

GOODRICH CORP  
Form 10-Q  
April 26, 2012  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**Form 10-Q**

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

**For the quarter ended March 31, 2012**

**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)*

**Four Coliseum Centre  
2730 West Tyvola Road  
Charlotte, North Carolina**

**34-0252680**  
*(I.R.S. Employer Identification No.)*

**28217**

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(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

At March 31, 2012, there were 125,919,381 shares of common stock outstanding (excluding 14,000,000 shares held by wholly owned subsidiary). There is only one class of common stock.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Shareholders and Board of Directors of Goodrich Corporation

We have reviewed the condensed consolidated balance sheet of Goodrich Corporation as of March 31, 2012, and the related condensed consolidated statements of comprehensive income for the three-month period ended March 31, 2012 and 2011, and the condensed consolidated statements of cash flows for the three-month period ended March 31, 2012 and 2011. 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, 2011, 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 23, 2012, 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, 2011, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Charlotte, North Carolina

April 26, 2012

**Table of Contents****CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

	<b>Three Months Ended March 31, 2012          2011 (Dollars in millions, except per share amounts)</b>	
<b>Sales</b>	\$ 2,152.6	\$ 1,895.9
Operating costs and expenses:		
Cost of sales	1,510.5	1,310.5
Selling and administrative costs	318.4	285.1
	1,828.9	1,595.6
<b>Operating Income</b>	323.7	300.3
Interest expense	(34.8)	(34.6)
Interest income	0.2	0.3
Other income (expense) net	(9.6)	(5.8)
Income from continuing operations before income taxes	279.5	260.2
Income tax expense	(89.6)	(63.6)
<b>Income From Continuing Operations</b>	189.9	196.6
Income (loss) from discontinued operations net of income taxes	(0.1)	
<b>Consolidated Net Income</b>	189.8	196.6
Net income attributable to noncontrolling interests	(1.6)	(1.8)
<b>Net Income Attributable to Goodrich</b>	\$ 188.2	\$ 194.8
<b>Amounts attributable to Goodrich:</b>		
Income from continuing operations	\$ 188.3	\$ 194.8
Income (loss) from discontinued operations net of income taxes	(0.1)	
<b>Net Income Attributable to Goodrich</b>	\$ 188.2	\$ 194.8
<b>Earnings per common share attributable to Goodrich:</b>		
<b>Basic Earnings Per Share</b>		
Continuing operations	\$ 1.48	\$ 1.53
Discontinued operations		
<b>Net Income Attributable to Goodrich</b>	\$ 1.48	\$ 1.53
<b>Diluted Earnings Per Share</b>		
Continuing operations	\$ 1.46	\$ 1.52
Discontinued operations		
<b>Net Income Attributable to Goodrich</b>	\$ 1.46	\$ 1.52
<b>Dividends Declared Per Common Share</b>	\$ 0.29	\$ 0.29

<b>Comprehensive Income Attributable to Goodrich</b>	\$ 303.5	\$ 312.2
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See Notes to Condensed Consolidated Financial Statements (Unaudited)

**Table of Contents****CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)**

	March 31, 2012	December 31, 2011
	(Dollars in millions, except share amounts)	
<b>Current Assets</b>		
Cash and cash equivalents	\$ 704.1	\$ 987.0
Accounts and notes receivable, less allowances for doubtful receivables (\$23.4 at March 31, 2012 and \$19.3 at December 31, 2011)	1,528.4	1,343.2
Inventories net	3,061.6	2,876.6
Deferred income taxes	215.5	197.8
Prepaid expenses and other assets	76.2	60.0
<b>Total Current Assets</b>	<b>5,585.8</b>	<b>5,464.6</b>
Property, plant and equipment, less accumulated depreciation (\$1,992.8 at March 31, 2012 and \$1,940.9 at December 31, 2011)	1,667.0	1,633.2
Goodwill	2,007.1	1,991.0
Identifiable intangible assets net	919.1	917.2
Deferred income taxes	36.5	36.4
Other assets	708.4	671.3
<b>Total Assets</b>	<b>\$ 10,923.9</b>	<b>\$ 10,713.7</b>
<b>Current Liabilities</b>		
Short-term debt	\$ 6.9	\$ 25.0
Accounts payable	869.3	768.8
Accrued expenses	1,116.6	1,211.1
Income taxes payable	77.1	45.8
Deferred income taxes	23.9	23.3
Current maturities of long-term debt and capital lease obligations	14.2	1.6
<b>Total Current Liabilities</b>	<b>2,108.0</b>	<b>2,075.6</b>
Long-term debt and capital lease obligations	2,362.3	2,374.4
Pension obligations	777.9	904.3
Postretirement benefits other than pensions	282.9	286.2
Long-term income taxes payable	174.0	174.0
Deferred income taxes	600.6	560.5
Other non-current liabilities	586.6	600.2
<b>Shareholders Equity</b>		
Common stock \$5 par value		
Authorized 200,000,000 shares; issued 150,503,327 shares at March 31, 2012 and 149,713,719 shares at December 31, 2011 (excluding 14,000,000 shares held by a wholly owned subsidiary)	752.5	748.6
Additional paid-in capital	1,912.4	1,870.7
Income retained in the business	3,341.5	3,190.3
Accumulated other comprehensive income (loss)	(895.9)	(1,011.2)
Common stock held in treasury, at cost (24,583,946 shares at March 31, 2012 and 24,422,527 shares at December 31, 2011)	(1,118.2)	(1,098.3)
<b>Total Shareholders Equity</b>	<b>3,992.3</b>	<b>3,700.1</b>
Noncontrolling interests	39.3	38.4

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<b>Total Equity</b>	4,031.6	3,738.5
<b>Total Liabilities And Equity</b>	\$ 10,923.9	\$ 10,713.7

See Notes to Condensed Consolidated Financial Statements (Unaudited)



**Table of Contents****CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)**

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
<b>Operating Activities</b>		
Consolidated net income	\$ 189.8	\$ 196.6
Adjustments to reconcile consolidated net income to net cash (used in) provided by operating activities:		
(Income) loss from discontinued operations	0.1	
Restructuring and consolidation:		
Expenses	8.6	2.9
Payments	(4.4)	(0.9)
Pension and postretirement benefits:		
Expenses	34.8	26.6
Contributions and benefit payments	(142.2)	(75.4)
Depreciation and amortization	79.9	72.4
Excess tax benefits related to share-based payment arrangements	(14.9)	(8.6)
Share-based compensation expense	12.4	17.9
Deferred income taxes	(3.8)	(5.2)
Change in assets and liabilities, net of effects of acquisitions and divestitures:		
Receivables	(172.2)	(157.3)
Inventories, net of pre-production and excess-over-average	(65.3)	(41.0)
Pre-production and excess-over-average inventories	(101.6)	(55.8)
Other current assets	(3.4)	1.8
Accounts payable	92.6	90.5
Accrued expenses	(112.6)	(68.3)
Income taxes payable/receivable	44.5	105.8
Other assets and liabilities	(19.7)	(5.6)
<b>Net Cash (Used In) Provided By Operating Activities</b>	<b>(177.4)</b>	<b>96.4</b>
<b>Investing Activities</b>		
Purchases of property, plant and equipment	(71.5)	(35.6)
Proceeds from sale of property, plant and equipment	0.3	0.1
Payments received (made) in connection with acquisitions, net of cash acquired		8.3
Investments in and advances to equity investees	(0.5)	(0.5)
<b>Net Cash Used In Investing Activities</b>	<b>(71.7)</b>	<b>(27.7)</b>
<b>Financing Activities</b>		
Increase (decrease) in short-term debt, net	(18.0)	0.8
Proceeds (repayments) of long-term debt and capital lease obligations	(0.3)	(0.5)
Proceeds from issuance of common stock	23.2	27.1
Purchases of treasury stock	(20.0)	(96.6)
Dividends paid	(36.8)	(0.5)
Excess tax benefits related to share-based payment arrangements	14.9	8.6
Distributions to noncontrolling interests	(0.7)	(0.7)
<b>Net Cash Used In Financing Activities</b>	<b>(37.7)</b>	<b>(61.8)</b>
<b>Discontinued Operations</b>		
Net cash provided by (used in) operating activities	(0.1)	(0.1)
Net cash provided by (used in) investing activities		
Net cash provided by (used in) financing activities		

