GOODRICH CORP
Form 10-K
February 19, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the fiscal year ended December 31, 2007**
	Or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the transition period from to**

Commission file number 1-892

GOODRICH CORPORATION
(Exact name of registrant as specified in its charter)

New York	**34-0252680**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
Four Coliseum Centre **2730 West Tyvola Road** **Charlotte, North Carolina**	**28217**
(Address of principal executive offices)	*(Zip Code)*

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, $5 par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

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

The aggregate market value of the voting and non-voting common equity of the registrant, consisting solely of common stock, held by nonaffiliates of the registrant as of June 30, 2007 was $7.4 billion.

The number of shares of common stock outstanding as of January 31, 2008 was 125,075,415 (excluding 14,000,000 shares held by a wholly owned subsidiary).

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement dated March 12, 2008 are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14).

Table of Contents

PART I

Item 1. *Business*

Overview

We are one of the largest worldwide suppliers of 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 on a global basis 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.

We were incorporated under the laws of the State of New York on May 2, 1912 as the successor to a business founded in 1870.

Our principal executive offices are located at Four Coliseum Centre, 2730 West Tyvola Road, Charlotte, North Carolina 28217 (telephone 704-423-7000).

We maintain an Internet site at http://www.goodrich.com. The information contained at our Internet site is not incorporated by reference in this report, and you should not consider it a part of this report. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and any amendments to those reports, are available free of charge on our Internet site as soon as reasonably practicable after they are filed with, or furnished to, the Securities and Exchange Commission. In addition, we maintain a corporate governance page on our Internet site that includes key information about our corporate governance initiatives, including our Guidelines on Governance, the charters for our standing board committees and our Business Code of Conduct. These materials are available upon request.

Unless otherwise noted herein, disclosures in this Annual Report on Form 10-K relate only to our continuing operations. Our discontinued operations include the Avionics business, which was sold in March 2003, the Passenger Restraints Systems (PRS) business, which ceased operating during the first quarter of 2003, the JCAir Inc. (Test Systems) business, which was sold in April 2005 and the Goodrich Aviation Technical Services, Inc. (ATS) business, which was sold in November 2007.

Unless the context otherwise requires, the terms we , our , us , Company and Goodrich as used herein refer to Goo
Corporation and its subsidiaries.

As used in this Form 10-K, the following terms have the following meanings:

aftermarket means products and services provided to our customers to replace, repair or overhaul OE;

commercial means large commercial and regional airplanes;

large commercial means commercial airplanes with a capacity of more than 110 seats, including those manufactured by Airbus S.A.S (Airbus) and The Boeing Company (Boeing);

regional means commercial airplanes with a capacity of 110 seats or less; and

general aviation means business jets and all other non-commercial, non-military airplanes.

Business Segment Information

Our three business segments are as follows.

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

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

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

For financial information about our segments, see Note 3, Business Segment Information to our Consolidated Financial Statements included in Part II, Item 8 of this report, which is incorporated herein by reference.

Key Products and Services

We provide products and services for the entire life cycle of airplane and defense programs, including a significant amount of aftermarket support for our key products. Our key products include:

Nacelles the structure surrounding an aircraft engine. Components that make up a nacelle include thrust reversers, inlet and fan cowls, nozzle assemblies, exhaust systems and other structural components. Our aerostructures business is one of a few businesses that is a nacelle integrator, which means that we have the capabilities to design and manufacture all components of a nacelle, dress the engine systems and coordinate the installation of the engine and nacelle to the aircraft.

Actuation systems equipment that utilizes linear, rotary or fly-by-wire actuation to control movement. We manufacture a wide-range of actuators including primary and secondary flight controls, helicopter main and tail rotor actuation, engine and nacelle actuation, utility actuation, precision weapon actuation and land vehicle actuation.

Landing gear complete landing gear systems for commercial, general aviation and defense aircraft.

Aircraft wheels and brakes aircraft wheels and brakes for a variety of commercial, general aviation and defense applications.

Engine control systems applications for commercial engines, large and small, helicopters and all forms of military aircraft. Our products include fuel metering controls, fuel pumping systems, electronic controls (software and hardware), variable geometry actuation controls and engine health monitoring systems.

Intelligence surveillance and reconnaissance systems high performance custom engineered electronics, optics, shortwave infrared cameras and arrays, and electro-optical products and services for sophisticated defense, scientific and commercial applications.

Sensor systems aircraft and engine sensors that provide critical measurements for flight control, cockpit information and engine control systems.

Power systems aircraft electrical power systems for large commercial airplanes, business jets and helicopters. We supply these systems to defense and civil customers around the globe.

Customers

We serve a diverse group of customers worldwide in the commercial and general aviation airplane markets and in the global defense and space markets. We market our products, systems and services directly to our customers through an internal marketing and sales force.

In 2007, 2006 and 2005, direct and indirect sales to the United States (U.S.) government totaled approximately 13%, 16% and 18%, respectively, of consolidated sales. Indirect sales to the U.S. government include a portion of the direct and indirect sales to Boeing referred to in the following paragraph.

In 2007, 2006 and 2005, direct and indirect sales to Airbus totaled approximately 15%, 18% and 17%, respectively, of consolidated sales. In 2007, 2006 and 2005, direct and indirect sales to Boeing totaled approximately 15%, 14% and 12%, respectively, of consolidated sales.

Competition

The aerospace industry in which we operate is highly competitive. Principal competitive factors include price, product and system performance, quality, service, design and engineering capabilities, new product innovation and timely delivery. We compete worldwide with a number of U.S. and foreign companies that are both larger and smaller than us in terms of resources and market share, and some of which are our customers.

The following table lists the companies that we consider to be our major competitors for each major aerospace product or system platform for which we believe we are one of the leading suppliers.

System	**Primary Market Segments**	**Major Non-Captive Competitors(1)**
Actuation and Landing Systems		
Wheels and Brakes	Large Commercial/ Regional/Business/Defense	Honeywell International Inc.; Messier-Bugatti (a subsidiary of SAFRAN); Aircraft Braking Systems Corporation (a subsidiary of Meggitt plc); Dunlop Standard Aerospace Group plc. (a division of Meggitt plc)
Landing Gear	Large Commercial/Defense	Messier-Dowty (a subsidiary of SAFRAN), Liebherr-Holding GmbH; Héroux-Devtek Inc.
Flight Control Actuation	Large Commercial/Defense	Parker Hannifin Corporation; United Technologies Corporation; GE Aviation; Liebherr-Holding GmbH; Moog Inc.
Turbine Fuel Technologies	Large Commercial/ Military/Regional/ Business	Parker Hannifin Corporation; Woodward Governor Company
Turbomachinery Products	Aero and Industrial Turbine Components	Blades Technology; Samsung; Howmet (a division of Alcoa Inc.); PZL (a division of

		United Technologies Corporation), Honeywell -- Greer (a division of Honeywell International, Inc.); TECT Corporation
Nacelles and Interior Systems		
Nacelles/Thrust Reversers	Large Commercial/Military	Aircelle (a subsidiary of SAFRAN); General Electric Company, Spirit Aerosystems, Inc.

System	Primary Market Segments	Major Non-Captive Competitors(1)
Evacuation Systems	Large Commercial/Regional	Air Crusiers (a subsidiary of Zodiac S.A.); Smiths Group plc; Parker Hannifin Corporation
Propulsion Systems	Defense	Danaher Corp (Pacific Scientific, McCormick Selph, SDI); Scot, Inc. (a subsidiary of Procyon Technologies, Inc.); Talley Defense Systems
Aircraft Crew Seating	Large Commercial/ Regional/Business	Ipeco Holdings Ltd; Sicma Aero Seat (a subsidiary of Zodiac S.A.); EADS Sogerma Services (a subsidiary of EADS European Aeronautical Defense and Space Co.); B/E Aerospace, Inc.; C&D Aerospace Group
Ejection Seats	Defense	Martin-Baker Aircraft Co. Limited
Lighting	Large Commercial/Regional/ Business/Defense	Page Aerospace Limited; LSI Luminescent Systems Inc.; Diehl Luftfahrt Elecktronik GmbH (DLE)
Cargo Systems	Large Commercial	Telair International (a subsidiary of Teleflex Incorporated); Ancra International LLC, AAR Manufacturing Group, Inc.
Electronic Systems		
Sensors	Large Commercial/Regional/ Business/Defense	Honeywell International Inc.; Thales, S.A.; Auxitrol (a subsidiary of Esterline Technologies Corporation)
Fuel and Utility Systems	Large Commercial/Defense	Honeywell International Inc.; Parker Hannifin Corporation; Smiths Group plc
De-Icing Systems	Large Commercial/Regional/ Business/Defense	Aérazur S.A. (a subsidiary of Zodiac S.A.); B/E Aerospace, Inc.
Aerospace Hoists/Winches	Defense/Search & Rescue/Commercial Helicopter	Breeze-Eastern (a division of TransTechnology Corporation); Telair International (a subsidiary of Teleflex Incorporated)
Optical Systems	Defense/Space	BAE Systems, plc; ITT Industries, Inc.; L-3 Communications Holdings, Inc.; Honeywell International Inc.
Power Systems	Large Commercial/Regional/ Business/Defense	Honeywell International Inc.; Smiths Group plc; Hamilton Sunstrand (a subsidiary of United

		Technologies Corporation)
Engine Controls	Large Commercial/ Regional/Business/ Defense/Helicopter	United Technologies Corporation; BAE Systems plc; Honeywell International Inc.; Argo-Tech Corporation, Woodward Governor Company; Hispano-Suiza (a subsidiary of SAFRAN)

(1) Excludes aircraft manufacturers, airlines and prime defense contractors who, in some cases, have the capability to produce these systems internally.

Table of Contents

Backlog

Backlog as of December 31, 2007 was approximately:

	Firm Backlog	Unobligated Backlog	Total Backlog	Firm Backlog Expected to be Filled in 2008
		(Dollars in millions)		
Commercial	$ 3,704	$6,519	$ 10,223	$2,577
Defense and Space	1,709	473	2,182	1,136
	$ 5,413	$6,992	$ 12,405	$3,713

Firm commercial backlog includes orders for which we have definitive purchase contracts and the estimated sales value to be realized under firm agreements to purchase future aircraft maintenance and overhaul services. Firm backlog includes fixed, firm contracts that have not been shipped and for which cancellation is not anticipated.

Aircraft manufacturers, such as Airbus and Boeing, may have firm orders for commercial aircraft that are in excess of the number of units covered under their firm contracts with us. We believe it is reasonable to expect that we will continue to provide products and services to these aircraft in the same manner as those under firm contract. Our unobligated commercial backlog includes the expected sales value for our product on the aircraft manufacturers firm orders for commercial aircraft in excess of the amount included in our firm commercial backlog.

Firm defense and space backlog represents the estimated remaining sales value of work to be performed under firm contracts the funding for which has been approved by the U.S. Congress, as well as commitments by international customers that are similarly funded and approved by their governments. Unobligated defense and space backlog represents the estimated remaining sales value of work to be performed under firm contracts for which funding has not been appropriated. Indefinite delivery, indefinite quantity contracts are not reported in backlog.

Backlog is subject to delivery delays or program cancellations which are beyond our control. Firm backlog approximated $4.8 billion at December 31, 2006.

Raw Materials and Components

We purchase a variety of raw materials and components for use in the manufacture of our products, including aluminum, titanium, steel, various specialty metals and carbon fiber. In some cases we rely on sole-source suppliers for certain of these raw materials and components, and a delay in delivery of these materials and components could create difficulties in meeting our production and delivery obligations. We continue to experience margin and cost pressures in some of our businesses due to increased market prices and limited availability of some raw materials, such as titanium, steel and various specialty metals. We have taken actions to address these market dynamics, including securing long-term supply contracts for titanium, and with these actions, we believe that we currently have adequate sources of supply for raw materials and components.

Environmental

We are subject to various domestic and international environmental laws and regulations which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations, including sites at which we have been identified as a potentially responsible party under the federal Superfund laws and comparable state laws. We are currently involved in the investigation and remediation of a number of sites under these laws. For additional information concerning environmental matters, see Item 3. Legal Proceedings Environmental.

Table of Contents

Research and Development

We perform research and development under company-funded programs for commercial products and under contracts with customers. Research and development under contracts with others is performed on both defense and commercial products. Total research and development expenses from continuing operations in 2007, 2006 and 2005 were approximately $280 million, $247 million and $267 million, respectively. These amounts are net of approximately $124 million, $113 million and $112 million, respectively, which were funded by customers.

Intellectual Property

We own or are licensed to use various intellectual property rights, including patents, trademarks, copyrights and trade secrets. While such intellectual property rights are important to us, we do not believe that the loss of any individual property right or group of related rights would have a material adverse effect on our overall business or on any of our business segments.

Seasonality

Our large commercial, regional, business and general aviation airplane aftermarket market channel is moderately seasonal because certain of our customers maintain busy flight schedules from late November through December. This has historically resulted in some sales in this market channel being postponed from the fourth quarter into the first quarter of the following year.

Working Capital

Our working capital is influenced by the following factors:

- New commercial aircraft development;
- Aircraft production rate changes by original equipment (OE) manufacturers;
- Levels of aircraft utilization, age of aircraft in the fleets and types of aircraft utilized by airlines; and
- Levels of defense spending by governments worldwide.

Our working capital is currently at a high level primarily due to several new commercial airplane development programs, early production of the Airbus A380 and the Boeing 787 and production rate increases by Airbus and Boeing.

