9)
<b>Consolidated net income</b>	<b>275.2</b>	<b>354.6</b>	<b>(79.4)</b>	<b>(22.4)</b>
Net income attributable to noncontrolling interests	(5.0)	(7.7)	2.7	35.1
<b>Net income attributable to Goodrich</b>	<b>\$ 270.2</b>	<b>\$ 346.9</b>	<b>\$ (76.7)</b>	<b>(22.1)</b>
Effective tax rate	34.6%	26.6%		
<b>Diluted EPS:</b>				
Continuing operations	\$ 2.10	\$ 2.49	\$ (0.39)	(15.7)
Net income attributable to Goodrich	\$ 2.11	\$ 2.74	\$ (0.63)	(23.0)

(1) We measure each reporting segment's profit based upon operating income. Accordingly, we do not allocate net interest expense, other income



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

### **Sales**

The sales increase in the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 was driven by changes in each of our major market channels as follows:

Defense and space sales of both original equipment and aftermarket products and services increased by approximately \$115 million, or 12%; and

Large commercial airplane original equipment sales increased by approximately \$46 million, or 5%; partially offset by

Large commercial, regional, business and general aviation airplane aftermarket sales decreased by approximately \$75 million, or 7%; and

Regional, business and general aviation airplane original equipment sales decreased by approximately \$54 million, or 22%.

### **Segment operating income**

See discussion in the Business Segment Performance section.

**Table of Contents****Corporate general and administrative costs**

Corporate general and administrative costs increased primarily due to unfavorable foreign exchange, higher incentive compensation and lease-related costs, partially offset by lower share-based compensation expense.

**Net interest expense**

Net interest expense increased primarily as a result of higher borrowings in the six months ending June 30, 2010 as compared to the six months ending June 30, 2009.

**Other income (expense) net**

Other income (expense) net remained unchanged for the six months ending June 30, 2010 and June 30, 2009. Higher expenses of approximately \$2 million related to previously owned businesses were partially offset by higher income of approximately \$1 million from equity in affiliated companies.

**Income from continuing operations**

In addition to the items described above, income from continuing operations during the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 was also impacted by the following items:

	<b>Before Tax (Dollars in millions, except diluted EPS)</b>	<b>Increase (Decrease) After Tax EPS</b>	<b>Diluted EPS</b>
Higher effective tax rate	\$	\$ (33.5)	\$ (0.27)
Changes in estimates on long-term contracts	\$ 35.3	\$ 22.1	\$ 0.17

***Higher effective tax rate***

For the six months ended June 30, 2010, we reported an effective tax rate of 34.6% as compared to 26.6% for the six months ended June 30, 2009. The increase in the effective tax rate for the six months ended June 30, 2010 was primarily due to a charge of approximately \$10 million in the first quarter of 2010 to adjust deferred income taxes for the enactment of health care reform legislation in the U.S., which increased our effective tax rate by approximately 2 percentage points. Our effective tax rate for the six months ended June 30, 2009 included a benefit from an adjustment to state tax reserves which reduced the effective tax rate by approximately 3 percentage points. Our effective tax rate during the six months ended June 30, 2010 was not reduced for the benefit of the R&D Credit because the federal statute authorizing the R&D Credit had not been extended beyond December 31, 2009. See Note 14, *Income Taxes*, to our condensed consolidated financial statements.

**Table of Contents*****Changes in estimates on long-term contracts***

During the six months ended June 30, 2010 and 2009, we revised estimates on certain of our long-term contracts, primarily in our aerostructures and aircraft wheels and brakes businesses, which resulted in higher income of approximately \$35 million in the six months ended June 30, 2010 as compared to the six months ended June 30, 2009. These revisions were primarily related to favorable cost and operational performance, changes in volume expectations and sales pricing improvements and finalization of contract terms on current and/or follow-on contracts.

**Income from discontinued operations**

During the six months ended June 30, 2009, results included after-tax income from discontinued operations totaling \$31.7 million, or \$0.25 per diluted share, primarily associated with the resolution of a past environmental claim. There were no significant items related to discontinued operations during the six months ended June 30, 2010.

**2010 OUTLOOK**

We expect the following approximate results for the year ending December 31, 2010:

	<b>2010 Outlook</b>	<b>2009 Actual</b>
Sales	\$7.1 billion	\$6.7 billion
Diluted EPS Income From Continuing Operations Attributable to Goodrich	\$4.30 to \$4.45 per share	\$4.43 per share
Diluted EPS Net Income Attributable to Goodrich	\$4.30 to \$4.45 per share	\$4.70 per share
Capital Expenditures	Approximately \$250 million	\$169 million
Operating Cash Flow minus Capital Expenditures	Exceed 85% of net income attributable to Goodrich	87% of net income from continuing operations attributable to Goodrich

The outlook for diluted earnings per share for income from continuing operations and net income attributable to Goodrich has been increased to \$4.30 to \$4.45 per share, compared to the prior outlook of \$4.15 to \$4.40 per share, primarily due to better operating margin performance. The full year 2010 sales outlook remains unchanged at \$7.1 billion. For the full year 2010, sales are expected to grow approximately 6% compared to 2009 sales. Our 2010 outlook includes a full year 2010 effective tax rate of approximately 31% and continues to include a full-year benefit of approximately 1.5% related to an assumed extension of the R&D Credit.

