

GOODRICH CORP
Form 10-Q
August 03, 2006

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

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

For The Quarterly Period Ended June 30, 2006

OR

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

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

GOODRICH CORPORATION

(Exact name of registrant as specified in its charter)

New York

(State of incorporation)

34-0252680

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

Four Coliseum Centre

2730 West Tyvola Road

Charlotte, North Carolina

(Address of principal executive offices)

28217

(Zip Code)

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of June 30, 2006, there were 124,717,032 shares of common stock outstanding (excluding 14,000,000 shares held by a wholly owned subsidiary). There is only one class of common stock.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Goodrich Corporation

We have reviewed the condensed consolidated balance sheet of Goodrich Corporation as of June 30, 2006, and the related condensed consolidated statement of income for the three month and six month periods ended June 30, 2006 and 2005, and the condensed consolidated statement of cash flows for the six month periods ended June 30, 2006 and 2005. These financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Goodrich Corporation as of December 31, 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended, not presented herein; and in our report dated February 20, 2006, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2005, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Charlotte, North Carolina
August 2, 2006

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006 (Dollars in millions, except per share amounts)	2005 (Dollars in millions, except per share amounts)	2006 (Dollars in millions, except per share amounts)	2005 (Dollars in millions, except per share amounts)
Sales	\$ 1,483.2	\$ 1,352.7	\$ 2,907.0	\$ 2,628.2
Operating costs and expenses:				
Cost of sales	1,088.0	990.5	2,131.9	1,920.2
Selling and administrative costs	227.3	226.1	464.5	441.8
	1,315.3	1,216.6	2,596.4	2,362.0
Operating Income	167.9	136.1	310.6	266.2
Interest expense	(31.3)	(33.0)	(63.3)	(66.9)
Interest income	1.1	1.0	2.2	1.9
Other income (expense) net	(20.9)	(14.3)	(31.5)	(24.4)
Income from continuing operations before income taxes	116.8	89.8	218.0	176.8
Income tax benefit (expense)	(35.7)	(27.4)	63.4	(57.6)
Income From Continuing Operations	81.1	62.4	281.4	119.2
Income (loss) from discontinued operations net of income taxes	(0.1)	13.3	0.5	14.0
Cumulative effect of change in accounting			0.6	
Net Income	\$ 81.0	\$ 75.7	\$ 282.5	\$ 133.2
Basic Earnings Per Share:				
Continuing operations	\$ 0.65	\$ 0.52	\$ 2.27	\$ 0.99
Discontinued operations		0.11		0.12
Cumulative effect of change in accounting			0.01	
Net Income	\$ 0.65	\$ 0.63	\$ 2.28	\$ 1.11
Diluted Earnings Per Share:				
Continuing operations	\$ 0.64	\$ 0.51	\$ 2.23	\$ 0.97
Discontinued operations		0.10		0.11
Cumulative effect of change in accounting			0.01	
Net Income	\$ 0.64	\$ 0.61	\$ 2.24	\$ 1.08
Dividends Declared Per Common Share	\$ 0.20	\$ 0.20	\$ 0.40	\$ 0.40

See Notes to Condensed Consolidated Financial Statements (Unaudited)

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

	June 30, 2006	December 31, 2005
	(Dollars in millions, except share amounts)	
Current Assets		
Cash and cash equivalents	\$ 208.4	\$ 251.3
Accounts and notes receivable, less allowances for doubtful receivables (\$20.1 at June 30, 2006 and \$23.5 at December 31, 2005)	932.5	709.2
Inventories net	1,485.8	1,308.4
Deferred income taxes	108.6	101.3
Prepaid expenses and other assets	73.0	55.2
Total Current Assets	2,808.3	2,425.4
Property, plant and equipment net	1,255.7	1,194.3
Prepaid pension	295.0	337.8
Goodwill	1,333.2	1,318.4
Identifiable intangible assets net	468.5	462.3
Deferred income taxes	49.0	42.8
Other assets	709.3	673.0
Total Assets	\$ 6,919.0	\$ 6,454.0
Current Liabilities		
Short-term debt	\$ 31.0	\$ 22.3
Accounts payable	601.3	534.1
Accrued expenses	758.1	764.9
Income taxes payable	227.9	284.4
Deferred income taxes	7.2	7.2
Current maturities of long-term debt and capital lease obligations	1.4	1.7
Total Current Liabilities	1,626.9	1,614.6
Long-term debt and capital lease obligations	1,719.6	1,742.1
Pension obligations	693.7	844.2
Postretirement benefits other than pensions	290.5	300.0
Deferred income taxes	128.1	42.1
Other non-current liabilities	443.7	438.0
Commitments and contingent liabilities		
Shareholders Equity		
Common stock \$5 par value		
Authorized 200,000,000 shares; issued 138,389,981 shares at June 30, 2006 and 136,727,436 shares at December 31, 2005 (excluding 14,000,000 shares held by a wholly owned subsidiary)	692.0	683.6
Additional paid-in capital	1,273.5	1,203.3
Income retained in the business	517.6	285.6

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Accumulated other comprehensive income (loss)	(47.8)	(283.0)
Common stock held in treasury, at cost (13,672,949 shares at June 30, 2006 and 13,621,128 shares at December 31, 2005)	(418.8)	(416.5)
Total Shareholders Equity	2,016.5	1,473.0
Total Liabilities And Shareholders Equity	\$ 6,919.0	\$ 6,454.0

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

	Six Months Ended June	
	30,	
	2006	2005
	(Dollars in millions)	
Operating Activities		
Net income	\$ 282.5	\$ 133.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(0.5)	(14.0)
Cumulative effect of change in accounting	(0.6)	
Restructuring and consolidation:		
Expenses	3.6	3.7
Payments	(3.6)	(5.8)
Asset impairments	0.9	
Depreciation and amortization	117.6	112.2
Excess tax benefits on equity instruments issued under share-based payment arrangements	(4.0)	
Share-based compensation expense	28.7	19.2
Loss on exchange or extinguishment of debt	1.0	5.7
Deferred income taxes	(19.4)	(25.3)
Change in assets and liabilities, net of effects of acquisitions and dispositions of businesses:		
Receivables	(134.3)	(136.2)
Change in receivables sold, net	(97.1)	28.8
Inventories	(152.8)	(111.5)
Other current assets	11.9	10.5
Accounts payable	64.7	29.9
Accrued expenses	(17.7)	(27.9)
Income taxes payable	(38.3)	60.3
Realized tax benefit on non-qualified options		8.8
Other non-current assets and liabilities	12.3	15.8
Net Cash Provided By Operating Activities	54.9	107.4
Investing Activities		
Purchases of property, plant and equipment	(95.1)	(66.4)
Proceeds from sale of property, plant and equipment	1.4	5.3
Payments received (payments made) in connection with acquisitions, net of cash acquired		(9.3)
Net Cash Used In Investing Activities	(93.7)	(70.4)
Financing Activities		
Increase (decrease) in short-term debt, net	8.0	(1.0)
Loss on exchange or extinguishment of debt	(3.5)	(5.2)
Proceeds from issuance of long-term debt, net of premiums paid of \$20.5 million in 2006	512.8	
Repayment of long-term debt and capital lease obligations	(534.0)	(100.9)

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Proceeds from issuance of common stock	46.1	51.3
Purchases of treasury stock	(1.9)	(0.6)
Dividends	(49.8)	(47.9)
Excess tax benefits on equity instruments issued under share-based payment arrangements	4.0	
Distributions to minority interest holders	(1.9)	(2.4)
Net Cash Used In Financing Activities	(20.2)	(106.7)
Discontinued Operations (revised see Note 1)		
Net cash provided by (used in) operating activities	11.2	0.4
Net cash provided by (used in) investing activities		26.8
Net cash provided by (used in) financing activities		
Net cash provided by discontinued operations	11.2	27.2
Effect of exchange rate changes on cash and cash equivalents	4.9	(4.1)
Net decrease in cash and cash equivalents	(42.9)	(46.6)
Cash and cash equivalents at beginning of year	251.3	297.9
Cash and cash equivalents at end of period	\$ 208.4	\$ 251.3

See Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Basis of Interim Financial Statement Preparation

The accompanying Unaudited Condensed Consolidated Financial Statements of Goodrich Corporation and its subsidiaries have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. Unless indicated otherwise or the context requires, the terms we, our, us, Goodrich or Company refer to Goodrich Corporation and its subsidiaries. The Company believes that all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in prior year financial statements have been reclassified to conform to the current year presentation. The Company has separately disclosed the operating, investing and financing portions of the cash flows attributable to its discontinued operations, which in prior periods were reported on a combined basis as a single amount. Operating results for the three months and six months ended June 30, 2006 are not necessarily indicative of the results that may be achieved for the twelve months ending December 31, 2006. For further information, refer to the consolidated financial statements and footnotes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. Unless otherwise noted, disclosures pertain to the Company's continuing operations.

Note 2. New Accounting Standards

Accounting for Certain Hybrid Financial Instruments

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155, Accounting for Certain Hybrid Financial Instruments (SFAS 155), which amends Statement of Financial Accounting Standards No. 133 and Statement of Financial Accounting Standards No. 140, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and simplifies the accounting for those instruments. SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company has not issued or acquired any hybrid instruments included in the scope of SFAS 155 and does not expect the adoption of SFAS 155 to have a material impact on the Company's financial condition, results of operations or cash flows.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140 (SFAS 156). SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. The Company does not expect the adoption of SFAS 156 to have a material impact on the Company's financial condition, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 creates a single model for accounting and disclosure of uncertain tax positions. This interpretation prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Additionally, FIN 48 provides guidance on derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of the adoption of FIN 48 on the Company's financial condition, results of operations and cash flows.

Note 3. Restructuring and Consolidation Costs

The Company incurred \$3.6 million and \$3.7 million of restructuring and consolidation costs during the six months ended June 30, 2006 and 2005, respectively. The charges in 2006 primarily relate to restructuring actions initiated during 2005 to downsize a foreign facility.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)		(Dollars in millions)	
Engine Systems	\$ 1.4	\$ 0.2	\$ 1.6	\$ 0.4
Airframe Systems		0.2	0.4	2.4
Electronic Systems	0.7	0.1	1.6	0.9
	\$ 2.1	\$ 0.5	\$ 3.6	\$ 3.7
Personnel-related costs	\$ 1.9	\$ 0.2	\$ 2.6	\$ 2.7
Facility closure and other costs	0.2	0.3	1.0	1.0
	\$ 2.1	\$ 0.5	\$ 3.6	\$ 3.7
Cost of sales	\$ 0.1	\$ 0.3	\$ 1.0	\$ 3.3
Selling and administrative costs	2.0	0.2	2.6	0.4
	\$ 2.1	\$ 0.5	\$ 3.6	\$ 3.7

Restructuring and consolidation reserves at December 31, 2005 and June 30, 2006, and the activity during the six months ended June 30, 2006, consisted of:

	(Dollars in millions)
Reserve balance at December 31, 2005	\$ 6.5
Restructuring charges	3.6
Used as intended	(3.6)
Return to profit	
Foreign exchange adjustments	0.4
Reserve balance at June 30, 2006	\$ 6.9

Future Restructuring and Consolidation Costs for Programs Announced and Initiated

During 2005, the Company announced and initiated a restructuring program to downsize a German facility in the Electronic Systems segment with partial transfers of operations to existing facilities in Florida and India. The goal of this project is to reduce operating costs and foreign exchange exposure. The total restructuring cost is expected to be approximately \$15 million, of which approximately \$9.3 million relates to costs yet to be incurred in 2006 and in 2007. Approximately \$2 million was paid in the six months ended June 30, 2006.

Additional expected costs by segment and type are as follows:

	Personnel- Related Costs	Facility Closure Costs	Total
	(Dollars in millions)		
Engine Systems	\$ 0.3	\$	\$ 0.3
Airframe Systems			
Electronic Systems	5.3	4.0	9.3
Total	\$ 5.6	\$ 4.0	\$ 9.6

Note 4. Other Income (Expense) Net

Other Income (Expense) Net consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)		(Dollars in millions)	
Retiree health care expenses related to previously owned businesses	\$ (4.2)	\$ (3.8)	\$ (9.0)	\$ (8.5)
Loss on exchange or extinguishment of debt	(4.8)	(5.7)	(4.8)	(5.7)
Expenses related to previously owned businesses	(6.6)	(0.1)	(8.0)	(1.5)
Minority interest and equity in affiliated companies	(3.6)	(3.9)	(7.4)	(6.7)
Other net	(1.7)	(0.8)	(2.3)	(2.0)
Other income (expense) net	\$ (20.9)	\$ (14.3)	\$ (31.5)	\$ (24.4)

Note 5. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions, except per share amounts)			
Numerator:				
Numerator for basic and diluted earnings per share income from continuing operations	\$ 81.1	\$ 62.4	\$ 281.4	\$ 119.2
Denominator:				
Denominator for basic earnings per share weighted- average shares	124.5	121.1	124.0	120.4
Effect of dilutive securities:				
Stock options, employee stock purchase plan, restricted stock and restricted stock units	1.8	2.4	1.9	2.4
Other deferred compensation shares	0.1	0.1	0.1	0.1
	1.9	2.5	2.0	2.5
Denominator for diluted earnings per share adjusted weighted- average shares and assumed conversion	126.4	123.6	126.0	122.9
Per share income from continuing operations:				
Basic	\$ 0.65	\$ 0.52	\$ 2.27	\$ 0.99
Diluted	\$ 0.64	\$ 0.51	\$ 2.23	\$ 0.97

At June 30, 2006 and 2005, the Company had outstanding approximately 6.3 million and 8.5 million stock options, respectively. Stock options are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. Of the 6.3 million and 8.5 million stock options outstanding, 33 thousand and 131 thousand were anti-dilutive stock options excluded from the diluted earnings per share calculation at June 30, 2006 and 2005, respectively.

During the six months ended June 30, 2006 and 2005, the Company issued approximately 1.7 million and 2.4 million, respectively, of shares of common stock pursuant to stock option exercises and other stock-based compensation.

Note 6. Inventories

Inventories consist of the following:

	June 30, 2006	December 31, 2005
	(Dollars in millions)	
FIFO or average cost (which approximates current costs):		
Finished products	\$ 345.1	\$ 218.1
In process	866.1	908.7
Raw materials and supplies	355.7	280.3

	1,566.9	1,407.1
Less:		
Reserve to reduce certain inventories to LIFO basis	(44.2)	(43.5)
Progress payments and advances	(36.9)	(55.2)
Total	\$ 1,485.8	\$ 1,308.4

The pre-production and excess-over-average inventory accounted for under long-term contract accounting and deferred engineering costs recoverable under long-term contractual arrangements were \$328.7 million and \$276 million as of June 30, 2006 and December 31, 2005, respectively. The increase of \$52.7 million from December 31, 2005 to June 30, 2006 was primarily driven by increased pre-production costs related to the Boeing 787 program. These amounts are included in In process inventory above.

Note 7. Goodwill

The changes in the carrying amount of goodwill by segment for the six months ended June 30, 2006 are as follows:

	Balance December 31, 2005	Business Combinations Completed or Finalized	Foreign Currency Translation	Balance June 30, 2006
		(Dollars in millions)		
Engine Systems	\$ 483.1	\$ (0.4)	\$ 19.5	\$ 502.2
Airframe Systems	239.6	(0.1)	12.1	251.6
Electronic Systems	595.7	(2.3)	(14.0)	579.4
	\$ 1,318.4	\$ (2.8) (a)	\$ 17.6	\$ 1,333.2

(a) Represents a revision of plan provisions used in the actuarial valuation of other postretirement benefits related to the acquisition of the aeronautical systems businesses.

Note 8. Financing Arrangements

Credit Facilities

The Company has a \$500 million committed global syndicated revolving credit facility that expires in May 2011. In May 2006, the Company exercised an option within the credit facility to extend the maturity of the facility by one year from May 2010 to May 2011. Borrowings under this facility bear interest, at the Company's option, at rates tied to the agent bank's prime rate or, for U.S. Dollar or Great Britain Pounds Sterling borrowings, the London interbank offered rate and for Euro Dollar borrowings, the EURIBO rate. In May 2006, Standard & Poor's Ratings Services raised the Company's credit rating to BBB from BBB-. The Company is required to pay a facility fee of 12.5 basis points per annum, which was reduced from 15 basis points in conjunction with the upgrade on the total \$500 million committed line. Further, if the amount outstanding exceeds 50 percent of the total commitment, a usage fee of 12.5 basis points per annum on the amount outstanding is payable by the Company. These fees and the interest rate margin on outstanding revolver borrowings are subject to change as the Company's credit ratings change.

At June 30, 2006, there were \$34.9 million in borrowings and \$19.7 million in letters of credit outstanding under the facility. At December 31, 2005, there were \$34.9 million in borrowings and \$19.6 million in letters of credit outstanding under the facility. The level of unused borrowing capacity under the Company's committed syndicated revolving credit facility varies from time to time depending in part upon its compliance with financial and other covenants set forth in the related agreement, including the consolidated net worth requirement and maximum leverage ratio. The Company is currently in compliance with all such covenants. As of June 30, 2006, the Company had borrowing capacity under this facility of \$445.4 million, after reductions for borrowings and letters of credit outstanding under the facility.

At June 30, 2006, the Company also maintained \$75 million of uncommitted domestic money market facilities and \$128.3 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At June 30, 2006, there was \$31 million outstanding in borrowings under these facilities. At December 31, 2005, the Company maintained \$75 million of uncommitted domestic money market facilities and \$111.5 million of uncommitted and committed foreign working capital facilities with \$22.4 million outstanding in borrowings under these facilities. These credit facilities are provided by a small number of commercial banks that also provide the Company with committed credit through the syndicated revolving credit facility described above and with various cash management, trust and other services.

The Company's credit facilities do not contain any credit rating downgrade triggers that would accelerate the maturity of its indebtedness. However, a ratings downgrade would result in an increase in the interest rate and fees payable under its committed syndicated revolving credit facility. Such a downgrade also could adversely affect the Company's ability to renew existing or obtain access to new credit facilities in the future and could increase the cost of such new facilities.

At June 30, 2006, the Company has an outstanding contingent liability for guaranteed debt and lease payments of \$2.3 million and letters of credit and bank guarantees of \$54.7 million (inclusive of \$19.7 million in letters of credit outstanding under the Company's syndicated revolving credit facility, as discussed above). The debt and lease payments primarily represent obligations of the Company under industrial development revenue bonds to finance additions to facilities that have since been divested. Each of these obligations was assumed by a third party in connection with the Company's divestiture of the related facilities. If the assuming parties default, the Company will be liable for payment of the obligations. The industrial development revenue bonds mature in February 2008. It is not practical to obtain independent estimates of the fair values for the contingent liability for guaranteed debt and lease payments and for letters of credit.

The Company's committed syndicated revolving credit facility contains various restrictive covenants that, among other things, place limitations on the payment of cash dividends and the repurchase of the Company's capital stock. Under the most restrictive of these covenants, \$1,074.7 million of income retained in the business and additional paid in capital was free from such limitations at June 30, 2006.

Long-term Debt

In June 2006, the Company exchanged the following notes for \$290.7 million principal amount of a new series of 6.29 percent notes due in 2016:

\$177.9 million principal amount of its 7.50 percent notes due in 2008;

\$32.7 million principal amount of its 6.45 percent notes due in 2008; and

\$80.1 million principal amount of its 6.60 percent notes due in 2009.

In June 2006, the Company also exchanged \$242.5 million principal amount of its 7.625 percent notes due 2012 for \$254.6 million principal amount of a new series of 6.80 percent notes due in 2036. The Company paid an aggregate cash premium of \$8.6 million in connection with the exchange of the 6.29 percent notes due in 2016 and paid an aggregate premium of \$24 million, including \$12 million in cash and \$12 million financed by issuing additional notes, in connection with the exchange of the 6.80 percent notes due 2036. The premiums will be amortized over the lives of the new notes. The Company recorded \$4.8 million of transaction costs associated with the exchange offers in other income (expense) net during the three months ended June 30, 2006.