Human Resources

As of December 31, 2007, we employed approximately 23,400 people, of which approximately 14,800 people were employed in the U.S. and approximately 8,600 people were employed in other countries. We believe that we have satisfactory relationships with our employees. Those hourly employees who are unionized are covered by collective bargaining agreements with a number of labor unions and with varying contract termination dates through May 2012. Approximately 20% of our global labor force is covered by collective bargaining arrangements and approximately 10% of our global labor force is covered by collective bargaining arrangements that will expire within one year. There were no material work stoppages during 2007.

International Operations

We are engaged in business worldwide. We market our products and services through sales subsidiaries and distributors in various countries. We also have international joint venture agreements.

Currency fluctuations, tariffs and similar import limitations, price controls and labor regulations can affect our foreign operations, including foreign affiliates. Other potential limitations on our foreign operations include expropriation, nationalization, restrictions on foreign investments or their transfers and additional political and economic risks. In addition, the transfer of funds from foreign operations could be impaired by the unavailability of dollar exchange or other restrictive regulations that foreign governments could enact.

For financial information about our U.S. and foreign sales and assets, see Note 3, Business Segment Information to our Consolidated Financial Statements included in Part II, Item 8 of this report, which is incorporated herein by reference.

Item 1A. *Risk Factors*

Our business, financial condition, results of operations and cash flows can be affected by a number of factors, including but not limited to those set forth below and elsewhere in this Annual Report on Form 10-K, any one of which could cause our actual results to vary materially from recent results or from our anticipated future results.

Our future success is dependent on demand for and market acceptance of new commercial and military aircraft programs.

We are currently under contract to supply components and systems for a number of new commercial, general aviation and military aircraft programs, including the Airbus A380 and A350 XWB, the Boeing 787, the Embraer 190, the Dassault Falcon 7X and the Lockheed Martin F-35 JSF and F-22 Raptor. We have made and will continue to make substantial investments and incur substantial development costs in connection with these programs. We cannot provide assurance that each of these programs will enter full-scale production as expected or that demand for the aircraft will be sufficient to allow us to recoup our investment in these programs. In addition, we cannot assure you that we will be able to extend our contracts relating to these programs beyond the initial contract periods. If any of these programs are not successful, it could have a material adverse effect on our business, financial condition or results of operations.

The market segments we serve are cyclical and sensitive to domestic and foreign economic considerations that could adversely affect our business and financial results.

The market segments in which we sell our products are, to varying degrees, cyclical and have experienced periodic downturns in demand. For example, certain of our commercial aviation products sold to aircraft manufacturers have experienced downturns during periods of slowdowns in the commercial airline industry and during periods of weak general economic conditions, as demand for new aircraft typically declines during these periods. Although we believe that aftermarket demand for many of our products may reduce our exposure to these business downturns, we have experienced these conditions in our business in the recent past and may experience downturns in the future.

Capital spending by airlines and aircraft manufacturers may be influenced by a variety of factors including current and predicted traffic levels, load factors, aircraft fuel pricing, labor issues, competition, the retirement of older aircraft, regulatory changes, terrorism and related safety concerns, general economic conditions, worldwide airline profits and backlog levels. Also, since a substantial portion of commercial airplane OE deliveries are scheduled beyond 2007, changes in economic conditions may cause customers to request that firm orders be rescheduled or canceled. Aftermarket sales and service trends are affected by similar factors, including usage, pricing, regulatory changes, the retirement of older aircraft and technological improvements that increase reliability and performance. A reduction in spending by airlines or aircraft manufacturers could have a significant effect on the demand for our products, which could have an adverse effect on our business, financial condition, results of operations or cash flows.

Table of Contents

Current conditions in the airline industry could adversely affect our business and financial results.

Increases in fuel costs, high labor costs and heightened competition from low cost carriers have adversely affected the financial condition of some commercial airlines. Over the past five years, several airlines have declared bankruptcy. A portion of our sales are derived from the sale of products directly to airlines, and we sometimes provide sales incentives to airlines and record unamortized sales incentives as other assets. If an airline declares bankruptcy, we may be unable to collect our outstanding accounts receivable from the airline and we may be required to record a charge related to unamortized sales incentives to the extent they cannot be recovered.

A significant decline in business with Airbus or Boeing could adversely affect our business and financial results.

For the year 2007, approximately 15% of our sales were made to Airbus and approximately 15% of our sales were made to Boeing for all categories of products, including OE and aftermarket products for commercial and military aircraft and space applications. Accordingly, a significant reduction in purchases by either of these customers could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Demand for our defense and space-related products is dependent upon government spending.

Approximately 25% of our sales for the year 2007 were derived from the defense and space market segment. Included in that category are direct and indirect sales to the U.S. Government, which represented approximately 13% of our sales for the year 2007. The defense and space market segment is largely dependent upon government budgets, particularly the U.S. defense budget. We cannot assure you that an increase in defense spending will be allocated to programs that would benefit our business. Moreover, we cannot assure you that new military aircraft programs in which we participate will enter full-scale production as expected. A change in levels of defense spending or levels of military flight operations could curtail or enhance our prospects in this market segment, depending upon the programs affected.

Our business could be adversely affected if we are unable to obtain the necessary raw materials and components.

We purchase a variety of raw materials and components for use in the manufacture of our products, including aluminum, titanium, steel, various specialty metals and carbon fiber. The loss of a significant supplier or the inability of a supplier to meet our performance and quality specifications or delivery schedules could affect our ability to complete our contractual obligations to our customers on a satisfactory, timely and/or profitable basis. These events may adversely affect our operating results, result in the termination of one or more of our customer contracts or damage our reputation and relationships with our customers. All of these events could have a material adverse effect on our business.

We use a number of estimates in accounting for some long-term contracts. Changes in our estimates could materially affect our future financial results.

We account for sales and profits on some long-term contracts in accordance with the percentage-of-completion method of accounting, using the cumulative catch-up method to account for revisions in estimates. The percentage-of-completion method of accounting involves the use of various estimating techniques to project revenues and costs at completion and various assumptions and projections relative to the outcome of future events, including the quantity and timing of product deliveries, future labor performance and rates, and material and overhead costs. These assumptions involve various levels of expected performance improvements. Under the cumulative catch-up method, the impact of revisions in our estimates related to units shipped to date is recognized immediately.

Because of the significance of the judgments and estimates described above, it is likely that we could record materially different amounts if we used different assumptions or if the underlying circumstances or estimates were to change. Accordingly, changes in underlying assumptions, circumstances or estimates may materially affect our future financial performance.

Competitive pressures may adversely affect our business and financial results.

The aerospace industry in which we operate is highly competitive. We compete worldwide with a number of U.S. and foreign companies that are both larger and smaller than we are in terms of resources and market share, and some of which are our customers. While we are the market and technology leader in many of our products, in certain areas some of our competitors may have more extensive or more specialized engineering, manufacturing or marketing capabilities and lower manufacturing cost. As a result, these competitors may be able to adapt more quickly to new or emerging technologies and changes in customer requirements or may be able to devote greater resources to the development, promotion and sale of their products than we can.

The significant consolidation occurring in the aerospace industry could adversely affect our business and financial results.

The aerospace industry in which we operate has been experiencing significant consolidation among suppliers, including us and our competitors, and the customers we serve. There have been mergers and global alliances in the aerospace industry to achieve greater economies of scale and enhanced geographic reach. Aircraft manufacturers have made acquisitions to expand their product portfolios to better compete in the global marketplace. In addition, aviation suppliers have been consolidating and forming alliances to broaden their product and integrated system offerings and achieve critical mass. This supplier consolidation is in part attributable to aircraft manufacturers and airlines more frequently awarding long-term sole source or preferred supplier contracts to the most capable suppliers, thus reducing the total number of suppliers from whom components and systems are purchased. Our business and financial results may be adversely impacted as a result of consolidation by our competitors or customers.

Expenses related to employee and retiree medical and pension benefits may continue to rise.

We have periodically experienced significant increases in expenses related to our employee and retiree medical and pension benefits. Although we have taken action seeking to contain these cost increases, including making material changes to some of these plans, there are risks that our expenses will rise as a result of continued increases in medical costs due to increased usage of medical benefits and medical cost inflation in the U.S. Pension expense may increase if investment returns on our pension plan assets do not meet our long-term return assumption, if there are reductions in the discount rate used to determine the present value of our benefit obligation, or if other actuarial assumptions are not realized.

The aerospace industry is highly regulated.

The aerospace industry is highly regulated in the U.S. by the Federal Aviation Administration and in other countries by similar regulatory agencies. We must be certified by these agencies and, in some cases, by individual OE manufacturers in order to engineer and service systems and components used in specific aircraft models. If material authorizations or approvals were revoked or suspended, our operations would be adversely affected. New or more stringent governmental regulations may be adopted, or industry oversight heightened, in the future, and we may incur significant expenses to comply with any new regulations or any heightened industry oversight.

We may have liabilities relating to environmental laws and regulations that could adversely affect our financial results.

We are subject to various domestic and international environmental laws and regulations which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. We are currently involved in the investigation and remediation of a number of sites for which we have been identified as a potentially responsible party under these laws. Based on currently available information, we do not believe that future environmental costs in excess of those accrued with respect to such sites will have a material adverse effect on our financial condition. We cannot be assured that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on our results of operations and/or cash flows in a given period.

In connection with the divestiture of our tire, vinyl and other businesses, we received contractual rights of indemnification from third parties for environmental and other claims arising out of the divested businesses. If these third parties do not honor their indemnification obligations to us, it could have a material adverse effect on our financial condition, results of operations and/or cash flows.

Any material product liability claims in excess of insurance may adversely affect us.

We are exposed to potential liability for personal injury or death with respect to products that have been designed, manufactured, serviced or sold by us, including potential liability for asbestos and other toxic tort claims. While we believe that we have substantial insurance coverage available to us related to any such claims, our insurance may not cover all liabilities. Additionally, insurance coverage may not be available in the future at a cost acceptable to us. Any material liability not covered by insurance or for which third-party indemnification is not available could have a material adverse effect on our financial condition, results of operations and/or cash flows.

Any material product warranty obligations may adversely affect us.

Our operations expose us to potential liability for warranty claims made by third parties with respect to aircraft components that have been designed, manufactured, distributed or serviced by us. Any material product warranty obligations could have a material adverse effect on our financial condition, results of operations and/or cash flows.

Our operations depend on our production facilities throughout the world. These production facilities are subject to physical and other risks that could disrupt production.

Our production facilities could be damaged or disrupted by a natural disaster, labor strike, war, political unrest, terrorist activity or a pandemic. Although we have obtained property damage and business interruption insurance, a major catastrophe such as an earthquake or other natural disaster at any of our sites, or significant labor strikes, work stoppages, political unrest, war or terrorist activities in any of the areas where we conduct operations, could result in a prolonged interruption of our business. Any disruption resulting from these events could cause significant delays in shipments of products and the loss of sales and customers. We cannot assure you that we will have insurance to adequately compensate us for any of these events.

We have significant international operations and assets and are therefore subject to additional financial and regulatory risks.

We have operations and assets throughout the world. In addition, we sell our products and services in foreign countries and seek to increase our level of international business activity. Accordingly, we are subject to various risks, including: U.S.-imposed embargoes of sales to specific countries; foreign import controls (which may be arbitrarily imposed or enforced); price

and currency controls; exchange rate fluctuations; dividend remittance restrictions; expropriation of assets; war, civil uprisings and riots; government instability; the necessity of obtaining governmental approval for new and continuing products and operations; legal systems of decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied; and difficulties in managing a global enterprise. We may also be subject to unanticipated income taxes, excise duties, import taxes, export taxes or other governmental assessments. Any of these events could result in a loss of business or other unexpected costs that could reduce sales or profits and have a material adverse effect on our financial condition, results of operations and/or cash flows.

We are exposed to foreign currency risks that arise from normal business operations. These risks include transactions denominated in foreign currencies and the translation of certain non-functional currency balances of our subsidiaries. Our international operations also expose us to translation risk when the local currency financial statements are translated to U.S. Dollars, our parent company s functional currency. As currency exchange rates fluctuate, translation of the statements of income of international businesses into U.S. Dollars will affect comparability of revenues and expenses between years.

Creditors may seek to recover from us if the businesses that we spun off are unable to meet their obligations in the future, including obligations to asbestos claimants.

On May 31, 2002, we completed the spin-off of our wholly owned subsidiary, EnPro Industries, Inc. (EnPro). Prior to the spin-off, we contributed the capital stock of Coltec Industries Inc (Coltec) to EnPro. At the time of the spin-off, two subsidiaries of Coltec were defendants in a significant number of personal injury claims relating to alleged asbestos-containing products sold by those subsidiaries. It is possible that asbestos-related claims might be asserted against us on the theory that we have some responsibility for the asbestos-related liabilities of EnPro, Coltec or its subsidiaries, even though the activities that led to those claims occurred prior to our ownership of any of those subsidiaries. Also, it is possible that a claim might be asserted against us that Coltec s dividend of its aerospace business to us prior to the spin-off was made at a time when Coltec was insolvent or caused Coltec to become insolvent. Such a claim could seek recovery from us on behalf of Coltec of the fair market value of the dividend.

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

Item 1B. ***Unresolved Staff Comments***

Not applicable.

Table of Contents

Item 2. ***Properties***

We operate manufacturing plants and service and other facilities throughout the world.