**Sales**

Our current market assumptions, for each of our major market channels, for the full year 2010 outlook, compared to the full year 2009, include the following:

Defense and space sales of both original equipment and aftermarket products and services are expected to increase by more than 15%, including sales generated by the December 2009 acquisition of Atlantic Global Holdings LLC (AIS). Organic growth is expected to be more than 5% in 2010, compared to 2009;

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Large commercial, regional, business and general aviation airplane aftermarket sales are expected to grow at a low single-digit rate. We expect each quarter in 2010 to show sequential growth, with year-over-year sales growth in the second half of 2010;

Large commercial airplane original equipment sales are expected to increase by about 3%; and

Regional, business and general aviation airplane original equipment sales are expected to decrease by 8% to 10%.

**Cash Flow**

We expect net cash provided by operating activities, minus capital expenditures, to exceed 85 percent of net income. This outlook reflects ongoing investments to support the current schedule for new airplane programs, such as the Boeing 787 and Airbus A350 XWB, and low-cost country manufacturing and productivity initiatives that are expected to enhance margins over the near and long-term. We expect capital expenditures for 2010 to be approximately \$250 million and worldwide pension plan contributions are expected to be approximately \$150 million.

**BUSINESS SEGMENT PERFORMANCE**

Our three business segments are as follows:

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

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

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

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

**Table of Contents****Second Quarter 2010 Compared with Second Quarter 2009**

	Second Quarter		Increase/ (Decrease)	% Change	% of Sales	
	2010	2009	(Dollars in millions)		2010	2009
<b>NET CUSTOMER SALES</b>						
Actuation and Landing Systems	\$ 608.1	\$ 637.2	\$ (29.1)	(4.6)		
Nacelles and Interior Systems	577.4	595.2	(17.8)	(3.0)		
Electronic Systems	532.0	467.3	64.7	13.8		
	\$ 1,717.5	\$ 1,699.7	\$ 17.8	1.0		
<b>SEGMENT OPERATING INCOME</b>						
Actuation and Landing Systems	\$ 60.5	\$ 62.8	\$ (2.3)	(3.7)	9.9	9.9
Nacelles and Interior Systems	151.4	135.2	16.2	12.0	26.2	22.7
Electronic Systems	95.1	73.9	21.2	28.7	17.9	15.8
	\$ 307.0	\$ 271.9	\$ 35.1	12.9	17.9	16.0

**Actuation and Landing Systems:** Actuation and Landing Systems segment sales for the second quarter 2010 decreased from the second quarter 2009 primarily due to the following:

Lower large commercial airplane OE sales of approximately \$15 million, primarily in our landing gear and actuation systems businesses;

Lower regional, business and general aviation airplane OE sales across most businesses of approximately \$12 million; and

Lower other aerospace and non-aerospace sales across most businesses of approximately \$13 million; partially offset by

Higher defense and space OE and aftermarket sales primarily in our landing gear and engine components businesses of approximately \$6 million; and

Higher large commercial, regional, business and general aviation airplane aftermarket sales of approximately \$5 million, primarily in our wheels and brakes business.

Actuation and Landing Systems segment operating income for the second quarter 2010 decreased from the second quarter 2009 primarily as a result of the following:

Lower income of approximately \$11 million due to higher operating costs, primarily in our landing gear and actuation systems businesses; partially offset by

Favorable product mix partially offset by lower sales volume primarily in our landing gear business, which resulted in higher income of approximately \$6 million; and

Favorable foreign exchange, including remeasurement of monetary assets/liabilities, of approximately \$4 million.



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***Nacelles and Interior Systems:*** Nacelles and Interior Systems segment sales for the second quarter 2010 decreased from the second quarter 2009 primarily due to the following:

Lower large commercial, regional, business and general aviation airplane aftermarket sales of approximately \$18 million, primarily in our aerostructures business; and

Lower defense and space OE and aftermarket sales of approximately \$13 million, primarily in our interiors business; partially offset by

Higher large commercial airplane OE sales of approximately \$12 million, across all businesses.

Nacelles and Interior Systems segment operating income for the second quarter 2010 increased from the second quarter 2009 primarily due to the following:

Higher income of approximately \$28 million related to revisions in estimates for certain long-term contracts, which were primarily related to favorable cost and operational performance, changes in volume expectations and sales pricing improvements and finalization of contract terms on current and/or follow-on contracts; and

Reduced operating costs partially offset by unfavorable pricing across most businesses, which resulted in higher income of approximately \$7 million; partially offset by

Lower sales volume partially offset by favorable product mix, primarily in our aerostructures business, which resulted in lower income of approximately \$18 million.

***Electronic Systems:*** Electronic Systems segment sales for the second quarter 2010 increased from the second quarter 2009 primarily due to the following:

Higher defense and space OE and aftermarket sales of approximately \$62 million, across most businesses, including sales associated with the acquisition of AIS which occurred in December 2009; and

Higher other aerospace and non-aerospace sales of approximately \$6 million primarily in our sensors and integrated systems and engine controls and electrical power systems businesses.

Electronic Systems segment operating income for the second quarter 2010 increased from the second quarter 2009 primarily due to the following:

Higher sales volume partially offset by unfavorable product mix across most businesses, which resulted in higher income of approximately \$14 million; and

Favorable foreign exchange, including remeasurement of monetary assets/liabilities, of approximately \$8 million; partially offset by

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Higher operating costs across all businesses, including incremental costs associated with our recent acquisitions, offset by favorable pricing primarily in our sensors and integrated systems and engine controls and electrical power systems businesses.