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Net cash provided by (used in) discontinued operations	(0.1)	(0.1)
Effect of exchange rate changes on cash and cash equivalents	4.0	5.4
Net increase (decrease) in cash and cash equivalents	(282.9)	12.2
Cash and cash equivalents at beginning of period	987.0	798.9
Cash and cash equivalents at end of period	\$ 704.1	\$ 811.1

See Notes to Condensed Consolidated Financial Statements (Unaudited)

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Note 1. Goodrich Merger Agreement with United Technologies Corporation**

On September 21, 2011, Goodrich Corporation and its majority-owned subsidiaries ( the Company or Goodrich ) entered into an Agreement and Plan of Merger (Merger Agreement) with United Technologies Corporation (UTC). The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, the Company will be acquired by UTC in a cash-for-stock transaction (Merger). The Company has agreed to various covenants in the Merger Agreement, including, among other things:

to conduct its business in the ordinary course consistent with past practice during the period between the execution of the Merger Agreement and the time of the Merger;

to not grant new awards pursuant to employee share-based compensation plans after September 21, 2011 (except under certain conditions in the event the Merger is not consummated prior to August 31, 2012); and

to not incur or assume any indebtedness other than under the Company's existing unsecured committed revolving credit facility. At the time of the Merger, each outstanding share of the Company's common stock will be converted into the right to receive \$127.50 in cash, without interest payable to the holder of such share. All outstanding share-based awards including stock options, restricted stock units and performance units, whether vested or unvested, will be cancelled in exchange for a cash payment in accordance with the Merger Agreement.

The consummation of the Merger is expected to occur in mid-2012 and is subject to the satisfaction or waiver of certain closing conditions, including (1) adoption of the Merger Agreement by the shareholders of the Company, which occurred on March 13, 2012, (2) expiration or termination of any applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and other consents and approvals required under applicable antitrust laws, (3) the absence of any law or order prohibiting the consummation of the Merger, (4) subject to certain exceptions, the accuracy of representations and warranties of the Company and UTC and (5) the performance or compliance by the Company and UTC with their respective covenants and agreements.

The Company incurred merger-related costs of \$7.2 million for the three months ended March 31, 2012. These costs are included in other income (expense) net in the Company's condensed consolidated statement of comprehensive income. See Note 5, Other Income (Expense) Net .

**Table of Contents****Note 2. Basis of Interim Financial Statements**

The accompanying unaudited condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with the instructions to Form 10-Q and do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. Unless indicated otherwise or the context requires, the terms we, our, us, Goodrich or Company refer to the Company and its subsidiaries. The Company believes that all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be achieved for the twelve months ending December 31, 2012. Unless otherwise noted, disclosures pertain to the Company's continuing operations. For further information, refer to the consolidated financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

**Use of Estimates.** The preparation of financial statements requires management to make estimates and assumptions that affect amounts recognized. Estimates and assumptions are reviewed and updated regularly as new information becomes available. During the three months ended March 31, 2012 and 2011, the Company changed its estimates of revenues and costs on certain long-term contracts primarily in its aerostructures and aircraft wheels and brakes businesses. The changes in estimates increased income from continuing operations before income taxes during the three months ended March 31, 2012 and 2011 by \$18 million and \$20.7 million, respectively (\$11.4 million and \$13.1 million after tax, or \$0.09 and \$0.10 per diluted share, respectively). These changes were primarily related to favorable cost and operational performance, changes in volume expectations and sales pricing improvements and finalization of contract terms on current and/or follow-on contracts.

**Accrued Expenses.** Accrued expenses consisted of the following:

	March 31, 2012	December 31, 2011
	(Dollars in millions)	
Deferred revenue	\$ 430.7	\$ 371.3
Wages, vacations, pensions and other employment costs	243.0	365.1
Warranties	88.3	93.6
Accrued taxes	49.2	46.1
Postretirement benefits other than pensions	27.7	27.8
Foreign currency hedges	6.1	16.0
Other	271.6	291.2
Total	\$ 1,116.6	\$ 1,211.1

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### **Note 3. New Accounting Standards**

#### **New Accounting Standards Adopted in 2012**

In May 2011, accounting guidance was issued that is included in Accounting Standards Codification (ASC) Topic 820, Fair Value Measurement . This guidance amends the requirements for measuring amounts at fair value and disclosing information about fair value measurements. The Company adopted this new standard as of January 1, 2012.

In June 2011, accounting guidance was issued that is included in ASC Topic 220, Comprehensive Income . This guidance eliminates the option to report other comprehensive income and its components in the statement of changes in equity. Companies can elect to present net income and comprehensive income in one continuous statement or in two separate, but consecutive, statements. The Company adopted this new standard as of March 31, 2012 and has presented net income and comprehensive income for both periods in one continuous statement.

#### **New Accounting Standards Not Yet Adopted**

As of March 31, 2012, there were no new standards applicable to the Company that have not yet been adopted.

### **Note 4. Business Segment Information**

The Company's business segments are as follows:

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

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

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
<b>Sales:</b>		
Actuation and Landing Systems	\$ 802.5	\$ 684.3
Nacelles and Interior Systems	757.4	656.4
Electronic Systems	592.7	555.2
	<b>\$ 2,152.6</b>	<b>\$ 1,895.9</b>
<b>Intersegment sales:</b>		
Actuation and Landing Systems	\$ 11.2	\$ 9.8
Nacelles and Interior Systems	3.1	2.8
Electronic Systems	8.4	10.9
	<b>\$ 22.7</b>	<b>\$ 23.5</b>
<b>Operating income:</b>		
Actuation and Landing Systems(1)	\$ 97.0	\$ 86.5
Nacelles and Interior Systems	176.0	157.3
Electronic Systems	88.1	91.0
Segment Operating Income	361.1	334.8
Corporate general and administrative expenses	(32.5)	(30.9)
ERP costs	(4.9)	(3.6)
Total operating income	<b>\$ 323.7</b>	<b>\$ 300.3</b>

- (1) The Company will close a facility in its landing gear business and incur substantially all of the costs by the end of 2012. The Company anticipates that it will incur costs in connection with this closure of approximately \$37 million, of which approximately \$15 million is for personnel related expenses, including severance, pension charges, outplacement services and assistance with employment transitioning, and approximately \$22 million primarily related to facility closure and other costs, including accelerated depreciation, equipment dismantle and relocation costs and lease termination costs. Subsequent to the announcement of the closure on June 7, 2011, the Company incurred \$20.1 million of costs related to this closure in 2011. During the three months ended March 31, 2012, the Company incurred \$2.3 million of costs related to this closure of which \$0.3 million was personnel related and \$2 million was facility closure and other costs and \$2.2 million of these costs were reported in cost of sales and \$0.1 million were reported in selling and administrative costs.