Information with respect to our significant facilities that are owned or leased is set forth below:

Segment	Location	Owned or Leased	Approximate Number of Square Feet
Actuation and Landing Systems	Cleveland, Ohio	Leased	482,000
	Wolverhampton, England	Owned	429,000
	Troy, Ohio	Owned	415,000
	Oakville, Canada	Owned/Leased	386,000
	Vernon, France	Owned	273,000
	Tullahoma, Tennessee	Owned	260,000
	Miami, Florida	Owned	200,000
Nacelles and Interior Systems	Chula Vista, California	Owned	1,797,000
	Riverside, California	Owned	1,162,000
	Singapore, Singapore	Owned	634,000
	Foley, Alabama	Owned	418,000
	Toulouse, France	Owned/Leased	302,000
	Phoenix, Arizona	Owned	274,000
	Jamestown, North Dakota	Owned	272,000
	Prestwick, Scotland	Owned	250,000
Electronic Systems	Danbury, Connecticut	Owned	523,000
	Birmingham, England	Owned	377,000
	Neuss, Germany	Owned/Leased	305,000
	West Hartford, Connecticut	Owned	262,000
	Burnsville, Minnesota	Owned	252,000
	Vergennes, Vermont	Owned	211,000

Our headquarters is in Charlotte, North Carolina. In May 2000, we leased approximately 120,000 square feet for an initial term of ten years, with two five-year options to 2020. The offices provide space for our corporate and segment headquarters.

We and our subsidiaries are lessees under a number of cancelable and non-cancelable leases for real properties, used primarily for administrative, maintenance, repair and overhaul of aircraft, aircraft wheels and brakes and evacuation systems and warehouse operations.

In the opinion of management, our principal properties, whether owned or leased, are suitable and adequate for the purposes for which they are used and are suitably maintained for such purposes. See Item 3, Legal Proceedings-Environmental for a description of proceedings under applicable environmental laws regarding some of our properties.

Item 3. ***Legal Proceedings***

General

There are pending or threatened against us or our subsidiaries various claims, lawsuits and administrative proceedings, 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.

Table of Contents

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.

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 Consolidated Balance Sheet includes an accrued liability for environmental remediation obligations of $69.6 million and $74.3 million at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, $18.6 million and $17.7 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as accrued expenses. At December 31, 2007 and 2006, $29.4 million and $31 million, respectively, was associated with ongoing operations and $40.2 million and $43.3 million, respectively, was associated with previously owned businesses.

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

There has recently been an increase by certain states in the U.S. and countries globally to promulgate or propose regulations or legislation impacting the use of various chemical substances by all companies. We are currently evaluating the potential impact, if any, of such regulations and legislation.

Table of Contents

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 in a given period.

Insurance Coverage

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

Kemper Insurance (Kemper) provided the Company s pre-1976 primary layer of insurance coverage for third party claims. Kemper is currently operating under a run-off plan under the supervision of the Illinois Division of Insurance. On May 1, 2007, the Company commuted the Kemper policies in return for a cash payment. The agreement with Kemper was approved by the State of Illinois.

In addition, a portion of our primary and excess layers of pre-1986 insurance coverage for third party claims was provided by certain insurance carriers who are either insolvent or undergoing solvent schemes of arrangement. We have entered into settlement agreements with a number of these insurers pursuant to which we agreed to give up our rights with respect to certain insurance policies in exchange for negotiated payments. These settlements represent negotiated payments for our loss of insurance coverage, as we no longer have insurance available for claims that may have qualified for coverage. 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 December 31, 2007 and 2006, the deferred settlement credit was approximately $54 million and $38 million, respectively, for which approximately $8 million and $3 million, respectively, was reported in accrued expenses and approximately $46 million and $35 million, respectively, was reported in other non-current liabilities. The proceeds from such insurance settlements were reported as a component of net cash provided by operating activities in the period payments were received.

Liabilities of Divested Businesses

Asbestos

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

A limited number of asbestos-related claims have been asserted against us as successor to Coltec or one of its subsidiaries. We believe that we have substantial legal defenses against

Table of Contents

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

Tax

We are continuously undergoing examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by us on our income tax returns. In accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, (SFAS 109) and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes , we establish reserves for tax contingencies related to deductions and credits that we may be unable to sustain. Differences between the reserves for tax contingencies and the amounts ultimately owed by us are recorded in the period they become known. Adjustments to our reserves could have a material effect on our financial statements.

During 2007, we reached agreement with the IRS on substantially all of the issues raised with respect to the examination of taxable years 2000-2004 and recorded a tax benefit, resulting primarily from the reversal of related tax reserves of $15.7 million. We submitted a protest to the Appeals Division of the IRS with respect to the remaining unresolved issues. We believe the amount of the estimated tax liability if the IRS were to prevail is fully reserved. We cannot predict the timing or ultimate outcome of a final resolution of the remaining unresolved issues.

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

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

We previously reached final settlement with the IRS on all but one of the issues raised in this examination cycle. We received statutory notices of deficiency dated June 14, 2007 related to the remaining unresolved issue which involves the proper timing of certain deductions. We filed a petition with the U.S. Tax Court in September 2007 to contest the notices of deficiency. We believe the amount of the estimated tax liability if the IRS were to prevail is fully reserved. We cannot predict the timing or ultimate outcome of this matter.

Rohr has been under examination by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr s subsidiaries in connection with the lease of certain tangible property. California s Franchise Tax Board held that the deductions associated with the leased equipment were non-business deductions. The additional tax associated with the Franchise Tax Board s position is approximately $4.5 million. The amount of accrued interest associated with the additional tax is approximately $23 million as of December 31, 2007. In addition, the State of California enacted

an amnesty provision that imposes nondeductible penalty interest equal to 50% of the unpaid interest amounts relating to taxable years ended before 2003. The penalty interest is approximately $11 million as of December 31, 2007. The tax and interest amounts continue to be contested by Rohr. We believe that we are adequately reserved for this contingency. During 2005, Rohr made payments of approximately $3.9 million ($0.6 million for tax and $3.3 million for interest) related to items that were not being contested and approximately $4.5 million related to items that are being contested. No payment has been made for the $23 million of interest or $11 million of penalty interest. Under California law, Rohr could be required to pay the full amount of interest prior to filing any suit for refund. In late December 2007, the trial court ruled that Rohr is not required to pay the interest and its suit for refund could proceed. The California Franchise Tax Board has appealed the decision and if the lower court is reversed, Rohr would be required to make this payment in order to continue seeking a refund.

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

Not applicable.

Executive Officers of the Registrant

Marshall O. Larsen, age 59, Chairman, President and Chief Executive Officer

Mr. Larsen joined the Company in 1977 as an Operations Analyst. In 1981, he became Director of Planning and Analysis and subsequently Director of Product Marketing. In 1986, he became Assistant to the President and later served as General Manager of several divisions of the Company s aerospace business. He was elected a Vice President of the Company and named a Group Vice President of Goodrich Aerospace in 1994 and was elected an Executive Vice President of the Company and President and Chief Operating Officer of Goodrich Aerospace in 1995. He was elected President and Chief Operating Officer and a director of the Company in February 2002, Chief Executive Officer in April 2003 and Chairman in October 2003. Mr. Larsen is a director of Becton, Dickinson & Co. and Lowe s Companies, Inc. He received a B.S. in engineering from the U.S. Military Academy and an M.S. in industrial management from the Krannert Graduate School of Management at Purdue University.

John J. Carmola, age 52, Vice President and Segment President, Actuation and Landing Systems

Mr. Carmola joined the Company in 1996 as President of the Landing Gear Division. He served in that position until 2000, when he was appointed President of the Engine Systems Division. Later in 2000, Mr. Carmola was elected a Vice President of the Company and Group President, Engine and Safety Systems. In 2002, he was elected Vice President and Group President, Electronic Systems. He was elected Vice President and Segment President, Engine Systems, in 2003, Vice President and Segment President, Airframe Systems, in 2005, and Vice President and Segment President, Actuation and Landing Systems in 2007. Prior to joining the Company, Mr. Carmola served in various management positions with General Electric Company. Mr. Carmola received a B.S. in mechanical and aerospace engineering from the University of Rochester and an M.B.A. in finance from Xavier University.

Cynthia M. Egnotovich, age 50, Vice President and Segment President, Nacelles and Interior Systems

Ms. Egnotovich joined the Company in 1986 and served in various positions with the Ice Protection Systems Division, including Controller from 1993 to 1996, Director of Operations from 1996 to 1998 and Vice President and General Manager from 1998 to 2000. Ms. Egnotovich was appointed as Vice President and General Manager of Commercial Wheels and Brakes in 2000. She was elected a Vice President of the Company and Group President, Engine and Safety Systems in 2002. In 2003, she was elected Vice President and Segment President, Electronic

Table of Contents

Systems. Ms. Egnotovich was elected Vice President and Segment President, Engine Systems in 2005. In 2007, she was elected Vice President and Segment President, Nacelles and Interior Systems. Ms. Egnotovich received a B.B.A. in accounting from Kent State University and a B.S. in biology from Immaculata College.

Curtis C. Reusser, Age 47, Vice President and Segment President, Electronic Systems

Mr. Reusser joined the Company in 1988 when it acquired TRAMCO. He held roles of increasing responsibility in Goodrich s Maintenance, Repair and Overhaul operations before being appointed General Manager of Goodrich MRO Europe, based in the UK, in 1996. He joined the Aerostructures Division in 1999 and held various Vice President and general management positions. He has served as President of the Aerostructures Division since 2002. Mr. Reusser was elected Vice President and Segment President, Electronic Systems effective January 1, 2008. Before joining Goodrich, Mr. Reusser worked in engineering and business development for the Convair and Space Systems divisions of General Dynamics. Mr. Reusser graduated with a B.S. in Mechanical/Industrial Engineering from the University of Washington in 1983.

Gerald T. Witowski, age 60, Executive Vice President, Operational Excellence and Technology

Mr. Witowski joined the Company in 1978 as a Marketing Engineer in the Sensor Systems business. He was promoted to Vice President of Marketing and Sales in 1988 and was named Vice President and General Manager for the Commercial Transport Business Unit of Sensor Systems as well the head of Goodrich s Test System Business Unit in New Century, Kansas in 1997. In January 2001, he was named President and General Manager of Sensor Systems. He was elected Vice President and Segment President, Electronic Systems in March 2006 and to his current position in January 2008. Prior to joining Goodrich, Mr. Witowski spent 10 years on active duty in the U.S. Navy where he was a commissioned officer and pilot. Mr. Witowski received a B.S. in Aerospace Engineering, Naval Science from the U.S. Naval Academy and an M.A. in Management and Human Relations from Webster University.

John J. Grisik, age 61, Executive Vice President

Mr. Grisik joined the Company in 1991 as General Manager of the De-Icing Systems Division. He served in that position until 1993, when he was appointed General Manager of the Landing Gear Division. In 1995, he was appointed Group Vice President of Safety Systems and served in that position until 1996 when he was appointed Group Vice President of Sensors and Integrated Systems. In 2000, Mr. Grisik was elected a Vice President of the Company and Group President, Landing Systems. He was elected Vice President and Segment President, Airframe Systems, in 2003, Vice President and Segment President, Electronic Systems in 2005, Executive Vice President, Operational Excellence and Technology in March 2006 and Executive Vice President in January 2008. Prior to joining the Company, Mr. Grisik served in various management positions with General Electric Company and U.S. Steel Company. Mr. Grisik received a B.S., M.S. and D.S. in engineering from the University of Cincinnati and an M.S. in management from Stanford University.

Terrence G. Linnert, age 61, Executive Vice President, Administration and General Counsel

Mr. Linnert joined the Company in 1997 as Senior Vice President and General Counsel. In 1999, he was elected to the additional positions of Senior Vice President, Human Resources and Administration, and Secretary. He was elected Executive Vice President, Human Resources and Administration, General Counsel in 2002 and Executive Vice President, Administration and General Counsel in February 2005. Prior to joining Goodrich, Mr. Linnert was Senior Vice President of Corporate Administration, Chief Financial Officer and General Counsel of Centerior Energy Corporation. Mr. Linnert received a B.S. in electrical engineering from the University of Notre Dame and a J.D. from the Cleveland-Marshall School of Law at Cleveland State University.

Table of Contents

Scott E. Kuechle, age 48, Executive Vice President and Chief Financial Officer

Mr. Kuechle joined the Company in 1983 as a Financial Analyst in the Company s former Tire Division. He has held several subsequent management positions, including Manager of Planning and Analysis in the Tire Division, Manager of Analysis in Corporate Analysis and Control as well as Director of Planning and Control for the Company s former Water Systems and Services Group. He was promoted to Director of Finance and Banking in 1994 and elected Vice President and Treasurer in 1998. Mr. Kuechle was elected Vice President and Controller in September 2004, Senior Vice President and Chief Financial Officer in August 2005 and Executive Vice President and Chief Financial Officer in January 2008. Mr. Kuechle received a B.B.A. in economics from the University of Wisconsin Eau Claire and an M.S.I.A. in finance from Carnegie-Mellon University.

Jennifer Pollino, age 43, Senior Vice President, Human Resources

Ms. Pollino joined the Company in 1992 as an Accounting Manager at Aircraft Evacuation Systems and since that time has served in a variety of positions, including Controller of Aircraft Evacuation Systems from 1995 to 1998, Vice President, Finance of the Safety Systems from 1999 to 2000, Vice President and General Manager of Aircraft Seating Products from 2000 to 2001, President and General Manager of Turbomachinery Products from 2001 to 2002 and President and General Manager of Aircraft Wheels and Brakes from 2002 to 2005. She was elected as Senior Vice President, Human Resources in February 2005. Prior to joining Goodrich, Ms. Pollino served as a Field Accounting Officer for the Resolution Trust Corporation from 1990 to 1992, as Controller of Lincoln Savings and Loan Association from 1987 to 1990 and as an Auditor for Peat Marwick Main & Co. from 1986 to 1987. Ms. Pollino received a B.B.A. in accounting from the University of Notre Dame.