In June 2006, the Company entered into \$288.5 million of treasury locks to offset changes in the issue price of the 6.29 percent notes due 2016 and entered into \$288.5 million of reverse treasury locks to offset changes in the exchange prices of the 7.50 percent notes due in 2008, 6.45 percent notes due in 2008 and 6.60 percent notes due in 2009 due to movements in treasury rates prior to the exchange date. The Company paid \$0.3 million in cash to settle the treasury locks, and the amount was recorded in accumulated other comprehensive income during the three months ended June 30, 2006 and will be amortized over the life of the 6.29 percent notes due 2016. In June 2006, the Company also entered into \$235.5 million of treasury locks to offset changes in the issue price of the 6.80 percent notes due 2036 and entered into \$235.5 million of reverse treasury locks to offset changes in the exchange price of the 7.625 percent notes due in 2012 due to movements in treasury rates prior to the exchange date. The Company paid \$1.9 million in cash to settle the locks and the amount was recorded in accumulated other comprehensive income during the three months ended June 30, 2006 and will be amortized over the life of the 6.80 percent notes due 2036. The 6.29 percent notes due in 2016 and the 6.80 percent notes due in 2036 were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act). As required by a registration rights agreement entered into with the holders of the new notes, the Company is required to register under the Securities Act additional notes of the same series to be offered in exchange for the currently outstanding 6.29 percent notes due in 2016 and 6.80 percent notes due in 2036.

In June 2006, the Company terminated \$7 million of a \$50 million fixed-to-floating interest rate swap on its 6.45 percent notes due in 2008. The Company paid \$0.3 million in cash to terminate this portion of the interest rate swap and the amount was recorded as an expense in other income (expense) net during the three months ended June 30, 2006. This portion of the interest rate swap was terminated so that the outstanding notional amount of the fixed-to-floating interest rate swap would match the outstanding principal amount, subsequent to the exchange, of the 6.45 percent notes due in 2008.

At June 30, 2006 and December 31, 2005 long-term debt and capital lease obligations, excluding the current maturities of long-term debt and capital lease obligations, consisted of:

	June 30, 2006	December 31, 2005
	(Dollars in millions)	
Medium-term notes payable	\$ 639.3	\$ 672.1
7.5% senior notes, maturing in 2008	115.4	294.0
6.6% senior notes, maturing in 2009	131.5	213.5
7.625% senior notes, maturing in 2012	256.9	498.8
6.29% senior notes, maturing in 2016	282.2	
6.80% senior notes, maturing in 2036	230.0	
Other debt, maturing through 2020 (interest rates from 2.8% to 5.3%)	55.5	55.3
	1,710.8	1,733.7
Capital lease obligation	8.8	8.4
Total	\$ 1,719.6	\$ 1,742.1

Note 9. Off Balance Sheet Arrangements

Lease Commitments

The Company finances its use of certain of its office and manufacturing facilities as well as machinery and equipment, including corporate aircraft, under various committed lease arrangements provided by financial institutions. Certain of these arrangements allow the Company to claim a deduction for tax depreciation on the assets, rather than the lessor, and allow the Company to lease aircraft and equipment having a maximum unamortized value of \$55 million at June 30, 2006. At June 30, 2006, \$19.3 million of future minimum lease payments was outstanding under these arrangements. Additionally, the Company has residual value guarantees under these arrangements of \$24.8 million (see Note 16, Guarantees). The Company is obligated to either purchase or remarket the leased corporate aircraft and equipment at the end of the lease term. The residual values were established at lease inception. The lease terms mature in 2011 and 2012. The other arrangements are standard operating leases. Future minimum lease payments under the standard operating leases approximated \$133.4 million at June 30, 2006.

Sale of Receivables

Effective June 30, 2006, the Company terminated the variable rate trade receivables securitization program. The balance of \$97.1 million was repaid during the three months ended June 30, 2006.

Note 10. Pensions and Postretirement Benefits**Pensions**

The following table sets forth the components of net periodic benefit costs (income) for the three months and six months ended June 30, 2006 and 2005. The net periodic benefit costs (income) for divested or discontinued operations retained by the Company are included in the amounts below.

	U.S. Plans Three Months Ended June 30,		U.K. Plans Three Months Ended June 30,		Other Non-U.S. Plans Three Months Ended June 30,	
	2006	2005	2006	2005	2006	2005
	(Dollars in millions)					
Service cost	\$ 12.2	\$ 13.1	\$ 7.2	\$ 6.2	\$ 1.0	\$ 0.7
Interest cost	37.9	37.7	8.2	7.8	1.3	1.1
Expected return on plan assets	(43.5)	(43.0)	(12.8)	(10.7)	(1.2)	(1.1)
Amortization of transition obligation						
Amortization of prior service cost	2.5	2.2	(0.5)			
Amortization of actuarial (gain) loss	10.2	13.0	(0.3)	(0.1)	0.3	0.3
Periodic benefit cost (income)	19.3	23.0	1.8	3.2	1.4	1.0
Settlements and curtailments (gain) loss	10.9					
Special termination benefit charge (credit)			0.2			
Net benefit cost (income)	\$ 30.2	\$ 23.0	\$ 2.0	\$ 3.2	\$ 1.4	\$ 1.0

	U.S. Plans Six Months Ended June 30,		U.K. Plans Six Months Ended June 30,		Other Non-U.S. Plans Six Months Ended June 30,	
	2006	2005	2006	2005	2006	2005
	(Dollars in millions)					
Service cost	\$ 25.9	\$ 23.9	\$ 14.4	\$ 12.3	\$ 2.1	\$ 1.5
Interest cost	76.2	74.1	16.3	15.5	2.5	2.2
Expected return on plan assets	(89.4)	(85.6)	(24.6)	(21.6)	(2.6)	(2.0)
Amortization of transition obligation						
Amortization of prior service cost	4.7	4.4	(0.5)			
Amortization of actuarial (gain) loss	26.2	24.2		(0.1)	0.6	0.3
Periodic benefit cost (income)	43.6	41.0	5.6	6.1	2.6	2.0
	10.9					

Settlements and curtailments (gain) loss						
Special termination benefit charge (credit)			0.2			
Net benefit cost (income)	\$ 54.5	\$ 41.0	\$ 5.8	\$ 6.1	\$ 2.6	\$ 2.0

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

	U.S. Plans		U.K. Plans		Other Non-U.S. Plans	
	Three Months and Six Months Ended June 30,		Three Months and Six Months Ended June 30,		Three Months and Six Months Ended June 30,	
	2006	2005	2006	2005	2006	2005
Discount rate 1/1/06-4/10/06	5.64%	N.A.	4.75%	N.A.	4.76%	N.A.
Discount rate 4/11/06-5/18/06	6.01%	N.A.	4.75%	N.A.	4.76%	N.A.
Discount rate 5/19/06-6/30/06	6.34%	N.A.	4.75%	N.A.	4.76%	N.A.
Discount rate 2005	N.A.	5.875%	N.A.	5.50%	N.A.	5.75%
Expected long-term return on plan assets	9.00%	9.00%	8.50%	8.50%	8.34%	8.50%
Rate of compensation increase	3.63%	3.63%	3.50%	3.50%	3.34%	3.50%

Two significant events occurred in the second quarter of 2006 which required remeasurement of plan obligations and assets for the U.S. pension plans. Assumptions were reevaluated at April 11, 2006 to remeasure plan obligations and assets in connection with the Company's definitive agreement to divest the turbomachinery products business (which agreement was subsequently terminated). On May 19, 2006, pension assumptions were again reevaluated to remeasure plan obligations and assets due to the closure of the election period for the Retirement Choice Program as described below.

The remeasurements increased accumulated other comprehensive income by \$164.7 million before tax or \$109.3 million after tax.

U.S. Retirement Plan Changes in 2006

In the fourth quarter of 2005, the Company changed certain aspects of its U.S. qualified and non-qualified defined benefit pension plans and U.S. qualified and non-qualified defined contribution plans. This change generally does not apply to employees who are members of a collective bargaining unit. Non-union employees hired on and after January 1, 2006, will not participate in the Company's qualified and non-qualified defined benefit plans. These new employees will receive a higher level of company contribution in the Company's qualified and non-qualified defined contribution plans. New employees will receive a dollar for dollar match on the first 6 percent of eligible pay contributed, plus an automatic annual employer contribution of 2 percent of eligible pay. The 2 percent employer contribution is subject to a 3-year vesting requirement for new employees.

During the second quarter of 2006, persons employed by the Company as of December 31, 2005 and continuously thereafter employed, elected whether they wanted to continue with their current benefits in the defined benefit and defined contribution plans or freeze pension benefit service as of June 30, 2006 and receive a higher level of company contributions in the defined contribution plans. For those employees choosing the latter option, eligible pay after June 30, 2006 will continue to be included in their final average earnings used to calculate their pension benefits. The Retirement Choice Program election period closed on May 19, 2006 and approximately 41 percent of the eligible employees chose the latter option with the enhanced company contribution to the defined contribution plans.

This change in retirement benefits resulted in a pension curtailment charge in the second quarter of 2006 of \$10.9 million and a revision to 2006 pension expense for the remainder of the year after the May 19, 2006 curtailment date. The curtailment charge is based on the unrecognized prior service cost attributable to the employees who elected the new arrangement.

Postretirement Benefits Other Than Pensions

The following table sets forth the components of net periodic benefit costs (income) for the three months and six months ended June 30, 2006 and 2005. The postretirement benefit related to divested and discontinued operations retained by the Company are included in the amounts below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)		(Dollars in millions)	
Service cost	\$ 0.7	\$ 0.5	\$ 0.7	\$ 0.8
Interest cost	5.2	5.0	9.8	11.3
Amortization of prior service cost		(0.1)	(0.1)	(0.1)
Amortization of actuarial (gain) loss	0.8	0.3	0.6	0.8
Periodic benefit cost (income)	6.7	5.7	11.0	12.8
Settlements and curtailments (gain) loss				
Special termination benefit charge (credit)				
Net benefit cost (income)	\$ 6.7	\$ 5.7	\$ 11.0	\$ 12.8

The net periodic benefit cost for the six months ended June 30, 2006 includes a non-recurring reduction of \$3.2 million for a revision in the plan provisions used in the actuarial valuation of other postretirement benefits related to the acquisition of the aeronautical systems businesses. The \$3.2 million reduction of net periodic benefit cost consists of \$0.4 million reduction to service cost, \$1.2 million reduction to interest cost and \$1.6 million reduction to the amortization of actuarial (gains) losses.

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

	Three Months and Six Months Ended June 30,	
	2006	2005
Discount rate	5.55%	5.875%
Healthcare trend rate	9% in 2006 to 5% in 2010	9% in 2005 to 5% in 2008

Note 11. Comprehensive Income/(Loss)

Total comprehensive income consisted of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)		(Dollars in millions)	
Comprehensive Income/(Loss)				
Net income	\$ 81.0	\$ 75.7	\$ 282.5	\$ 133.2
Other comprehensive income/(loss):				
Unrealized foreign currency translation gains (losses) during period	64.1	(48.0)	75.9	(47.3)
Minimum pension liability adjustments during period (Note 10)	109.3		109.3	
Gains (losses) on cash flow hedges	46.5	(28.7)	50.1	(46.9)

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Gains (losses) on certain investments	(0.1)		(0.1)	
Total	\$ 300.8	\$ (1.0)	\$ 517.7	\$ 39.0

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

	June 30, 2006	December 31, 2005
	(Dollars in millions)	
Accumulated Other Comprehensive Income/(Loss)		
Cumulative unrealized foreign currency translation gains (losses)	\$ 211.1	\$ 135.2
Minimum pension liability adjustments	(314.8)	(424.1)
Accumulated gains (losses) on cash flow hedges	56.0	5.9
Accumulated unrealized gains (losses) on certain investments	(0.1)	
Total	\$ (47.8)	\$ (283.0)

The minimum pension liability amounts above are net of deferred taxes of \$192.4 million and \$247.8 million at June 30, 2006 and December 31, 2005, respectively. The accumulated gain on cash flow hedges above is net of deferred taxes of \$31.3 million and \$3.2 million at June 30, 2006 and December 31, 2005, respectively. No income taxes are provided on foreign currency translation gains as foreign earnings are considered permanently invested.

Note 12. Income Taxes

The Company's effective tax rate for the three months ended June 30, 2006 was 30.6 percent. The effective tax rate varied from the statutory rate of 35 percent due to favorable tax settlements which reduced the effective tax rate by approximately 5 percentage points, tax benefits from export sales and domestic production activities which reduced the effective rate by approximately 5 percentage points, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate, including the impact of tax holidays, which reduced the effective rate by approximately 2 percentage points, adjustments to valuation allowances associated with certain deferred tax assets in foreign jurisdictions which increased the effective tax rate by approximately 2 percentage points, other adjustments to reserves for tax contingencies, including interest thereon, net of tax, which increased the effective rate by approximately 3 percentage points, and state income taxes which increased the effective tax rate by approximately 2 percentage points. The Company's effective tax rate during the three months ended June 30, 2006 was not reduced for the benefit of U.S. Research and Development (R&D) Credits because the federal statute authorizing the R&D Credit has not been extended beyond December 31, 2005. The Company estimates that the effective tax rate for the three months ended June 30, 2006 would have been approximately 1 percentage point lower had the Company been able to consider the tax benefits associated with the R&D Credit.

The Company's effective tax rate for the six months ended June 30, 2006 was a benefit of (29.1) percent. The effective tax rate varies from the statutory rate of 35 percent primarily due to the reversal of tax reserves in connection with favorable tax settlements related to the IRS examinations of Rohr, Inc. and Subsidiaries (for the period from July, 1986 through December, 1997), and Coltec Industries Inc and Subsidiaries (for the period December, 1997 through July, 1999), and miscellaneous other tax settlements which reduced the tax rate by approximately 63 percentage points (see Note 15, Contingencies for further discussion related to these contingencies). The effective tax rate also varied from the statutory rate of 35 percent due to tax benefits from export sales and domestic production activities which reduced the effective rate by approximately 5 percentage points, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate, including the impact of tax holidays, which reduced the effective rate by approximately 2 percentage points, adjustments to valuation allowances associated with certain deferred tax assets in foreign jurisdictions which increased the effective tax rate by approximately 2 percentage points, other adjustments to reserves for tax contingencies, including interest thereon, net of tax, which increased the effective rate by approximately 2 percentage points,

and state income taxes which increased the effective tax rate by approximately 2 percentage points. The Company's effective tax rate during the six months ended June 30, 2006 was not reduced for the benefit of R&D Credits because the federal statute authorizing the R&D Credit has not been extended beyond December 31, 2005. The Company estimates that the effective tax rate as of June 30, 2006 would have been approximately 1 percentage point lower had the Company been able to consider the tax benefits associated with the R&D Credit.

In accordance with Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* (SFAS 5), the Company records tax contingencies when the exposure item becomes probable and the amount is reasonably estimable. As of December 31, 2005, the Company had tax contingency reserves of approximately \$325.6 million. During the six months ended June 30, 2006, the Company recorded a net benefit of \$86.9 million, made payments of \$0.6 million (net of federal tax benefit), and had other miscellaneous adjustments of \$2.3 million. The net benefit primarily related to the reversal of tax reserves in connection with favorable tax settlements discussed above and in Note 15, *Contingencies*. As of June 30, 2006, the Company had recorded tax contingency reserves of approximately \$240.4 million. The contingencies that comprise the reserves are more fully described in Note 15, *Contingencies*.

Note 13. Business Segment Information

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

Engine Systems

The Engine Systems segment produces products associated with aircraft engines, including cowlings and their components, fuel delivery systems, and structural and rotating components. The segment includes the following business units:

Aerostructures, which:

Produces nacelle systems, pylons, thrust reversers and related engine housing components; and

Performs maintenance, repair and overhaul services.

Engine control systems, which provides:

Fuel metering controls, fuel pumping systems and afterburner fuel pump and metering unit nozzles; and

Electronic control software and hardware, variable geometry actuation controls and engine health monitoring systems.

Turbomachinery products, which produces complete rotating assemblies including quality metallic and thermal barrier coatings for the aircraft and industrial gas turbine engine industries.

Turbine fuel technologies, which provides:

Fuel nozzles, injectors, valves and manifolds for aerospace and industrial gas turbine engines; and

Non-aerospace applications that require liquid atomization.

Cargo systems, which provides complete cargo handling systems including conveyor rollers and tracks, side rail guides, side and end latches and power drive control units.

Airframe Systems

The Airframe Systems segment provides systems and components pertaining to aircraft taxi, take-off, flight control, landing, stopping and airframe maintenance. The segment includes the following business units:

Actuation systems, which provides:

Actuators for primary flight control systems that operate elevators, ailerons and rudders, and secondary flight controls systems such as flaps and slats; and

Systems that control the movement of steering systems for missiles and electromechanical systems that are characterized by high power, low weight, low maintenance, resistance to extreme temperatures and vibrations and reliability.

Landing gear systems, which designs, manufactures and services complete landing gear systems on both commercial and military aircraft.

Aircraft wheels and brakes, which provides:

Wheel and brake systems containing durable wheels, long-lasting steel brake designs, light weight and low cost carbon brakes, one source brake control systems, and state-of-the-art electric brake development; and

Original equipment manufacturing (OEM) and overhauls and repairs as well as full technical and aircraft on ground support through a worldwide network of wheel and brake service centers.

Aviation technical services, which provides:

Comprehensive heavy airframe maintenance, component repair and overhaul, aircraft painting, engineering and certification services; and

Aircraft modification services that include VIP interior completion and passenger to freight conversions.

Engineered polymer products, which provides:

Large-scale marine composite structures and acoustic materials;

Acoustic absorbing and reflecting materials along with vibration dampening material; and

Fireproof composites.

Electronic Systems

The Electronic Systems segment produces a wide array of systems and components that provide flight performance measurements, flight management and control and safety data. The segment includes the following business units:

Optical & space systems, which:

Provides intelligence, surveillance and reconnaissance systems and electro-optical defense, scientific and commercial applications; and

Designs and builds custom engineered electronics, optics, shortwave infrared cameras and arrays.

Sensor systems, which provides:

Numerous sensors for a wide variety of commercial and military aircraft that measure mass flow, inertia and altitude, liquid level, position, speed, and temperature; and

Air data heading reference systems, angle of attack and stall protection systems, windshield heater controllers, ice detection systems, micro electromechanical systems, and windshield wiper and washer systems.

Power systems, which provides:

Constant frequency and variable frequency AC and DC electrical generating systems; and

Rescue hoist and cargo winches.

Aircraft interior products, which provides:

Evacuations slides and life rafts for several types of aircraft;

Complete aircrew escape systems primarily for military aircraft including canopy removal, sequencing systems and ejection seats;

Component products such as gas generators, rocket motors, linear explosives, catapults and numerous cartridge actuated or propellant actuated devices for a wide variety of applications; and

Seating systems that include cockpit crew and cabin attendant seats.

Fuel & utility systems, which provides:

Fuel measurement and management systems, fuel system safety devices, and fire protection systems; and

Health and usage management systems, motion controls and actuators, proximity sensing systems, braking and steering systems and computer interfaces.

De-Icing & specialty systems, which provides:

Pneumatic and electrothermal ice protection application;

Heated aircraft components, including heated drain masts, lavatory and galley water heaters and specialty air heaters; and

Potable water systems and components, aerospace composites and molding resin.

Lighting systems, which provides:

Interior lighting systems that include cabin and compartment lights, cockpit lights and controllers along with information signs;

External lighting systems include anti-collision lights and power supplies, wing and tail strobe lights, navigation and flood lights, and external emergency lights; and

Night vision imaging systems, covert lighting, main landing gear cables and nose gear steering cables.