**Table of Contents****Note 5. Other Income (Expense) Net**

Other Income (Expense) Net consisted of the following:

	<b>Three Months Ended March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
Merger related expenses(1)	\$ (7.2)	\$
Retiree health care expenses related to previously owned businesses	(2.1)	(2.6)
Expenses related to previously owned businesses	(1.0)	(1.6)
Equity in affiliated companies	0.5	(0.9)
Other net	0.2	(0.7)
Other income (expense) net	\$ (9.6)	\$ (5.8)

(1) Expenses related to the Merger Agreement. See Note 1, Goodrich Merger Agreement with United Technologies Corporation .

**Note 6. Share-Based Compensation**

During the three months ended March 31, 2012 and 2011, the Company expensed share-based compensation awards under the Goodrich Equity Compensation Plan and the Goodrich Corporation 2008 Global Employee Stock Purchase Plan for employees and under the Outside Director Deferral and Outside Director Phantom Share plans for non-employee directors. A detailed description of the awards under these plans is included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011.

The compensation cost recorded for share-based compensation plans during the three months ended March 31, 2012 and 2011 was \$12.4 million and \$17.9 million, respectively. The decrease from 2011 to 2012 was primarily due to the Company being prohibited from granting new awards pursuant to employee share-based compensation plans after September 21, 2011, partially offset by changes from 2011 to 2012 in the Company's share price for the performance unit and Outside Director Phantom Share Plans.

The announcement of the Merger Agreement resulted in the Company's share price trading based on the probability and expected timing of the Merger rather than on the Company's business performance or that relative to its peers. Consequently, the market condition of the Company's performance unit plans vesting in December 2012 and 2013 did not provide a reasonable estimate of fair value using a Monte Carlo simulation approach. As a result, management's best estimate of the liability at March 31, 2012 for these plans was based on the Company's share price at March 31, 2012 and a payout percentage equal to that of the performance unit plan that vested in December 2011, which approximated the estimated payout percentages for these plans prior to the announcement of the Merger Agreement. See Note 1, Goodrich Merger Agreement with United Technologies Corporation .

**Table of Contents****Employee Stock Purchase Plan Shares Issued**

There were 207,787 and 236,855 shares of common stock issued during the three months ended March 31, 2012 and 2011, respectively. Employee contributions of \$15.8 million and \$13.2 million during the years ended December 31, 2011 and 2010, respectively, were used to purchase the Company's stock during the three months ended March 31, 2012 and 2011, respectively.

**Note 7. Earnings Per Share**

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

	<b>Three Months Ended March 31, 2012                      2011 (In millions, except per share amounts)</b>	
<b>Numerator</b>		
Numerator for basic and diluted EPS – income from continuing operations attributable to Goodrich	\$ 188.3	\$ 194.8
Percentage allocated to common shareholders (1)	99.0%	98.6%
Numerator for basic and diluted EPS	\$ 186.3	\$ 192.1
<b>Denominator</b>		
Denominator for basic EPS – weighted-average shares	125.8	125.3
Effect of dilutive securities:		
Stock options, employee stock purchase plan and other deferred compensation shares	1.5	1.1
Denominator for diluted EPS – adjusted weighted-average shares and assumed conversion	127.3	126.4
<b>Per common share income from continuing operations</b>		
Basic	\$ 1.48	\$ 1.53
Diluted	\$ 1.46	\$ 1.52
(1) Basic weighted-average common shares outstanding	125.8	125.3
Basic weighted-average common shares outstanding and unvested restricted share units expected to vest	127.1	127.0
Percentage allocated to common shareholders	99.0%	98.6%

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

At March 31, 2012 and 2011, the Company had 3.1 million and 3.6 million, respectively, of outstanding stock options. Stock options are included in the diluted earnings per share calculation using the treasury stock method, unless the effect of including the stock options would be anti-dilutive. There were no anti-dilutive stock options excluded from the EPS calculation at March 31, 2012. At March 31, 2011, 0.7 million anti-dilutive stock options were excluded from the diluted EPS calculation.

During the three months ended March 31, 2012 and 2011, the Company issued 0.8 million and 1 million, respectively, of shares of common stock pursuant to stock option exercises and other share-based compensation plans.





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The Company's share repurchase program was approved by the Board of Directors for \$1.1 billion in total. There were no share repurchases during the three months ended March 31, 2012 and during the three months ended March 31, 2011, the Company repurchased 0.9 million shares. From inception of the program through March 31, 2012, the Company has repurchased 9.8 million shares for approximately \$621 million under its share repurchase program.

**Note 8. Fair Value Measurements**

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

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

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

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

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

	Fair Value				Fair Value			
	March 31, 2012	Level 1	Level 2	Level 3	December 31, 2011	Level 1	Level 2	Level 3
Cash Equivalents (1)	\$ 18.0	\$ 18.0	\$	\$	\$ 146.0	\$ 146.0	\$	\$
Derivative Financial Instruments (2)								
Cash Flow Hedges	44.2		44.2		(6.5)		(6.5)	
Rabbi Trust Assets (3)	66.1	66.1			56.6	56.6		
Long-term debt (4)	(2,710.6)		(2,710.6)		(2,772.4)		(2,772.4)	

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

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

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

(4) The carrying amount of the Company's long-term debt was \$2,340.2 million and \$2,352.3 million at March 31, 2012 and December 31, 2011, respectively. The fair value of long-term debt is based on quoted market prices or on rates available to the Company for debt with similar terms and maturities.

**Table of Contents****Note 9. Inventories**

Inventories consist of the following:

	March 31, 2012	December 31, 2011
	(Dollars in millions)	
<b>Average or actual cost (which approximates current costs):</b>		
Finished products	\$ 228.0	\$ 220.8
In-process	2,507.0	2,360.6
Raw materials and supplies	798.2	753.7
	3,533.2	3,335.1
Less:		
Reserve to reduce certain inventories to LIFO basis	(54.6)	(54.2)
Progress payments and advances	(417.0)	(404.3)
<b>Total</b>	<b>\$ 3,061.6</b>	<b>\$ 2,876.6</b>

In-process inventory included \$1,783.5 million and \$1,561.7 million at March 31, 2012 and December 31, 2011, respectively, for the following: (1) pre-production and excess-over-average inventory accounted for under long-term contract accounting; and (2) engineering costs recoverable under long-term contractual arrangements. The March 31, 2012 balance of \$1,783.5 million included \$907.2 million related to the Boeing 787, \$366.5 million related to the Pratt and Whitney PurePower® PW 1000G engine contracts, \$324.7 million related to the Airbus A350 XWB and \$33.4 million related to the Airbus A320neo.

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

Progress payments and advances represent (1) non-refundable payments for work-in-process and (2) cash received from government customers where the government has legal title to the work-in-process.