Scott A. Cottrill, age 42, Vice President and Controller

Mr. Cottrill joined the Company in 1998 as Director External Reporting. He later served as Director Accounting and Financial Reporting from 1999 to 2002 and as Vice President, Internal Audit from 2002 to 2005. Mr. Cottrill was elected as Vice President and Controller effective October 2005. Prior to joining the Company, Mr. Cottrill served as a Senior Manager with PricewaterhouseCoopers LLP. Mr. Cottrill received a B.S. in accounting from The Pennsylvania State University and is a Certified Public Accountant and a Certified Internal Auditor.

Table of Contents

PART II

Item 5. *Market for Registrant s Common Equity and Related Stockholder Matters*

Our common stock (symbol GR) is listed on the New York Stock Exchange. The following table sets forth on a per share basis, the high and low sale prices for our common stock for the periods indicated as reported on the New York Stock Exchange composite transactions reporting system, and the cash dividends declared on our common stock for these periods.

Quarter	High	Low	Dividend
2007			
First	$ 52.45	$ 44.97	$ .20
Second	60.17	51.26	.20
Third	68.58	56.13	.20
Fourth	75.74	65.76	.225
2006			
First	$ 44.00	$ 37.34	$ .20
Second	47.45	37.15	.20
Third	42.14	37.25	.20
Fourth	46.48	40.08	.20

As of December 31, 2007, there were 8,184 holders of record of our common stock.

Our debt agreements contain various restrictive covenants that, among other things, place limitations on the payment of cash dividends and our ability to repurchase our capital stock. Under the most restrictive of these agreements, $1,351.5 million of income retained in the business and additional capital was free from such limitations at December 31, 2007.

The following table summarizes our purchases of our common stock for the quarter ended December 31, 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)
October 2007	11,583	$ 68.78		
November 2007	682,304	$ 70.38	665,200	
December 2007	203,642	$ 73.17	200,646	
Total	897,529	$ 70.99	865,846	$ 73,301,864

(1) The category includes 31,683 shares delivered to us by employees to pay withholding taxes due upon vesting of a restricted stock unit award and to pay the exercise price of employee stock options.

(2) This balance represents the number of shares that were repurchased under our repurchase program that was announced on October 24, 2006 (the Program). Under the Program, we are authorized to repurchase up to $300 million of our common stock. Unless terminated earlier by resolution of our Board of Directors, the Program will expire when we have purchased all shares authorized for repurchase.

Table of Contents

Item 6. *Selected Financial Data*

Selected Financial Data(a)

	2007(b)	2006(c)(f)	2005(c)	2004(b)(c)(d)(e)	2003(e)
		(Dollars in millions, except per share amounts)			
Statement of Income Data					
Sales	$ 6,392.2	$ 5,719.1	$ 5,202.6	$ 4,554.9	$ 4,223.8
Income from continuing operations	496.0	478.0	238.5	160.0	58.1
Balance Sheet Data					
Total assets	$ 7,534.0	$ 6,901.2	$ 6,454.0	$ 6,217.5	$ 5,951.5
Long-term debt and capital lease obligations	1,562.9	1,721.7	1,742.1	1,898.3	2,075.2
Per Share of Common Stock					
Income from continuing operations, diluted	$ 3.88	$ 3.78	$ 1.92	$ 1.33	$ 0.49
Net income, diluted	3.78	3.81	2.13	1.43	0.85
Cash dividends declared	0.825	0.80	0.80	0.80	0.80

(a) Except as otherwise indicated, the historical amounts presented above have been reclassified to present our former Avionics business (sold on March 28, 2003), PRS (ceased operations during first quarter 2003), Test Systems business (sold on April 19, 2005) and ATS business (sold on November 15, 2007) as discontinued operations.

(b) On December 27, 2004, we entered into a partial settlement with Northrop Grumman Corporation (Northrop) which acquired TRW Inc. (TRW), in which Northrop paid us approximately $99 million to settle certain claims relating to customer warranty and other contract claims for products designed, manufactured or sold by TRW prior to our acquisition of TRW s aeronautical systems businesses, as well as certain other miscellaneous claims. Under the terms of the settlement, we have assumed certain liabilities associated with future customer warranty and other contract claims for these products. In 2004, we recorded a charge of $23.4 million to cost of sales, or $14.7 million after tax, representing the amount by which the estimated undiscounted future liabilities plus our receivable from Northrop for these matters exceeded the settlement amount.

On December 27, 2007, we settled a claim with Northrop related to the Airbus A380 actuation systems development program resulting in a receipt of cash and an increase in operating income of $18.5 million.

(c) Effective January 1, 2004, we began expensing stock options and the discount and option value of shares issued under our employee stock purchase plan. The expense is recognized over the period the stock options and shares are earned and vest. The adoption reduced before tax income by $12.1 million, or $7.7 million after tax, for 2004. The change in accounting reduced EPS-net income (diluted) by $0.06 per share. During 2005, we recognized share-based compensation of $10.4 million related to stock options and shares issued under our employee stock purchase plan. Effective January 1, 2006, we adopted Statement of Financial Accounting Standards, 123(R), Share-Based Compensation , which required accelerated recognition of share-based compensation expense for individuals who are either retirement eligible on the grant date or will become retirement eligible in advance of the normal vesting date. The incentive compensation cost recognized during

2006 related to this provision approximated $22 million. The cumulative effect of change in accounting was a gain of $0.6 million, or $0.01 per diluted share. See Note 22, Share-Based Compensation to our Consolidated Financial Statements.

(d) Effective January 1, 2004, we changed two aspects of our methods of contract accounting for our aerostructures business. The impact of the changes in accounting methods was to record an after tax gain of $16.2 million ($23.3 million before tax gain) as a cumulative

Table of Contents

effect of a change in accounting, representing the cumulative profit that would have been recognized prior to January 1, 2004 had these methods of accounting been in effect in prior periods.

(e) Effective October 1, 2003, we adopted Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51, and deconsolidated BFGoodrich Capital. As a result, our 8.3% Junior Subordinated Debentures, Series A, (QUIPS Debentures) held by BFGoodrich Capital were reported as debt beginning in October 2003 and the corresponding interest payments on such debentures were reported as interest expense. Prior periods were not reclassified. On October 6, 2003, we redeemed $63 million of the outstanding Cumulative Quarterly Income Preferred Securities, Series A (QUIPS) and related QUIPS Debentures, and on March 2, 2004, we completed the redemption of the remaining $63.5 million of outstanding QUIPS and QUIPS Debentures.

(f) In calculating our effective tax rate, we accounted for tax contingencies according to SFAS 5. During 2006, we recorded a benefit of approximately $147 million, or $1.15 per diluted share, primarily related to the Rohr and Coltec tax settlements. See Note 15, Income Taxes and Note 17, Contingencies to our Consolidated Financial Statements for a discussion of our effective tax rate and material tax contingencies.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations.*

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

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

OUR FORMER GOODRICH AVIATION TECHNICAL SERVICES, INC. (ATS) BUSINESS AND OUR FORMER JCAIR INC. (TEST SYSTEMS) BUSINESS HAVE BEEN ACCOUNTED FOR AS DISCONTINUED OPERATIONS. UNLESS OTHERWISE NOTED HEREIN, DISCLOSURES PERTAIN ONLY TO OUR CONTINUING OPERATIONS.

OVERVIEW

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

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

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

Commercial, Regional, Business and General Aviation Airplane OE

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

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

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

The commercial airplane manufacturers have a significant backlog of orders and continue to experience strong new order flow. Airlines worldwide are expected to continue to increase capacity in 2008 and beyond. These trends bode very well for large commercial aircraft production over the next several years.

Table of Contents

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

Capacity in the global airline system, as measured by ASMs, is expected to grow at about 4% to 5% annually in 2008 through 2012. We expect that the global airplane fleet will continue to grow in 2008 and beyond, as the OE manufacturers are expected to deliver more airplanes than are retired.

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

Defense and Space

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

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

The market for our defense and space products is global, and is not dependent on any single program, platform or customer. While we anticipate fewer new platform starts over the next several years, which are expected to negatively affect OE sales, we anticipate that upgrades on existing defense and space platforms will be necessary and will provide long-term growth in this market channel. Additionally, we are participating in, and developing new products for, the rapidly expanding homeland security and intelligence, surveillance and reconnaissance sectors, which should further strengthen our position in this market channel.

Long-term Sustainable Growth

We believe that we are well positioned to continue to grow our commercial airplane OE and aftermarket and defense and space sales due to:

- Awards for key products on important new and expected programs, including the Airbus A380 and A350 XWB, the Boeing 787 and 747-8, the Embraer 190, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and F-22 Raptor;
- Growing commercial airplane fleet, which should fuel sustained aftermarket strength;
- Balance in the large commercial airplane market, with strong sales to both Airbus and Boeing;
- Aging of the existing large commercial and regional airplane fleets, which should result in increased aftermarket support;

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

Increased opportunities for aftermarket growth due to airline outsourcing;

Table of Contents

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

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

Year Ended December 31, 2007 Sales Content by Market Channel

During 2007, approximately 94% 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	15%
Boeing Commercial OE	10%
Regional, Business and General Aviation Airplane OE	8%
Total Commercial Regional, Business and General Aviation Airplane OE	33%
Large Commercial Airplane Aftermarket	29%
Regional, Business and General Aviation Airplane Aftermarket	7%
Total Commercial Regional, Business and General Aviation Airplane Aftermarket	36%
Total Defense and Space	25%
Other	6%
Total	100%

Summary Performance   Year Ended December 31, 2007 as Compared to the Year Ended December 31, 2006

	2007	2006	% Change
	(Dollars in millions, except diluted EPS)		
Sales	$ 6,392.2	$ 5,719.1	11.8
Segment operating income(1)	$ 1,026.6	$ 772.2	32.9
Percent of sales	16.1%	13.5%	
Income from continuing operations	$ 496.0	$ 478.0	3.8
Net income	$ 482.6	$ 482.1	0.1
Capital expenditures	$ 282.6	$ 254.6	11.0
Net cash provided by operating activities	$ 593.7	$ 265.5	123.6

Diluted EPS:					
Continuing operations	$	3.88	$	3.78	2.6
Net income	$	3.78	$	3.81	(0.8)

(1) Segment operating income is total segment revenue reduced by operating expenses directly identifiable with our business segments except for certain enterprise ERP implementation expenses and pension curtailment expenses in 2006, which were not allocated to the segments. Segment operating income is used by management to assess the operating performance of the segments. For a reconciliation of total segment operating income to total operating income, see Note 3, Business Segment Information to our Consolidated Financial Statements.

Table of Contents

Our 2007 sales and income performance was driven primarily by growth in each of our major market channels as follows:

Large commercial airplane OE sales increased by approximately 8%;

Regional, business and general aviation airplane OE sales increased by approximately 20%;

Large commercial, regional, business and general aviation airplane aftermarket sales increased by approximately 16%; and

Defense and space sales of both OE and aftermarket products and services increased by approximately 7%.

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

	Increase (Decrease)		
	Before Tax	After Tax	Diluted EPS
	(Dollars in millions, except diluted EPS)		
Changes in estimates on long-term contracts	$ 60.6	$ 37.9	$ 0.30
Settlement of claims	$ 40.1	$ 25.1	$ 0.20
Foreign exchange rate impact, including net monetary asset remeasurement	$ (24.2)	$ (15.1)	$ (0.12)
Higher share-based compensation	$ (13.8)	$ (8.2)	$ (0.06)
2006 tax settlements	$	$ (147.0)	$ (1.15)

Changes in estimates on long-term contracts

During 2007, we revised our estimates on certain of our long-term contracts, primarily in our aerostructures and aircraft wheels and brakes business units, resulting in higher income of approximately $61 million compared to 2006. These changes were primarily due to favorable cost and operational performance and to some extent, sales pricing improvements on follow-on contracts.

Settlement of claims

During 2007, we settled certain claims with a customer and a claim with Northrop Grumman resulting in an increase in operating income of approximately $40 million.

Foreign exchange rate impact

The net unfavorable foreign exchange rate impact was primarily due to approximately $64 million of unfavorable foreign currency translation of net costs in currencies other than the U.S. Dollar, partially offset by approximately $35 million of higher net gains on cash flow hedges settled during 2007.

Share-based compensation

The increase in share-based compensation was primarily due to the following:

Approximately $25 million of increased costs primarily resulting from an increase in our share price and favorable financial performance against plan targets; and

Approximately $8 million of costs related to a 2007 special stock option award that did not occur in 2006; offset by

Approximately $22 million of costs recognized in 2006 that resulted from accelerated expense on awards granted to employees who were retirement eligible.

2006 Tax Settlements

The net income results for 2006 included approximately $147 million primarily related to the Rohr and Coltec tax settlements that did not recur in 2007.

2008 Outlook

We expect the following results for the year ending December 31, 2008:

	2008 Outlook	2007 Actual
Sales	$7.1-$7.2 billion	$6.4 billion
Diluted EPS Net Income	$4.15-$4.30 per share	$3.78 per share
Capital Expenditures	$250-$270 million	$282.6 million
Operating Cash Flow net of Capital Expenditures	Exceed 75% of net income	64% of net income

The 2008 outlook assumes, among other factors, a full-year effective tax rate of 33% to 35%, which includes the benefit of an extension of the U.S. research tax credit. This compares with an effective tax rate of 31% for 2007.

We expect net cash provided by operating activities, net of capital expenditures, to be in excess of 75 percent of net income in 2008. This outlook reflects a continuation of cash investments to support the Boeing 787 and the Airbus A350 XWB programs and capital expenditures for low cost country manufacturing and productivity initiatives that are expected to enhance margins over the near and long-term. We expect capital expenditures for 2008 to be in a range of $250 to $270 million.