Segment operating income is total segment revenue reduced by operating expenses identifiable with that business segment. The accounting policies of the reportable segments are the same as those for Goodrich consolidated. The pension curtailment was not allocated to the segments.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)		(Dollars in millions)	
Net customer sales:				
Engine Systems	\$ 634.6	\$ 565.8	\$ 1,245.1	\$ 1,093.9
Airframe Systems	488.6	464.0	958.9	906.7
Electronic Systems	360.0	322.9	703.0	627.6
	\$ 1,483.2	\$ 1,352.7	\$ 2,907.0	\$ 2,628.2
Intersegment sales:				
Engine Systems	\$ 5.9	\$ 7.3	\$ 10.8	\$ 16.4
Airframe Systems	12.3	13.0	24.4	25.9
Electronic Systems	8.3	9.1	21.1	17.0
	\$ 26.5	\$ 29.4	\$ 56.3	\$ 59.3
Segment operating income:				
Engine Systems	\$ 128.9	\$ 108.8	\$ 247.6	\$ 199.3
Airframe Systems	28.0	10.8	42.3	38.6
Electronic Systems	45.8	37.7	82.7	70.0
	202.7	157.3	372.6	307.9
Corporate general and administrative expenses	(23.9)	(21.2)	(51.1)	(41.7)
Pension curtailment (Note 10)	(10.9)		(10.9)	
Total operating income	\$ 167.9	\$ 136.1	\$ 310.6	\$ 266.2

Note 14. Derivatives and Hedging Activities

Cash Flow Hedges

The Company has subsidiaries that conduct a substantial portion of their business in Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys but have significant sales contracts that are denominated in U.S. Dollars. Periodically, the Company enters into forward contracts to exchange U.S. Dollars for Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys to hedge a portion of the Company's exposure from U.S. Dollar sales. The forward contracts described above are used to mitigate the potential volatility to earnings and cash flow arising from changes in currency exchange rates that impact the Company's U.S. Dollar sales for certain foreign operations. The forward contracts are being accounted for as cash flow hedges. The forward contracts are recorded in the Company's Unaudited Condensed Consolidated Balance Sheet at fair value with the offset reflected in accumulated other comprehensive income/(loss), net of deferred taxes. The notional value of the forward contracts at June 30, 2006 was \$1,715 million. The fair value of the forward contracts at June 30, 2006, was a net asset of \$89.2 million, including:

\$47.3 million recorded as a current asset in Prepaid expenses and

\$51.7 million recorded as a non-current asset in other assets; partially offset by,

\$9.7 million recorded as a current liability in accrued expenses and

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\$0.1 million recorded as a non-current liability in other non-current liabilities.

The total fair value of the Company's forward contracts of \$89.2 million (before deferred taxes of \$31.3 million) at June 30, 2006, combined with \$0.3 million of gains on previously matured hedges of intercompany sales and gains from forward contracts terminated prior to the original maturity dates, is recorded in accumulated other comprehensive income and will be reflected in income as earnings are affected by the hedged items. As of June 30, 2006, the portion of the \$89.5 million that would be reclassified into earnings as an increase in sales to offset the effect of the hedged item in the next 12 months is a gain of \$37.9 million. These forward contracts mature on a monthly basis with maturity dates that range from July 2006 to December 2010.

In June 2006, the Company entered into treasury locks and reverse treasury locks in connection with its long-term debt exchange offers. In accordance with Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133), the treasury locks were accounted for as cash flow hedges. The Company entered into \$288.5 million of treasury locks to offset changes in the issue price of the 6.29 percent notes due 2016 and entered into \$288.5 million of reverse treasury locks to offset changes in the exchange prices of the 7.50 percent notes due in 2008, 6.45 percent notes due in 2008 and 6.60 percent notes due in 2009 due to movements in treasury rates prior to the exchange date. The Company paid \$0.3 million in cash to settle the locks, and the amount was recorded in accumulated other comprehensive income during the three months ended June 30, 2006 and will be amortized over the life of the 6.29 percent notes due 2016. In June 2006, the Company also entered into \$235.5 million of treasury locks to offset changes in the issue price of the 6.80 percent notes due 2036 and entered into \$235.5 million of reverse treasury locks to offset changes in the exchange price of the 7.625 percent notes due in 2012 due to movements in treasury rates prior to the exchange date. The Company paid \$1.9 million in cash to settle the locks, and the amount was recorded in accumulated other comprehensive income during the three months ended June 30, 2006 and will be amortized over the life of the 6.80 percent notes due 2036.

Fair Value Hedges

The Company enters into interest rate swaps to increase the Company's exposure to variable interest rates. The Company has the following interest rate swaps outstanding as of June 30, 2006.

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

Two \$50 million fixed-to-floating interest rate swaps on the 7.50 percent notes due in 2008

In June 2006, the Company terminated \$7 million of a \$50 million fixed-to-floating interest rate swap on its 6.45 percent notes due in 2008 in connection with its long-term debt exchange offers. The Company paid \$0.3 million in cash to terminate this portion of the interest rate swap, which was recorded as an expense in other income (expense) net during the three months ended June 30, 2006. This portion of the interest rate swap was terminated so that the outstanding notional amount of the fixed-to-floating interest rate swap would match the outstanding principal amount, subsequent to the exchange, of the 6.45 percent notes due in 2008.

The settlement and maturity dates on each swap are the same as those on the referenced notes. In accordance with SFAS 133, the interest rate swaps are being accounted for as fair value hedges and the carrying value of the notes has been adjusted to reflect the fair values of the interest rate swaps. The fair value of the interest rate swaps was a liability/(loss) of \$5.2 million at June 30, 2006.

Other Forward Contracts

As a supplement to the foreign exchange cash flow hedging program, the Company enters into forward contracts to manage its foreign currency risk related to the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency. These forward contracts mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. The gains or losses on these forward contracts are being recorded in cost of sales in order to mitigate the earnings impact of the translation of net monetary assets and liabilities. Under this program, as of June 30, 2006, the Company had forward contracts with a notional value of \$76.6 million to buy Great Britain Pounds Sterling, forward contracts with a notional value of \$154 million to buy Euros and forward contracts with a notional value of \$29.9 million to sell Canadian Dollars.

Note 15. Contingencies

General

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

Environmental

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

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

required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.

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

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

The Company's Unaudited Condensed Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of \$78.2 million and \$81 million at June 30, 2006 and December 31, 2005, respectively. At June 30, 2006 and December 31, 2005, \$15.1 million and \$18.3 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as accrued expenses. At June 30, 2006 and December 31, 2005, \$32.6 and \$31.4 million, respectively, was associated with ongoing operations and \$45.6 million and \$49.6 million, respectively, was associated with businesses previously disposed of or discontinued.

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

Asbestos

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

The Company believes that substantial insurance coverage is available to it related to any remaining claims. However, the primary layer of insurance coverage for most of these claims is provided by the Kemper Insurance Companies. Kemper has indicated that, due to capital constraints and downgrades from various rating agencies, it has ceased underwriting new business and now focuses on administering policy commitments from prior years. Kemper has also indicated that it is currently operating under a run-off plan approved by the Illinois Department of Insurance. The Company cannot predict the impact of Kemper's financial position on the availability of the Kemper insurance. In addition, a portion of the Company's primary and excess layers of general liability insurance coverage for most of these claims was provided by insurance subsidiaries of London United Investments plc (KWELM). KWELM is insolvent and in the process of distributing its assets and dissolving. In September 2004, the Company entered into a settlement agreement with KWELM pursuant to which the Company agreed to give up its rights with respect to the KWELM insurance policies in exchange for \$18.3 million, subject to increase under certain circumstances. The settlement represents a negotiated payment for the Company's loss of insurance coverage, as it no longer has the KWELM insurance available for claims that would have qualified for coverage. The initial settlement amount of \$18.3 million was paid to the Company during 2004, was recorded as a deferred settlement credit and will be used to offset asbestos and other toxic tort claims in future periods.

The KWELM insolvent fund managers made additional settlement distributions to the Company during the six months ended June 30, 2006 and during the year ended December 31, 2005 totaling \$1.8 million and \$11.3 million, respectively, following completion of the insolvent scheme of arrangement process in the United Kingdom. The additional distribution was recorded as a deferred settlement credit and will be used to offset asbestos and other toxic tort claims in future periods. One final distribution may be made depending on the final valuation of KWELM.

Liabilities of Divested Businesses

Asbestos

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

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

Other

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

Guarantees

At June 30, 2006, the Company had an outstanding contingent liability for guarantees of debt and lease payments of \$2.3 million, letters of credit and bank guarantees of \$54.7 million and residual value of lease obligations of \$24.8 million (see Note 16, Guarantees).

Commercial Airline Customers

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

Aerostructures Long-Term Contracts

The aerostructures business has several long-term contracts in the pre-production phase. This phase includes design of the product to meet customer specifications as well as design of the manufacturing processes to manufacture the product. Also involved in this phase is securing supply of material and subcomponents produced by third party suppliers that are generally accomplished through long-term supply agreements. Because these contracts cover periods of up to 15 years or more, there is risk that estimates of future costs made during the pre-production phase will be different from actual costs and that difference could be significant.

Compliance with Specialty Metals Clause in U.S. Defense Contracts and Subcontracts

Many companies in the aerospace industry are experiencing challenges regarding compliance with certain provisions set forth in Department of Defense (DoD) Appropriations Acts that are often referred to generally as the Berry Amendment. The Berry Amendment provisions are implemented through the Department of Defense Federal Acquisition Regulation Supplement (DFARS). One of the DFARS clauses (252.225-7014 (Alternate I)) implementing the Berry Amendment restricts the country of origin for certain specialty metals used in certain products to be delivered to the DoD. This DFARS clause requires that any specialty metals (in most cases involving stainless steel or titanium) incorporated into an article to be delivered under a DoD contract must be melted in the United States or its outlying areas, or must be melted or incorporated into an article manufactured in a list of qualifying countries. The

Alternate I version of this clause applies to DoD contracts involving, among other items, aircraft and missile and space systems, and requires all subcontractors *at any tier* to comply with the clause's requirements regarding the use of specialty metals. Compliance with this requirement is especially difficult in connection with stainless steel fasteners purchased from global sources.

The Company has certain contracts and subcontracts that contain DFARS 252.225-7014 (Alternate I). Delivering supplies and/or submitting payment requests for supplies that do not comply with DFARS 252.225-7014 (Alternate I), when applicable, could subject the Company to potentially significant penalties if the non-compliance is not disclosed to the purchaser. In addition, disclosing any non-compliance with this DFARS clause can result in customers not accepting or conditionally accepting the non-compliant supplies. The Company is continuing to evaluate its compliance with the clause and is unable at this time to estimate the financial effect on the Company that may be associated with any non-compliance.

Tax

The Company is continuously undergoing examination by the Internal Revenue Service (IRS), as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by the Company on its income tax returns. In accordance with SFAS 109, Accounting for Income Taxes, and SFAS 5, Accounting for Contingencies, the Company establishes reserves for tax contingencies that reflect its best estimate of the deductions and credits that it may be unable to sustain, or that it could be willing to concede as part of a broader tax settlement. Differences between the reserves for tax contingencies and the amounts ultimately owed by the Company are recorded in the period they become known. Adjustments to the Company's reserves could have a material effect on the Company's financial statements. As of June 30, 2006, the Company had recorded tax contingency reserves of approximately \$240.4 million.

In 2000, Coltec, the Company's former subsidiary, made a \$113.7 million payment to the IRS for an income tax assessment and the related accrued interest arising out of certain capital loss deductions and tax credits taken in 1996. On February 13, 2001, Coltec filed suit against the U.S. Government in the U.S. Court of Federal Claims seeking a refund of this payment. On November 2, 2004, the Company was notified that the trial court ruled in favor of Coltec. During 2005, the Government appealed the decision with the U.S. Court of Appeals for the Federal Circuit. The U.S. Court of Appeals for the Federal Circuit entered a final judgment in this case on July 12, 2006, reversing the decision of the U.S. Court of Federal Claims. The Company intends to seek a review of this decision. If the Company is unsuccessful in contesting the decision, Coltec will not owe any additional interest or taxes with respect to 1996.

However, the Company would be required by the IRS to pay up to \$32.7 million of tax plus accrued interest, which was \$24.7 million through June 30, 2006, before federal benefit, with respect to the same items claimed by Coltec in its tax returns for 1997 through 2000. On August 2, 2006 the Company paid the tax plus accrued interest of approximately \$50 million, net of related federal tax benefit, in order to stop the accrual of interest. The amount of the previously estimated tax liability if the IRS were to prevail for the 1997 through 2000 period remains fully reserved. If the Company is successful in contesting the decision of the U.S. Court of Appeals for the Federal Circuit, the Company will be entitled to any tax refund and related interest pursuant to an agreement with Coltec. If the Company receives these amounts, it would record income of approximately \$163 million, after tax, based on interest through June 30, 2006, including the release of previously established reserves.

In 2000, the IRS issued a statutory notice of deficiency asserting that Rohr, Inc. (Rohr), a subsidiary of the Company, was liable for \$85.3 million of additional income taxes for the fiscal years ended July 31, 1986 through 1989. In 2003, the IRS issued an additional statutory notice of deficiency asserting that Rohr was liable for \$23 million of additional income taxes for the fiscal years ended July 31, 1990 through 1993. The proposed assessments relate primarily to the timing of certain tax deductions and tax credits. Rohr filed petitions in the U.S. Tax Court opposing the proposed assessments. The Company previously reached a tentative settlement agreement with the IRS with regard to the proposed assessments that required further review by the Joint Committee on Taxation (JCT). On March 15, 2006 the Company received notification that the JCT approved the tentative settlement agreement entered into with the IRS. As a result of receiving the JCT notification, the Company recorded a tax benefit of approximately \$72.2 million, primarily related to the reversal of tax reserves, during the six months ended June 30, 2006.

The current IRS examination cycle began on September 29, 2005 and involves the taxable years ended December 31, 2000 through December 31, 2004. The prior examination cycle which began in March 2002, includes the consolidated income tax groups in the audit periods identified below:

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

There were numerous tax issues that had been raised by the IRS as part of the prior examination, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, tax accounting for stock options, depreciation, amortization and the proper timing for certain other deductions for income tax purposes. The IRS and the Company previously reached tentative settlement agreements on substantially all of the issues raised with respect to the prior examination cycle. Due to the amount of tax involved, certain portions of the tentative settlement agreements were required to be reviewed by the JCT. The Company received notification on April 25, 2006 that the JCT approved the tentative settlement agreement entered into with the IRS with regard to Rohr, Inc. and Subsidiaries (for the period from July, 1995 through December, 1997). As a result of receiving the JCT notification, the Company recorded a tax benefit of approximately \$14.9 million, primarily related to the reversal of tax reserves, during the six months ended June 30, 2006. In addition to the JCT approvals with regard to Rohr, the Company reached agreement with the IRS regarding most of the issues with respect to Coltec Industries Inc and Subsidiaries (for the period from December, 1997 through July, 1999). Consequently, the Company recorded a tax benefit of approximately \$44.4 million, primarily related to the reversal of tax reserves, during the six months ended June 30, 2006. The Company cannot predict the timing or ultimate outcome of a final settlement of the remaining unresolved issues. If the Company settles pursuant to previous discussions, the Company would anticipate reversing some portion of previously established reserves.

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 \$19 million as of June 30, 2006. In addition, the State of California enacted an amnesty provision that imposes nondeductible penalty interest equal to 50 percent of the unpaid interest amounts relating to taxable years ended before 2003. The penalty interest is approximately \$10 million as of June 30, 2006. The tax and interest amounts continue to be contested by Rohr. The Company believes that it is adequately reserved for this contingency. Rohr made a voluntary payment during the six months ended June 30, 2005 of approximately \$3.9 million related to items that were not being contested, consisting of approximately \$0.6 million related to tax and approximately \$3.3 million related to interest on the tax. Rohr made an additional payment during the three months ended December 31, 2005 of approximately \$4.5 million related to the contested tax amount pursuant to the State's assessment notice dated October 20, 2005. No payment has been made for the \$19 million of interest or \$10 million of penalty interest. Under California law, Rohr may be required to pay the full amount of interest prior to filing any suit for refund. If required, Rohr expects to make this payment and file suit for a refund before the end of 2007.

Note 16. Guarantees

The Company extends financial and product performance guarantees to third parties. As of June 30, 2006, the following environmental remediation indemnification and financial guarantees were outstanding:

	Maximum Potential Payment (Dollars in millions)	Carrying Amount of Liability
Environmental remediation indemnification (Note 15)	No limit	\$ 14.6
Financial Guarantees:		
Debt and lease payments (Note 8)	\$ 2.3	\$
Residual value on leases (Note 9)	\$ 24.8	\$
Letter of credit and bank guarantees (Note 8)	\$ 54.7	\$

Service and Product Warranties

The Company provides service and warranty policies on certain of its products. The Company accrues liabilities under service and warranty policies based upon specific claims and a review of historical warranty and service claim experience in accordance with SFAS 5. Adjustments are made to accruals as claim data and historical experience change. In addition, the Company incurs discretionary costs to service its products in connection with product performance issues.

The changes in the carrying amount of service and product warranties for the six months ended June 30, 2006 are as follows:

	(Dollars in millions)	
Balance at December 31, 2005	\$	162.4
Service and product warranty provision		28.1
Return to profit		(2.8)
Used as intended		(33.1)
Foreign currency translation		6.3
Balance at June 30, 2006	\$	160.9

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

	June 30, 2006	December 31, 2005
(Dollars in millions)		
Short-term liabilities	\$ 59.6	\$ 61.0
Long-term liabilities	101.3	101.4
Total	\$ 160.9	\$ 162.4

Note 17. Share-Based Compensation Plans

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123(R)), *Share-Based Payment*, which is a revision of Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). SFAS 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* and amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. The Company adopted the SFAS 123 fair value-based method of accounting for share-based payments effective January 1, 2004 using the modified prospective method described in Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. The Company adopted SFAS 123(R) on January 1, 2006 using the modified-prospective transition method.

At June 30, 2006, the Company has seven types of share-based compensation awards outstanding, which are described more fully below. Because the Company adopted the accounting provisions of SFAS 123 effective January 1, 2004, the compensation cost recognized in accordance with SFAS 123 during the years ended December 31, 2004 and 2005 was consistent with the cost that would have been recorded under SFAS 123(R), except for the following differences:

SFAS 123(R) requires entities to apply the same attribution method to all awards subject to graded vesting. The Company has two types of share-based compensation awards that are subject to graded vesting: stock options and restricted stock units. In the years prior to January 1, 2006, stock options were accounted for under the straight-line attribution method and restricted stock units were accounted for under the accelerated attribution method. Effective upon the adoption of SFAS 123(R), the Company made a policy election to apply the straight-line method to all share-based awards that are subject to graded vesting. As a result of this election, the straight-line method being applied to restricted stock unit grants would have calculated higher before tax compensation expense during the six months ended June 30, 2005 than if the previous method of accounting had been used by approximately \$1.6 million (\$1 million after tax). As a result of applying the straight-line method, the Company expects that before tax compensation expense recognized during the year ending December 31, 2006 will be approximately \$1 million lower than under the accelerated method.

The Company previously accounted for forfeitures as they occurred. Under SFAS 123(R), the Company is required to estimate expected forfeitures at the grant date and recognize compensation cost only for those awards expected to vest. Effective January 1, 2006, the Company recorded income of \$1.8 million (\$1.1 million after tax, or \$0.01 per diluted share) to adjust previously recognized compensation cost on unvested awards to the amount of compensation cost recognized had forfeitures been estimated. This amount was recorded as a cumulative effect of a change in accounting.

In accordance with SFAS 123, the Company previously recorded compensation cost on performance unit awards using the intrinsic-value method. However, SFAS 123(R) requires liability awards to be accounted for using the fair value method. One-half of the Company's performance unit awards have a market condition, which must be considered in the determination of fair value. Effective January 1, 2006, the Company recorded expense of \$0.9 million (\$0.5 million after tax) to adjust previously recognized compensation cost on vested performance unit awards to the amount of compensation recognized had the fair value of the awards been recorded prior to the adoption of SFAS 123(R). This amount was recorded as a cumulative effect of a change in accounting.