**Table of Contents****Note 10. Goodwill**

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

	Balance December 31, 2011	Business Combinations	Foreign Currency Translation/ Other (Dollars in millions)	Balance March 31, 2012
Actuation and Landing Systems(1)	\$ 519.9	\$	\$ 11.2	\$ 531.1
Nacelles and Interior Systems	629.5		2.5	632.0
Electronic Systems	841.6		2.4	844.0
	\$ 1,991.0	\$	\$ 16.1	\$ 2,007.1

- (1) On May 12, 2011, the Company acquired Microtecnica for \$457.1 million in cash, net of cash acquired. Based on the Company's purchase price allocation, \$312.4 million was identifiable intangible assets, \$214.3 million was goodwill and \$105.8 million was net deferred tax liabilities primarily related to the intangible assets. Of the total identifiable intangible assets, \$305.1 million related to customer relationships and will be amortized over a useful life of 27 years. This useful life was determined, in part, from an appraisal performed by an independent valuation firm which based the life of the customer relationships on existing customer programs that have long production and aftermarket cycles. The Company analyzed the period of future performance and estimated cash flows to determine the fair value of the customer relationships and the resulting useful life. The useful life is typical of the aerospace and defense industry where a company sells product to an airframe manufacturer for new aircraft production that may run 10 to 25 years, followed by sales of spare and replacement parts and maintenance, repair and overhaul services that are sold to the aircraft operators for as long as the aircraft remains in service, which is typically 10 to 25 years after the aircraft is delivered. The goodwill primarily represents the expected value from combining Microtecnica's expertise in flight controls with the Company's flight control actuation business and is not deductible for tax purposes.

**Note 11. Financing Arrangements**

The Company has a five-year unsecured committed syndicated revolving credit facility which permits borrowings up to a maximum of \$700 million. This credit facility expires in May 2016. Interest rates under the facility vary depending upon:

The amount borrowed;

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

At the Company's option, rates tied to the agent bank's prime rate or, for U.S. Dollar and Great Britain Pounds Sterling borrowings, the London Interbank Offered Rate and for Euro borrowings, the Euro Interbank Offered Rate. At March 31, 2012, there were \$12.7 million in borrowings and \$34 million letters of credit outstanding under the facility. At December 31, 2011, there were \$12.3 million in borrowings and \$37 million in letters of credit outstanding under the facility. In order to

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be eligible to borrow under the facility, the Company must be in compliance with a maximum leverage ratio covenant and other standard covenants. The Company is currently in compliance with all covenants. At March 31, 2012, the Company had borrowing capacity under this facility of \$653.3 million, after reductions for borrowings and letters of credit outstanding under the facility.

At March 31, 2012, the Company also maintained \$75 million of uncommitted U.S. working capital facilities and \$157.5 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At March 31, 2012 and December 31, 2011, there were \$6.9 million and \$25 million, respectively, in borrowings and \$38 million in letters of credit and bank guarantees outstanding under these facilities as of March 31, 2012. 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.

At March 31, 2012, the Company had letters of credit and bank guarantees of \$116.2 million, inclusive of letters of credit outstanding under the Company's syndicated revolving credit facility, uncommitted U.S. working capital facilities and uncommitted and committed foreign working capital facilities, as discussed above.

**Long-term Debt**

Long-term debt and capital lease obligations, excluding current maturities, consisted of:

	March 31, 2012	December 31, 2011
	(Dollars in millions)	
Medium-term notes payable (interest rates from 6.8% to 8.7%)	\$ 398.9	\$ 398.9
6.29% senior notes, maturing in 2016	294.0	294.2
6.125% senior notes, maturing in 2019	298.4	298.3
4.875% senior notes, maturing in 2020	299.5	299.4
3.6% senior notes, maturing in 2021	598.9	598.9
6.80% senior notes, maturing in 2036	234.8	234.5
7.0% senior notes, maturing in 2038	199.2	199.2
Other debt, maturing through 2020 (interest rates from 0.3% to 4.5%)	16.5	28.9
	2,340.2	2,352.3
Capital lease obligations	22.1	22.1
<b>Total</b>	<b>\$ 2,362.3</b>	<b>\$ 2,374.4</b>

**Lease Commitments**

The Company leases certain of its office and manufacturing facilities, machinery and equipment and corporate aircraft under various committed lease arrangements provided by financial institutions. Future minimum lease payments under operating leases were \$259.3 million at March 31, 2012.

**Table of Contents****Note 12. Pensions and Postretirement Benefits Other Than Pensions**

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

	U.S. Plans		U.K. Plans		Other Plans	
	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011	2012	2011
	(Dollars in millions)					
Service cost	\$ 14.2	\$ 12.2	\$ 5.0	\$ 4.2	\$ 2.4	\$ 1.7
Interest cost	42.0	43.1	11.0	10.8	2.2	2.0
Expected return on plan assets	(54.3)	(52.6)	(16.0)	(15.4)	(2.3)	(2.1)
Amortization of prior service cost	1.9	1.6	(0.1)	(0.1)	0.1	0.1
Amortization of actuarial loss	18.9	15.6	3.4	0.4	1.2	0.6
Gross periodic benefit cost (income)	22.7	19.9	3.3	(0.1)	3.6	2.3
Curtailement loss (1)					1.5	
Net periodic benefit cost (income)	\$ 22.7	\$ 19.9	\$ 3.3	\$ (0.1)	\$ 5.1	\$ 2.3
Termination benefit charge	\$	\$	\$	\$ 0.7	\$	\$

(1) Due to the approval of a plan to close a non-U.S. facility, pension assumptions were reevaluated on March 30, 2012 for the remeasurement of a non-U.S. plan. The facility closure resulted in a curtailment loss of \$1.5 million.

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

	U.S. Plans		U.K. Plans		Other Plans	
	2012	2011	2012	2011	2012	2011
Discount rate	5.03%	5.67%	5.00%	5.81%	4.38%	5.19%
Expected long-term rate of return on assets	8.25%	8.25%	8.25%	8.25%	8.07%	8.08%
Rate of compensation increase	4.10%	4.10%	3.75%	3.75%	3.43%	3.40%

**Table of Contents****Postretirement Benefits Other Than Pensions**

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

	Three Months Ended March 31,	
	2012	2011
	(Dollars in millions)	
Service cost	\$ 0.3	\$ 0.3
Interest cost	3.4	4.2
Amortization of prior service cost		
Amortization of actuarial (gain) loss		
<b>Net periodic benefit cost</b>	<b>\$ 3.7</b>	<b>\$ 4.5</b>

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

	Three Months Ended March 31,	
	2012	2011
Discount rate	4.67%	5.29%
Healthcare trend rate	7.5% in 2012 to 5% in 2018	7.5% in 2011 to 5% in 2017

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

Total comprehensive income (loss) consisted of the following:

	Three Months Ended March 31,	
	2012	2011
	(Dollars in millions)	
Net income attributable to Goodrich	\$ 188.2	\$ 194.8
Other comprehensive income (loss), net of tax:		
Unrealized foreign currency translation gains (losses) during the period	68.6	60.6
Pension/OPEB liability adjustments during the period, net of tax for the three months ended March 31, 2012 and 2011 of (\$6.5) and (\$5.7), respectively	11.5	8.8
Gain (loss) on cash flow hedges, net of tax for the three months ended March 31, 2012 and 2011 of (\$16.2) and (\$22.7), respectively	35.2	48.0
Less: Other comprehensive income (loss) attributable to noncontrolling interests		
<b>Total comprehensive income (loss) attributable to Goodrich</b>	<b>\$ 303.5</b>	<b>\$ 312.2</b>

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

	March 31, 2012	December 31, 2011
	(Dollars in millions)	
	\$ 123.5	\$ 54.9

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Cumulative unrealized foreign currency translation gains, net of deferred taxes of (\$1.5) and (\$1.5), respectively(1)		
Pension/OPEB liability adjustments, net of deferred taxes of \$610.6 and \$617.1, respectively	(1,047.1)	(1,058.6)
Accumulated gains (losses) on cash flow hedges, net of deferred taxes of (\$12.1) and \$4.1, respectively	27.7	(7.5)
TOTAL	\$ (895.9)	\$ (1,011.2)

- (1) Other than noted above, no income taxes were provided on foreign currency translation gains (losses) for comprehensive income (loss) and accumulated other comprehensive income (loss) as foreign earnings are considered permanently invested.