**Six Months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009**

	Six Months Ended		Increase/ (Decrease)	% Change	% of Sales	
	2010	June 30, 2009			2010	2009
<b>NET CUSTOMER SALES</b>						
Actuation and Landing						
Systems	\$ 1,221.2	\$ 1,249.9	\$ (28.7)	(2.3)		
Nacelles and Interior Systems	1,133.2	1,227.4	(94.2)	(7.7)		
Electronic Systems	1,058.3	918.3	140.0	15.2		
	\$ 3,412.7	\$ 3,395.6	\$ 17.1	0.5		
<b>SEGMENT OPERATING INCOME</b>						
Actuation and Landing						
Systems	\$ 129.9	\$ 138.9	\$ (9.0)	(6.5)	10.6	11.1
Nacelles and Interior Systems	270.2	283.9	(13.7)	(4.8)	23.8	23.1
Electronic Systems	165.9	141.0	24.9	17.7	15.7	15.4
	\$ 566.0	\$ 563.8	\$ 2.2	0.4	16.6	16.6

**Actuation and Landing Systems:** Actuation and Landing Systems segment sales for the six months ended June 30, 2010 decreased from the six months ended June 30, 2009 primarily due to the following:

Lower regional, business and general aviation airplane OE sales, across all businesses, of approximately \$34 million;

Lower other aerospace and non-aerospace sales of approximately \$24 million, primarily in our engine components business; and

Lower defense and space OE and aftermarket sales of approximately \$2 million, primarily in our landing gear, aircraft wheels and brakes and actuation systems businesses; partially offset by

Higher large commercial airplane OE sales of approximately \$23 million, primarily in our landing gear business; and

Higher large commercial, regional, business and general aviation airplane aftermarket sales, primarily in our aircraft wheels and brakes and actuation systems businesses, of approximately \$9 million.

Actuation and Landing Systems segment operating income for the six months ended June 30, 2010 decreased from the six months ended June 30, 2009 primarily as a result of the following:

Lower sales volume across most businesses, which resulted in lower income of approximately \$11 million; and

Higher operating costs, primarily in our landing gear business, partially offset by favorable pricing in our wheels and brakes and engine components businesses, which resulted in lower income of approximately \$5 million; partially offset by





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Favorable foreign exchange, including remeasurement of monetary assets/liabilities, of approximately \$6 million.

***Nacelles and Interior Systems:*** Nacelles and Interior Systems segment sales for the six months ended June 30, 2010 decreased from the six months ended June 30, 2009 primarily due to the following:

Lower large commercial, regional, business and general aviation airplane aftermarket sales of approximately \$85 million, primarily in our aerostructures business;

Lower defense and space OE and aftermarket sales of approximately \$18 million, primarily in our interiors business; and

Lower regional, business, and general aviation airplane OE sales of approximately \$14 million, across all businesses; partially offset by

Higher large commercial airplane OE sales of approximately \$23 million, across all businesses.

Nacelles and Interior Systems segment operating income for the six months ended June 30, 2010 decreased from the six months ended June 30, 2009 primarily due to the following:

Lower sales volume partially offset by favorable product mix, across most businesses, which resulted in lower income of approximately \$70 million; and

Unfavorable foreign exchange, including remeasurement of monetary assets/liabilities, of approximately \$3 million; partially offset by

Higher income of approximately \$40 million related to revisions in estimates for certain long-term contracts, which were primarily related to favorable cost and operational performance, changes in volume expectations and sales pricing improvements and finalization of contract terms on current and/or follow-on contracts; and

Lower operating costs partially offset by unfavorable pricing across all businesses, which resulted in higher income of approximately \$19 million.

***Electronic Systems:*** Electronic Systems segment sales for the six months ended June 30, 2010 increased from the six months ended June 30, 2009 primarily due to the following:

Higher defense and space OE and aftermarket sales of approximately \$135 million, across most businesses, including sales associated with the acquisition of AIS which occurred in December 2009; and

Higher other aerospace and non-aerospace sales of approximately \$11 million, primarily in our engine controls and electrical power system businesses; partially offset by

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Lower regional, business and general aviation airplane OE sales of approximately \$5 million, primarily in our sensors and integrated systems and engine controls and electrical power systems businesses.

Electronic Systems segment operating income for the six months ended June 30, 2010 increased from the six months ended June 30, 2009 primarily due to the following:

Higher sales volume, primarily in our sensors and integrated systems and intelligence, surveillance and reconnaissance businesses, partially offset by unfavorable mix across most businesses, which resulted in higher income of approximately \$23 million; and

Favorable foreign exchange, including remeasurement of monetary assets/liabilities, of approximately \$10 million; partially offset by

Higher operating costs across all businesses, including incremental costs associated with our recent acquisitions, partially offset by favorable pricing in our engine controls and electrical power systems business, which resulted in lower income of approximately \$8 million.

**LIQUIDITY AND CAPITAL RESOURCES**

We currently expect to fund expenditures for capital requirements and other liquidity needs from a combination of cash, internally generated funds and financing arrangements. We believe that our internal liquidity, together with access to external capital resources, will be sufficient to satisfy existing plans and commitments, including our stock repurchase program, and also provide adequate financial flexibility due to our strong balance sheet, lack of any large near-term funding requirements and a strong banking group with a multi-year committed credit facility.