Prior to the adoption of SFAS 123(R), the Company presented all excess tax benefits of deductions resulting from share-based payments as operating cash flows in the Statement of Cash Flows. SFAS 123(R) requires the cash flows from tax deductions in excess of compensation cost to be classified as financing cash flows. The \$4 million excess pro forma tax benefit was classified as a financing cash inflow during the six months ended June 30, 2006.

Compensation expense on share-based payment grants made subsequent to January 1, 2006 to retirement eligible individuals will be recognized over the requisite service period (i.e., through date of retirement eligibility). In accordance with SEC guidance, expense related to grants prior to the adoption of SFAS 123(R) will continue to be recognized over the explicit vesting period, which is generally three or five years, with acceleration of any remaining unrecognized compensation cost when an employee actually retires. As a result of applying this provision of SFAS 123(R), before tax compensation cost of approximately \$12 million (\$7 million after tax, or \$0.06 per diluted share) was recognized during the six months ended June 30, 2006, which is approximately \$10 million higher than recorded under the previous method. Applying this provision to all awards granted subsequent to December 31, 1994 (the effective date of SFAS 123) would have calculated higher before tax compensation cost during the six months ended June 30, 2005 by approximately \$7 million. For the year ending December 31, 2006, the Company expects that before tax compensation cost will be approximately \$9 million higher than under the previous method.

The compensation cost recorded for share-based compensation plans during the six months ended June 30, 2006 totaled \$28.7 million (\$17.9 million after tax, or \$0.14 per diluted share) as compared to \$19.2 million (\$12 million after tax, or \$0.10 per diluted share) during the six months ended June 30, 2005. The increase of \$9.5 million was primarily driven by approximately \$10 million incremental compensation expense recognized during the six months ended June 30, 2006 as a result of recognizing an accelerated portion of the total compensation expense on 2006 awards granted to employees who are retirement eligible or will become retirement eligible prior to the normal vesting date. The compensation cost recorded for share-based compensation during the three months ended June 30, 2006 totaled \$6.9 million as compared to \$7.8 million during the three months ended June 30, 2005.

The total income tax benefit recognized in the income statement for share-based compensation awards was \$10.7 million and \$6.9 million for the six months ended June 30, 2006 and 2005, respectively. There was no compensation cost related to share-based plans capitalized as part of inventory and fixed assets during the six months ended June 30, 2006 and 2005. As of June 30, 2006, total compensation cost related to nonvested share-based compensation awards not yet recognized totaled \$50.6 million, which is expected to be recognized over a weighted-average period of 1.9 years.

The Company administers the Goodrich Equity Compensation Plan (the Plan) as part of its long-term incentive compensation program. The Plan, as approved by the Company's shareholders, permits the Company to issue stock options, performance shares, restricted stock awards, restricted stock units and several other equity-based compensation awards. Currently, the Plan, which will expire on April 17, 2011, unless renewed, makes 11,000,000 shares of common stock of the Company available for grant, together with shares of common stock available as of April 17, 2001 for future awards under the Company's 1999 Stock Option Plan, and any shares of common stock representing outstanding 1999 Stock Option Plan awards as of April 17, 2001 that are not issued or otherwise are returned to the Company after that date. Historically, the Company has issued shares upon exercise of options or vesting of other share-based compensation awards. During the six months ended June 30, 2006, the Company only repurchased shares to the extent required to meet the minimum statutory tax withholding requirements.

Stock Options

Generally, options granted on or after January 1, 2004 are exercisable at the rate of 33 1/3 percent after one year, 66 2/3 percent after two years and 100 percent after three years. Options granted to employees who are eligible for retirement on the date of grant or will become retirement eligible prior to the end of the vesting term are expensed over the period through which the employee will become retirement eligible because the awards are earned upon retirement from the Company. Compensation expense for options granted to employees who are not retirement eligible is recognized on a straight-line basis over three years. The term of each stock option cannot exceed 10 years from the date of grant. All options granted under the Plan have an exercise price that is not less than 100 percent of the market value of the stock on the date of grant, as determined pursuant to the plan. Dividends are not paid or earned on stock options.

The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton formula. The expected term of the options represents the estimated period of time until exercise and is based on historical experience of similar options giving consideration to the contractual terms, vesting schedules and expectations of future employee exercise behavior. The Company does not issue traded options. Accordingly, the Company uses historical volatility instead of implied volatility. The historical volatility is calculated over a term commensurate with the expected term of the options. The risk-free rate during the option term is based on the U.S. Treasury yield curve in effect at the time of grant. The dividend yield is based on the expected annual dividends during the term of the options divided by the fair value of the stock on the grant date. The fair value for options issued during the six months ended June 30, 2006 and 2005 was based upon the following weighted-average assumptions:

	2006	2005
Risk-free interest rate (%)	4.3	4.0
Dividend yield (%)	2.0	2.6
Volatility factor (%)	36.1	40.6
Weighted-average expected life of the options (years)	5.5	7.0

A summary of option activity during the six months ended June 30, 2006 is presented below:

	Shares (in thousands)	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2006	6,951.7	\$ 30.85		
Granted	696.3	40.43		
Exercised	(1,324.8)	29.91		
Forfeited or expired	(47.0)	31.08		
Outstanding at June 30, 2006	6,276.2	\$ 32.11	5.5 years	\$ 50.0
Vested or expected to vest (1)	6,239.3	\$ 32.07	5.5 years	\$ 49.9
Exercisable at June 30, 2006	4,978.9	\$ 31.01	4.6 years	\$ 44.6

(1) Represents outstanding options reduced by expected forfeitures.

As of June 30, 2006, the total compensation expense related to nonvested options not yet recognized totaled \$9.6 million. The weighted-average grant date fair value of options granted was \$13.43 per option during the six months ended June 30, 2006 and \$11.79 per option during the six months ended June 30, 2005.

During the six months ended June 30, 2006, the amount of cash received from exercise of stock options totaled \$39.6 million and the tax benefit realized from stock options exercised totaled \$6.5 million. The total intrinsic value of options exercised during the six months ended June 30, 2006 and 2005 was \$19.3 million and \$19.9 million, respectively.

Restricted Stock Units

Generally, 50 percent of the Company's restricted stock units vest and are converted to stock at the end of the third year, an additional 25 percent at the end of the fourth year and the remaining 25 percent at the end of the fifth year. In certain circumstances, the vesting term is three years. Restricted stock units granted to employees who are eligible for retirement on the date of grant or will become retirement eligible prior to the end of the vesting term are expensed over the period through which the employee will become retirement eligible because the awards vest upon retirement from the Company. Compensation expense for restricted stock units granted to employees who are not retirement eligible is recognized on a straight-line basis over the vesting period. Cash dividend equivalents are paid to participants each quarter. Dividend equivalents paid on units expected to vest are recognized as a reduction in retained earnings.

The fair value of the restricted stock units is determined based upon the average of the high and low grant date fair value of the Company's units on the grant date. The weighted-average grant date fair value of units granted during the six months ended June 30, 2006 was \$40.48 per unit as compared to \$32.44 per unit during the six months ended June 30, 2005.

A summary of the status of the Company's restricted stock units as of June 30, 2006 and changes during the six months then ended is presented below:

	Shares (in thousands)	Weighted- Average Grant date Fair Value
Nonvested at January 1, 2006	1,095.1	\$ 31.55
Granted	591.8	40.48
Vested	(74.9)	33.72
Forfeited	(29.5)	34.56
Nonvested at June 30, 2006	1,582.5	34.75

As of June 30, 2006, there was \$28.1 million of total unrecognized compensation cost related to nonvested restricted stock units, which is expected to be recognized over a weighted-average period of 2.3 years. The total fair value of units vested during the six months ended June 30, 2006 and 2005 was \$2.6 million and \$0.2 million, respectively. The tax benefit realized from vested restricted stock units totaled \$1 million during the six months ended June 30, 2006.

Restricted Stock Awards

Restricted stock awards have not been granted since the year ended December 31, 2004. As of June 30, 2006, 7,025 awards were nonvested. There is a negligible amount of unrecognized compensation expense related to these shares. The total fair value of shares vested during the six months ended June 30, 2006 and 2005 was \$2.2 million and \$1.7 million, respectively. The tax benefit realized from vested restricted stock awards totaled \$0.8 million during the six months ended June 30, 2006.

Performance Units

Performance share units awarded to the Company's senior management are paid in cash. The target for one-half of the award is based on the fair value of the Company's stock at the end of the three-year term, as adjusted by a performance condition. The performance condition is based upon achievement of certain financial goals over a three-year measurement period. Since the award will be paid in cash, it is recorded as a liability. At each reporting period, the fair value represents the fair market value of the Company's stock as adjusted by expectations regarding the achievement of the performance objectives. If it is determined that the goals will not be met, any recognized compensation through the date of determination is recognized as income.

The target for the other half of the awards is based on the fair value of the Company's stock at the end of the three-year term, as adjusted by a market condition. Because the awards have a market condition, it was included in the calculation of the fair value. The fair value of each award is estimated each reporting period using a Monte Carlo Simulation approach in a risk-neutral framework based upon historical volatility, risk free rates and correlation matrix. Because the award is recorded as a liability, the fair value is updated at each reporting period until settlement.

The units vest over a three-year term. Participants who are eligible for retirement are entitled to the pro rata portion of the units earned through the date of retirement, death or disability. Units due to retirees are not paid out until the end of the original three-year term and at the fair value calculated at the end of the term. Dividends accrue on performance units during the measurement period and are reinvested in additional performance units.

A summary of performance share unit activity during the six months ended June 30, 2006 is presented below:

	Shares (in thousands)	Weighted- Average Fair Value	Weighted- Average Remaining Contractual Term	Aggregate Fair Value (in millions)
Outstanding at January 1, 2006	683.5	\$ 39.38		
Units granted, dividends reinvested and additional shares due to performance condition	331.9	40.10		
Converted and paid out	(313.7)	32.20		
Forfeited	(43.5)	40.64		
Outstanding at June 30, 2006	658.2	\$ 40.03	1.5 years	\$ 26.3
Vested or expected to vest (1)	613.4	\$ 39.94	1.5 years	\$ 24.5

(1) Represents outstanding units reduced by expected forfeitures.

As of June 30, 2006, the total compensation cost related to nonvested performance units not yet recognized totaled \$12.9 million. The weighted-average grant date fair value of units granted was \$46.21 per unit during the six months ended June 30, 2006 and \$32.43 per unit during the six months ended June 30, 2005. The total payments during the six months ended June 30, 2006 and 2005 approximated \$10.1 million and \$3.7 million, respectively.

Employee Stock Purchase Plan

The Company administers the Employee Stock Purchase Plan under which 2,000,000 shares are reserved for issuance. Employees with two months of continuous service prior to an offering period are eligible to participate in the plan. Eligible employees may elect to become participants in the plan and may contribute up to \$12,000 per year through payroll deductions to purchase stock purchase rights. Participants may, at any time and for any reason, cancel their payroll deduction authorizations and have the balance in their stock purchase right account applied to the purchase of shares or have the amount refunded. The offering period begins on January 1, or July 1 for new employees, and ends on December 31 of each year. The stock purchase rights are used to purchase the common stock of the Company at the lesser of: (i) 85 percent of the fair market value of a share as of the grant date applicable to the participant or (ii) 85 percent of the fair market value of a share as of the last day of the offering period. The fair market value of a share is defined as the average of the closing price per share as reflected by composite transactions on the New York Stock Exchange throughout a period of ten trading days ending on the determination date. Dividends are not paid or earned on stock purchase rights.

The fair value of the stock purchase rights are calculated as follows: 15 percent of the fair value of a share of nonvested stock and 85 percent of the fair value of a one-year share option. The fair value of a one-year share option was estimated at the date of grant using the Black-Scholes-Merton formula and the following assumptions:

	2006	2005
Risk-free interest rate (%)	4.4	2.8
Dividend yield (%)	2.0	2.6

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Volatility factor (%)		34.9	40.6
Weighted-average expected life of the option (years)		1.0	1.0
	37		

The weighted-average grant date fair value of rights granted was \$10.94 per right during the six months ended June 30, 2006 and \$9.00 per right during the six months ended June 30, 2005. The total intrinsic value of rights exercised during the six months ended June 30, 2006 and 2005 was \$3.3 million and \$1.6 million, respectively. As of June 30, 2006, the projected annual contributions under the plan are \$8.1 million.

Outside Director Phantom Share Plan

Each non-management Director receives an annual grant of phantom shares under the Outside Director Phantom Share Plan equal in value to \$60,000. Dividend equivalents accrued on all phantom shares are credited to a Director's account. All phantom shares are fully vested on the date of grant. Following termination of service as a Director, the cash value of the phantom shares will be paid to each Director in a single lump sum, five annual installments or ten annual installments. The value of each phantom share is determined on the relevant date by the fair market value of the common stock of the Company on such date.

The phantom shares outstanding are recorded at fair market value on each reporting date. At June 30, 2006, the intrinsic value totaled \$5.1 million on 127,000 phantom shares outstanding, reflecting a per share fair value of \$39.96. At June 30, 2005, the intrinsic value totaled \$4.7 million on 115,000 phantom shares outstanding, reflecting a per share fair value of \$40.96. Cash payments during the six months ended June 30, 2006 totaled \$49,000.

Outside Director Deferral Plan

Non-management Directors may elect to defer annual retainer and meeting fees under the Outside Director Deferral Plan. The plan permits non-management Directors to elect to defer a portion or all of the annual retainer and meeting fees into a phantom share account. Amounts deferred into the phantom share account accrue dividend equivalents. The plan provides that amounts deferred into the phantom share account are paid out in shares of common stock of the Company following termination of service as Director in a single lump sum, five annual installments or ten annual installments.

The shares outstanding under the plan are recorded at the grant date fair value, which is the fair value of the common stock of the Company on the date the deferred fees would ordinarily be paid in cash. At June 30, 2006, 96,000 shares were outstanding. The weighted-average grant date fair value per share was \$43.65 and \$36.58 during the six months ended June 30, 2006 and 2005, respectively. There were no shares issued under this plan during the six months ended June 30, 2006.

Note 18. Discontinued Operations

Discontinued operations for the three months and six months ended June 30, 2006 and June 30, 2005 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Dollars in millions)		(Dollars in millions)	
Sales	\$	\$ 1.5	\$	\$ 8.0
Operating income	\$ (0.1)	\$ 0.2	\$ 0.9	\$ 1.3
Gain on sale		20.2		20.2
Income tax expense		(7.1)	(0.4)	(7.5)
Income from discontinued operations	\$ (0.1)	\$ 13.3	\$ 0.5	\$ 14.0

Income from discontinued operations for the six months ended June 30, 2006 primarily represents insurance settlements with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation.

On April 19, 2005, the Company completed the sale of JcAir Inc. (Test Systems) to Aeroflex Incorporated for \$34 million in cash, net of expenses and purchase price adjustments. The gain on the sale of \$13.1 million after tax was recorded in the three and six months ended June 30, 2005. Test Systems was previously reported in the Electronic Systems segment. The amount of goodwill included in the gain on the sale of Test Systems was \$7.8 million.

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

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

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

OVERVIEW

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

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

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

Commercial and General Aviation Airplane OE

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

The key growth drivers in this market channel include the number of orders for new airplanes, which will be delivered to the manufacturers' customers over a period of several years, OE manufacturer production and delivery rates and introductions of new airplane models such as the Boeing 787 and 747-8 and the Airbus A380 and A350 XWB 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 more popular regional and general aviation airplanes. We were also awarded several new contracts for our products on airplanes currently in a pre-production stage, including the Airbus A380 and the Boeing 787 and 747-8, which should provide substantial future sales growth for us.

During 2005, orders for Airbus and Boeing commercial airplanes were at record levels, with many of the orders for deliveries beyond 2008. While orders for regional airplanes were not nearly as strong in 2005 as those for the larger airplanes, the unfilled backlog of orders remained substantial. During 2005, orders for general aviation airplanes, including business jets, continued to be strong as well. During 2006, orders for commercial airplanes were also strong. These orders are expected to generate substantial future sales for us.

Commercial and General Aviation Airplane Aftermarket

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

The key growth drivers in this channel include worldwide passenger capacity growth measured by Available Seat Miles (ASM) and the size of the airplane fleet. Other important factors affecting growth in this market channel are the age of the airplanes in the fleet and Gross Domestic Product (GDP) trends in countries and regions around the world. We estimate that capacity in the global airline system, as measured by ASMs, will grow approximately 5 percent annually in 2006 through 2010. It is expected that the global airplane fleet will continue to grow in 2006 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 defense and space OE sales, we anticipate that upgrades on existing 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 defense, surveillance and reconnaissance markets, which should further strengthen our position in this market channel.

Long-term Sustainable Growth

We believe we are well positioned to continue to grow our commercial airplane and defense and space sales due to:
 Awards for key products on important new programs, including the Airbus A380, 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 Airbus and regional and business 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; and

Expansion of our product offerings in support of high growth areas in the defense and space market channel.

Quarter Ended June 30, 2006 Sales Content by Market Channel

During the quarter ended June 30, 2006, approximately 95 percent of our sales were from our three primary market channels (described above). Following is a summary of the percentage of sales by market channel:

	Quarter Ended June 30, 2006
Airbus Commercial OE	16%
Boeing Commercial OE	10%
Regional and General Aviation Airplane OE	7%
 Total Commercial and General Aviation Airplane OE	 33%
Large Commercial Airplane Aftermarket	27%
Regional and General Aviation Airplane Aftermarket	7%
Heavy Airplane Maintenance	3%
 Total Commercial and General Aviation Airplane Aftermarket	 37%
 Total Defense and Space	 25%
 Other	 5%
 Total	 100%

Summary Performance Quarter Ended June 30, 2006 as Compared to the Quarter Ended June 30, 2005

	Quarter Ended June 30,		% Change
	2006	2005	
	(Dollars in millions, except diluted EPS)		
Sales	\$ 1,483.2	\$ 1,352.7	9.6%
Segment operating income	\$ 202.7	\$ 157.3	28.9%
Percent of sales	13.7%	11.6%	
Income from continuing operations	\$ 81.1	\$ 62.4	30.0%
Net income	\$ 81.0	\$ 75.7	7.0%
Capital expenditures	\$ 51.9	\$ 39.6	31.1%
Net cash provided (used) by operating activities	\$ (10.7)	\$ 90.6	(111.8)%
Diluted EPS:			
Continuing operations	\$ 0.64	\$ 0.51	25.5%
Net income	\$ 0.64	\$ 0.61	4.9%

Our sales and income performance during the quarter ended June 30, 2006 as compared to the quarter ended June 30, 2005 was driven primarily by sales growth in our commercial, regional and general aviation airplane market channels as follows:

Large commercial airplane OE sales increased 18 percent;

Regional, business and general aviation airplane OE sales increased 24 percent, led by strong sales growth for our aerostructures products;

Large commercial, regional and general aviation airplane aftermarket sales increased by 20 percent, with continued strong sales of our aerostructures products and services; and

Defense and space sales of both OE and aftermarket products and services decreased by about 6 percent.

Defense and space sales growth in the Electronic Systems segment of 10 percent was more than offset by a decrease in sales in the Engine Systems segment due to completion of certain contracts in 2005.