**Table of Contents****Note 14. Noncontrolling Interests**

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
<b>Balance at January 1</b>	\$ 38.4	\$ 40.9
Distributions to noncontrolling interests	(0.7)	(0.7)
Comprehensive income:		
Net income attributable to noncontrolling interests	1.6	1.8
Other comprehensive income, net of tax		
Comprehensive income	1.6	1.8
<b>Balance at March 31</b>	<b>\$ 39.3</b>	<b>\$ 42.0</b>

**Note 15. Income Taxes**

The Company's effective tax rate for the three months ended March 31, 2012 was 32.1%. Significant items that impacted the Company's effective tax rate as compared to the U.S. federal statutory rate of 35% included earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate which reduced the effective tax rate by approximately 2 percentage points, foreign and domestic tax credits and benefits related to domestic manufacturing which reduced the effective tax rate by approximately 2 percentage points and state income taxes (net of related federal tax benefit) which increased the effective tax rate by approximately 1 percentage point.

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The Company's effective tax rate for the three months ended March 31, 2011 was 24.4%. Significant items that impacted the Company's effective tax rate as compared to the U.S. federal statutory rate of 35% included a tax settlement with the IRS for the remaining unresolved issue for tax years prior to 2000 which reduced the effective tax rate by approximately 8 percentage points, earnings in foreign jurisdictions taxed at rates different from the statutory U.S. federal rate which reduced the effective tax rate by approximately 2 percentage points, foreign and domestic tax credits and benefits related to domestic manufacturing which reduced the effective tax rate by approximately 4 percentage points, state income taxes (net of related federal tax benefit) which increased the effective tax rate by approximately 1 percentage point and adjustments to reserves for tax contingencies, including interest thereon (net of related tax benefit), which increased the effective tax rate by approximately 1 percentage point.

At March 31, 2012, the Company had \$159.3 million of unrecognized tax benefits; however, the total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was \$214.8 million. The difference relates to the impact of indirect effects including the federal benefit of state taxes and interest and penalties net of any related federal benefit as well as temporary differences which do not affect the effective tax rate. The Company recorded interest and penalties related to unrecognized tax benefits in income tax expense.

At December 31, 2011, the Company had \$162.7 million of unrecognized tax benefits; however, the total amount of unrecognized benefits that, if recognized, would have affected the effective tax rate was \$215.5 million. The difference relates to the impact of indirect effects including the federal benefit of state taxes and interest and penalties net of any related federal benefit as well as temporary differences which do not affect the effective tax rate.

### **Note 16. Contingencies**

#### **General**

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

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**Environmental**

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

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

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

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

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The changes in the carrying amount of environmental liabilities for the three months ended March 31, 2012, in millions, are as follows:

<b>Balance at December 31, 2011</b>	<b>\$ 68.3</b>
Accruals and adjustments	6.5
Payments	(1.9)
Foreign currency translation and other	0.3
<b>Balance at March 31, 2012</b>	<b>\$ 73.2</b>

At March 31, 2012 and December 31, 2011, \$15.2 million and \$13.3 million, respectively, of the accrued liability for environmental remediation were included in current liabilities as accrued expenses. At March 31, 2012 and December 31, 2011, \$38.2 million and \$32.8 million, respectively, was associated with ongoing operations and \$35 million and \$35.5 million, respectively, was associated with previously owned businesses.

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

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

**Asbestos**

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

**Table of Contents****Insurance Coverage**

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

A portion of the Company's primary and excess layers of pre-1986 insurance coverage for third party claims, primarily related to certain long-tail toxic tort and environmental claims, was provided by certain insurance carriers who are either insolvent, undergoing solvent schemes of arrangement or in run-off. The Company has entered into settlement agreements with a number of these insurers pursuant to which the Company agreed to give up its rights with respect to certain insurance policies in exchange for negotiated payments. These settlements represent negotiated payments for the Company's loss of insurance coverage, as it no longer has this insurance available for claims that may have qualified for coverage. The portion of these payments which related to recovery of past costs (recognized as expense in prior periods) or for which there are currently no anticipated future claims is recognized in income when the payments are received. The portion related to potential future claims is recorded as deferred settlement credits on the balance sheet.

The deferred settlement credits partially offset future costs related to insurable claims utilizing a systematic and consistent approach. The recognition of the deferred settlement credits is calculated utilizing the estimated percent of costs incurred in the current period that insurance companies would have reimbursed to the Company if insurance coverage were still in place. This approach utilizes historical claims and insurance information of the Company and is reviewed and updated at least annually.

A summary of the deferred settlement credits activity for the three months ended March 31, 2012, in millions, is as follows:

<b>Balance at December 31, 2011</b>	\$ 43.5
Proceeds from insurance settlements	
Amounts recorded as reduction of costs	(5.1)
<b>Balance at March 31, 2012</b>	\$ 38.4

The current and long-term portions of the deferred settlement credits were as follows:

	March 31, 2012	December 31, 2011
	(Dollars in millions)	
Accrued expenses	\$ 9.2	\$ 7.2
Other non-current liabilities	29.2	36.3
<b>Total</b>	<b>\$ 38.4</b>	<b>\$ 43.5</b>

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It is not practical to estimate when the remaining deferred settlement credits are expected to be recognized. The proceeds from such insurance settlements were reported as a component of net cash provided by operating activities in the period payments were received.

### **Liabilities of Divested Businesses**

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

### **Aerostructures Long-term Contracts**

The Company's aerostructures business in the Nacelles and Interior Systems segment has several long-term contracts in the pre-production phase including the Airbus A350 XWB, the A320neo and the Pratt and Whitney PurePower® PW 1000G engine contracts, and in the early production phase, including the Boeing 787. These contracts are accounted for in accordance with long-term construction contract accounting.

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

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

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

Ability to recover costs incurred for change orders and claims;

Costs, including material and labor costs and related escalation;

Labor improvements due to the learning curve experience;

Anticipated cost and/or productivity improvements, including overhead absorption, related to new, or changes to, manufacturing methods and processes;

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

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

Effect of foreign currency exchange fluctuations.

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

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

***Aerostructures - Boeing 787 Nacelle Contract***

The Company's contract with Boeing for the 787 nacelle extends through 2030 with original equipment sales estimated to be in excess of \$10 billion. Aftermarket sales associated with this program are not accounted for using the percentage-of-completion method of accounting.

This program is in the early production phase to be followed by rapidly increasing production rates. For this contract to remain profitable, it will be important that assumptions are realized as currently estimated in the Company's outlook, such as:

Supplier pricing consistent with projected costs must be negotiated for portions of the product. These prices could be impacted by design changes, changes in material costs and availability of reliable suppliers in competitive cost countries;

New automated equipment is being utilized to manufacture the 787 composite nacelle, which is expected to reduce costs significantly during the contract period;

Nacelle product design changes continue to occur to improve product performance, reduce weight and lower cost. The Company expects that some of the costs for these changes will be recoverable from Boeing and also expects to have success on its various cost reduction initiatives; and

Material and overhead cost escalation and inflation assumptions could be different than estimated.