Our 2008 sales outlook and market assumptions for each of our major market channels compared with the full year 2007 include the following:

Large commercial airplane OE sales are expected to increase by approximately 20%;

Regional, business and general aviation airplane OE sales are expected to increase by approximately 13%;

Large commercial, regional, business and general aviation airplane aftermarket sales are expected to increase by approximately 8% to 10%; and

Defense and space sales of both OE and aftermarket products and services are expected to increase by approximately 5% to 8%.

RESULTS OF OPERATIONS

Year Ended December 31, 2007 Compared with Year Ended December 31, 2006

	Year Ended December 31,		
	2007	2006	$ Change
	(Dollars in millions)		
Sales	$ 6,392.2	$ 5,719.1	$ 673.1
Segment Operating Income	$ 1,026.6	$ 772.2	$ 254.4
Corporate General and Administrative Costs	(129.1)	(105.1)	(24.0)
Unallocated ERP Implementation Costs	(16.2)	(16.4)	0.2
Pension Curtailment		(10.9)	10.9
Total Operating Income	881.3	639.8	241.5
Net Interest Expense	(115.7)	(121.0)	5.3
Other Income (Expense) Net	(48.7)	(62.0)	13.3
Income Tax (Expense) Benefit	(220.9)	21.2	(242.1)
Income from Continuing Operations	496.0	478.0	18.0
(Loss) Income from Discontinued Operations	(13.4)	3.5	(16.9)
Cumulative Effect of Change in Accounting		0.6	(0.6)
Net Income	$ 482.6	$ 482.1	$ 0.5

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

Corporate general and administrative costs increased for 2007 as compared to 2006 primarily due to higher incentive and share-based compensation and non-qualified pension benefit expense.

During 2006, we recorded a pension curtailment charge of $10.9 million related to the implementation of changes to our U.S. pension and retirement savings plans.

Net interest expense for 2007 as compared to 2006 decreased primarily due to higher interest income as a result of higher cash balances in 2007.

Other income (expense) net decreased in 2007 as compared to 2006, primarily as a result of:

- Lower expenses related to previously owned businesses of approximately $11 million, primarily for litigation costs, net of settlements, and remediation of environmental issues; and

- Expenses of approximately $5 million related to transaction costs for a long-term debt exchange program that occurred in 2006; partially offset by

Higher minority interest costs and reduced income from equity in affiliated companies of approximately $9 million.

For 2007, we reported an effective tax rate of 30.8% compared to an effective tax rate benefit of 4.6% in 2006, which included a benefit of approximately 32 percentage points related to the Rohr and Coltec tax settlements and for several additional settlements and refunds. The effective tax rate excluding the benefit related to this item would have been approximately 27%.

The loss from discontinued operations in 2007 was primarily a result of the loss on the sale of ATS. Income from discontinued operations during 2006 primarily represented income from ATS operations and net insurance settlements with several insurers relating to the recovery of

Table of Contents

environmental remediation costs at a former plant previously recorded as a discontinued operation.

Year Ended December 31, 2006 Compared with Year Ended December 31, 2005

	Year Ended December 31, 2006	Year Ended December 31, 2005	$ Change
	(Dollars in millions)		
Sales	$ 5,719.1	$ 5,202.6	$ 516.5
Segment Operating Income	$ 772.2	$ 613.5	$ 158.7
Corporate General and Administrative Costs	(105.1)	(88.4)	(16.7)
Unallocated ERP Implementation Costs	(16.4)		(16.4)
Pension Curtailment	(10.9)		(10.9)
Total Operating Income	639.8	525.1	114.7
Net Interest Expense	(121.0)	(125.8)	4.8
Other Income (Expense) Net	(62.0)	(44.4)	(17.6)
Income Tax (Expense) Benefit	21.2	(116.4)	137.6
Income from Continuing Operations	478.0	238.5	239.5
Income from Discontinued Operations	3.5	25.1	(21.6)
Cumulative Effect of Change in Accounting	0.6		0.6
Net Income	$ 482.1	$ 263.6	$ 218.5

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

Corporate general and administrative costs increased primarily as a result of increased share-based compensation of approximately $6 million, which resulted from recognizing additional expense for the 2006 and certain 2007 grants to retirement eligible employees, and due to additional administrative costs relating to the growth in sales.

During 2006, we recorded a pension curtailment charge of $10.9 million related to the implementation of changes to our U.S. pension and retirement savings plan.

Net interest expense for 2006 as compared to 2005 decreased primarily due to lower debt levels in 2006 and interest savings as a result of the debt exchange completed during 2006.

Other income (expense) net increased in 2006 as compared to 2005, primarily as a result of:

- Increased expenses relating to previously owned businesses of $16 million, primarily for litigation and remediation of environmental issues;

- Reduced income of approximately $3 million from equity in affiliated companies; and

Impairments of certain assets of $3.6 million recognized during 2006; partially offset by,

A $6.8 million decrease in losses on the extinguishment or exchange of debt during 2006 as compared to 2005.

Our effective tax rate from continuing operations was a benefit of 4.6% during 2006 and an expense of 32.8% during 2005. The decrease in our effective tax rate resulted primarily from the Rohr and Coltec tax cases. The decrease is also due to the absence of tax associated with repatriated earnings under the American Jobs Creation Act during 2005.

Income from discontinued operations during 2006 primarily represented income from ATS operations and net insurance settlements with several insurers relating to the recovery of

Table of Contents

environmental remediation costs at a former plant previously recorded as a discontinued operation. Income from discontinued operations during 2005, primarily included income from ATS operations, the $13.2 million gain from the sale of Test Systems and a $7.5 million gain recognized as a result of our settlement with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation.

The cumulative effect from the change in accounting resulted in a gain of $0.6 million from the adoption of SFAS 123(R) on January 1, 2006.

BUSINESS SEGMENT PERFORMANCE

For 2007, 2006 and 2005, our operations are reported as three business segments: Actuation and Landing Systems, Nacelles and Interior Systems and Electronic Systems. Segment operating income is total segment revenue reduced by operating expenses directly identifiable with our business segments except for the pension curtailment charge and ERP implementation costs that are not directly associated with a specific business, which were not allocated to our segments. Segment operating income is used by management to assess the operating performance by the segments. For a reconciliation of total segment operating income to total operating income, see Note 3, Business Segment Information to our Consolidated Financial Statements.

Year Ended December 31, 2007 Compared with the Year Ended December 31, 2006

	Year Ended December 31,					
			$	%	% Sales	
	2007	2006	Change	Change	2007	2006
	(Dollars in millions)					
NET CUSTOMER SALES						
Actuation and Landing Systems	$ 2,400.6	$ 2,083.8	$ 316.8	15.2		
Nacelles and Interior Systems	2,169.0	1,983.5	185.5	9.4		
Electronic Systems	1,822.6	1,651.8	170.8	10.3		
Total Sales	$ 6,392.2	$ 5,719.1	$ 673.1	11.8		
SEGMENT OPERATING INCOME						
Actuation and Landing Systems	$ 247.8	$ 137.3	$ 110.5	80.5	10.3	6.6
Nacelles and Interior Systems	531.0	416.3	114.7	27.6	24.5	21.0
Electronic Systems	247.8	218.6	29.2	13.4	13.6	13.2
Segment Operating Income	$ 1,026.6	$ 772.2	$ 254.4	32.9	16.1	13.5

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

Higher large commercial airplane OE sales of approximately $130 million, primarily in our landing gear business unit;

Higher large commercial, regional, business and general aviation airplane aftermarket sales of approximately $99 million, primarily in our landing gear, aircraft wheels and brakes and actuation business units;

Higher defense and space OE and aftermarket sales of approximately $30 million, primarily in our actuation and aircraft wheels and brakes business units; and

Higher regional, business and general aviation airplane OE sales of approximately $29 million, primarily in our aircraft wheels and brakes, landing gear and engine components business units.

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

Higher sales volume and favorable product mix across all business units, which resulted in higher income of approximately $64 million;

Higher operating income of approximately $34 million, driven primarily by higher pricing across most of our business units and improved brake-life performance in the aircraft wheels and brakes business unit, partially offset by increased operating costs across all business units; and

Settlement of certain claims with a customer and settlement of a claim with Northrop Grumman which resulted in higher income of approximately $31 million; partially offset by

Unfavorable foreign exchange impact of approximately $18 million.

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

Higher large commercial airplane aftermarket sales, including spare parts and MRO volume of approximately $165 million, primarily in our aerostructures and interiors business units;

Higher large commercial airplane OE sales of approximately $33 million, primarily in our aerostructures business unit;

Higher regional, business, and general aviation airplane OE sales primarily from our aerostructures business unit of approximately $25 million; and

Higher defense and space OE and aftermarket sales of approximately $17 million, primarily in our interiors business unit; partially offset by

Lower large commercial airplane OE sales of approximately $50 million related to the completion of certain customer contracts in 2006.

Nacelles and Interior Systems segment operating income for 2007 increased from 2006 primarily due to the following:

Higher sales volume, primarily in our aerostructures and interiors business units, which resulted in higher income of approximately $122 million;

Favorable changes in estimates for certain long-term contracts at our aerostructures business unit, resulting in higher income of approximately $40 million; and

Settlement of claims with a customer which resulted in higher income of approximately $7 million; partially offset by

Higher costs of approximately $53 million, primarily related to research and development and selling, general and administrative expenses in our aerostructures and interiors business units.

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

Higher defense and space OE and aftermarket sales of approximately $63 million in our sensors and integrated systems and engine control and electrical power business units;

Higher large commercial, regional, business and general aviation airplane aftermarket sales of approximately $42 million in our sensors and integrated systems and engine control and electrical power business units;

Higher regional, business and general aviation airplane OE sales of approximately $31 million in our sensors and integrated systems and engine control and electrical power business units;

Higher sales of products to the commercial helicopter market of approximately $28 million in our sensors and integrated systems and engine controls and electrical power business units; and

Higher large commercial airplane OE sales of approximately $11 million in our engine control and electrical power business unit.

Electronic Systems segment operating income for the 2007 increased from 2006 primarily due to the following:

Higher sales volume and pricing partially offset by unfavorable product mix across most business units, which resulted in higher income of approximately $58 million; partially offset by

Higher operating costs of approximately $21 million, primarily in our sensors and integrated systems business unit; and

Unfavorable foreign exchange of approximately $8 million.

Year Ended December 31, 2006 Compared with the Year Ended December 31, 2005

	Year Ended December 31,					
	2006	2005	$ Change	% Change	% Sales 2006	% Sales 2005
	(Dollars in millions)					
NET CUSTOMER SALES						
Actuation and Landing Systems	$ 2,083.8	$ 1,932.5	$ 151.3	7.8		
Nacelles and Interior Systems	1,983.5	1,734.9	248.6	14.3		
Electronic Systems	1,651.8	1,535.2	116.6	7.6		
Total Sales	$ 5,719.1	$ 5,202.6	$ 516.5	9.9		
SEGMENT OPERATING INCOME						
Actuation and Landing Systems	$ 137.3	$ 105.0	$ 32.3	30.8	6.6	5.4
Nacelles and Interior Systems	416.3	320.9	95.4	29.7	21.0	18.5
Electronic Systems	218.6	187.6	31.0	16.5	13.2	12.2
Segment Operating Income	$ 772.2	$ 613.5	$ 158.7	25.9	13.5	11.8

Actuation and Landing Systems: Actuation and Landing Systems segment sales for 2006 increased from 2005, primarily due to the following:

Higher large commercial airplane OE sales of approximately $73 million, primarily in our landing gear business unit;

Higher large commercial aftermarket sales of approximately $47 million, primarily in our actuation systems and landing gear business units; and

Higher defense and space OE and aftermarket sales of approximately $16 million, primarily in our landing gear and aircraft wheels and brakes business units.

Actuation and Landing Systems segment operating income for 2006 increased from 2005, primarily as a result of the following:

Higher sales volume, primarily in our landing gear business unit and higher pricing, primarily in our aircraft wheels and brakes business units, which resulted in higher income of approximately $22 million;

Lower research and development expenses of approximately $19 million, driven primarily by lower spending for the A380 actuation system;

The absence of a 2005 charge of approximately $16 million for the A380 actuation system for a retrofit of redesigned parts, including asset reserves for related obsolete inventory, supplier claims and impaired assets, which did not recur in 2006;

Lower costs of approximately $17 million related to productivity and supply chain savings in our actuation systems business unit; and

Lower costs of approximately $10 million related to lower premium freight, lower warranty costs and net cost savings from the 2006 workforce reduction in the landing gear business unit; partially offset by

Unfavorable foreign exchange impact of approximately $27 million; and

Increased operating costs of approximately $20 million, primarily from raw material price escalation in our landing gear business unit.

Nacelles and Interior Systems: Nacelles and Interior Systems segment sales for 2006 increased from 2005, primarily due to the following:

Higher large commercial, regional, business and general aviation airplane aftermarket sales, including spare parts and MRO volume of approximately $187 million, primarily in our aerostructures and interiors business units;

Higher large commercial airplane OE sales of approximately $100 million, primarily in our aerostructures business unit; and

Higher regional, business and general aviation airplane OE sales of approximately $43 million, primarily in our aerostructures business unit; partially offset by

Lower defense and space OE and aftermarket sales of approximately $67 million related to the completion of certain customer contracts in 2005 in our aerostructures business.

Nacelles and Interior Systems segment operating income for 2006 increased from 2005, primarily due to the following:

Higher sales volume which resulted in higher income of approximately $100 million;

Lower net charges for changes in estimates for certain long-term contracts of approximately $18 million, primarily at our aerostructures business unit;

The absence of a 2005 charge of $7.3 million related to the termination of a contract in 2005; and

Lower research and development expenses of approximately $4 million; partially offset by

Charges during 2006 of approximately $11 million for asset impairments, environmental expenses and a pension settlement charge, which did not occur in 2005; and

Unfavorable foreign exchange impact of approximately $4 million.