The following events have or will affect our liquidity and capital resources during 2010:

We paid quarterly dividends of \$0.27 per share on January 4, April 1 and July 1;

On June 9, 2010, we completed the acquisition of Crompton Technology Group, Ltd. (CTG), a leading designer and manufacturer of advanced carbon fiber composite products for the aerospace, defense, advanced vehicle and clean energy markets, for \$51.7 million, net of cash acquired. CTG is reported in the Actuation and Landing Systems segment; and

We repurchased 0.9 million shares for approximately \$60.7 million under our share repurchase program.

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**Cash**

At June 30, 2010, we had cash and cash equivalents of \$866.4 million, as compared to \$811 million at December 31, 2009.

**Credit Facilities**

We have the following amounts available under our credit facilities:

\$500 million committed global revolving credit facility that expires in May 2012, of which \$435.9 million was available at June 30, 2010; and

\$75 million of uncommitted domestic money market facilities of which \$54.8 million was available at June 30, 2010 and \$146.9 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing and documentary credit requirements, of which \$128.1 million was available at June 30, 2010.

**Off-Balance Sheet Arrangements**

***Lease Commitments***

We lease certain of our office and manufacturing facilities, machinery and equipment and corporate aircraft under various committed lease arrangements provided by financial institutions. Future minimum lease payments under operating leases were \$175.1 million at June 30, 2010.

One of these arrangements allows us, rather than the lessor, to claim a deduction for tax depreciation on the asset and allows us to lease a corporate aircraft with a total commitment amount of \$43.8 million. For accounting purposes, we were deemed to be the owner of the aircraft during the construction period and recorded an asset with an offsetting lease obligation of approximately \$32 million. This lease will qualify for sales-leaseback treatment upon lease commencement in 2011 and will be priced at a spread over LIBOR.

***Derivatives***

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

***Foreign Currency Contracts Designated as Cash Flow Hedges:*** At June 30, 2010, our contracts had a notional amount of \$1,716.3 million, fair value of a \$83.2 million net liability and maturity dates ranging from July 2010 to December 2014. The amount of accumulated other comprehensive income that would be reclassified into earnings in the next 12 months is a loss of \$43.1 million. During the six months ended June 30, 2010 and 2009 we realized net losses of \$16.9 million and \$39.8 million, respectively, related to contracts that settled. During the second quarter of 2010 and 2009, we realized net losses of \$11.7 million and \$15.5 million, respectively, related to contracts that settled.

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**Foreign Currency Contracts not Designated as Hedges:** At June 30, 2010, our contracts had a notional amount of \$36.4 million and no net fair value. At December 31, 2009, our contracts had a notional amount of \$57.9 million and a net fair value of \$2.5 million. During the six months ended June 30, 2010 and 2009, we realized net losses of \$32.5 million and net gains of \$13 million, respectively, for contracts entered into and settled during those periods. During the second quarter of 2010 and 2009, we realized net losses of \$20 million and net gains of \$22.1 million, respectively for contracts entered into and settled during those periods.

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

**Contractual Obligations and Other Commercial Commitments**

As of June 30, 2010, purchase obligations were approximately \$757 million, compared to approximately \$934 million at December 31, 2009. There have been no other material changes to the table presented in our Annual Report on Form 10-K for the year ended December 31, 2009. The table excludes our liability for unrecognized tax benefits, which was \$303.1 million at June 30, 2010, since we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

**CASH FLOW**

The following table summarizes our cash flow activity for the six months ended June 30, 2010 and 2009:

	2010	2009	Change
	(Dollars in millions)		
Operating activities of continuing operations	\$ 253.0	\$ 174.5	\$ 78.5
Investing activities of continuing operations	\$(114.1)	\$(103.1)	\$ (11.0)
Financing activities of continuing operations	\$ (68.6)	\$ 119.6	\$(188.2)
Discontinued operations	\$ (0.4)	\$ 49.6	\$ (50.0)

**Operating Activities of Continuing Operations**

The increase in net cash provided by operating activities for the six months ended June 30, 2010 primarily consisted of favorable working capital management and lower pension contributions, partially offset by lower cash flow from continuing operations. Pension and postretirement benefit contributions were \$129.8 million and \$177.3 million for the six months ended June 30, 2010 and 2009, respectively.

**Investing Activities of Continuing Operations**

Net cash used by investing activities for the six months ended June 30, 2010 and 2009 included capital expenditures of \$51.6 million and \$73.2 million, respectively and payments made for acquisitions, net of cash acquired, of \$61.6 million and \$29.8 million, respectively.

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***Financing Activities of Continuing Operations***

The decrease in net cash provided by (used in) financing activities for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 consisted primarily of net proceeds from the issuance of senior notes in 2009.

**CONTINGENCIES**

**General**

There are various pending or threatened claims, lawsuits and administrative proceedings against us or our subsidiaries, arising in the ordinary course of business, which seek remedies or damages. Although no assurance can be given with respect to the ultimate outcome of these matters, we believe that any liability that may finally be determined with respect to commercial and non-asbestos product liability claims should not have a material effect on our consolidated financial position, results of operations or cash flows. Legal costs are expensed when incurred.