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While the Company continues to believe the contract will be profitable, it is important to note that changes to any of the current cost and/or revenue assumptions will have a significant impact on the overall profitability of the contract and could have a material impact on the Company's results of operations in the period identified. All of the risk factors listed in *Aerostructures Long-term Contracts* above could also affect the Company's outlook of profitability on this contract.

### ***Aerostructures Pratt & Whitney CSeries Nacelle Contract***

The Company's aerostructures business has a long-term supply contract with Pratt & Whitney (P&W) to supply nacelles and related components for use on its PurePower PW1000G® engine propulsion systems for the Bombardier CSeries aircraft.

P&W has asserted to the Company that it is entitled to damages as a result of the Company's alleged breach of its contract with P&W. P&W believes the Company has failed to meet certain requirements under the contract. The Company believes that it has substantial legal and factual defenses to P&W's assertions, and has significant counter assertions of its own. Discussions with P&W are ongoing. Given the nature and status of these discussions, the Company cannot yet determine the amount or a reasonable range of potential loss, if any. If P&W prevails on its assertions and the Company does not prevail on its counter assertions, it could have a material adverse effect on the Company's estimate of profitability on this contract and/or cash flows in a given period.

### ***JSTARS Program***

In 2002, Seven Q Seven, Ltd. (7Q7) was selected by Northrop Grumman Corporation to provide propulsion pods for the re-engine program for the JT3D engines used by the U.S. Air Force. The Company was selected by 7Q7 as a supplier for the inlet, thrust reverser, exhaust, EBU, strut systems and wing interface systems. As of March 31, 2012, the Company had \$18.5 million (net of advances of \$8.8 million) of pre-production costs and inventory related to this program.

Future program funding remains uncertain and there can be no assurance of such funding. If the program were to be cancelled, the Company would recognize an impairment.

## **Tax**

The Company is continuously undergoing examination by the IRS as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by the Company on its income tax returns. See Note 15, *Income Taxes*, for additional detail.

### ***Tax Years 2007 and 2008***

In January 2011, the IRS issued a Revenue Agent's Report (RAR) for the tax years 2007 and 2008. In February 2011, the Company submitted a protest to the Appeals Division of the IRS with respect to certain unresolved issues which involve the proper timing of deductions. Although it is reasonably possible that these matters could be resolved during the next 12 months, the timing or ultimate outcome is uncertain.

### ***Tax Years 2005 and 2006***

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



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***Tax Years 2000 to 2004***

During 2007, the IRS and the Company reached agreement on substantially all of the issues raised with respect to the examination of taxable years 2000 to 2004. The Company submitted a protest to the Appeals Division of the IRS with respect to the remaining unresolved issues which involve the proper timing of certain deductions. The Company and the IRS were unable to reach agreement on the remaining issues. In December 2009, the Company filed a petition in the U.S. Tax Court and in March 2010 the Company also filed a complaint in the Federal District Court. On January 18, 2012, the District Court granted the government’s motion for partial summary judgment in this matter. Final judgment in the District Court case cannot be entered until the remaining issues are resolved. It is the Company’s intent to appeal the ruling once final judgment is entered. The Company believes the amount of the estimated tax liability if the IRS were to ultimately prevail is fully reserved. The Company cannot predict the timing or ultimate outcome of a final resolution.

***Tax Years Prior to 2000***

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

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

The IRS and the Company previously reached final settlement on all but one of the issues raised in this examination cycle. The Company received statutory notices of deficiency dated June 14, 2007 related to the remaining unresolved issue which involves the proper timing of certain deductions. The Company filed a petition with the U.S. Tax Court in September 2007 to contest the notices of deficiency.

In December 2010, the Company reached a tentative agreement with the IRS to settle the remaining unresolved issue but due to the size of the potential refund, the agreement required approval by the Joint Committee on Taxation (JCT). In January 2011, the JCT approved the terms of the settlement agreement. In March 2011, the U.S. Tax Court accepted the terms of the settlement agreement and agreed to the litigants’ request to dismiss the matter. The Company recognized a tax benefit of approximately \$21 million in the three months ended March 31, 2011.

**Table of Contents****Note 17. Guarantees**

The Company extends financial and product performance guarantees to third parties. At March 31, 2012, the following environmental remediation and indemnification and financial guarantees were outstanding:

	<b>Maximum Potential Payment (Dollars in millions)</b>	<b>Carrying Amount of Liability</b>
Environmental remediation and other indemnifications (Note 16, Contingencies )	No Limit	\$ 12.7
Guarantees of residual value on leases	\$ 28.1	\$
Guarantees of JV debt and other financial instruments	\$ 49.6	\$

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

The Company is a guarantor on a revolving credit agreement totaling £35 million between Rolls-Royce Goodrich Engine Control Systems Limited (JV) and a financial institution. In addition, the Company guarantees the JV's foreign exchange credit line with a notional amount of \$129.3 million and a fair value asset of \$4.4 million at March 31, 2012. The Company is indemnified by Rolls-Royce for 50% of the gains/losses resulting from the foreign exchange hedges.

**Service and Product Warranties**

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

The changes in the carrying amount of service and product warranties for the three months ended March 31, 2012, in millions, are as follows:

<b>Balance at December 31, 2011</b>	\$ 157.9
Net provisions for warranties issued during the period	11.0
Net change to warranties existing at the beginning of the year	(4.6)
Payments	(14.8)
Foreign currency translation and other	2.0
<b>Balance at March 31, 2012</b>	\$ 151.5

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

	March 31, 2012	December 31, 2011
	(Dollars in millions)	
Accrued expenses	\$ 88.3	\$ 93.6
Other non-current liabilities	63.2	64.3
<b>Total</b>	<b>\$ 151.5</b>	<b>\$ 157.9</b>

**Note 18. Derivatives and Hedging Activities****Cash Flow Hedges**

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

The forward contracts described above are used to mitigate the potential volatility to earnings and cash flow arising from changes in currency exchange rates that impact the Company's U.S. Dollar sales for certain foreign operations. The forward contracts are accounted for as cash flow hedges and are recorded in the Company's condensed consolidated balance sheet at fair value, with the offset reflected in Accumulated Other Comprehensive Income (AOCI), net of deferred taxes. The gain or loss on the forward contracts is reported as a component of other comprehensive income (loss) (OCI) and reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. The notional value of the forward contracts at March 31, 2012 and December 31, 2011 was \$1,727.9 million and \$1,933.7 million, respectively. As of March 31, 2012 and December 31, 2011, the total fair value before taxes of the Company's forward contracts and the accounts in the condensed consolidated balance sheet in which the fair value amounts are included are shown below:

	March 31, 2012	December 31, 2011
	(Dollars in millions)	
Prepaid expenses and other assets	\$ 28.7	\$ 15.8
Other assets	33.2	19.8
Accrued expenses	6.1	16.0
Other non-current liabilities	11.6	26.1

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Dollars in millions)</b>	
Amount of gain/(loss) recognized in OCI, net of tax of (\$16.2) and (\$22.7), respectively	\$ 35.2	\$ 48.0
Amount of gain/(loss) reclassified from AOCI into earnings	\$ 0.7	\$ 1.2

The total fair value of the Company's forward contracts of a \$44.2 million net asset (before a deferred tax liability of \$10.4 million) at March 31, 2012, combined with \$1.1 million of losses on previously matured hedges of intercompany sales, is recorded in AOCI and will be reflected in income as earnings are affected by the hedged items. As of March 31, 2012, the portion of the net \$44.2 million asset that would be reclassified into earnings to offset the effect of the hedged item in the next 12 months is a gain of \$22.6 million. These forward contracts mature on a monthly basis with maturity dates that range from April 2012 to September 2016. There was a de minimis amount of both ineffectiveness and hedge components excluded from the assessment of effectiveness during the three months ended March 31, 2012 and 2011.