Electronic Systems: Electronic Systems segment sales for 2006 increased from 2005, primarily due to the following:

- Higher large commercial airplane OE and aftermarket sales of approximately $46 million in most of our business units;
- Higher defense and space OE and aftermarket sales of approximately $35 million primarily in our sensors and integrated systems and engine control and electrical power business units; and
- Higher regional, business and general aviation airplane OE sales of approximately $20 million in most of our business units.

Electronic Systems segment operating income for 2006 increased from 2005 primarily due to the following:

- Higher sales volume and favorable product mix which resulted in higher income of approximately $67 million; partially offset by
- Unfavorable foreign exchange impact of approximately $13 million; and
- Higher research and development expenses of approximately $6 million.

INTERNATIONAL OPERATIONS

We are engaged in business worldwide. Our significant international manufacturing and service facilities are located in Australia, Canada, China, England, France, Germany, India, Indonesia, Northern Ireland, Mexico, Poland, Scotland, Singapore and the United Arab Emirates. We market our products and services through sales subsidiaries and distributors in various countries. We also have international joint venture agreements.

Currency fluctuations, tariffs and similar import limitations, price controls and labor regulations can affect our foreign operations, including foreign affiliates. Other potential limitations on our foreign operations include expropriation, nationalization, restrictions on foreign investments or their transfers and additional political and economic risks. In addition, the transfer of funds from foreign operations could be impaired by the unavailability of dollar exchange or other restrictive regulations that foreign governments could enact.

Sales to non-U.S. customers were $3,146.7 million or 49% of total sales, $2,800.1 million or 49% of total sales and $2,494.6 million or 48% of total sales for 2007, 2006 and 2005, respectively.

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 share repurchase program, and also provide adequate financial flexibility.

Cash

At December 31, 2007, we had cash and cash equivalents of $406 million, as compared to $201.3 million at December 31, 2006.

Credit Facilities

We have the following amounts available under our credit facilities:

$500 million committed global revolving credit facility that expires in May 2012, of which $442.8 million was available as of December 31, 2007; and

$80.5 million of uncommitted domestic money market facilities and $176.2 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements, of which $230.8 million was available as of December 31, 2007.

Long-Term Financing

At December 31, 2007, we had long-term debt and capital lease obligations, including current maturities, of $1,725.8 million with maturities ranging from 2008 to 2046. Long-term debt includes $34.9 million borrowed under the committed revolving syndicated credit facility. Maturities of long-term debt occurring in the next two years include $162.2 million maturing in 2008 and $128 million maturing in 2009. We also maintain a shelf registration statement that allows us to issue up to $1.4 billion of debt securities, series preferred stock, common stock, stock purchase contracts and stock purchase units.

Off- Balance Sheet Arrangements

Lease Commitments

We finance certain of our office and manufacturing facilities as well as machinery and equipment, including corporate aircraft, under various committed lease arrangements provided by financial institutions.

Certain of these arrangements allow us to claim a deduction for tax depreciation on the assets, rather than the lessor, and allow us to lease aircraft and equipment having a maximum unamortized value of $150 million at December 31, 2007. These leases are priced at a spread over LIBOR and are extended periodically, unless notice is provided, through the end of the lease terms. At December 31, 2007, future payments under these leases total $11.7 million through the end of the lease terms. At December 31, 2007, we had guarantees of residual values on lease obligations of $24.8 million. We are obligated to either purchase or remarket the leased assets at the end of the lease term.

Future minimum lease payments under standard operating leases were $158.4 million at December 31, 2007.

Derivatives

The Company utilizes certain financial instruments to enhance its ability to manage risk, including foreign currency and interest rate exposures that exist as part of ongoing business operations as follows:

Foreign Currency Contracts Designated as Cash Flow Hedges: At December 31, 2007, our contracts had a notional amount of $1,796 million, fair value of $151.8 million and maturity dates ranging from January 2008 to December 2011. The amount of accumulated other comprehensive income that would be reclassified into earnings in the next 12 months was a gain of $74.6 million. During 2007 and 2006, we realized net gains of $75.6 million and $40.6 million respectively, related to contracts that settled.

Foreign Currency Contracts not Designated as Hedges: At December 31, 2007, our contracts, most of which mature on a monthly basis, had a notional amount of $248.5 million with maturity dates ranging from January 2008 to December 2011. During 2007, we realized a net gain of $7.7 million compared to a net gain of $6.6 million during 2006.

Interest Rate Swaps Designated as Fair Value Hedges: At December 31, 2007, our contracts had a notional amount of $193 million, a fair value of $2.1 million net gain and maturity dates ranging from April 2008 to July 2016.

Table of Contents

Contractual Obligations and Other Commercial Commitments

The following charts reflect our contractual obligations and commercial commitments as of December 31, 2007. Commercial commitments include lines of credit, guarantees and other potential cash outflows resulting from a contingent event that requires performance by us pursuant to a funding commitment.

	Total	2008	2009-2010	2011-2012	Thereafter
			(Dollars in millions)		
Contractual Obligations Payments Due by Period					
Short-Term and Long-Term Debt	$ 1,738.3	$ 184.1	$ 128.8	$ 293.5	$ 1,131.9
Capital Lease Obligations	15.5	1.4	2.5	2.1	9.5
Operating Leases	158.4	38.4	53.4	22.4	44.2
Purchase Obligations (1)	761.6	674.7	86.8	0.1	
Other Long-Term Obligations (2)	127.1	9.7	25.4	18.6	73.4
Total	$ 2,800.9	$ 908.3	$ 296.9	$ 336.7	$ 1,259.0
Other Commercial Commitments Amount of Commitments that Expire per Period					
Lines of Credit (3)	$	$	$	$	$
Standby Letters of Credit & Bank Guarantees	64.0	51.4	11.7	0.9	
Guarantees	31.4	6.0	0.5	24.8	0.1
Standby Repurchase Obligations					
Other Commercial Commitments	3.7	3.1	0.4	0.2	
Total	$ 99.1	$ 60.5	$ 12.6	$ 25.9	$ 0.1

(1) Purchase obligations include an estimated amount of agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities to be purchased, minimum or variable price provisions and the approximate timing of the purchase.

(2) Includes participation payments of approximately $119 million for aircraft component delivery programs which are to be paid over eleven years.

(3) As of December 31, 2007, we had in place a committed syndicated revolving credit facility which expires in May 2012 and permits borrowing up to a maximum of $500 million; $80.5 million of uncommitted domestic money market facilities; and $176.2 million of uncommitted and committed foreign working capital facilities. As of December 31, 2007, we had borrowing capacity under our committed syndicated revolving credit facility of $442.8 million. The amount borrowed under this facility at December 31, 2007 of $34.9 million is reflected in the short-term and long-term debt line above.

The table excludes our pension and other postretirement benefits obligations. We made worldwide pension contributions of $132.5 million and $113.5 million in 2007 and 2006, respectively. These contributions include both voluntary and required employer contributions, as well as pension benefits paid directly by us. Of these amounts, $76 million and $75 million were contributed voluntarily to the qualified U.S. pension plan in 2007 and 2006, respectively. We expect to make pension contributions of $50 million to $100 million to our worldwide pension plans during 2008. Our postretirement benefits other than pensions are not required to be funded in advance, so benefit payments, including medical costs and life insurance, are paid as they are incurred. We made postretirement benefit payments other than pension of $31 million and $32 million in 2007 and 2006, respectively. We expect to make net payments of approximately $36 million during 2008. See Note 14, Pensions and Postretirement Benefits of our Consolidated Financial Statements for a further discussion of our pension and postretirement other than pension plans.

The table also excludes our liability for unrecognized tax benefits, which totaled $209.2 million as of January 1, 2007 and $241.8 million as of December 31, 2007, 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 2007, 2006 and 2005:

Net Cash Provided by (Used in):	Year Ended December 31, 2007	2006	2005
	(Dollars in millions)		
Operating activities of continuing operations	$ 593.7	$ 265.5	$ 329.8
Investing activities of continuing operations	$ (279.3)	$ (250.6)	$ (273.8)
Financing activities of continuing operations	$ (202.5)	$ (90.4)	$ (138.9)
Discontinued operations	$ 90.1	$ 19.5	$ 41.3

Year Ended December 31, 2007 as Compared to December 31, 2006

Operating Activities of Continuing Operations

The increase in net cash provided by operating activities for 2007 as compared to 2006 consisted of the following:

- Cash flow from higher operating income of approximately $121 million;
- Tax payments in 2006 of approximately $110 million associated with the Rohr and Coltec tax settlements; and
- A cash payment in 2006 of $97.1 million relating to the termination of our accounts receivable securitization program.

Investing Activities of Continuing Operations

Net cash used by investing activities for 2007 and 2006 included capital expenditures of $282.6 million and $254.6 million, respectively.

Financing Activities of Continuing Operations

The increase in net cash used in financing activities for 2007 from 2006 primarily consisted of the following:

- Higher purchases of our common stock during 2007 as compared to 2006 of approximately $194 million, primarily in conjunction with our previously announced share repurchase program; partially offset by
- An increase of proceeds from the issuance of our common stock during 2007 as compared to 2006 of approximately $30 million, primarily from the exercises of share-based compensation awards; and

A 2006 payment of $20.6 for premiums related to the debt exchange.

On October 24, 2006, our Board of Directors approved a program that authorizes us to repurchase up to $300 million of our common stock. The primary purpose of the program is to reduce dilution to existing shareholders from our share-based compensation plans. No time limit was set for completion of the program. Repurchases under the program may be made through open market or privately negotiated transactions at times and in such amounts as we deem appropriate, subject to market conditions, regulatory requirements and other factors. As of December 31, 2007, we have purchased approximately 3.9 million shares for approximately $227 million at an average price of $57.81 per share.

On February 19, 2008, our Board of Directors approved an increase of $300 million to this share repurchase program. Our share repurchase program does not obligate us to repurchase any particular amount of common stock, and may be suspended or discontinued at any time without notice.

On October 23, 2007, our Board of Directors declared a quarterly dividend of $0.225 per share of common stock, payable January 2, 2008 to shareholders of record on December 3, 2007. This dividend declaration represents a 12.5% increase over the previous quarterly dividend of $0.20 per share of common stock.

Discontinued Operations

Net cash provided by discontinued operations of $90.1 million for 2007, primarily consisted of the net cash proceeds realized on the sale of ATS. Net cash provided by discontinued operations of $19.5 million in 2006, primarily consisted of cash flow provided by the operations of ATS and insurance settlements with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation.

Year Ended December 31, 2006 as Compared to December 31, 2005

Operating Activities of Continuing Operations

The decrease in net cash provided by operating activities for 2006 as compared to 2005 primarily consisted of the following:

A cash payment of $97.1 million relating to the termination of our accounts receivable securitization program;

Tax payments of approximately $110 million associated with the Rohr and Coltec tax settlements; and

Increased cash expenditures for investments in pre-production and excess-over-average inventory of approximately $87 million compared to 2005; partially offset by

Increased net income of approximately $110 million, adjusted to exclude certain non-cash items including income recognized from the Rohr and Coltec tax settlements, increased share-based compensation expense and increased amortization and depreciation; and

A decrease in pension contributions during 2006 as compared to 2005 of approximately $31 million.

Investing Activities of Continuing Operations

The decrease in net cash used in investing activities for 2006 as compared to 2005, primarily consisted of the following:

The absence of a 2005 payment of $60.9 million for the acquisition of Sensors Unlimited, Inc. and a payment of $8.8 million for the acquisition of the minority interest in one of our businesses; partially offset by,

An increase in capital expenditures of approximately $42 million during 2006 as compared to 2005.

Financing Activities of Continuing Operations

The decrease in net cash used in financing activities for 2006 as compared to 2005, primarily consisted of the following:

- The absence of the 2005 redemption of our remaining outstanding 6.45% notes in the aggregate principal amount of $182.1 million; partially offset by,
- A decline of approximately $42 million of proceeds from issuance of common stock during 2006 as compared to 2005;
- A 2006 payment of $20.6 million of premiums related to the debt exchange;
- Purchases of treasury stock during 2006 totaling $20.2 million, in conjunction with the repurchase program announced on October 24, 2006; and
- Repayments of short-term debt totaling $11.6 million during 2006 as compared to increased short-term debt of $20.2 million during 2005.

Discontinued Operations

Net cash provided by discontinued operations of $19.5 million in 2006, primarily consisted of cash flow provided by the operations of ATS and insurance settlements with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation. Net cash provided by discontinued operations in 2005 included after tax proceeds of $13.2 million from the sale of Test Systems and a settlement with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation.

CONTINGENCIES

General

There are pending or threatened against us or our subsidiaries various claims, lawsuits and administrative proceedings, arising in the ordinary course of business, 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.

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 Consolidated Balance Sheet includes an accrued liability for environmental remediation obligations of $69.6 million and $74.3 million at December 31, 2007 and 2006, respectively. At December 31, 2007 and 2006, $18.6 million and $17.7 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as accrued expenses. At December 31, 2007 and 2006, $29.4 million and $31 million, respectively, was associated with ongoing operations and $40.2 million and $43.3 million, respectively, was associated with previously owned businesses.

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

There has recently been an increase by certain states in the U.S. and countries globally to promulgate or propose regulations or legislation impacting the use of various chemical substances by all companies. We are currently evaluating the potential impact, if any, of 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 in a given period.

Insurance Coverage

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

Kemper Insurance (Kemper) provided the Company s pre-1976 primary layer of insurance coverage for third party claims. Kemper is currently operating under a run-off plan under the supervision of the Illinois Division of Insurance. On May 1, 2007, the Company commuted the

Kemper policies in return for a cash payment. The agreement with Kemper was approved by the State of Illinois.