**Environmental**

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

Estimates of our environmental liabilities are based on current facts, laws, regulations and technology. These estimates take into consideration our prior experience and professional judgment of our environmental specialists. Estimates of our environmental liabilities are further subject to uncertainties regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and cost estimates, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation. Accordingly, as investigation and remediation proceed, it is likely that adjustments in our accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on our results of operations or cash flows in a given period. Based on currently available information, however, we do not believe that future environmental costs in excess of those accrued with respect to sites for which we have been identified as a potentially responsible party are likely to have a material adverse effect on our financial condition.

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

Our condensed consolidated balance sheet included an accrued liability for environmental remediation obligations of \$66.6 million and \$66.1 million at June 30, 2010 and December 31, 2009, respectively. At June 30, 2010 and December 31, 2009, \$13.2 million and \$11.3 million, respectively, of the accrued liability for environmental remediation were included in accrued expenses. At June 30, 2010 and December 31, 2009, \$25.3 million was associated with ongoing operations and \$41.3 million and \$40.8 million, respectively, was associated with previously owned businesses.

We expect that we will expend present accruals over many years, and will generally complete remediation in less than 30 years at sites for which we have been identified as a potentially responsible party. This period includes operation and monitoring costs that are generally incurred over 15 to 25 years.

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

**Asbestos**

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

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**Insurance Coverage**

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

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

At June 30, 2010 and December 31, 2009, the deferred settlement credit was \$46.7 million and \$45 million, respectively, for which \$5.6 million and \$6.1 million, respectively, was reported in accrued expenses and \$41.1 million and \$38.9 million, respectively, was reported in other non-current liabilities. The proceeds from such insurance settlements were reported as a component of net cash provided by operating activities in the period payments were received.

**Liabilities of Divested Businesses**

In connection with the divestitures of our tire, vinyl, engineered industrial products and other businesses, we have received contractual rights of indemnification from third parties for environmental, asbestos 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 results of operations and cash flows.

**Guarantees**

At June 30, 2010, we had letters of credit and bank guarantees of \$116.7 million and residual value guarantees of lease obligations of \$11 million. See Note 10, Financing Arrangements to our condensed consolidated financial statements. At June 30, 2010, we were a guarantor on a revolving credit agreement totaling £30 million between Rolls-Royce Goodrich Engine Control Systems Limited (JV) and a financial institution. In addition, we guarantee the JV's foreign exchange credit line with a notional amount of \$114 million at June 30, 2010. We are indemnified by Rolls-Royce for 50% of the gains/losses resulting from the foreign exchange hedges.

**Aerostructures Long-term Contracts**

Our aerostructures business in the Nacelles and Interior Systems segment has several long-term contracts in the pre-production phase including the Airbus A350 XWB and the Pratt and Whitney PurePower PW1000G engine contracts and the early production phase including the Boeing 787. These contracts are accounted for in accordance with long-term construction contract accounting.



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

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

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

Ability to recover costs incurred for change orders and claims;

Costs, including material and labor costs and related escalation;

Labor improvements due to the learning curve experience;

Anticipated cost productivity improvements related to new manufacturing methods and processes;

Supplier pricing, including escalation where applicable, potential supplier claims, the supplier's financial viability and the supplier's ability to perform;

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

Effect of foreign currency exchange fluctuations.

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

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

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***Aerostructures 787 Contract with Boeing***

During 2004, our aerostructures business entered into a long-term contract with Boeing on the 787 program. Our latest outlook estimates original equipment sales in excess of \$5 billion for this contract. At June 30, 2010, we had \$721 million capitalized as in-process inventory related to this contract. Aftermarket sales associated with this program are not accounted for using the percentage-of-completion method of accounting.

The Boeing 787 program has experienced delays in its development schedule. Boeing requested changes and enhancements in the design of our product. Under the terms of our contract, we are entitled to equitable adjustments. In accordance with these provisions, we asserted adjustments that were material. During the three months ended June 30, 2010, we entered into an agreement that resolved the asserted adjustments. We are currently operating pursuant to this agreement and expect to finalize all terms of the agreement in the near term. The financial terms of the agreement were consistent with our outlook and did not have a material effect on our financial position, results of operations and/or cash flows during the six months ended June 30, 2010.

***JSTARS Program***

In 2002, Seven Q Seven, Ltd. (7Q7) was selected by Northrop Grumman Corporation to provide propulsion pods for the re-engine program for the JT3D engines used by the U.S. Air Force. We were selected by 7Q7 as a supplier for the inlet, thrust reverser, exhaust, EBU, strut systems and wing interface systems. As of June 30, 2010, we have \$28.7 million of pre-production costs reported as in-process inventory related to this program.

Funding for the JSTARS program for the 2010 budget cycle was approved. Future funding remains uncertain. While we believe that program funding will continue and is included in the preliminary fiscal 2011 budget submitted, there can be no assurances of such funding. If the program were to be cancelled, we would recognize an impairment of our pre-production costs.

***U.S. Health Care Reform Legislation***

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Act of 2010 (the Act) was enacted. The primary focus of the Act is to significantly reform health care in the U.S. The financial impact on us is the elimination of a portion of the tax deduction available to companies that provide prescription drug coverage to retirees as discussed in Note 14, *Income Taxes*. We are currently evaluating other prospective effects of the Act.

***Tax***

We are continuously undergoing examination by the U.S. 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.