**Fair Value Hedges**

At March 31, 2012 and December 31, 2011, the Company had no outstanding interest rate swaps. Previously terminated swaps are amortized over the life of the underlying debt and recorded as a reduction to interest expense.

**Other Forward Contracts**

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

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As of March 31, 2012, the Company had no such outstanding forward contracts. During the three months ended March 31, 2012, the Company recorded a transaction loss on its net monetary assets of \$10.3 million, which was offset by gains on the other forward contracts described above of \$6.8 million. During the three months ended March 31, 2011, the Company recorded a transaction loss on its monetary assets of \$13.5 million, which was offset by gains on the other forward contracts described above of \$10.2 million.

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

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

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

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

**OVERVIEW**

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

On September 21, 2011 we entered into an Agreement and Plan of Merger (Merger Agreement) with United Technologies Corporation (UTC). The Merger Agreement provides that, upon the terms and subject to the conditions set forth in the Merger Agreement, we will be acquired by UTC in a cash-for-stock transaction (Merger). We have agreed to various covenants in the Merger Agreement, including, among other things, to conduct our business in the ordinary course consistent with past practice during the period between the execution of the Merger Agreement and the time of the Merger. We expect the consummation of the Merger to occur in mid-2012; therefore, we have not provided sales, earnings and cash flow guidance for the full year 2012. The aggregate amount of compensation expense expected to be recognized upon the change in control for share-based compensation grants as a result of the change in control from the pending Merger will be approximately \$32 million based on a merger date of June 30, 2012. This amount is also subject to change for certain conditions such as death, disability, retirement, continued employment and other conditions of the plans. See Note 1, Goodrich Merger Agreement with United Technologies Corporation to our condensed consolidated financial statements.

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

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

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

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

The key growth drivers in this market channel include the number of orders for the manufacturers' airplanes, which will be delivered to their customers over a period of several years, OE manufacturer production and delivery rates for in-service airplanes such as the Airbus A320 and Boeing 737NG, and introductions of new airplane models such as the Boeing 787, 747-8 and 737 MAX, the Airbus A350 XWB and A320neo, and engine types such as the Pratt and Whitney PurePower® PW1000G.

We have significant sales content on most of the airplanes manufactured in this market channel. Over the last few years, we have benefited from the historically high production rates and deliveries of Airbus and Boeing airplanes and from our substantial content on many of the regional and general aviation airplanes. Boeing and Airbus have announced production rate increases for 2012 and beyond. However, production rates are always subject to change and may be affected by economic conditions which may influence customers' willingness and/or ability to purchase new aircraft.

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

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

We have significant product content on most of the airplane models that are currently in service and we will benefit from having excellent positions on the newer, more fuel-efficient airplanes currently in service. The key growth drivers in this channel include worldwide passenger capacity growth measured by Available Seat Miles (ASM) and the size, type and utilization levels of the worldwide airplane fleet. Other important factors affecting growth in this market channel are the age and types of the airplanes in the fleet, fuel prices, airline maintenance practices, Gross Domestic Product (GDP) trends in countries and regions around the world and domestic and international air freight activity.

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Capacity in the global airline system, as measured by ASM, is expected to grow in 2012 as compared to 2011. ASM expectations could be adversely affected if airlines choose to fly their in-service airplanes less frequently, or temporarily ground airplanes due to decreased demand, high fuel prices and other factors including weaker than expected global economic growth.

### ***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, the level of upgrade, overhaul and maintenance activities associated with existing platforms and demand for optical surveillance and reconnaissance systems. Due to worldwide defense budget concerns, including in the U.S., we expect pressure on the level of spending over the next several years.

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

### **Long-term Sustainable Growth**

We believe we are well positioned to grow our sales over the long-term due to:

Awards for key products on important new and expected programs, including the Airbus A350 XWB and A320neo, the Boeing 787, 747-8 and 737 MAX, the Pratt & Whitney PurePower® PW1000G engine and the Lockheed Martin F-35 Lightning II;

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

Balance in the commercial airplane market, with strong sales to Airbus, Boeing and the regional and business jet airplane manufacturers;

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



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

Increased opportunities for aftermarket growth due to airline outsourcing;

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

Expansion of our product offerings in support of key areas in the defense and space market channel, such as helicopter products and systems, ISR products and precision guidance systems for munitions.

**First Quarter 2012 Sales Content by Market Channel**

During the first quarter 2012, approximately 95% of our sales were from our three key market channels described above. Following is a summary of the percentage of sales by market channel:

Airbus Commercial OE	19%
Boeing Commercial OE	11%
Regional, Business and General Aviation Airplane OE	7%
Total Large Commercial, Regional, Business and General Aviation Airplane OE	37%
Large Commercial Airplane Aftermarket	22%
Regional, Business and General Aviation Airplane Aftermarket	7%
Total Large Commercial, Regional, Business and General Aviation Airplane Aftermarket	29%
Total Defense and Space	29%
Other	5%
Total	100%

**Results of Operations First Quarter 2012 as Compared to First Quarter 2011**

	First Quarter		% of Sales	
	2012	2011	2012	2011
	(Dollars in millions, except diluted EPS)			
Sales	\$ 2,152.6	\$ 1,895.9		
Cost of sales	(1,510.5)	(1,310.5)	70.2	69.1
Gross margin	642.1	585.4	29.8	30.9
Selling and administrative costs	(318.4)	(285.1)	14.8	15.0
<b>Total operating income</b>	<b>323.7</b>	<b>300.3</b>	<b>15.0</b>	<b>15.8</b>
Net interest expense	(34.6)	(34.3)		
Other income (expense) net	(9.6)	(5.8)		

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Income from continuing operations before income taxes	279.5	260.2
Income tax expense	(89.6)	(63.6)
Income from continuing operations	189.9	196.6
Income (loss) from discontinued operations	(0.1)	
<b>Consolidated net income</b>	189.8	196.6
Net income attributable to noncontrolling interests	(1.6)	(1.8)
<b>Net income attributable to Goodrich</b>	\$ 188.2	\$ 194.8
Effective tax rate	32.1%	24.4%
<b>Diluted EPS:</b>		
Continuing operations	\$ 1.46	\$ 1.52
Net income attributable to Goodrich	\$ 1.46	\$ 1.52

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### **Sales**

The sales increase in the first quarter 2012 as compared to the first quarter 2011 was primarily driven by changes in our major market channels as follows:

Large commercial airplane original equipment sales increased by approximately \$138 million, or 27%;

Regional, business and general aviation airplane original equipment sales increased by approximately \$11 million, or 8%, of which approximately 2% represented organic growth;

Large commercial, regional, business and general aviation airplane aftermarket sales increased by approximately \$34 million, or 6%, of which approximately 5% represented organic growth; and

Defense and space sales of both original equipment and aftermarket products and services increased by approximately \$55 million, or 10%, of which approximately 4% represented organic growth.

Included in the sales changes in our major market channels described above was approximately \$54 million related to the Microtecnica acquisition and the impact of favorable pricing of approximately \$38 million.

See further discussion in the **Business Segment Performance** section.