In addition, a portion of our primary and excess layers of pre-1986 insurance coverage for third party claims was provided by certain insurance carriers who are either insolvent or undergoing solvent schemes of arrangement. We have entered into settlement agreements with a number of these insurers pursuant to which we agreed to give up our rights with respect to certain insurance policies in exchange for negotiated payments. These settlements represent negotiated payments for our loss of insurance coverage, as we no longer have insurance available for claims that may have qualified for coverage. 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 December 31, 2007 and 2006, the deferred settlement credit was approximately $54 million and $38 million, respectively, for which approximately $8 million and $3 million, respectively, was reported in accrued expenses and approximately $46 million and $35 million, respectively, was reported in other non-current liabilities. The proceeds from such insurance settlements were reported as a component of net cash provided by operating activities in the period payments were received.

Liabilities of Divested Businesses

Asbestos

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

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

Table of Contents

Other

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

Guarantees

At December 31, 2007, we had letters of credit and bank guarantees of $64 million and residual value guarantees of lease obligations of $24.8 million. See Note 13, Lease Commitments and Note 12, Financing Arrangements to our Consolidated Financial Statements.

Aerostructures Long-Term Contracts

Our aerostructures business in the Nacelles and Interior Systems segment has several long-term contracts in the pre-production phase including the Boeing 787 and Airbus A350 XWB, and in the early production phase including the Airbus A380. These contracts are accounted for in accordance with the provisions of the American Institute of Certified Public Accountants Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1).

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

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

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

- Ability to recover costs incurred for change orders and claims;
- Costs, including material and labor costs and related escalation;
- Labor improvements due to the learning curve experience;
- Anticipated cost productivity improvements related to new manufacturing methods and processes;
- Supplier pricing including escalation where applicable 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 and sales price escalation where applicable. There is a risk that there could be differences between the actual units delivered and the estimated total units to be delivered under the contract and differences in actual sales escalation compared to estimates. Changes in estimates could have a material impact on our results of operations and cash flows.

Table of Contents

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

Tax

We are continuously undergoing examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by us on our income tax returns.

During 2007, we reached agreement with the IRS on substantially all of the issues raised with respect to the examination of taxable years 2000-2004 and recorded a tax benefit, resulting primarily from the reversal of related tax reserves of approximately $15.7 million. We submitted a protest to the Appeals Division of the IRS with respect to the remaining unresolved issues. We believe the amount of the estimated tax liability if the IRS were to prevail is fully reserved. We cannot predict the timing or ultimate outcome of a final resolution of the remaining unresolved issues.

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

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

We previously reached final settlement with the IRS on all but one of the issues raised in this examination cycle. We received statutory notices of deficiency dated June 14, 2007 related to the remaining unresolved issue which involves the proper timing of certain deductions. We filed a petition with the U.S. Tax Court in September 2007 to contest the notices of deficiency. We believe the amount of the estimated tax liability if the IRS were to prevail is fully reserved. We cannot predict the timing or ultimate outcome of this matter.

Rohr has been under examination by the State of California for the tax years ended July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr s subsidiaries in connection with the lease of certain tangible property. California s Franchise Tax Board held that the deductions associated with the leased equipment were non-business deductions. The additional tax associated with the Franchise Tax Board s position is approximately $4.5 million. The amount of accrued interest associated with the additional tax is approximately $23 million as of December 31, 2007. In addition, the State of California enacted an amnesty provision that imposes nondeductible penalty interest equal to 50% of the unpaid interest amounts relating to taxable years ended before 2003. The penalty interest is approximately $11 million as of December 31, 2007. The tax and interest amounts continue to be contested by Rohr. We believe that we are adequately reserved for this contingency. During 2005, Rohr made payments of approximately $3.9 million ($0.6 million for tax and $3.3 million for interest) related to items that were not being contested and approximately $4.5 million related to items that are being contested. No payment has been made for the $23 million of interest or $11 million of penalty interest. Under California law, Rohr could be required to pay the full amount of interest prior to filing any suit for refund. In late December 2007, the trial court ruled that Rohr is not required to pay the interest and its suit for refund could proceed. The California Franchise Tax Board has appealed the decision and if the lower court is reversed, Rohr would be required to make this payment in order to continue seeking a refund.

Table of Contents

NEW ACCOUNTING STANDARDS NOT YET ADOPTED

The following accounting standards are not yet adopted:

Statement of Financial Accounting Standards No. 141(R), Business Combinations .

Statement of Financial Accounting Standards No. 160 Accounting and Reporting of Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 .

Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115 .

Statement of Financial Accounting Standards No. 157, Fair Value Measurements .

Emerging Issues Tax Force No. 06-11 Accounting for the Income Tax Benefits of Dividends on Share-Based Payments Awards .

Emerging Issues Task Force No. 06-4, Accounting for Deferred Compensation and Postretirement Benefits Associated with Endorsement Split-Dollar Life Insurance Arrangements .

Emerging Issues Task Force Issue No. 06-10, Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements.

See Note 2, New Accounting Standards Not Yet Adopted to our Consolidated Financial Statements.

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

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

Contract Accounting-Percentage of Completion

Revenue Recognition

We have sales under long-term contracts, many of which contain escalation clauses, requiring delivery of products over several years and frequently providing the buyer with option pricing on follow-on orders. Sales and profits on each contract are recognized in accordance with the percentage-of-completion method of accounting, primarily using the units-of-delivery method. We follow the requirements of SOP 81-1, using the cumulative catch-up method in accounting for revisions in estimates. Under the cumulative catch-up method, the impact of revisions in estimates related to units shipped to date is recognized immediately when changes in estimated contract profitability are known.

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 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 recognized, thus reducing inventory to estimated realizable value.

Income Taxes

In accordance with SFAS 109, Accounting Principles Board Opinion No. 28, Interim Financial Reporting and FASB Interpretation No. 18, Accounting for Income Taxes in Interim Periods, as of each interim reporting period, we estimate an effective income tax rate that is expected to be applicable for the full fiscal year. In addition, we establish reserves for tax contingencies in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). The estimate of our effective income tax rate involves significant judgments regarding the application of complex tax regulations across many jurisdictions and estimates as to the amount and jurisdictional source of income expected to be earned during the full fiscal year. Further influencing this estimate are evolving interpretations of new and existing tax laws, rulings by taxing authorities and court decisions. Due to the subjective and complex nature of these underlying issues, our actual effective tax rate and related tax liabilities may differ from our initial estimates. Differences between our estimated and actual effective income tax rates and related liabilities are recorded in the period they become known. The resulting adjustment to our income tax expense could have a material effect on our results of operations in the period the adjustment is recorded.

Goodwill and Identifiable Intangible Assets

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

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

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

Other Assets

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

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

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. 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 2007, 2006 or 2005. See Note 16, Supplemental Balance Sheet Information to our Consolidated Financial Statements.

Entry Fees

Certain businesses in our Nacelles and Interior Systems and Electronic Systems segments make cash payments to an OEM under long-term contractual arrangements related to new engine programs. The payments are referred to as entry fees and entitle us to a controlled access supply contract and a percentage of total program revenue generated by the OEM. Entry fees are capitalized in other assets and are amortized on a straight-line basis as a reduction to sales, as appropriate. The carrying amount of entry fees is evaluated for recovery at least annually or when other significant assumptions or economic conditions change. Recovery of entry fees is assessed based on the expected cash flow from the program over the remaining program life as compared to the recorded amount of entry fees. If the carrying value of the entry fees exceeds the cash flow to be generated from the program, a charge would be recorded to reduce the entry fees to their recoverable amounts. No such impairment charges were recorded in 2007, 2006 or 2005. See Note 16, Supplemental Balance Sheet Information to our Consolidated Financial Statements.

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. 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 2007, 2006 or 2005. See Note 16, Supplemental Balance Sheet Information to our Consolidated Financial Statements.

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. 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 2007, 2006 or 2005. See Note 16, Supplemental Balance Sheet Information to our Consolidated Financial Statements.

Table of Contents

Service and Product Warranties

We provide service and warranty policies on certain of our products. We accrue liabilities under service and warranty policies based upon specific claims and a review of historical warranty and service claim experience in accordance with Statement of Financial Accounting Standards No 5, Accounting for Contingencies . Adjustments are made to accruals as claim data and historical experience change. In addition, we incur discretionary costs to service our products in connection with product performance issues.

Our service and product warranty reserves are based upon a variety of factors. Any significant change in these factors could have a material impact on our results of operations. Such factors include but are not limited to the following:

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

The mix and volumes of products being sold; and

The impact of product changes.

Share-Based Compensation

Method of Accounting

On January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Accounting for Share-Based Compensation (SFAS 123(R)), under the modified prospective method. Our adoption did not significantly impact our financial position or our results of operations. We utilize the fair value method of accounting to account for share-based compensation awards.

Assumptions

Stock Options

Our Black-Scholes-Merton formula estimates the expected value 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 include:

	2007	2006	2005
Risk-free interest rate %	4.5	4.3	4.0
Expected dividend yield %	1.7	2.0	2.6
Historical volatility factor %	34.6	36.1	40.6
Weighted-average expected life of the options (years)	5.5	5.5	7.0

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 2007, 2006, and 2005 was $46.20, $40.49 and $32.46 per unit, respectively.

Table of Contents

Performance Units

The value of each award is determined based upon the average of the high and low fair value of our stock, as adjusted for either a performance condition or a market condition. The performance condition is applied to one-half 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 the other half of the awards and is based on our relative total shareholder return (RTSR) as compared to the RTSR of a peer group of companies. Performance share units awarded to our senior management are paid in cash. Since the awards will be paid in cash, they are recorded as a liability award in accordance with SFAS 123(R) and are marked to market each reporting period. As such, assumptions are revalued for each award on an ongoing basis.

Pension and Postretirement Benefits Other Than Pensions

We consult with an outside actuary as to the appropriateness for many of the assumptions used in determining the benefit obligations and the annual expense for our pension and postretirement benefits other than pensions. Assumptions such as the rate of compensation increase and the long-term rate of return on plan assets are based upon our historical and benchmark data, as well as our outlook for the future. Health care cost projections and the mortality rate assumption are evaluated annually. The U.S. discount rate was determined based on a customized yield curve approach. Our projected pension and postretirement benefit payment cash flows were each plotted against a yield curve composed of a large, diverse group of Aa-rated corporate bonds. The resulting discount rate was used to determine the benefit obligations as of December 31, 2007. This same approach was used to determine U.S. discount rates to remeasure plan obligations on September 21, 2007, in connection with our definitive agreement to divest ATS. 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.

Sensitivity Analysis

The table below quantifies the approximate impact of a one-quarter percentage point change in the assumed discount rate and expected long-term rate of return on plan assets for our pension plan cost and liability, holding all other assumptions constant. The discount rate assumption is selected each year based on market conditions in effect as of the disclosure date. The rate selected is used to measure liabilities as of the disclosure date and for calculating the following year s pension expense. The expected long-term rate of return on plan assets assumption, although reviewed each year, is changed less frequently due to the long-term nature of the assumption. This assumption does not impact the measurement of assets or liabilities as of disclosure date; rather, it is used only in the calculation of pension expense.

	.25 Percentage Point Increase	.25 Percentage Point Decrease
	(Dollars in millions)	
Increase (decrease) in annual costs		
Discount rate	$ (13.2)	$ 13.5
Expected long-term rate of return	$ (7.8)	$ 7.8
Increase (decrease) in projected benefit obligation		
Discount rate	$ (122.5)	$ 127.5

Table of Contents

The table below quantifies the impact of a one-percentage point change in the assumed health care cost trend rate on our annual cost and balance sheet liability for postretirement benefits other than pension obligations holding all other assumptions constant.

	One Percentage Point Increase	One Percentage Point Decrease
	(Dollars in millions)	
Increase (decrease) in total of service and interest cost components		
Health care cost trend rate	$ 1.7	$ (1.5)
Increase (decrease) in accumulated postretirement benefit obligation		
Health care cost trend rate	$27.1	$(23.8)

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, the Embraer 190, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and F-22 Raptor;
- our ability to extend our commercial 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 and the Airbus A380 aircraft programs;
- the financial viability of key suppliers and the ability of our suppliers to perform under existing contracts;
- successful development of products and advanced technologies;
- the health of the commercial aerospace industry, including the impact of bankruptcies and/or consolidations in the airline industry;
- global demand for aircraft spare parts and aftermarket services;
- changing priorities or reductions in the defense budgets in the U.S. and other countries, U.S. foreign policy and the level of activity in military flight operations;
- the possibility of restructuring and consolidation actions;

threats and events associated with and efforts to combat terrorism;

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

competitive product and pricing pressures;

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

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

the effect of changes in accounting policies or tax legislation;

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

domestic and foreign government spending, budgetary and trade policies;

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

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

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

Item 7A. *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 18, Derivatives and Hedging Activities in our Consolidated Financial Statements for a description of current developments involving our hedging activities.

We are exposed to interest rate risk as a result of our outstanding variable rate debt obligations and interest rate swaps. The table below provides information about our financial instruments that are sensitive to changes in interest rates. At December 31, 2007, a hypothetical 100 basis point unfavorable change in interest rates would increase annual interest expense by approximately $3 million.

We enter into interest rate swaps to increase our exposure to variable interest rates. We have the following interest rate swaps outstanding as of December 31, 2007:

A $43 million fixed-to-floating interest rate swap on the 6.45% notes due in 2008;

Two $50 million fixed-to-floating interest rate swaps on the 7.5% notes due in 2008; and

A $50 million fixed-to-floating interest rate swap on the 6.29% notes due in 2016.