Income from continuing operations during the quarters ended June 30, 2006 and 2005 was also impacted by the following:

Income (Expense)	June 30, 2006			Quarter Ended June 30, 2005			Increase (Decrease)		
	Before Tax Income	Net Income	Diluted EPS	Before Tax Income	Net Income	Diluted EPS	Before Tax Income	Net Income	Diluted EPS
Pension curtailment charge	\$ (10.9)	\$ (6.8)	\$ (0.05)	\$	\$	\$	\$ (10.9)	\$ (6.8)	\$ (0.05)

Pension expense, excluding curtailment charge	\$ (22.5)	\$ (14.1)	\$ (0.11)	\$ (27.3)	\$ (17.1)	\$ (0.14)	\$ 4.8	\$ 3.0	\$ 0.03
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Loss on exchange or extinguishment of debt	\$ (4.8)	\$ (3.0)	\$ (0.02)	\$ (5.7)	\$ (3.6)	\$ (0.03)	\$ 0.9	\$ 0.6	\$ 0.01
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A380 actuation systems costs to reserve for retrofit	\$	\$	\$	\$ (15.0)	\$ (9.4)	\$ (0.08)	\$ 15.0	\$ 9.4	\$ 0.08
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Foreign exchange rate impact, including net monetary asset remeasurement	\$ (11.1)	\$ (6.9)	\$ (0.05)	\$ 1.7	\$ 1.1	\$ 0.01	\$ (12.8)	\$ (8.0)	\$ (0.06)
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Pension expense during the quarter ended June 30, 2006 totaled \$22.5 million as compared to \$27.3 million during the quarter ended June 30, 2005. During the quarter ended June 30, 2006, we recorded a pension curtailment charge of \$10.9 million related to the implementation of changes to our pension and retirement savings plans. Additionally, during the quarter ended June 30, 2006, we remeasured our U.S. pension plans, as was required following implementation of plan changes. Those remeasurements, which utilized higher discount rates which are more fully discussed in Note 10, Pensions and Postretirement Benefits to our Unaudited Condensed Consolidated Financial Statements, reduced pension expense for the quarter ended June 30, 2006 by \$4.5 million.

During the quarter ended June 30, 2006, we exchanged more than \$500 million of our long-term notes for similar notes of longer duration. The exchange reduces the amount of debt that matures in the years from 2008 to 2012 and the interest rates associated with the refinanced debt. We recorded a charge of \$4.8 million for costs associated with the transaction. As a result of the transaction, we expect before tax interest savings of approximately \$0.5 million per quarter, beginning in the quarter ending September 30, 2006. During the quarter ended June 30, 2005, we recorded premiums and other costs of \$5.7 million associated with the early retirement of \$100 million of long-term debt. During the quarter ended June 30, 2005, we incurred charges and costs totaling \$15 million associated with the A380 actuation program to reserve for costs associated with the retrofit of actuators.

During the quarter ended June 30, 2006, we reported an effective tax rate of 30.6 percent, including a net benefit of approximately 5 percentage points primarily related to the refund of prior year U.S. Research and Development (R&D) Credits connected with the Coltec tax litigation and for several additional settlements and refunds. During the quarter ended June 30, 2005, we reported an effective tax rate of 30.5 percent, which included a benefit for the elimination of certain valuation allowances against the net operating losses of a foreign subsidiary, partially offset by additional taxes related to repatriation of cash held in foreign subsidiaries pursuant to the American Jobs Creation Act. Our effective tax rate during the quarter ended June 30, 2006 was not reduced for the benefit of U.S. R&D Credits because the federal statute authorizing the R&D Credit has not been extended beyond December 31, 2005. We estimate that the effective tax rate as of June 30, 2006 would have been approximately 1 percentage point lower had we been able to consider the tax benefits associated with the R&D Credit.

Net income as reported for the quarter ended June 30, 2005 included an after tax gain of \$13.1 million (\$0.10 per diluted share) on the sale of the JcAir Inc. (Test Systems) business.

Summary Performance Six Months Ended June 30, 2006 as Compared to the Six Months Ended June 30, 2005

	Six Months Ended June 30,		% Change
	2006	2005	
	(Dollars in millions, except diluted EPS)		
Sales	\$ 2,907.0	\$ 2,628.2	10.6%
Segment Operating Income	\$ 372.6	\$ 307.9	21.0%
% of Sales	12.8%	11.7%	
Income from Continuing Operations	\$ 281.4	\$ 119.2	136.1%
Net Income	\$ 282.5	\$ 133.2	112.1%
Capital expenditures	\$ 95.1	\$ 66.4	43.2%
Net Cash Provided by Operating Activities	\$ 54.9	\$ 107.4	(48.9)%
Diluted EPS:			
Continuing Operations	\$ 2.23	\$ 0.97	129.9%
Net Income	\$ 2.24	\$ 1.08	107.4%

Our sales and income performance during the six months ended June 30, 2006 as compared to the six months ended June 30, 2005 was driven primarily by sales growth in our commercial, regional and general aviation airplane market channels as follows:

Large commercial airplane OE sales increased 22 percent;

Regional, business and general aviation airplane OE sales increased 23 percent, led by strong sales growth for our aerostructures products;

Large commercial, regional and general aviation airplane aftermarket sales increased by 18 percent, with continued strong sales of our aerostructures products and services; and

Defense and space sales of both OE and aftermarket products and services decreased by about 4 percent.

Defense and space sales growth in the Electronic Systems segment of 13 percent was more than offset by a decrease in sales in the Engine Systems segment due to completion of certain contracts in 2005.

Net income as reported for the six months ended June 30, 2005 included an after tax gain of \$13.1 million (\$0.10 per diluted share) on the sale of the Test Systems business.

Income from continuing operations during the six months ended June 30, 2006 and 2005 was also impacted by the following:

Income (Expense)	June 30, 2006			Six Months Ended June 30, 2005			Increase (Decrease)		
	Before Tax Income	Net Income	Diluted EPS	Before Tax Income	Net Income	Diluted EPS	Before Tax Income	Net Income	Diluted EPS
Pension curtailment charge	\$ (10.9)	\$ (6.8)	\$ (0.05)	\$	\$	\$	\$ (10.9)	\$ (6.8)	\$ (0.05)
Pension expense, excluding curtailment charge	\$ (51.8)	\$ (32.4)	\$ (0.26)	\$ (49.1)	\$ (30.7)	\$ (0.25)	\$ (2.7)	\$ (1.7)	\$ (0.01)
Loss on exchange or extinguishment of debt	\$ (4.8)	\$ (3.0)	\$ (0.02)	\$ (5.7)	\$ (3.6)	\$ (0.03)	\$ 0.9	\$ 0.6	\$ 0.01
A380 actuation systems costs to reserve for retrofit	\$	\$	\$	\$ (15.0)	\$ (9.4)	\$ (0.08)	\$ 15.0	\$ 9.4	\$ 0.08
Net income tax settlements and refunds	\$	\$ 139.0	\$ 1.10	\$	\$	\$	\$	\$ 139.0	\$ 1.10
Foreign exchange rate impact, including net monetary asset remeasurement	\$ (12.0)	\$ (7.5)	\$ (0.06)	\$ 4.0	\$ 2.5	\$ 0.02	\$ (16.0)	\$ (10.0)	\$ (0.08)
Share-base compensation, including the impact of the adoption of SFAS 123(R)	\$ (28.7)	\$ (17.9)	\$ (0.14)	\$ (19.2)	\$ (12.0)	\$ (0.10)	\$ (9.5)	\$ (5.9)	\$ (0.04)

Pension expense during the six months ended June 30, 2006 totaled \$51.8 million as compared to \$49.1 million during the six months ended June 30, 2005. During the six months ended June 30, 2006, we recorded a pension curtailment charge of \$10.9 million related to the implementation of changes to our pension and retirement savings plans.

Additionally, during the six months ended June 30, 2006, we remeasured our U.S. pension plans, as was required following implementation of plan changes. Those remeasurements, which utilized higher discount rates which are more fully discussed in Note 10, Pensions and Postretirement Benefits to our Unaudited Condensed Consolidated Financial Statements, reduced pension expense for the six months ended June 30, 2006 by \$4.5 million.

During the six months ended June 30, 2006, we exchanged more than \$500 million of our long-term notes for similar notes of longer duration. The exchange reduces the amount of debt that matures in the years from 2008 to 2012 and the interest rates associated with the refinanced debt. We recorded a charge of \$4.8 million for costs associated with the transaction. As a result of the transaction, we expect before tax interest savings of approximately \$0.5 million per quarter, beginning in the quarter ending September 30, 2006. During the six months ended June 30, 2005, we recorded premiums and other costs of \$5.7 million associated with the early retirement of \$100 million of long-term debt. During the six months ended June 30, 2005, we incurred charges totaling \$15 million associated with the A380 actuation program to reserve for costs associated with the retrofit of actuators.

During the six months ended June 30, 2006, we reported an effective tax rate benefit of (29.1) percent, including a benefit of approximately 63 percentage points related to the Rohr and Coltec tax cases and for several additional settlements and refunds. The effective tax rate excluding the benefit related to these items is 33.9 percent for the six months ended June 30, 2006. During the six months ended June 30, 2005, we reported an effective tax rate of 32.6 percent, which included a benefit for the elimination of certain valuation allowances against the net operating losses of a foreign subsidiary, partially offset by additional taxes related to repatriation of cash held in foreign subsidiaries pursuant to the American Jobs Creation Act. Our effective tax rate during the six months ended June 30, 2006 was not reduced for the benefit of U.S. R&D Credits because the federal statute authorizing the R&D Credit has not been extended beyond December 31, 2005. We estimate that the effective tax rate as of June 30, 2006 would have been approximately 1 percentage point lower had we been able to consider the tax benefits associated with the R&D Credit.

Net income as reported for the six months ended June 30, 2005 included an after tax gain of \$13.1 million (\$0.10 per diluted share) on the sale of the Test Systems business.

Cash flow from operating activities for the six months ended June 30, 2006 was \$54.9 million as compared to \$107.4 million provided by operations for the six months ended June 30, 2005. The decrease in net cash from operations of \$52.5 million was primarily due to a non-recurring cash outlay of approximately \$97 million relating to the termination of our accounts receivable securitization program. The decrease was partially offset by the impact of net income and non-cash expenses on cash flow from operations during 2006.

Capital expenditures were \$95.1 million for the six months ended June 30, 2006, as compared to \$66.4 million for the six months ended June 30, 2005.

2006 Outlook

Based on the continuation of very strong commercial aftermarket sales in the quarter ended June 30, 2006, our sales to airlines and package carriers for large commercial and regional aircraft aftermarket parts and services are now expected to grow by about 10 percent in 2006, compared to 2005. Our other market assumptions for 2006, which are included below, are essentially unchanged from that provided in our Form 10-Q for the quarter ended March 31, 2006. Based on the strong sales growth in the quarter ended June 30, 2006, and the current expectations for the second half of 2006, we now expect that full year 2006 sales will be in the range of \$5.75 to \$5.85 billion.

During the quarter ended June 30, 2006, we remeasured our U.S. pension plans, as was required following implementation of plan changes. Based on those remeasurements, which utilized a discount rate of 6.34 percent for the second half of 2006, we expect that full year 2006 pension expense, including the curtailment charge of \$11 million, will be approximately \$101 million, a reduction of \$16 million before tax, compared to our previous expectations of \$117 million for the full year 2006. Costs for our 401(k) savings plans are expected to increase by about \$6 million in the second half of 2006, for a net benefit of approximately \$10 million for 2006. We expect that approximately two-thirds of this benefit will be recognized in 2006.

The full year 2006 outlook for net income per diluted share has been adjusted for the pension and 401(k) items discussed above, and debt exchange costs incurred in the quarter ended June 30, 2006. Additionally, the outlook was adjusted to eliminate the previously expected gain from discontinued operations of \$0.08 per diluted share related to the turbomachinery products transaction, which has now been terminated, and to reflect improved operational performance expectations for 2006.

The assumptions for 2006 foreign exchange and stock-based compensation expense are essentially unchanged from those previously provided and are included below. Our outlook assumes an effective tax rate for the full year 2006, excluding the settlements and refunds recorded in the six months ended June 30, 2006, of approximately 32 to 33 percent. This tax rate assumes that the U.S. Research and Development (R&D) credits will be reinstated by the U.S. Congress, retroactive to the beginning of 2006.

Based on these adjustments, we now expect our full year 2006 net income per diluted share to be in the range of \$3.40 to \$3.55.

We now expect cash flow from operations, minus capital expenditures, to be approximately break-even, including expected second half 2006 tax payments of approximately \$140 million, which are directly associated with the Rohr and Coltec tax litigation, and the termination, in the quarter ended June 30, 2006, of our accounts receivable securitization program, which decreased cash flow from operations by approximately \$97 million. This outlook continues to include significant cash expenditures for investments in programs such as the Boeing 787 Dreamliner and the Airbus A350 XWB, voluntary pension plan contributions, capital expenditures to support higher OE deliveries to Boeing and Airbus, and productivity initiatives that are expected to enhance margins over the long-term. We expect capital expenditures in 2006 to be in the range of \$240 to \$260 million.

The current sales, net income and cash flow from operations outlook for 2006 does not include resolution of the remaining items in the IRS examination cycle for our tax years through 1999, the impact of acquisitions or divestitures or resolution of potential remaining A380 contractual disputes with Northrop Grumman.

Our 2006 outlook is based on the following market assumptions. The assumptions are essentially unchanged from the assumptions discussed in our Form 10-Q for the quarter ended March 31, 2006.

We expect deliveries of Airbus and Boeing large commercial aircraft to increase by more than 20 percent in 2006 compared to 2005, and by a somewhat lesser amount in 2007, including the expected reduction of A380 deliveries in 2006 and 2007. Our sales of large commercial aircraft OE products are projected to increase by approximately 15 percent in 2006. This expected growth rate is lower than the growth rate in aircraft deliveries because many of our products are delivered well in advance of manufacturers' deliveries to their customers, causing sales to occur in 2005 for planes to be delivered well into 2006.

Capacity in the global airline system, as measured by available seat miles (ASMs), is expected to continue to grow approximately 5 percent in 2006, compared to 2005. Our sales to airlines and package carriers for large commercial and regional aircraft aftermarket parts and services are now expected to grow by about 10 percent in 2006, compared to 2005.

Total regional and business aircraft production is expected to be flat or slightly down in 2006, compared to 2005, as deliveries of business jets are expected to increase, partially offsetting the expected decrease in regional aircraft deliveries. Deliveries to Embraer in support of its EMBRAER 190 aircraft, which includes a significant amount of our content, are expected to enable us to substantially increase our OE sales in this market channel for the full year 2006, compared to 2005.

Defense and space sales (OE and aftermarket) are expected to be relatively flat to slightly down in 2006, compared to 2005. Sales for the C-5 Reliability Enhancement and Re-engining Program are expected to temporarily decrease in 2006, and sales of military aftermarket products are also expected to decline in the customer services business. These decreases are expected to be largely offset by strong growth in the sales of defense and space products in our optical and space systems business.

As also noted in our Form 10-Q for the quarter ended March 31, 2006, the 2006 outlook includes significant increases in costs associated with foreign exchange and stock-based compensation as discussed below. The assumptions discussed below are essentially unchanged from those previously disclosed:

Foreign exchange We are currently more than 90 percent hedged for our expected 2006 foreign exchange exposure. Based on these hedges and current market conditions, we expect that foreign currency translation related to sales and expenses denominated in currencies other than the U.S. dollar will have an unfavorable impact of approximately \$26 million before tax (\$16 million after tax, or \$0.13 per diluted share) during 2006, compared to 2005, as gains from hedges maturing in 2006 will be less than gains realized in 2005.

Stock-based compensation We implemented FAS 123, prospectively, and a new stock option and restricted stock unit program on January 1, 2004. The cost of each annual restricted stock unit grant is amortized over a five-year vesting period. Consequently, expense increases year-over-year as each new restricted stock unit grant is added. Also, under the provisions of FAS 123(R), beginning in 2006, we have recognized the value of stock options and restricted stock units granted to all employees who are eligible for retirement, or who will become eligible for retirement prior to the normal vesting date, on an accelerated basis. In total, these items resulted in an increase in stock-based compensation expense, for 2006 compared to 2005, of approximately \$13 million before tax (\$8 million after tax, or \$0.06 per diluted share).

RESULTS OF OPERATIONS

Adoption of SFAS No. 123(R)

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123(R)), *Share-Based Payment*, which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123). SFAS 123(R) supersedes APB Opinion No. 25, *Accounting for Stock Issued to Employees* and amends Statement of Financial Accounting Standards No. 95, *Statement of Cash Flows*. We adopted the SFAS 123 fair value-based method of accounting for share-based payments effective January 1, 2004 using the modified prospective method described in Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure*. We adopted SFAS 123(R) on January 1, 2006 using the modified-prospective transition method.

At June 30, 2006, we have seven types of share-based compensation awards outstanding, which are described more fully in Note 17, Share-Based Compensation Plans, to our Unaudited Condensed Consolidated Financial Statements. Because we adopted the accounting provisions of SFAS 123 effective January 1, 2004, the compensation cost recognized in accordance with SFAS 123 during the years ended December 31, 2004 and 2005 should be consistent with the cost that would have been recorded under SFAS 123(R), except for the following differences between the two statements:

SFAS 123(R) requires entities to apply the same attribution method to all awards subject to graded vesting. We have two types of share-based compensation awards that are subject to graded vesting: stock options and restricted stock units. These awards are described more fully in Note 17, Share-Based Compensation Plans, to our Unaudited Condensed Consolidated Financial Statements. In the years prior to January 1, 2006, stock options were accounted for under the straight-line attribution method and restricted stock units were accounted for under the accelerated attribution method. Effective upon the adoption of SFAS 123(R), we made a policy election to apply the straight-line method to all share-based awards that are subject to graded vesting. As a result of this election, the straight-line method being applied to restricted stock unit grants would have calculated before tax compensation expense during the six months ended June 30, 2005 higher than the previous method of accounting by approximately \$1.6 million (\$1 million after tax). As a result of applying the straight-line method, we expect that before tax compensation expense recognized during the twelve months ending December 31, 2006 will be approximately \$1 million lower than it would have been under the accelerated method.

We previously accounted for forfeitures as they occurred. Under SFAS 123(R), we are required to estimate expected forfeitures at the grant date and recognize compensation cost only for those awards expected to vest. Effective January 1, 2006, we recorded income of \$1.8 million (\$1.1 million after tax, or \$0.01 per diluted share) to adjust previously recognized compensation cost on unvested awards to the amount of compensation cost recognized had forfeitures been estimated. This amount was recorded as a cumulative effect of a change in accounting.

In accordance with SFAS 123, we previously recorded compensation cost on performance unit awards, described more fully in Note 17, Share-Based Compensation Plans, to our Unaudited Condensed Consolidated Financial Statements, using the intrinsic-value method. However, SFAS 123(R) requires liability awards to be accounted for using the fair value method. One-half of our performance unit awards have a market condition, which must be considered in the determination of fair value. Effective January 1, 2006, we recorded expense of \$0.9 million (\$0.5 million after tax) to adjust previously recognized compensation cost on vested performance unit awards to the amount of compensation recognized had the fair value of the awards been recorded prior to the adoption of SFAS 123(R). This amount was recorded as a cumulative effect of a change in accounting.

Prior to the adoption of SFAS 123(R), we presented all excess tax benefits of deductions resulting from share-based payments as operating cash flows in the Statement of Cash Flows. SFAS 123(R) requires the cash flows from tax deductions in excess of the compensation cost to be classified as financing cash flows. The \$4 million excess tax benefit was classified as a financing cash inflow during the six months ended June 30, 2006.

Compensation expense on share-based payment grants made subsequent to January 1, 2006 to retirement eligible individuals will be recognized over the requisite service period (i.e., through date of retirement eligibility). In accordance with SEC guidance, expense related to grants prior to the adoption of SFAS 123(R) will continue to be recognized over the explicit vesting period, which is generally three or five years, with acceleration of any remaining unrecognized compensation cost when an employee actually retires. As a result of applying this provision of SFAS 123(R), before tax compensation cost of approximately \$12 million (\$7 million after tax, or \$0.06 per diluted share) was recognized during the six months ended June 30, 2006, which is approximately \$10 million higher than recorded under the previous method. Applying this provision to all awards granted subsequent to December 31, 1994 (the effective date of SFAS 123) would have calculated higher before tax compensation cost during the six months ended June 30, 2005 by approximately \$7 million. For the year ending December 31, 2006, we expect that before tax compensation cost will be approximately \$9 million higher than under the previous method.