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***Tax Years 2005 and 2006***

During 2009, the IRS issued a Revenue Agent’s Report for the tax years 2005 and 2006. In July 2009, we submitted a protest to the Appeals Division of the IRS with respect to certain unresolved issues which involve the proper timing of deductions. Although it is reasonably possible that these matters could be resolved during the next 12 months, the timing or ultimate outcome is uncertain.

***Tax Years 2000 to 2004***

During 2007, we reached agreement with the IRS on substantially all of the issues raised with respect to the examination of taxable years 2000 to 2004. We submitted a protest to the Appeals Division of the IRS with respect to the remaining unresolved issues which involve the proper timing of certain deductions. We were unable to reach agreement with the IRS on the remaining issues. In December 2009, we filed a petition to the U.S. Tax Court and in March 2010 we also filed a complaint in District Court. If the IRS were to prevail, we believe the amount of the estimated tax liability is fully reserved. We cannot predict the timing or ultimate outcome of a final resolution of the remaining unresolved issues.

***Tax Years Prior to 2000***

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

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

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

Rohr was examined by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California disallowed certain expenses incurred by one of Rohr’s subsidiaries in connection with the lease of certain tangible property. California’s Franchise Tax Board held that the deductions associated with the leased equipment were non-business deductions. The additional tax associated with the Franchise Tax Board’s position is \$4.5 million. The amount of accrued interest associated with the additional tax is approximately \$30 million at June 30, 2010. 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 \$15 million at June 30, 2010. The tax and interest amounts continue to be contested by Rohr. No payment has been made for the \$30 million of interest or \$15 million of penalty interest. In April 2009, the Superior Court of California issued a ruling granting our motion for summary judgment. In August 2009 the State of California appealed the ruling. Once the State’s appeals have

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been exhausted and if the Superior Court's decision is not overturned, we will be entitled to a refund of the \$4.5 million of tax, together with interest from the date of payment.

Following settlement of the U.S. Tax Court for Rohr's tax years 1986 to 1997, California audited our amended tax returns and issued an assessment based on numerous issues including proper timing of deductions and allowance of tax credits. We submitted a protest of the assessment to the California Franchise Tax Board in November 2008. We believe that we are adequately reserved for this contingency. Although it is reasonably possible that these matters could be resolved during the next 12 months, the timing or ultimate outcome is uncertain.

**CRITICAL ACCOUNTING POLICIES**

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

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

**Contract Accounting-Percentage of Completion**

We have sales under long-term contracts, many of which contain escalation clauses, requiring delivery of products over several years and frequently providing the buyer with option pricing on follow-on orders. Sales and profits on each contract are recognized in accordance with the percentage-of-completion method of accounting, primarily using the units-of-delivery method. We use 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. Amounts representing contract claims or change orders are considered in estimating revenues, costs and profits when they can be reliably estimated and realization is considered probable.

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

Escalation of future sales prices under the contracts;

Ability to recover costs incurred for change orders and claims;

Costs, including material and labor costs and related escalation;

Labor improvements due to the learning curve experience;

Anticipated cost productivity improvements related to new manufacturing methods and processes;

Supplier pricing, including escalation where applicable, potential supplier claims, the supplier's financial viability and the supplier's ability to perform;

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

Effect of foreign currency exchange fluctuations.

***Inventory***

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

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

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***Unbilled Receivables***

Our aerostructures business is party to a long-term supply arrangement whereby we receive cash payments for our performance over a period that extends beyond our performance period of the contract. The contract is accounted for using the percentage-of-completion method of contract accounting. Unbilled receivables include revenue recognized that will be realized from cash payments to be received beyond the period of performance. In estimating our revenues to be received under the contract, cash receipts that are expected to be received beyond the performance period are included at their present value as of the end of the performance period.

**Product Maintenance Arrangements**

We have entered into long-term product maintenance arrangements to provide specific products and services to customers for a specified amount per flight hour, brake landing and/or aircraft landings. Revenue is recognized as the service is performed and the costs are incurred. We have sufficient historical evidence that indicates that the costs of performing the service under the contract are incurred on other than a straight line basis.

**Income Taxes**

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 uncertain tax positions. 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.

**Goodwill and Identifiable Intangible Assets**

Impairments of identifiable intangible assets are recognized when events or changes in circumstances indicate that the carrying amount of the asset or related groups of assets, may not be recoverable and our estimate of undiscounted cash flows over the assets' remaining useful lives is less than the carrying value of the assets. The determination of undiscounted cash flow is based on our segments' plans. The revenue growth is based upon aircraft build projections from aircraft manufacturers and widely available external publications. The profit margin assumption is based upon the current cost structure and anticipated cost reductions. Changes to these assumptions could result in the recognition of impairment.

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

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

**Other Assets**

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

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

Performance of subcontract suppliers and other production risks;

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

Availability of specialized raw materials in the marketplace.

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***Participation Payments***

Certain of our businesses make cash payments under long-term contractual arrangements to OEM or system contractors in return for a secured position on an aircraft program. Participation payments are capitalized, when a contractual liability has been incurred, as other assets and amortized as a reduction to sales, as appropriate. At June 30, 2010 and December 31, 2009, the carrying amount of participation payments was \$116.1 and \$117.4 million, respectively. The carrying amount of participation payments is evaluated for recovery at least annually or when other indicators of impairment exist, such as a change in the estimated number of units or a revision in the economics of the program. If such estimates change, amortization expense is adjusted and/or an impairment charge is recorded, as appropriate, for the effect of the revised estimates. No such impairment charges were recorded in the three and six months ended June 30, 2010 or 2009.