Table of Contents

The table represents principal cash flows and related weighted average interest rates by expected (contractual) maturity dates. Also included is information about our interest rate swaps.

Expected Maturity Dates

Debt	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
					(Dollars in millions)			
Debt								
Fixed Rate	$ 162.2	$ 128.0	$ 0.8	$ 0.8	$ 257.8	$ 1,115.4	$ 1,665.0	$ 1,775.2
Average Interest Rate	7.2%	6.6%	5.2%	5.2%	7.6%	6.8%	7.0%	
Variable Rate	$ 21.9				$ 34.9	$ 16.5	$ 73.3	$ 73.3
Average Interest Rate	5.0%				5.1%	5.0%	5.1%	
Capital Lease Obligations	$ 1.4	$ 1.3	$ 1.2	$ 1.1	$ 1.0	$ 9.5	$ 15.5	$ 9.5
Swaps Fixed to Variable-Notional Value	$ 143.0					$ 50.0	$ 193.0	$ 2.1 Gain
Average Pay Rate	9.0%					6.3%	8.3%	
Average Receive Rate	7.2%					6.3%	7.0%	

Foreign Currency Exposure

We are exposed to foreign currency risks that arise from normal business operations. These risks include transactions denominated in foreign currencies, the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency and translation of income and expense and balance sheet amounts of our foreign subsidiaries to the U.S. Dollar. Our objective is to minimize our exposure to transaction and income risks through our normal operating activities and, where appropriate, through foreign currency forward exchange contracts.

Foreign exchange negatively impacted our business segments financial results in 2007. Approximately 8% of our revenues and approximately 25% of our costs are denominated in currencies other than the U.S. Dollar. Over 90% of these net costs are in Euros, Great Britain Pounds Sterling and Canadian Dollars. We hedge a portion of our exposure of U.S. Dollar sales on an ongoing basis.

As currency exchange rates fluctuate, translation of the statements of income of international businesses into U.S. Dollars will affect comparability of revenues and expenses between years.

We have entered into foreign exchange forward contracts to sell U.S. Dollars for Great Britain Pounds Sterling, Canadian Dollars, Euros and Polish Zlotys. These forward contracts are used to mitigate a portion of the potential volatility of earnings and cash flows arising from changes in currency exchange rates. As of December 31, 2007 we had the following forward contracts:

Currency	**Notional Amount (Dollars in millions)**		**Buy/Sell**
Great Britain Pounds Sterling	$	774.7	Buy
Canadian Dollars	$	453.6	Buy
Euros	$	507.7	Buy
Polish Zlotys	$	60.0	Buy

These forward contracts mature on a monthly basis with maturity dates that range from January 2008 to December 2011.

Table of Contents

At December 31, 2007, a hypothetical 10% strengthening of the U.S. Dollar against other foreign currencies would decrease the value of the forward contracts described above by $190.3 million. The fair value of these forward contracts was $151.8 million at December 31, 2007. Because we hedge only a portion of our exposure, a strengthening of the U.S. Dollar as described above would have a more than offsetting benefit to our financial results in future periods.

In addition to the foreign exchange cash flow hedges, we have entered into foreign exchange forward contracts to manage 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. As of December 31, 2007, we had the following forward contracts:

Currency	**Notional Amount (Dollars in millions)**		**Buy/Sell**
Great Britain Pounds Sterling	$	94.6	Buy
Great Britain Pounds Sterling	$	22.8	Sell
Euros	$	112.1	Buy
Canadian Dollars	$	19.0	Buy

52

Item 8. ***Financial Statements***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Goodrich Corporation (Goodrich) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Goodrich s internal control system over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate because of changes in condition, or that the degree of compliance with the policies or procedures may deteriorate.

Goodrich s management assessed the effectiveness of Goodrich s internal control over financial reporting as of December 31, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control Integrated Framework. Based on management s assessment and those criteria, management believes that Goodrich maintained effective internal control over financial reporting as of December 31, 2007.

Goodrich s independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the effectiveness of Goodrich s internal control over financial reporting. This report appears on page 56.

/s/ Marshall O. Larsen

Marshall O. Larsen
Chairman, President and
Chief Executive Officer

/s/ Scott E. Kuechle

Scott E. Kuechle
Executive Vice President and
Chief Financial Officer

/s/ Scott A. Cottrill

Scott A. Cottrill
Vice President and Controller
(Principal Accounting Officer)

February 18, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Goodrich Corporation

We have audited the accompanying consolidated balance sheet of Goodrich Corporation as of December 31, 2007 and 2006, and the related consolidated statements of income, cash flows, and shareholders equity for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodrich Corporation at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in Notes 14 and 22 to the consolidated financial statements, in 2006 the Company adopted Statement of Financial Accounting Standards No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, and Statement of Financial Accounting Standards No. 123(R), Share-Based Payment. As discussed in Note 15 to the consolidated financial statements, in 2007 the Company adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Goodrich Corporation s internal control over financial reporting as of December 31, 2007 based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 18, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
February 18, 2008

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of Goodrich Corporation

We have audited Goodrich Corporation s Internal Control Over Financial Reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Goodrich Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assess risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Goodrich Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007 and 2006 and the related consolidated statements of income, cash flows and shareholders equity for each of the three years in the period ended December 31, 2007 of Goodrich Corporation and our report dated February 18, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina

February 18, 2008

CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31, 2007	2006	2005
	(Dollars in millions, except per share amounts)		
Sales	$ 6,392.2	$ 5,719.1	$ 5,202.6
Operating costs and expenses:			
Cost of sales	4,483.3	4,143.4	3,783.9
Selling and administrative costs	1,027.6	935.9	893.6
	5,510.9	5,079.3	4,677.5
Operating Income	881.3	639.8	525.1
Interest expense	(124.9)	(126.0)	(130.9)
Interest income	9.2	5.0	5.1
Other income (expense) net	(48.7)	(62.0)	(44.4)
Income from continuing operations before income taxes	716.9	456.8	354.9
Income tax benefit (expense)	(220.9)	21.2	(116.4)
Income From Continuing Operations	496.0	478.0	238.5
Income (loss) from discontinued operations net of income taxes	(13.4)	3.5	25.1
Cumulative effect of change in accounting		0.6	
Net Income	$ 482.6	$ 482.1	$ 263.6
Basic Earnings Per Share			
Continuing operations	$ 3.96	$ 3.84	$ 1.96
Discontinued operations	(0.10)	0.03	0.21
Cumulative effect of change in accounting		0.01	
Net Income	$ 3.86	$ 3.88	$ 2.17
Diluted Earnings Per Share			
Continuing operations	$ 3.88	$ 3.78	$ 1.92
Discontinued operations	(0.10)	0.02	0.21
Cumulative effect of change in accounting		0.01	
Net Income	$ 3.78	$ 3.81	$ 2.13

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEET

	December 31, 2007	December 31, 2006
	(Dollars in millions, except share amounts)	
Current Assets		
Cash and cash equivalents	$ 406.0	$ 201.3
Accounts and notes receivable net	1,006.2	897.6
Inventories net	1,775.6	1,520.1
Deferred income taxes	178.2	247.3
Prepaid expenses and other assets	108.4	91.1
Assets of discontinued operations		124.8
Income taxes receivable	74.4	
Total Current Assets	3,548.8	3,082.2
Property, plant and equipment net	1,387.4	1,256.0
Prepaid pension	16.1	2.3
Goodwill	1,363.2	1,341.3
Identifiable intangible assets net	452.1	472.0
Deferred income taxes	11.1	35.5
Other assets	755.3	711.9
Total Assets	$ 7,534.0	$ 6,901.2
Current Liabilities		
Short-term debt	$ 21.9	$ 11.8
Accounts payable	586.7	576.7
Accrued expenses	930.8	798.7
Income taxes payable	10.6	212.5
Deferred income taxes	29.7	3.3
Current maturities of long-term debt and capital lease obligations	162.9	1.4
Liabilities of discontinued operations		29.7
Total Current Liabilities	1,742.6	1,634.1
Long-term debt and capital lease obligations	1,562.9	1,721.7
Pension obligations	417.8	612.1
Postretirement benefits other than pensions	358.9	379.1
Long-term income taxes payable	146.0	
Deferred income taxes	170.2	55.8
Other non-current liabilities	556.2	521.7
Commitments and contingent liabilities		
Shareholders Equity		

Common stock $5 par value		
Authorized 200,000,000 shares; issued 142,372,162 shares at December 31, 2007 and 139,041,884 shares at December 31, 2006 (excluding 14,000,000 shares held by a wholly owned subsidiary)	711.9	695.2
Additional paid-in capital	1,453.1	1,313.3
Income retained in the business	1,054.8	666.5
Accumulated other comprehensive income (loss)	14.4	(260.8)
Common stock held in treasury, at cost (17,761,696 shares at December 31, 2007 and 14,090,913 shares at December 31, 2006)	(654.8)	(437.5)
Total Shareholders Equity	2,579.4	1,976.7
Total Liabilities And Shareholders Equity	$ 7,534.0	$ 6,901.2

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,		
	2007	2006	2005
	(Dollars in millions)		
Operating Activities			
Net income	$ 482.6	$ 482.1	$ 263.6
Adjustments to reconcile net income to net cash provided by operating activities:			
Loss (income) from discontinued operations	13.4	(3.5)	(25.1)
Cumulative effect of change in accounting		(0.6)	
Restructuring and consolidation:			
Expenses	1.0	4.3	16.8
Payments	(4.4)	(6.6)	(15.0)
Pension and postretirement benefits:			
Expenses	116.3	126.7	120.6
Contributions and benefit payments	(163.7)	(145.5)	(180.2)
Asset impairments	1.8	3.6	
Depreciation and amortization	250.2	233.8	220.3
Excess tax benefits related to share-based payment arrangements	(16.6)	(5.0)	
Share-based compensation expense	70.0	56.2	32.9
Loss on exchange and extinguishment of debt		2.0	9.6
Deferred income taxes	137.8	(67.7)	57.2
Change in assets and liabilities, net of effects of acquisitions and divestitures:			
Receivables	(81.4)	(97.5)	(106.5)
Change in receivables sold, net		(97.1)	24.8
Inventories, net of pre-production and excess-over-average	(89.2)	(91.6)	(137.7)
Pre-production and excess-over-average inventories	(116.3)	(122.5)	(36.0)
Other current assets	5.7	(5.9)	(5.4)
Accounts payable	(10.5)	37.6	45.3
Accrued expenses	95.0	20.7	40.5
Income taxes payable/receivable	(84.5)	(50.8)	3.5
Other non-current assets and liabilities	(13.5)	(7.2)	0.6
Net Cash Provided By Operating Activities	593.7	265.5	329.8
Investing Activities			
Purchases of property, plant and equipment	(282.6)	(254.6)	(212.7)
Proceeds from sale of property, plant and equipment	3.3	4.0	5.9
Payments made in connection with acquisitions, net of cash acquired			(67.0)
Net Cash Used In Investing Activities	(279.3)	(250.6)	(273.8)
Financing Activities			
Increase (decrease) in short-term debt, net	9.2	(11.6)	20.2

Loss on exchange or extinguishment of debt		(4.5)	(10.9)
Proceeds from issuance of long-term debt		512.7	34.9
Repayment of long-term debt and capital lease obligations	(1.4)	(534.5)	(180.3)
Proceeds from issuance of common stock	95.9	66.1	107.7
Purchases of treasury stock	(214.6)	(20.2)	(1.2)
Dividends paid	(101.2)	(100.5)	(97.3)
Excess tax benefits related to share-based payment arrangements	16.6	5.0	
Distributions to minority interest holders	(7.0)	(2.9)	(12.0)
Net Cash Used In Financing Activities	(202.5)	(90.4)	(138.9)
Discontinued Operations			
Net cash provided by operating activities	1.3	21.7	13.9
Net cash provided by (used in) investing activities	88.8	(2.2)	27.6
Net cash used in financing activities			(0.2)
Net cash provided by discontinued operations	90.1	19.5	41.3
Effect of exchange rate changes on cash and cash equivalents	2.7	6.0	(5.0)
Net increase (decrease) in cash and cash equivalents	204.7	(50.0)	(46.6)
Cash and cash equivalents at beginning of period	201.3	251.3	297.9
Cash and cash equivalents at end of period	$ 406.0	$ 201.3	$ 251.3

See Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

	Common Stock		Additional Paid-In	Income Retained In The	Accumulated Other Comprehensive Income	Treasury	
	Shares	Amount	Capital	Business	(Loss)	Stock	Total
	(In thousands)			(Dollars in millions)			
Balance December 31, 2004	132,709	$ 663.5	$ 1,077.9	$ 119.5	$ (103.7)	$ (414.3)	$ 1,342.9
Net income				263.6			263.6
Other comprehensive income (loss):							
Translation adjustments					(77.5)		(77.5)
Minimum pension liability adjustment					(36.0)		(36.0)
Unrealized loss on cash flow hedges					(65.8)		(65.8)
Total comprehensive income (loss)							84.3
Employee award programs	4,018	20.1	89.1			(2.2)	107.0
Share-based compensation			21.5				21.5
Tax benefit from employees share-based compensation programs			14.8				14.8
Dividends declared (per share $0.80)				(97.5)			(97.5)
Balance December 31, 2005	136,727	$ 683.6	$ 1,203.3	$ 285.6	$ (283.0)	$ (416.5)	$ 1,473.0
Net income				482.1			482.1
Other comprehensive income (loss):							
Translation adjustments					113.2		113.2
Minimum pension liability adjustment					56.8		56.8
Unrealized loss on cash flow hedges					48.5		48.5
Total comprehensive income (loss)							