The compensation cost that has been recorded for share-based compensation awards during the six months ended June 30, 2006 totaled \$28.7 million (\$17.9 million after tax, or \$0.14 per diluted share) as compared to \$19.2 million (\$12 million after tax, or \$0.10 per diluted share) during the six months ended June 30, 2005. The increase of \$9.5 million was primarily driven by approximately \$10 million of incremental compensation expense recognized during the six months ended June 30, 2006 as a result of recognizing an accelerated portion of the total compensation expense on 2006 awards granted to employees who are retirement eligible or will become retirement eligible prior to the normal vesting date. As of June 30, 2006, total compensation cost related to nonvested share-based compensation awards not yet recognized totaled \$50.6 million, which is expected to be recognized over a weighted-average period of 1.9 years. The compensation cost recorded for share-based compensation during the quarter ended June 30, 2006 totaled \$6.9 million as compared to \$7.8 million during the quarter ended June 30, 2005.

Quarter Ended June 30, 2006 Compared with Quarter Ended June 30, 2005

	Quarter Ended June 30,	
	2006	2005
	(Dollars in millions)	
Sales	\$ 1,483.2	\$ 1,352.7
Segment operating income	\$ 202.7	\$ 157.3
Corporate general and administrative costs	(23.9)	(21.2)
Pension curtailment	(10.9)	
Total operating income	167.9	136.1
Net interest expense	(30.2)	(32.0)
Other income (expense) net	(20.9)	(14.3)
Income tax expense	(35.7)	(27.4)
Income from continuing operations	81.1	62.4
Income (loss) from discontinued operations	(0.1)	13.3
Net income	\$ 81.0	\$ 75.7

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

Corporate general and administrative costs of \$23.9 million for the quarter ended June 30, 2006 increased \$2.7 million, or 12.7 percent, from \$21.2 million for the quarter ended June 30, 2005 primarily due to costs of approximately \$4 million relating to the implementation of a common enterprise resource planning (ERP) system.

Corporate general and administrative costs as a percentage of sales were 1.6 percent in the quarters ended June 30, 2006 and 2005.

Net interest expense of \$30.2 million in the quarter ended June 30, 2006 decreased \$1.8 million, or 5.6 percent, from \$32 million in the quarter ended June 30, 2005, primarily due to lower debt levels in 2006.

Other income (expense) net increased by \$6.6 million to expense of \$20.9 million in the quarter ended June 30, 2006 from expense of \$14.3 million in the quarter ended June 30, 2005 as a result of a \$6.5 million increase in expenses related to divested businesses.

For the quarter ended June 30, 2006, we reported an effective tax rate of 30.6 percent, including a net benefit of approximately 5 percentage points primarily related to the refund of prior year R&D Credits connected with the Coltec tax litigation and for several additional settlements and refunds. During the quarter ended June 30, 2005, we reported an effective tax rate of 30.5 percent, which included a benefit for the elimination of certain valuation allowances against the net operating losses of a foreign subsidiary, partially offset by additional taxes related to repatriation of cash held in foreign subsidiaries pursuant to the American Jobs Creation Act. Our effective tax rate during the quarter ended June 30, 2006 was not reduced for the benefit of U.S. R&D Credits because the federal statute authorizing the R&D Credit has not been extended beyond December 31, 2005. We estimate that the effective tax rate as of June 30, 2006 would have been approximately 1 percentage point lower had we been able to consider the tax benefits associated with the R&D Credit.

Income from discontinued operations, after tax, includes primarily the after tax gain on the sale of Test Systems of \$13.1 million that was recorded in the quarter ended June 30, 2005.

Six Months Ended June 30, 2006 Compared with Six Months Ended June 30, 2005

	Six Months Ended June 30,	
	2006	2005
	(Dollars in millions)	
Sales	\$ 2,907.0	\$ 2,628.2
Segment operating income	\$ 372.6	\$ 307.9
Corporate general and administrative costs	(51.1)	(41.7)
Pension curtailment	(10.9)	
Total operating income	310.6	266.2
Net interest expense	(61.1)	(65.0)
Other income (expense) net	(31.5)	(24.4)
Income tax benefit (expense)	63.4	(57.6)
Income from continuing operations	281.4	119.2
Income from discontinued operations	0.5	14.0
Cumulative effect of change in accounting	0.6	
Net income	\$ 282.5	\$ 133.2

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

Corporate general and administrative costs of \$51.1 million for the six months ended June 30, 2006 increased \$9.4 million, or 22.5 percent, from \$41.7 million for the six months ended June 30, 2005 primarily due to the following:

Higher costs related to the ERP implementation of approximately \$5 million;

Higher salary and benefits resulting from inflationary increases of approximately \$3 million; and

Higher incentive compensation, including the adoption of SFAS 123(R), of approximately \$2 million.

Corporate general and administrative costs as a percentage of sales were 1.8 percent in the six months ended June 30, 2006 and 1.6 percent in the six months ended June 30, 2005, as a result of the factors noted above.

Net interest expense of \$61.1 million for the six months ended June 30, 2006 decreased \$3.9 million, or 6 percent, from \$65 million for the six months ended June 30, 2005, primarily due to lower debt levels in 2006.

Other income (expense) net increased by \$7.1 million to expense of \$31.5 million for the six months ended June 30, 2006 from expense of \$24.4 million for the six months ended June 30, 2005, primarily as a result of a \$6.5 million increase in expenses related to divested businesses.

For the six months ended June 30, 2006, we reported an effective tax rate benefit of (29.1) percent, including a benefit of approximately 63 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 these items is 33.9 percent for the six months ended June 30, 2006. During the six months ended June 30, 2005, we reported an effective tax rate of 32.6 percent, which included a benefit for the elimination of certain valuation allowances against the net operating losses of a foreign subsidiary, partially offset by additional taxes related to repatriation of cash held in foreign subsidiaries pursuant to the American Jobs Creation Act. Our effective tax rate during the six months ended June 30, 2006 was not reduced for the benefit of U.S. R&D Credits because the federal statute authorizing the R&D Credit has not been extended beyond December 31, 2005. We estimate that the effective tax rate as of June 30, 2006 would have been approximately 1 percentage point lower had we been able to consider the tax benefits associated with the R&D Credit. Income from discontinued operations, after tax, represents the after tax gain on the sale of Test Systems of \$13.1 million that was recorded in the six months ended June 30, 2005. Income from discontinued operations for Test Systems included net income of \$0.9 million in the six months ended June 30, 2005.

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 as previously discussed.

BUSINESS SEGMENT PERFORMANCE

Our operations are reported as three business segments: Engine Systems, Airframe Systems and Electronic Systems. An analysis of net customer sales and operating income by business segment follows.

In the following table, segment operating income is total segment revenue reduced by operating expenses directly identifiable with that business segment except for the pension curtailment which was not allocated to our segments.

Quarter Ended June 30, 2006 Compared with Quarter Ended June 30, 2005

	Quarter Ended June 30,			% of Sales	
	2006	2005	% Change	2006	2005
(Dollars in millions)					
NET CUSTOMER SALES					
Engine Systems	\$ 634.6	\$ 565.8	12.2		
Airframe Systems	488.6	464.0	5.3		
Electronic Systems	360.0	322.9	11.5		
Total Sales	\$ 1,483.2	\$ 1,352.7	9.6		
SEGMENT OPERATING INCOME					
Engine Systems	\$ 128.9	\$ 108.8	18.5	20.3	19.2
Airframe Systems	28.0	10.8	159.3	5.7	2.3
Electronic Systems	45.8	37.7	21.5	12.7	11.7
Segment Operating Income	\$ 202.7	\$ 157.3	28.9	13.7	11.6

Engine Systems: Engine Systems segment sales of \$634.6 million in the quarter ended June 30, 2006 increased \$68.8 million, or 12.2 percent, from \$565.8 million in the quarter ended June 30, 2005. The increase was due to the following:

Higher large commercial airplane OE and aftermarket (including maintenance, repair and overhaul (MRO)) volume of approximately \$96 million primarily in our aerostructures and customer services businesses; and

Higher sales volume of approximately \$14 million of regional and business OE and aftermarket products primarily from our aerostructures business.

The increase in sales was partially offset by a decline in defense sales volume in our aerostructures and customer services businesses of approximately \$36 million.

Engine Systems segment operating income of \$128.9 million in the quarter ended June 30, 2006 increased \$20.1 million, or 18.5 percent, from \$108.8 million in the quarter ended June 30, 2005. Segment operating income was higher due to higher sales volume as described above generating segment operating income of approximately \$33 million.

The increase in the Engine Systems segment operating income was partially offset by higher costs of approximately \$12 million, including increased costs for research and development, primarily for the development of the Boeing 787 and the Airbus A350 XWB programs, higher incentive compensation, higher warranty costs and unfavorable foreign exchange translation.

On June 20, 2006, we announced that the April 11, 2006 agreement to sell our turbomachinery products business had been terminated. We expect to continue to operate and report turbomachinery products as a continuing operation.

Airframe Systems: Airframe Systems segment sales of \$488.6 million for the quarter ended June 30, 2006 increased \$24.6 million, or 5.3 percent, from \$464 million for the quarter ended June 30, 2005. The increase was primarily due to higher sales volume of approximately \$43 million in landing gear commercial airplane OE and aftermarket, and defense OE products. Partially offsetting this increase were factors including:

Lower sales in actuation systems of approximately \$10 million driven primarily by lower volume and an unfavorable foreign exchange translation impact; and

Lower volume of airframe heavy maintenance sales of approximately \$9 million.

Airframe Systems segment operating income of \$28 million for the quarter ended June 30, 2006 increased \$17.2 million, or 159.3 percent, from \$10.8 million for the quarter ended June 30, 2005. This increase in operating income was a result of the following:

The absence of a \$15.1 million charge recorded in the quarter ended June 30, 2005 for the retrofit of redesigned motor drive electronics for the A380 actuation systems, including supplier claims and a related asset impairment, not recurring in the current period; and

Lower research and development costs of approximately \$6 million, primarily in our actuation systems business.

Partially offsetting these factors was an unfavorable impact of approximately \$7 million related to foreign exchange translation, primarily in the actuation systems and landing gear businesses.

Electronic Systems: Electronic Systems segment sales of \$360 million in the quarter ended June 30, 2006 increased \$37.1 million, or 11.5 percent, from \$322.9 million in the quarter ended June 30, 2005. The increase was primarily due to:

Higher sales volume of approximately \$16 million, including sales from Sensors Unlimited (SUD) which was acquired in the fourth quarter of 2005, and from our defense and space OE primarily in our optical and space, fuel and utility, sensors and power systems businesses;

Higher sales volume of approximately \$9 million of regional and general aviation airplane OE products in our sensors, lighting and power systems businesses; and

Higher sales volume of \$8 million of large commercial airplane OE and aftermarket products in sensors, lighting and power systems businesses.

Electronic Systems segment operating income of \$45.8 million in the quarter ended June 30, 2006 increased \$8.1 million, or 21.5 percent, from \$37.7 million in the quarter ended June 30, 2005. Segment operating income was higher due to:

Higher sales volume as described above generating segment operating income of approximately \$14 million, which includes operating income from SUI that was acquired during the fourth quarter 2005; and

Favorable sales mix in our aircraft interior products, optical and space systems, lighting systems and power systems businesses, which generated segment operating income of approximately \$3 million.

The increase in segment operating income was partially offset by:

Higher operating costs of approximately \$7 million, including warranty and pension expenses; and

Unfavorable foreign exchange translation of approximately \$2 million.

Six Months Ended June 30, 2006 Compared with Six Months Ended June 30, 2005

	2006	Six Months Ended June 30,			% of Sales	
		2005	% Change	(Dollars in millions)	2006	2005
NET CUSTOMER SALES						
Engine Systems	\$ 1,245.1	\$ 1,093.9	13.8			
Airframe Systems	958.9	906.7	5.8			
Electronic Systems	703.0	627.6	12.0			
Total Sales	\$ 2,907.0	\$ 2,628.2	10.6			
SEGMENT OPERATING INCOME						
Engine Systems	\$ 247.6	\$ 199.3	24.2	19.9	18.2	
Airframe Systems	42.3	38.6	9.6	4.4	4.3	
Electronic Systems	82.7	70.0	18.1	11.8	11.2	
Segment Operating Income	\$ 372.6	\$ 307.9	21.0	12.8	11.7	

Engine Systems: Engine Systems segment sales of \$1,245.1 million for the six months ended June 30, 2006 increased \$151.2 million, or 13.8 percent, from \$1,093.9 million for the six months ended June 30, 2005. The increase was due to the following:

Higher commercial OE and aftermarket (including MRO) volume of approximately \$183 million primarily in our aerostructures, engine controls and customer services businesses; and

Higher sales volume of approximately \$26 million of regional and business OE products primarily from our aerostructures business.

The increase in sales was partially offset by a decline in defense sales volume in our aerostructures and customer services businesses of approximately \$61 million.

Engine Systems segment operating income of \$247.6 million for the six months ended June 30, 2006 increased \$48.3 million, or 24.2 percent, from \$199.3 million for the six months ended June 30, 2005. Segment operating income was higher due to:

Higher sales volume as described above generating operating income of approximately \$70 million; and

Lower net cumulative catch-up charges of approximately \$3 million in the six months ended June 30, 2006 as compared to the six months ended June 30, 2005 on several long-term contracts in our aerostructures business. The increase in the Engine Systems segment operating income was partially offset by approximately \$22 million of increased costs for research and development, primarily for the development of the Boeing 787 and the Airbus A350 XWB programs, higher incentive compensation, higher warranty costs and unfavorable foreign currency translation.

Airframe Systems: Airframe Systems segment sales of \$958.9 million for the six months ended June 30, 2006 increased \$52.2 million, or 5.8 percent, from \$906.7 million for the six months ended June 30, 2005. The increase was primarily due to higher sales volume of approximately \$79 million of landing gear commercial OE, aftermarket and military products, partially offset by the following factors:

Lower volume of airframe heavy maintenance sales of approximately \$26 million;

Lower sales in our actuation systems business of approximately \$5 million primarily driven by an unfavorable foreign exchange impact; and

Lower volume in our wheels and brakes business of approximately \$5 million, which was primarily driven by a decrease in military volume.

Airframe Systems segment operating income of \$42.3 million for the six months ended June 30, 2006 increased \$3.7 million, or 9.6 percent, from \$38.6 million for the six months ended June 30, 2005. This increase in segment operating income was due to:

The absence of a \$15.1 million charge recorded in the six months ended June 30, 2005 for the retrofit of redesigned motor drive electronics for the A380 actuation systems, including supplier claims and a related asset impairment, not recurring in the current period; and

Lower research and development costs of approximately \$11 million, primarily in the actuation systems business.

Partially offsetting these factors was the impact of higher operating costs of \$14 million, primarily in the wheel and brake and landing gear businesses, and \$8 million relating to an unfavorable foreign exchange translation charge against segment operating income in the actuation systems and landing gear businesses.

Electronic Systems: Electronic Systems segment sales of \$703 million for the six months ended June 30, 2006 increased \$75.4 million, or 12 percent, from \$627.6 million for the six months ended June 30, 2005. The increase was primarily due to:

Higher sales volume of approximately \$37 million of defense and space OE and aftermarket products primarily in our optical and space, fuel and utility, sensors and power systems businesses, partially offset by a decline in sales volume in our propulsion systems business;

Higher sales volume of \$20 million of large commercial OE and aftermarket products in virtually all of our business units;

Higher sales volume of approximately \$12 million of regional and general aviation airplane OE and aftermarket products in our sensors, lighting and power systems businesses; and

Sales of approximately \$9 million from SUI, which was acquired during the fourth quarter 2005.

Electronic Systems segment operating income of \$82.7 million for the six months ended June 30, 2006 increased \$12.7 million, or 18.1 percent, from \$70 million for the six months ended June 30, 2005. Segment operating income was higher due to:

Higher sales volume as described above generating segment operating income of approximately \$28 million, which includes operating income from SUI; and

Favorable mix in our power systems, optical and space systems and aircraft interior products businesses of approximately \$6 million.

The increase in segment operating income was partially offset by:

Increased operating costs of approximately \$16 million, including warranty expense and incentive compensation expenses; and

Increased investments of approximately \$5 million in research and development and new product introduction costs in our optical and space, sensors, and fuel and utility businesses to support new programs.

Future Restructuring and Consolidation Costs for Programs Announced and Initiated

During 2005, we announced and initiated a restructuring program to downsize a German facility in our Electronic Systems segment with partial transfers of operations to existing facilities in Florida and India. The goal of this project is to reduce operating costs and foreign exchange exposure. The total restructuring cost is expected to be approximately \$15 million, of which approximately \$9.3 million relates to costs yet to be incurred in the remainder of 2006 and 2007. Approximately \$2 million was paid in the six months ended June 30, 2006.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash

At June 30, 2006, we had cash and marketable securities of \$208.4 million, as compared to \$251.3 million at December 31, 2005.

Credit Facilities

We have a \$500 million committed global syndicated revolving credit facility that expires in May 2011. In May 2006, we exercised an option within the credit facility to extend the maturity of the facility by one year from May 2010 to May 2011. This facility permits borrowing, including letters of credit, up to a maximum of \$500 million. At June 30, 2006, there were \$34.9 million in borrowings (classified as long-term debt) and \$19.7 million in letters of credit outstanding under this facility. At December 31, 2005, there were \$34.9 million in borrowings and \$19.6 million in letters of credit outstanding under this facility.

The level of unused borrowing capacity under our committed syndicated revolving credit facility varies from time to time depending in part upon our compliance with financial and other covenants set forth in the related agreement, including the consolidated net worth requirement and maximum leverage ratio. We are currently in compliance with all such covenants. As of June 30, 2006, we had borrowing capacity under this facility of \$445.4 million, after reductions for borrowings and letters of credit outstanding under the facility.

At June 30, 2006, we maintained \$75 million of uncommitted domestic money market facilities and \$128.3 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. As of June 30, 2006, there was \$31 million outstanding under these facilities. At December 31, 2005, we maintained \$75 million of uncommitted domestic money market facilities and \$111.5 million of uncommitted and committed foreign working capital facilities with \$22.4 million outstanding in borrowings under these facilities. These credit facilities are provided by a small number of commercial banks that also provide us with committed credit through the syndicated revolving credit facility and with various cash management, trust and other services.

Our credit facilities do not contain any credit rating downgrade triggers that would accelerate the maturity of our indebtedness. However, a ratings downgrade would result in an increase in the interest rate and fees payable under our committed syndicated revolving credit facility. Such a downgrade also could adversely affect our ability to renew existing or obtain access to new credit facilities in the future and could increase the cost of such new facilities. In May 2006, Standard & Poor's Rating Services raised our credit rating to BBB from BBB- which reduced our facility fee from 15 basis points per annum to 12.5 basis points per annum.

Long-Term Financing

At June 30, 2006, we had long-term debt and capital lease obligations, including current maturities, of \$1,721 million with maturities ranging from 2006 to 2046. Long-term debt includes \$34.9 million borrowed under the committed revolving syndicated credit facility to facilitate our implementation of the cash repatriation provisions of the American Jobs Creation Act. The earliest maturity of a material long-term debt obligation is April 2008. We also maintain a shelf registration statement that allows us to issue up to \$1.4 billion of debt securities, series preferred stock, common stock, stock purchase contracts and stock purchase units.

In June 2006, we exchanged the following notes for \$290.7 million principal amount of a new series of 6.29 percent notes due in 2016:

\$177.9 million principal amount of our 7.50 percent notes due in 2008;

\$32.7 million principal amount of our 6.45 percent notes due in 2008; and

\$80.1 million principal amount of our 6.60 percent notes due in 2009.