***Sales Incentives***

We offer sales incentives such as up-front cash payments, merchandise credits and/or free products to certain airline customers in connection with sales contracts. The cost of these incentives is recognized in the period incurred unless recovery of these costs is specifically guaranteed by the customer in the contract. If the contract contains such a guarantee, then the cost of the sales incentive is capitalized as other assets and amortized to cost of sales, or as a reduction to sales, as appropriate. At June 30, 2010 and December 31, 2009, the carrying amount of sales incentives was \$61 million and \$60.4 million, respectively. The carrying amount of sales incentives is evaluated for recovery when indicators of potential impairment exist. The carrying value of the sales incentives is also compared annually to the amount recoverable under the terms of the guarantee in the customer contract. If the amount of the carrying value of the sales incentives exceeds the amount recoverable in the contract, the carrying value is reduced. No such impairment charges were recorded in the three and six months ended June 30, 2010 or 2009.

***Flight Certification Costs***

When a supply arrangement is secured, certain of our businesses may agree to supply hardware to an OEM to be used in flight certification testing and/or make cash payments to reimburse an OEM for costs incurred in testing the hardware. The flight certification testing is necessary to certify aircraft systems/components for the aircraft's airworthiness and allows the aircraft to be flown and thus sold in the country certifying the aircraft. Flight certification costs are capitalized in other assets and are amortized to cost of sales, or as a reduction to sales, as appropriate. At June 30, 2010 and December 31, 2009, the carrying amount of sales flight certification costs was \$42.6 million and \$45 million, respectively. The carrying amount of flight certification costs is evaluated for recovery when indicators of impairment exist or when the estimated number of units to be manufactured changes. No such impairment charges were recorded in the three and six months ended June 30, 2010 or 2009.



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***Entry Fee***

Our aerostructures business in our Nacelles and Interior Systems segment made a cash payment to an OEM under a long-term contractual arrangement related to a new engine program. The payment is referred to as an entry fee and entitles us to a controlled access supply contract and a percentage of total program revenue generated by the OEM. The entry fee is capitalized in other assets and is amortized over units of delivery as a reduction to sales. At June 30, 2010 and December 31, 2009, the carrying amount of the entry fee was \$24 million and \$24.5 million, respectively. The carrying amount of the entry fee is evaluated for recovery at least annually or when other significant assumptions or economic conditions change. Recovery of the entry fee is assessed based on the expected cash flow from the program over the remaining program life as compared to the recorded amount of the entry fee. If the carrying value of the entry fee exceeds the cash flow to be generated from the program, a charge would be recorded to reduce the entry fee to its recoverable amount. No such impairment charge was recorded in the three and six months ended June 30, 2010 or 2009.

**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. Adjustments are made to accruals as claim data and historical experience change. In addition, we incur discretionary costs to service our products in connection with product performance issues. Our service and product warranty reserves are based upon a variety of factors. Any significant change in these factors could have a material impact on our results of operations. Such factors include but are not limited to the following:

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

The mix and volumes of products being sold; and

The impact of product changes.

**Share-Based Compensation**

We utilize the fair value method of accounting to account for share-based compensation awards. See Note 5, Share-Based Compensation .

**Table of Contents*****Assumptions******Stock Options***

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

	<b>2010</b>	<b>2009</b>
Risk-free interest rate %	2.9	1.8
Expected dividend yield %	1.6	2.6
Historical volatility factor %	35.0	33.3
Weighted-average expected life of the options (years)	5.7	5.6

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

***Restricted Stock Units***

The fair value of the restricted stock units is determined based upon the average of the high and low grant date fair value. The weighted-average grant date fair value during the first six months of 2010 and 2009 was \$65.37 and \$38.37 per unit, respectively.

***Performance Units***

The value of each award is determined based upon the average of the high and low price of our stock on the last day of each reporting period, as adjusted for a performance condition and a market condition. The performance condition is applied to 50% of the awards and is based upon our actual return on invested capital (ROIC) as compared to a target ROIC. The market condition is applied to 50% of the awards and is based on our relative total shareholder return (RTSR) as compared to the RTSR of a peer group of companies. Since the awards will be paid in cash, they are recorded as a liability award and are marked to market each reporting period. As such, assumptions are evaluated for each award on an ongoing basis.

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**Pension and Postretirement Benefits Other Than Pensions**

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

**FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY**

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

Important factors that could cause actual results to differ from expected performance include, but are not limited to:

demand for and market acceptance of new and existing products, such as the Airbus A350 XWB and A380, the Boeing 787 Dreamliner, the EMBRAER 190, the Mitsubishi Regional Jet (MRJ), the Bombardier CSeries, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and the Northrop Grumman Joint STARS re-engining program;

our ability to extend our commercial OE contracts beyond the initial contract periods;

cancellation or delays of orders or contracts by customers or with suppliers, including delays or cancellations associated with the Boeing 787 Dreamliner, the Airbus A380 and A350 XWB aircraft programs, and major military programs;

our ability to obtain price adjustments pursuant to certain of our long-term contracts;

the financial viability of key suppliers and the ability of our suppliers to perform under existing contracts;