In June 2006, we exchanged \$242.5 million principal amount of our outstanding 7.625 percent notes due 2012 for \$254.6 million principal amount of a new series of our 6.80 percent notes due in 2036. We paid an aggregate cash premium of \$8.6 million to exchange the 6.29 percent notes due in 2016 and paid an aggregate premium of \$24 million, including \$12 million in cash and \$12 million financed by issuing additional notes, for the exchange of the 6.80 percent notes due 2036. The premiums will be amortized over the lives of the new notes. We recorded \$4.8 million of transaction costs associated with the exchange offers in other income (expense) net during the quarter ended June 30, 2006.

The 6.29 percent notes due in 2016 and the 6.80 percent notes due in 2036 were issued in a transaction exempt from the registration requirements of the Securities Act of 1933, as amended (the Securities Act) to holders of the previously outstanding notes who certified certain matters to us, including their status as qualified institutional buyers as defined in Rule 144A under the Securities Act. As required by a registration rights agreement entered into with the holders of the new notes, we are required to register under the Securities Act additional notes of the same series to be offered in exchange for the currently outstanding 6.29 percent notes due in 2016 and 6.80 percent notes due in 2036. In June 2006, we entered into \$288.5 million of treasury locks to offset changes in the issue price of the 6.29 percent notes due 2016 and entered into \$288.5 million of reverse treasury locks to offset changes in the exchange prices of the 7.50 percent notes due in 2008, 6.45 percent notes due in 2008 and 6.60 percent notes due in 2009 attributable to movements in treasury rates prior to the exchange date. We paid \$0.3 million in cash to settle the locks, and the amount was recorded in accumulated other comprehensive income during the quarter ended June 30, 2006 and will be amortized over the life of the 6.29 percent notes due 2016. In June 2006, we also entered into \$235.5 million of treasury locks to offset changes in the issue price of the 6.80 percent notes due 2036 and entered into \$235.5 million of reverse treasury locks to offset changes in the exchange price of the 7.625 percent notes due in 2012 due to movements in treasury rates prior to the exchange date. We paid \$1.9 million in cash to settle the locks, and the amount was recorded in accumulated other comprehensive income during the quarter ended June 30, 2006 and will be amortized over the life of the 6.80 percent notes due 2036.

In June 2006, we terminated \$7 million of a \$50 million fixed-to-floating interest rate swap on our 6.45 percent notes due in 2008. We paid \$0.3 million in cash to terminate this portion of the interest rate swap and the amount was recorded as an expense in other income (expense) net during the quarter ended June 30, 2006. This portion of the interest rate swap was terminated so that the outstanding notional amount of the fixed-to-floating interest rate swap would match the outstanding principal amount, subsequent to the exchange of the 6.45 percent notes due in 2008.

Off-Balance Sheet Arrangements

We utilize several forms of off-balance sheet financing arrangements. At June 30, 2006, these arrangements included:

	Undiscounted Minimum Future Lease Payments	Receivables Sold
	(Dollars in millions)	
Tax advantaged operating leases	\$ 19.3	
Standard operating leases	133.4	
	\$ 152.7	
Short-term Receivables securitization program		\$

Lease Agreements

We finance some of our office and manufacturing facilities and machinery and equipment, including corporate aircraft, under committed lease arrangements provided by financial institutions. Some of these arrangements allow us to claim a deduction for the tax depreciation on the assets, rather than the lessor, and allow us to lease aircraft and equipment having a maximum unamortized value of \$55 million at June 30, 2006. At June 30, 2006, \$19.3 million of future minimum lease payments were outstanding under these arrangements. The other arrangements are standard operating leases. Future minimum lease payments under the standard operating leases approximated \$133.4 million at June 30, 2006.

Additionally, at June 30, 2006, we had guarantees of residual values of lease obligations of \$24.8 million. The residual values relate to corporate aircraft and equipment which we are obligated to either purchase at the end of the lease term or remarket.

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

Sale of Receivables

Effective June 30, 2006, we terminated the variable rate trade receivables securitization program. The outstanding balance of \$97.1 million was repaid during the quarter ended June 30, 2006.

Cash Flow Hedges

We have subsidiaries that conduct a substantial portion of their business in Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys, but have significant sales contracts that are denominated in U.S. Dollars. Approximately 10 percent of our revenues and approximately 25 percent of our costs are denominated in currencies other than the U.S. Dollar. Approximately 95 percent of these net costs are in Euros, Great Britain Pounds Sterling and Canadian Dollars. Periodically, we enter into forward contracts to exchange U.S. Dollars for Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys to hedge a portion of our exposure from U.S. Dollar sales. The forward contracts described above are used to mitigate the potential volatility of earnings and cash flow arising from changes in currency exchange rates that impact our U.S. Dollar sales for certain foreign operations. The forward contracts are being accounted for as cash flow hedges. The forward contracts are recorded on our Consolidated Balance Sheet at fair value with the net change in fair value reflected in accumulated other comprehensive income/(loss), net of deferred taxes. The notional value of the forward contracts at June 30, 2006 was \$1,715 million. The fair value of the forward contracts at June 30, 2006, was a net asset of \$89.2 million, including:

\$47.3 million recorded as a current asset in Prepaid expenses; and

\$51.7 million recorded as a non-current asset in other assets; partially offset by,

\$9.7 million recorded as a current liability in accrued expenses; and

\$0.1 million recorded as a non-current liability in other non-current liabilities.

The total fair value of our forward contracts of \$89.2 million (before deferred taxes of \$31.3 million) at June 30, 2006, combined with \$0.3 million of gains on previously matured hedges of intercompany sales and gains from forward contracts terminated prior to the original maturity dates, is recorded in accumulated other comprehensive income and will be reflected in income as the earnings are affected by the hedged items. As of June 30, 2006, the portion of the \$89.5 million fair value that would be reclassified into earnings as an increase in sales to offset the effect of the hedged item in the next 12 months is a net gain of \$37.9 million.

In June 2006, we entered into treasury locks and reverse treasury locks in connection with our long-term debt exchange offers. In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), the treasury locks were accounted for as cash flow hedges. We entered into \$288.5 million of treasury locks to offset changes in the issue price of our 6.29 percent notes due 2016 and entered into \$288.5 million of reverse treasury locks to offset changes in the exchange prices of the 7.50 percent notes due in 2008, 6.45 percent notes due in 2008 and 6.60 percent notes due in 2009 attributable to movements in treasury rates prior to the exchange date. We paid \$0.3 million in cash to settle the locks, and the amount was recorded in accumulated other comprehensive income during the quarter ended June 30, 2006, and will be amortized over the life of the 6.29 percent notes due 2016. In June 2006, we also entered into \$235.5 million of treasury locks to offset changes in the issue price of the 6.80 percent notes due 2036 and entered into \$235.5 million of reverse treasury locks to offset changes in the exchange price of the 7.625 percent notes due in 2012 attributable to movements in treasury rates prior to the exchange date. We paid \$1.9 million

in cash to settle the locks, and the amount was recorded in accumulated other comprehensive income during the quarter ended June 30, 2006 and will be amortized over the life of the 6.80 percent notes due 2036.

Fair Value Hedges

We enter into interest rate swaps to increase our exposure to variable interest rates. We have the following interest rate swaps outstanding as of June 30, 2006.

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

Two \$50 million fixed-to-floating interest rate swaps on the 7.50 percent notes due in 2008.

In June 2006, we terminated \$7 million of a \$50 million fixed-to-floating interest rate swap on our 6.45 percent notes due in 2008 in connection with our long-life debt exchange offers. We paid \$0.3 million in cash to terminate this portion of the interest rate swap, which was recorded as an expense in other income (expense) net during the quarter ended June 30, 2006. This portion of the interest rate swap was terminated so that the outstanding notional amount of the fixed-to-floating interest rate swap would match the outstanding principal amount, subsequent to the exchange, of the 6.45 percent notes due in 2008.

The settlement and maturity dates on each swap are the same as those on the referenced notes. In accordance with SFAS 133, the interest rate swaps are being accounted for as fair value hedges and the carrying value of the notes has been adjusted to reflect the fair values of the interest rate swaps. The fair value of the interest rate swaps was a liability/(loss) of \$5.2 million at June 30, 2006.

Other Forward Contracts

As a supplement to our foreign exchange cash flow hedging program, we enter into forward contracts to manage our foreign currency risk related to the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency. These forward contracts mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. The gains or losses on these forward contracts are being recorded in cost of sales in order to mitigate the earnings impact of the translation of net monetary assets. Under this program, as of June 30, 2006, we had forward contracts with a notional value of \$76.6 million to buy Great Britain Pounds Sterling, forward contracts with a notional value of \$154 million to buy Euros and forward contracts with a notional value of \$29.9 million to sell Canadian Dollars.

CASH FLOW

The following table summarizes our cash flow activity for the six months ended June 30, 2006 and 2005.

Net Cash Provided by (Used by):	Six Months Ended	
	2006	2005
	June 30,	
	(Dollars in millions)	
Operating activities of continuing operations	\$ 54.9	\$ 107.4
Investing activities of continuing operations	\$(93.7)	\$ (70.4)
Financing activities of continuing operations	\$(20.2)	\$(106.7)
Discontinued operations	\$ 11.2	\$ 27.2

Six Months Ended June 30, 2006 as Compared to Six Months Ended June 30, 2005***Operating Activities of Continuing Operations***

Net cash provided by operating activities decreased \$52.5 million from \$107.4 million during the six months ended June 30, 2005 to \$54.9 million during the six months ended June 30, 2006. The decrease in net cash from operations was primarily due to a non-recurring cash outlay of approximately \$97 million related to the termination of our accounts receivable securitization program, which was partially offset by higher net income after consideration of non-cash expenses and improved management of working capital. Net cash provided by operating activities included worldwide pension contributions of \$13.3 million and \$6.9 million, respectively, for the six months ended June 30, 2006 and 2005.

During 2006, we continue to expect to contribute \$100 million to \$125 million to our worldwide qualified and non-qualified pension plans and to make payments of \$36 million related to our postretirement benefit plans.

Investing Activities of Continuing Operations

Net cash used by investing activities was \$93.7 million in the six months ended June 30, 2006 and \$70.4 million in the six months ended June 30, 2005. Net cash used by investing activities for the six months ended June 30, 2006 included capital expenditures of \$95.1 million. Net cash used by investing activities in the six months ended June 30, 2005 included capital expenditures of \$66.4 million and an acquisition of the minority interest in one of our businesses of \$8.8 million.

We continue to expect capital expenditures in 2006 to be in the range of \$240 million to \$260 million, reflecting increased cash expenditures for investments in programs such as the Boeing 787 and the Airbus A350 XWB, capital expenditures to support higher OE deliveries to Airbus and Boeing and productivity initiatives that are expected to enhance long-term margins. The breakdown of expected 2006 capital expenditures by segment is as follows:

Segment	Percent
Engines	41%
Airframe	31%
Electronics	20%
Corporate	8%
	100%

Financing Activities of Continuing Operations

Net cash used by financing activities was \$20.2 million in the six months ended June 30, 2006, compared to \$106.7 million for the six months ended June 30, 2005. During the six months ended June 30, 2006, we exchanged \$533.2 million principal amount of our long-term notes for similar notes of longer duration and paid cash premiums of \$20.5 million. The exchange reduces the amount of debt that matures in the years from 2008 to 2012 and the interest rates associated with the refinanced debt. We paid \$3.5 million during the six months ended June 30, 2006 for costs associated with the transaction. During the six months ended June 30, 2006, we issued common stock for \$46.1 million, primarily through the exercise of stock options, which was offset by dividends paid to our shareholders of \$49.8 million. During the six months ended June 30, 2005, we redeemed \$100 million of our 6.45 percent notes due in 2007 for approximately \$106 million. Also during the six months

ended June 30, 2005, we issued common stock for \$51.3 million, primarily from the exercise of stock options, and paid dividends to shareholders of \$47.9 million.

Discontinued Operations

Net cash provided by discontinued operations was \$11.2 million in the six months ended June 30, 2006 primarily from insurance settlements, net of tax, with several insurers relating to the recovery of environmental remediation costs at a former plant previously recorded as a discontinued operation. Net cash provided by discontinued operations in the six months ended June 30, 2005 included proceeds of \$27.2 million from the sale of Test Systems.

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

Environmental

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

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

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

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

Our Unaudited Condensed Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of \$78.2 million and \$81 million at June 30, 2006 and December 31, 2005, respectively. At June 30, 2006 and December 31, 2005, \$15.1 million and \$18.3 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as accrued expenses. At June 30, 2006 and December 31, 2005, \$32.6 million and \$31.4 million, respectively, was associated with ongoing operations and \$45.6 million and \$49.6 million, respectively, was associated with businesses previously disposed of or discontinued.

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

Asbestos

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

We believe that we have substantial insurance coverage available to us related to any remaining claims. However, the primary layer of insurance coverage for most of these claims is provided by the Kemper Insurance Companies. Kemper has indicated that, due to capital constraints and downgrades from various rating agencies, it has ceased underwriting new business and now focuses on administering policy commitments from prior years. Kemper has also indicated that it is currently operating under a run-off plan approved by the Illinois Department of Insurance. We cannot predict the impact of Kemper's financial position on the availability of the Kemper insurance. In addition, a portion of our primary and excess layers of general liability insurance coverage for most of these claims was provided by insurance subsidiaries of London United Investments plc (KWELM). KWELM is insolvent and in the process of distributing its assets and dissolving. In September 2004, we entered into a settlement agreement with KWELM pursuant to which we agreed to give up our rights with respect to the KWELM insurance policies in exchange for \$18.3 million, subject to increase under certain circumstances. The settlement represents a negotiated payment for our loss of insurance coverage, as we no longer have the KWELM insurance available for claims that would have qualified for coverage. The initial settlement amount of \$18.3 million was paid to us during 2004, was recorded as a deferred settlement credit and will be used to offset asbestos and other toxic tort claims in future periods. The KWELM insolvent fund managers made additional settlement distributions to us during the six months ended June 30, 2006 and during the year ended December 31, 2005 totaling \$1.8 million and \$11.3 million, respectively, following completion of the insolvent scheme of arrangement process in the United Kingdom. The additional distribution was recorded as a deferred settlement credit and will be used to offset asbestos and other toxic tort claims in future periods. One final distribution may be made depending on the final valuation of KWELM.

Liabilities of Divested Businesses

Asbestos

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

A limited number of asbestos-related claims have been asserted against us as successor to Coltec or one of its subsidiaries. We believe that we have substantial legal defenses against these claims, as well as against any other claims that may be asserted against us on the theories described above. In addition, the agreement between EnPro and us that was used to effectuate the spin-off provides us with an indemnification from EnPro covering, among other things, these liabilities. The success of any such asbestos-related claims would likely require, as a practical matter, that Coltec's subsidiaries were unable to satisfy their asbestos-related liabilities and that Coltec

was found to be responsible for these liabilities and was unable to meet its financial obligations. We believe any such claims would be without merit and that Coltec was solvent both before and after the dividend of its aerospace business to us. If we are ultimately found to be responsible for the asbestos-related liabilities of Coltec's subsidiaries, we believe such finding would not have a material adverse effect on our financial condition, but could have a material adverse effect on our results of operations and cash flows in a particular period. However, because of the uncertainty as to the number, timing and payments related to future asbestos-related claims, there can be no assurance that any such claims will not have a material adverse effect on our financial condition, results of operations and cash flows. If a claim related to the dividend of Coltec's aerospace business were successful, it could have a material adverse impact on our financial condition, results of operations and cash flows.

Other

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

Guarantees

At June 30, 2006, we had an outstanding contingent liability for guarantees of debt and lease payments of \$2.3 million, letters of credit and bank guarantees of \$54.7 million and residual value of lease obligations of \$24.8 million.

Commercial Airline Customers

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

Aerostructures Long-Term Contracts

Our aerostructures business has several long-term contracts in the pre-production phase. This phase includes design of the product to meet customer specifications as well as design of the manufacturing processes to manufacture the product. Also involved in this phase is securing a supply of material and components produced by third party suppliers, which is generally accomplished through long-term supply agreements. Because these contracts cover periods of up to 15 years or more, there is risk that estimates of future costs made during the pre-production phase will be different from actual costs and that the difference could be significant.

Compliance with Specialty Metals Clause in U.S. Defense Contracts and Subcontracts

Many companies in the aerospace industry are experiencing challenges regarding compliance with certain provisions set forth in Department of Defense (DoD) Appropriations Acts that are often referred to generally as the Berry Amendment. The Berry Amendment provisions are implemented through the Department of Defense Federal Acquisition Regulation Supplement (DFARS). One of the DFARS clauses (252.225-7014 (Alternate I)) implementing the Berry Amendment restricts the country of origin for certain specialty metals used in certain products to be delivered to the DoD. This DFARS clause requires that any specialty metals (in most cases involving stainless steel or titanium) incorporated into an article to be delivered under a DoD contract must be melted in the United States or its outlying areas, or must be melted or incorporated into an article manufactured in a list of qualifying countries. The

Alternate I version of this clause applies to DoD contracts involving, among other items, aircraft and missile and space systems, and requires all subcontractors *at any tier* to comply with the clause's restrictions on the use of specialty metals. Compliance with this requirement is especially difficult in connection with stainless steel fasteners purchased from global sources.

We have certain contracts and subcontracts that contain DFARS 252.225-7014 (Alternate I). Delivering supplies and/or submitting payment requests for supplies that do not comply with DFARS 252.225-7014 (Alternate I), when applicable, could subject us to potentially significant penalties if the non-compliance is not disclosed to the purchaser. In addition, disclosing any non-compliance with this DFARS clause can result in customers not accepting or conditionally accepting the non-compliant supplies. We are continuing to evaluate our compliance with the clause and are unable at this time to estimate the financial effect on us that may be associated with any non-compliance.

Tax

We are continuously undergoing examination by the Internal Revenue Service (IRS), as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by us on our income tax returns. In accordance with SFAS 109, Accounting for Income Taxes, and SFAS 5,

Accounting for Contingencies, we establish reserves for tax contingencies that reflect our best estimate of the deductions and credits that we may be unable to sustain, or that we could be willing to concede as part of a broader tax settlement. 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. As of June 30, 2006, we had recorded tax contingency reserves of approximately \$240.4 million.

In 2000, Coltec, our former subsidiary, made a \$113.7 million payment to the IRS for an income tax assessment and the related accrued interest arising out of certain capital loss deductions and tax credits taken in 1996. On February 13, 2001, Coltec filed suit against the U.S. Government in the U.S. Court of Federal Claims seeking a refund of this payment. On November 2, 2004, we were notified that the trial court ruled in favor of Coltec. During 2005, the Government appealed the decision with the U.S. Court of Appeals for the Federal Circuit. The U.S. Court of Appeals for the Federal Circuit entered a final judgment in this case on July 12, 2006, reversing the decision of the U.S. Court of Federal Claims. We intend to seek a review of this decision. If we are unsuccessful in contesting the decision, Coltec will not owe any additional interest or taxes with respect to 1996. However, we would be required by the IRS to pay up to \$32.7 million of tax plus accrued interest, which was \$24.7 million through June 30, 2006, before federal benefit, with respect to the same items claimed by Coltec in its tax returns for 1997 through 2000. On August 2, 2006 we paid the tax plus accrued interest of approximately \$50

million, net of related federal tax benefit, in order to stop the accrual of interest. The amount of the previously estimated tax liability if the IRS were to prevail for the 1997 through 2000 period remains fully reserved. If we are successful in contesting the decision of the U.S. Court of Appeals for the Federal Circuit, we will be entitled to any tax refund and related interest pursuant to an agreement with Coltec. If we receive these amounts, it would record income of approximately \$163 million, after tax, based on interest through June 30, 2006, including the release of previously established reserves.