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the extent to which we are successful in integrating and achieving expected operating synergies for recent and future acquisitions;

successful development of products and advanced technologies;

the impact of bankruptcies and/or consolidations in the airline industry;

the health of the commercial aerospace industry, including the large commercial, regional, business and general aviation aircraft manufacturers;

global demand for aircraft spare parts and aftermarket services;

changing priorities or reductions in the defense budgets in the U.S. and other countries, U.S. foreign policy and the level of activity in military flight operations;

the possibility of restructuring and consolidation actions;

threats and events associated with and efforts to combat terrorism;

the extent to which changes in regulations and/or assumptions result in changes to expenses relating to employee and retiree medical and pension benefits;

competitive product and pricing pressures;

our ability to recover under contractual rights of indemnification for environmental, asbestos and other claims arising out of the divestiture of our tire, vinyl, engineered industrial products and other businesses;

the effect of changes in accounting policies or legislation, including tax legislation;

cumulative catch-up adjustments or loss contract reserves on long-term contracts accounted for under the percentage of completion method of accounting;

domestic and foreign government spending, budgetary and trade policies;

economic and political changes in international markets where we compete, such as changes in currency exchange rates, inflation, fuel prices, deflation, recession and other external factors over which we have no control;

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

the impact of labor difficulties or work stoppages at our, a customer's or a supplier's facilities.

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

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

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in interest rates and foreign currency exchange rates, which could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We use such derivative financial instruments as risk management tools and not for speculative investment purposes. See Note 17, *Derivatives and Hedging Activities* in our condensed consolidated financial statements for a description of current developments involving our hedging activities.

At June 30, 2010, a hypothetical 100 basis point increase in reference interest rates would increase annual interest expense by \$0.4 million. At June 30, 2010, a hypothetical 10% strengthening of the U.S. dollar against other foreign currencies would decrease the value of our forward contracts by \$199.1 million. The fair value of these foreign currency forward contracts was a liability of \$83.2 million at June 30, 2010. Because we hedge only a portion of our exposure, a strengthening of the U.S. Dollar as described above would have a more than offsetting benefit to our financial results in future periods.

**Item 4. *Controls and Procedures***

**Evaluation of Disclosure Controls and Procedures**

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

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

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**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* , *Aerostructures 787 Contract with Boeing* and *Tax* in Note 15, *Contingencies* to the 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, 2009, 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.

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

(c) The following table summarizes Goodrich Corporation's purchases of its common stock for the three months ended June 30, 2010:

**ISSUER PURCHASES OF EQUITY SECURITIES**

<b>Period</b>	<b>(a) Total Number of Shares Purchased (1)</b>	<b>(b) Average Price Paid Per Share</b>	<b>(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)</b>	<b>(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)</b>
April 2010	3,107	\$ 70.91		
May 2010	381,596	70.06	379,606	
June 2010	41,192	68.07	37,400	
<b>Total</b>	<b>425,895</b>	<b>69.88</b>	<b>417,006</b>	<b>\$ 170 million</b>

(1) The category includes 8,889 shares delivered to us by employees to pay withholding taxes due upon vesting of a restricted unit award and to pay the exercise price of employee stock options.

(2) This balance represents the number of shares that were repurchased under the Company's

repurchase program (the Program). The Program was initially announced on October 24, 2006. On February 19, 2008, the Company announced that its Board of Directors had increased the dollar amount of shares that could be purchased under the Program from \$300 million to \$600 million. Unless terminated earlier by resolution of the Company's Board of Directors, the Program will expire when the Company has purchased all shares authorized for repurchase. The Program does not obligate the Company to repurchase any particular amount of common stock, and may be suspended or discontinued at any time without notice.

(3)



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

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**Item 6. Exhibits.**

The following exhibits have been filed with this report:

- Exhibit 3.1 Restated Certificate of Incorporation of Goodrich Corporation, filed as Exhibit 3.1 to Goodrich Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (File No. 1-892), is incorporated herein by reference.
- Exhibit 3.2 By-Laws of Goodrich Corporation, as amended, filed as Exhibit 10.9 to Goodrich Corporation's Current Report on Form 8-K dated December 12, 2008, is incorporated herein by reference. In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, Goodrich Corporation hereby undertakes to furnish to the Securities and Exchange Commission upon request, a copy of all instruments defining the rights of holders of long-term debt.
- Exhibit 15 Letter Re: Unaudited Interim Financial Information.
- Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification.
- Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification.
- Exhibit 32 Section 1350 Certifications.
- Exhibit 101 The following financial information from Goodrich Corporation's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 filed with the SEC on July 29, 2010, formatted in XBRL includes: (i) Condensed Consolidated Income Statements for the fiscal periods ended June 30, 2010 and June 30, 2009, (ii) Condensed Consolidated Balance Sheets at June 30, 2010 and December 31, 2009, (iii) Condensed Consolidated Cash Flow Statements for the fiscal periods ended June 30, 2010 and June 30, 2009, and (iv) the Notes to the Condensed Consolidated Financial Statements.

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**SIGNATURE**

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

July 29, 2010

GOODRICH CORPORATION

By /s/ SCOTT E. KUECHLE

Scott E. Kuechle

Executive Vice President and Chief Financial  
Officer

By /s/ SCOTT A. COTTRILL

Scott A. Cottrill

Vice President and Controller (Principal  
Accounting Officer)

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\* Submitted electronically herewith.