In 2000, the IRS issued a statutory notice of deficiency asserting that Rohr, Inc. (Rohr), our subsidiary, was liable for \$85.3 million of additional income taxes for the fiscal years ended July 31, 1986 through 1989. In 2003, the IRS issued an additional statutory notice of deficiency asserting that Rohr was liable for \$23 million of additional income taxes for the fiscal years ended July 31, 1990 through 1993. The proposed assessments relate primarily to the timing of certain tax deductions and tax credits. Rohr filed petitions in the U.S. Tax Court opposing the proposed assessments. We previously reached a tentative settlement agreement with the IRS with regard to the proposed assessments that required further review by the Joint Committee on Taxation (JCT). On March 15, 2006 we received notification that the JCT approved the tentative settlement agreement entered into with the IRS. As a result of receiving the JCT notification we recorded a tax benefit of approximately \$72.2 million, primarily related to the reversal of the tax reserves, during the six months ended June 30, 2006.

Our current IRS examination cycle began on September 29, 2005 and involves the taxable years ended December 31, 2000 through December 31, 2004. The prior examination cycle which began in March 2002, includes the consolidated income tax groups in the audit periods identified below:

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

There were numerous tax issues that had been raised by the IRS as part of the prior examination cycle, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, tax accounting for stock options, depreciation, amortization and the proper timing for certain other deductions for income tax purposes. We previously reached tentative settlement agreements with the IRS on substantially all of the issues raised with respect to the prior examination cycle. Due to the amounts of tax involved certain portions of the tentative settlement agreements were required to be reviewed by the JCT. We received notification on April 25, 2006 that the JCT approved the tentative settlement agreement entered into with the IRS with regard to Rohr, Inc. and Subsidiaries (for the period from July, 1995 through December, 1997). As a result of receiving the JCT notification, we recorded a tax benefit of approximately \$14.9 million, primarily related to the reversal of tax reserves, during the six months ended June 30, 2006. In addition to the JCT approvals with regard to Rohr, we reached agreement with the IRS regarding most of the issues with respect to Coltec Industries Inc and Subsidiaries (for the period from December, 1997 through July, 1999). Consequently, we recorded a tax benefit of approximately \$44.4 million, primarily related to the reversal of tax reserves, during the six months ended June 30, 2006. We cannot predict the timing or ultimate outcome of a final settlement of the remaining unresolved issues. If we settle pursuant to previous discussions, we would anticipate reversing some portion of previously established reserves.

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 \$19 million as of June 30, 2006. In addition, the State of California enacted an amnesty provision that imposes nondeductible penalty interest equal to 50 percent of the unpaid interest amounts relating to taxable years ended before 2003. The penalty interest is approximately \$10 million as of June 30, 2006. The tax and interest amounts continue to be contested by Rohr. We believe that we are adequately reserved for this contingency. Rohr made a voluntary payment during the six months ended June 30, 2005 of approximately \$3.9 million related to items that were not being contested, consisting of approximately \$0.6 million related to tax and approximately \$3.3 million related to interest on the tax. Rohr made an additional payment during the quarter ended December 31, 2005 of approximately \$4.5 million related to the contested tax amount pursuant to the State's assessment notice dated October 20, 2005. No payment has been made for the \$19 million of interest or \$10 million of penalty interest. Under California law, Rohr may be required to pay the full amount of interest prior to filing any suit for refund. If required, Rohr expects to make this payment and file suit for a refund before the end of 2007.

NEW ACCOUNTING STANDARDS

Accounting for Certain Hybrid Financial Instruments

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 155, *Accounting for Certain Hybrid Financial Instruments* (SFAS 155), which amends FASB Statement No. 133 and FASB Statement No. 140, and improves the financial reporting of certain hybrid financial instruments by requiring more consistent accounting that eliminates exemptions and simplifies the accounting for those instruments. SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. We have not issued or acquired any hybrid instruments included in the scope of SFAS 155 and do not expect the adoption of SFAS 155 to have a material impact on our financial condition, results of operations or cash flows.

Accounting for Servicing of Financial Assets

In March 2006, the FASB issued Statement of Financial Accounting Standards No. 156, *Accounting for Servicing of Financial Assets - An Amendment of FASB Statement No. 140* (SFAS 156). SFAS 156 requires that all separately recognized servicing assets and servicing liabilities be initially measured at fair value, if practicable. The statement permits, but does not require, the subsequent measurement of servicing assets and servicing liabilities at fair value. SFAS 156 is effective as of the beginning of an entity's first fiscal year that begins after September 15, 2006. We do not expect the adoption of SFAS 156 to have a material impact on our financial condition, results of operations or cash flows.

Accounting for Uncertainty in Income Taxes

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 creates a single model for accounting and disclosure of uncertain tax positions. This interpretation prescribes the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Additionally, FIN 48 provides guidance on derecognition, measurement, classification, interest and penalties, and transition of uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are currently evaluating the impact of the adoption of FIN 48 on our financial condition, results of operations and cash flows.

CRITICAL ACCOUNTING POLICIES

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

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

Revenue Recognition

For revenues not recognized under the contract method of accounting, we recognize revenues from the sale of products at the point of passage of title, which typically is at the time of shipment. Revenues earned from providing maintenance service are recognized when the service is complete. In multiple deliverable arrangements, the revenues for products and services are allocated based upon their relative fair value.

Contract Accounting-Percentage of Completion

Revenue Recognition

We have sales under long-term contracts, many of which contain escalation clauses, requiring delivery of products over several years and frequently providing the buyer with option pricing on follow-on orders. Sales and profits on each contract are recognized in accordance with the percentage-of-completion method of accounting, primarily using the units-of-delivery method. We follow the requirements of Statement of Position 81-1 (SOP 81-1), *Accounting for Performance of Construction-Type and Certain Production-Type Contracts* (the contract method of accounting), using the cumulative catch-up method in accounting for revisions in

estimates. Under the cumulative catch-up method, the impact of revisions in estimates related to units shipped to date is recognized immediately when changes in estimated contract profitability are known.

Profit is estimated based on the difference between total estimated revenue and total estimated cost of a contract.

Changes in estimated total revenue and estimated total cost are recognized as business or economic conditions change and the impact on contract profitability is recorded immediately in that period using the cumulative catch-up method.

Cost includes the estimated cost of the pre-production effort, primarily tooling and engineering design, plus the estimated cost of manufacturing a specified number of production units. The specified number of production units used to establish the profit margin is predicated upon contractual terms adjusted for market forecasts and does not exceed the lesser of those quantities assumed in original contract pricing as adjusted to the date of certification, or those quantities which we now expect to deliver in the timeframe/period assumed in the original contract pricing or at the date of certification. Our policies only allow the estimated number of production units to be delivered to exceed the quantity assumed within the original contract pricing or at date of certification when we receive firm orders for additional units or we are required to begin manufacturing of units under contractual production lead time. The assumed timeframe/period is generally equal to the period-specified in the contract. If the contract is a life of program contract, then such period is equal to the time period used in the original pricing model adjusted, if appropriate, to the expected period of production estimated at the date of certification. Option quantities are combined with prior orders when follow-on orders are released.

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

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

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

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 the following:

Projected number of units to be delivered under the contracts;

Assumed escalation factor for future sales prices under the contracts;

Estimated costs, including material and labor costs;

Estimated labor improvement due to the learning curve;

Estimated supplier pricing; and

Estimated cost increases due to inflation or availability of certain materials.

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. This usually results in an increase in inventory (referred to as excess-over-average) during the early years of a contract.

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

Income Taxes

In accordance with SFAS 109, APB Opinion No. 28, and FIN No. 18, as of each reporting period, we estimate an effective income tax rate that is expected to be applicable for the full fiscal year. The estimate of our effective income tax rate involves significant judgments regarding the application of complex tax regulations across many jurisdictions and estimates as to the amount and jurisdictional source of income expected to be earned during the full fiscal year. Further influencing this estimate are evolving interpretations of new and existing tax laws, rulings by taxing authorities and court decisions. Due to the 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.

In accordance with SFAS 5, we record tax contingencies when the exposure item becomes probable and the amount is reasonably estimable. As of June 30, 2006 and December 31, 2005, we had recorded tax contingency reserves of approximately \$240.4 million and \$325.6 million, respectively.

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

Identifiable Intangible Assets

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

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

Participation Payments

Certain of our businesses make cash payments under long-term contractual arrangements to OE manufacturers (OEM) or system contractors in return for a secured position on an aircraft program. Participation payments are capitalized, when a contractual liability has been incurred, as other assets and amortized as cost of sales. Participation payments are amortized over the estimated number of production units to be shipped over the program's production life which reflects the pattern in which the economic benefits of the participation payments are consumed. At June 30, 2006 and December 31, 2005, the carrying amount of participation payments was \$118.8 million and \$118.2 million, respectively. The carrying amount of participation payments is evaluated for recovery at least annually or when other indicators of impairment, such as a change in the estimated number of units or a revision in the economics of the program. If such estimates change, amortization expense is adjusted and/or an impairment charge is recorded, as appropriate, for the effect of the revised estimates. No such impairment charges were recorded in the six months ended June 30, 2006 or 2005.

Entry Fees

Certain businesses in our Engine Systems segment make cash payments to an OEM under long-term contractual arrangements related to new engine programs. The payments are referred to as entry fees and entitle us to a controlled access supply contract and a percentage of total program revenue generated by the OEM. Entry fees are capitalized in other assets and are amortized on a straight-line basis to cost of sales or as a reduction of sales as appropriate over the program's estimated useful life following aircraft certification, which typically approximates 20 years. As of June 30, 2006 and December 31, 2005, the carrying amount of entry fees was \$117.5 million and \$113.9 million, respectively. The carrying amount of entry fees is evaluated for recovery at least annually or when other significant assumptions or economic conditions change. Recovery of entry fees is assessed based on the expected cash flow from the program over the remaining program life as compared to the recorded amount of entry fees. If the carrying value of the entry fees exceeds the cash flow to be generated from

the program, a charge would be recorded for the amount by which the carrying amount of the entry fee exceeds its fair value. No such impairment charges were recorded in the six months ended June 30, 2006 or 2005.

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

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

Performance of subcontract suppliers and other production risks;

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

Availability of specialized raw materials in the marketplace.

Sales Incentives

We offer sales incentives to certain airline customers in connection with sales contracts. These incentives may consist of up-front cash payments, merchandise credits and/or free products. The cost of these incentives is recognized in the period incurred unless recovery of these costs is specifically guaranteed by the customer in the contract. If the contract contains such a guarantee, then the cost of the sales incentive is capitalized as other assets and amortized to cost of sales using the straight-line method over the remaining contract term. At June 30, 2006 and December 31, 2005, the carrying amount of sales incentives was \$65.4 million and \$67.1 million, respectively. The carrying amount of sales incentives is evaluated for recovery when indicators of potential impairment exist. The carrying value of the sales incentives is also compared annually to the amount recoverable under the terms of the guarantee in the customer contract. If the amount of the carrying value of the sales incentives exceeds the amount recoverable in the contract, the carrying value is reduced. No such impairment charges were recorded in the six months ended June 30, 2006 or 2005.

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 over the projected number of aircraft to be manufactured. At June 30, 2006 and December 31, 2005, the carrying amount of flight certification costs was \$26.3 million and \$26.2 million, respectively. The carrying amount of flight certification costs is evaluated for recovery when indicators of impairment exist. The carrying value of the asset and amortization expense are adjusted when the estimated number of units to be manufactured changes. No such charges were recorded in the six months ended June 30, 2006 or 2005.

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 SFAS 5. 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.

Pension and Postretirement Benefits Other Than Pensions

Assumptions used in determining the benefit obligations and the annual expense for our pension and postretirement benefits other than pensions are evaluated and established. We consult with an outside actuary for most of the assumptions. 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. For December 31, 2005 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, 2005. This same approach was used to determine U.S. discount rates to use to remeasure plan obligations on April 11, 2006, in connection with our definitive agreement to divest the turbomachinery products business (which agreement was subsequently terminated), and on May 19, 2006, due to the closure of the election period for the Retirement Choice Program described below. In the U.K., the iBoxx AA long-term high quality bond rate was used as the basis for determining the discount rate for 2006. In Canada, a similar approach to determining discount rates in the U.S. is 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.

U.S. Retirement Plan Changes in 2006

In the fourth quarter of 2005, we changed certain aspects of our U.S. qualified and non-qualified defined benefit pension plans and U.S. qualified and non-qualified defined contribution plans. This change generally does not apply to employees who are members of a collective bargaining unit. Non-union employees hired on and after January 1, 2006, will not participate in our qualified and non-qualified defined benefit plans. These new employees will receive a higher level of contribution from us in our qualified and non-qualified defined contribution plans. New employees will receive a dollar for dollar match on the first 6 percent of pay contributed, plus an automatic annual employer contribution of 2 percent of pay. The 2 percent employer contribution is subject to a 3-year vesting requirement for new employees.

During the second quarter of 2006, persons employed by us as of December 31, 2005 and thereafter continuously employed, elected whether they wanted to continue with their current benefits in the defined benefit and defined contribution plans or freeze pension benefit service as of June 30, 2006 and receive a higher level of contributions in the defined contribution plans. For those employees choosing the latter option, pay received after June 30, 2006 will continue to be included in their final average earnings used to calculate their pension benefits. The Retirement Choice election period closed on May 19, 2006 and approximately 41 percent of the eligible employees chose the latter option with our enhanced contribution to the defined contribution plans.

This change in retirement benefits resulted in a pension curtailment charge in the second quarter of 2006 of \$10.9 million and a revision to 2006 pension expense for the remainder of the year after the May 19, 2006 curtailment date. The curtailment charge is based on the unrecognized prior service cost attributable to the employees who elected the new arrangement. The revised pension expense reflects a reevaluation of the U.S. assumptions on the date the Retirement Choice election period closed and the elimination of service cost and amortization of prior service cost for the employees who elected the new arrangement.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

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

- demand for and market acceptance of new and existing products, such as the Airbus A350 XWB and A380, the Boeing 787 Dreamliner, the EMBRAER 190, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and F-22 Raptor;

- our ability to extend our commercial original equipment contracts beyond the initial contract periods;

- potential cancellation of orders by customers;

- successful development of products and advanced technologies;

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

- global demand for aircraft spare parts and aftermarket services;

- 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 actual amount of future liabilities assumed by us pursuant to the partial settlement with Northrop Grumman related to the purchase of aeronautical systems;

- the possibility of additional contractual disputes with Northrop Grumman related to the purchase of aeronautical systems;

- the resolution of the remaining items in the IRS examination cycle for our tax years through 1999;

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

threats and events associated with and efforts to combat terrorism;

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

competitive product and pricing pressures;

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

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

the effect of changes in accounting policies;

domestic and foreign government spending, budgetary and trade policies;

delay in deliveries of defense and space products requiring strict compliance with certain provisions of the Berry amendment, as implemented by DFARS 252.225-7014 (Preference for domestic specialty metals) and DFARS 252.225-7014 (Preference for domestic specialty metals) Alternate I;

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in interest rates and foreign currency exchange rates, which could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We intend to use such derivative financial instruments as risk management tools and not for speculative investment purposes. Our discussion of market risk in our 2005 Annual Report on Form 10-K provides more discussion as to the types of instruments used to manage risk. Refer to Note 14, Derivatives and Hedging Activities of our Unaudited Condensed Consolidated Financial Statements in Part 1 Item 1 of this Form 10-Q for a description of current developments involving our hedging activities. At June 30, 2006, a hypothetical 100 basis point increase in interest rates would increase annual interest expense by approximately \$2.3 million. At June 30, 2006, a hypothetical 10 percent strengthening of the U.S. dollar against other foreign currencies would decrease the value of our forward contracts by \$179.8 million. The fair value of these forward contracts was \$89.2 million at June 30, 2006. Because we hedge only a portion of our exposure, a strengthening of the U.S. Dollar as described above would have a more than offsetting benefit to our financial results in future periods.

Item 4. Controls and Procedures.

(a) Evaluation of Disclosure Controls and Procedures.

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

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

(b) Changes in Internal Controls.

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We and certain of our subsidiaries are defendants in various claims, lawsuits and administrative proceedings. In addition, we have been notified that we are among potentially responsible parties under federal environmental laws, or similar state laws, relative to the cost of investigating and in some cases remediating contamination by hazardous materials at several sites. See the disclosure under the captions General , Environmental , Asbestos , Liabilities of Divested Businesses-Asbestos and Tax in Note 15, Contingencies to the Unaudited Condensed Consolidated Financial Statements included in Part 1, Item 1, of this Form 10-Q, which disclosure is incorporated herein by reference.

Item 1A. Risk Factors.

In addition to other information set forth in this report, you should carefully consider the factors discussed in Part 1, Item 1A. Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2005, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report of Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

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

(c) The following table summarizes Goodrich Corporation's purchases of its common stock for the quarter ended June 30, 2006:

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)
April 2006	30,302	\$ 42.74	N/A	N/A
May 2006	9,440	46.39	N/A	N/A
June 2006	2,079	42.72	N/A	N/A
Total	41,821	\$ 43.56	N/A	N/A

(1) The issuer purchases during the period covered by this report represent shares delivered to us by employees to pay withholding

taxes due in connection with share-based compensation.

- (2) In connection with the exercise of employee stock options and vesting of restricted stock awards, restricted stock unit awards and deferred long-term incentive plan awards, we from time to time accept delivery of shares to pay withholding taxes due upon the exercise of employee stock options or the vesting of restricted stock awards, restricted stock unit awards or deferred long-term incentive plan awards. We do not otherwise have any plan or program to purchase our common stock.

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

The 2006 Annual Meeting of Shareholders was held on April 25, 2006 at 10:00 a.m. Eastern time at the Company's headquarters in Charlotte, North Carolina. As described in the 2006 Proxy Statement, the following actions were taken:

The eleven nominees for director were elected; and.

The appointment of Ernst & Young LLP as independent auditors for the year 2006 was ratified.

The votes were as follows:

Election of Directors:

	Number of Shares Voted For	Number of Shares Vote Withheld
Diane C. Creel	55,934,827	54,206,959
George A. Davidson, Jr.	108,389,432	1,752,354
Harris E. DeLoach, Jr.	109,144,072	997,714
James W. Griffith	108,505,312	1,636,474
William R. Holland	108,818,609	1,323,177
John P. Jumper	109,090,164	1,051,622
Marshall O. Larsen	108,401,471	1,740,315
Douglas E. Olesen	109,131,133	1,010,653
Alfred M. Rankin, Jr.	107,792,846	2,348,940
James R. Wilson	109,129,965	1,011,821
A. Thomas Young	108,401,632	1,740,154

Appointment of Independent Registered Public Accounting Firm:

108,522,045 shares voted for; 966,100 shares voted against; and 653,641 shares abstained from voting.

Item 6. Exhibits

The following exhibits have been filed with this report:

Exhibit 3.1 Restated Certificate of Incorporation of Goodrich Corporation, filed as Exhibit 3.1 to Goodrich Corporation's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 (File No. 1-892), is incorporated herein by reference.

Exhibit 3.2 By-Laws of Goodrich Corporation, as amended, filed as Exhibit 4(B) to Goodrich Corporation's Registration Statement on Form S-3 (File No. 333-98165), is incorporated herein by reference.

In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, Goodrich Corporation hereby undertakes to furnish to the Securities and Exchange Commission upon request, a copy of all instruments defining the rights of holders of long-term debt.

Exhibit 15 Letter Re: Unaudited Interim Financial Information.

Exhibit 31 Rule 13a-14(a)/15d-14(a) Certifications.

Exhibit 32 Section 1350 Certifications.

SIGNATURE

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

August 3, 2006

GOODRICH CORPORATION

/s/ SCOTT E. KUECHLE

Scott E. Kuechle

Senior Vice President and Chief Financial
Officer

/s/ SCOTT A. COTTRILL

Scott A. Cottrill

Vice President and Controller (Principal
Accounting Officer)

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Exhibit 32 Section 1350 Certifications.*

* Filed herewith.