### **Cost of sales**

Costs of sales increased by \$200 million in the first quarter 2012 as compared to the first quarter 2011 primarily due to higher costs of approximately \$140 million related to our sales growth in our major market channels as discussed above and incremental cost of sales of approximately \$43 million associated with the Microtecnica acquisition which occurred in May 2011.

### **Selling and administrative costs**

Selling and administrative costs increased by \$33 million in the first quarter 2012 as compared to the first quarter 2011 primarily due to higher costs of approximately \$30 million to support our sales growth as discussed above and approximately \$7 million associated with the Microtecnica acquisition, partially offset by lower share-based compensation costs of approximately \$6 million as discussed below.

### **Other income (expense) net**

Other income (expense) net increased primarily due to merger related expenses incurred in 2012 as discussed below.

**Table of Contents****Income from continuing operations**

In addition to the items described above, income from continuing operations during the first quarter 2012 as compared to the first quarter 2011 was impacted by the following items:

	Increase (Decrease)		
	Before Tax	After Tax	Diluted EPS
	(Dollars in millions, except diluted EPS)		
Higher effective tax rate	\$	\$ (21.5)	\$ (0.17)
Higher pension and postretirement benefits expense	\$ (8.2)	\$ (5.2)	\$ (0.04)
Merger related expenses	\$ (7.2)	\$ (4.6)	\$ (0.04)
Higher restructuring expenses	\$ (5.7)	\$ (3.6)	\$ (0.03)
Lower share-based compensation	\$ 5.5	\$ 3.5	\$ 0.03

***Higher effective tax rate***

For the first quarter 2012, we reported an effective tax rate of 32.1% as compared to 24.4% for the first quarter 2011. The increase in the effective tax rate was primarily due to a tax settlement with the IRS for the remaining unresolved issues for tax years prior to 2000 which reduced the effective tax rate in the first quarter of 2011 by approximately 8 percentage points.

Our effective tax rate for the first quarter 2012 was not reduced for the benefit of the U.S. Research and Development Credit (R&D Credit) because the federal statute authorizing the R&D Credit had not been extended beyond December 31, 2011. We estimate that the effective tax rate at March 31, 2012 would have been approximately 1 percentage point lower had we been able to consider the tax benefits associated with the R&D Credit.

***Higher pension and postretirement benefits expense***

The increase in pension and postretirement benefits expense was primarily the result of actuarial changes, including the amortization of actual losses resulting from the decrease in discount rates in the U.S. and U.K. and asset returns in the U.K. in 2011 that were below our expected long-term rate of return on assets assumption.

***Merger related expenses***

During the first quarter 2012, we incurred \$7.2 million of third-party costs related to the announced Merger Agreement with UTC, primarily legal costs, other regulatory filing fees and expenses and other integration related costs. See Note 1, Goodrich Merger Agreement with United Technologies Corporation to our condensed consolidated financial statements.

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### ***Higher restructuring expenses***

During the first quarter 2012, we incurred \$8.6 million of costs related to restructuring activities, primarily in our engine controls and electrical power systems and landing gear businesses, compared to \$2.9 million during the first quarter 2011.

### ***Lower share-based compensation***

The decrease was primarily due to the Merger Agreement prohibiting us from granting new awards pursuant to employee share-based compensation plans after September 21, 2011 (except under certain conditions in the event the Merger is not consummated prior to August 31, 2012), partially offset by changes from 2011 to 2012 in our share price for the performance unit and Outside Director Phantom Share Plans. See Note 1, Goodrich Merger Agreement with United Technologies Corporation and Note 6, Share-Based Compensation to our condensed consolidated financial statements.

## **BUSINESS SEGMENT PERFORMANCE**

Our three business segments are as follows:

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

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

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

We measure each reporting segment's profit based upon operating income. Accordingly, we do not allocate net interest expense, other income (expense) net or income taxes to the reporting segments. The company-wide ERP costs that were not directly associated with a specific business were not allocated to the segments. The accounting policies of the reportable segments are the same as those for our condensed consolidated financial statements. For a reconciliation of total segment operating income to total operating income, see Note 4, Business Segment Information to our condensed consolidated financial statements.

**Table of Contents****First Quarter 2012 Compared with First Quarter 2011**

	First Quarter		Favorable/ (Unfavorable)	% Change	% of Sales	
	2012	2011	(Dollars in millions)		2012	2011
<b>NET CUSTOMER SALES</b>						
Actuation and Landing Systems	\$ 802.5	\$ 684.3	\$ 118.2	17.3		
Nacelles and Interior Systems	757.4	656.4	101.0	15.4		
Electronic Systems	592.7	555.2	37.5	6.8		
	\$ 2,152.6	\$ 1,895.9	\$ 256.7	13.5		
<b>SEGMENT OPERATING INCOME</b>						
Actuation and Landing Systems	\$ 97.0	\$ 86.5	\$ 10.5	12.1	12.1	12.6
Nacelles and Interior Systems	176.0	157.3	18.7	11.9	23.2	24.0
Electronic Systems	88.1	91.0	(2.9)	3.1	14.9	16.4
	\$ 361.1	\$ 334.8	\$ 26.3	7.9	16.8	17.7

**Actuation and Landing Systems:** Actuation and Landing Systems segment sales for the first quarter 2012 increased from the first quarter 2011 primarily due to the following:

Higher large commercial airplane OE sales of approximately \$51 million, primarily in our landing gear and actuation systems businesses;

Higher defense and space OE and aftermarket sales of approximately \$36 million, primarily in our actuation systems and landing gear businesses, including sales associated with the Microtecnica acquisition;

Higher other aerospace and non-aerospace sales of approximately \$20 million, primarily in our actuation systems and engine components businesses; and

Higher large commercial, regional, business and general aviation airplane aftermarket sales of approximately \$10 million, primarily in our aircraft wheels and brakes business.

Actuation and Landing Systems segment operating income for the first quarter 2012 increased from the first quarter 2011 primarily due to the following:

Favorable pricing in our landing gear and wheels and brakes businesses, partially offset by higher operating costs, primarily in our actuation systems and landing gear businesses, which resulted in higher income of approximately \$9 million; and

Higher sales volume across most businesses, including sales associated with the Microtecnica acquisition, which resulted in higher income of approximately \$7 million; partially offset by

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Higher selling and administrative costs associated with the Microtecnica acquisition of approximately \$7 million. In total, Microtecnica contributed approximately \$4 million to segment operating income in the first quarter 2012.

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***Nacelle and Interior Systems:*** Nacelle and Interior Systems segment sales for the first quarter 2012 increased from the first quarter 2011 primarily due to the following:

Higher large commercial OE sales of approximately \$83 million primarily in our aerostructures business; and

Higher large commercial, regional, business and general aviation airplane aftermarket sales of approximately \$22 million primarily in our aerostructures and interior systems businesses; partially offset by

Lower defense and space OE and aftermarket sales of approximately \$4 million primarily in our aerostructures business.

Nacelle and Interior Systems segment operating income for the first quarter 2012 increased from the first quarter 2011 primarily due to the following:

Higher sales volume and favorable product mix primarily in our interiors systems and aerostructures businesses which resulted in higher income of approximately \$19 million; and

Higher pricing in our aerostructures and interior systems businesses, partially offset by higher operating costs which were primarily related to increased environmental remediation reserves in our interiors business, which resulted in higher income of approximately \$2 million; partially offset by

Lower income of approximately \$3 million related to changes in estimates for certain long-term contracts in our aerostructures business that were more favorable in 2011. These changes in estimates were primarily related to changes in costs, operational performances, volume expectations, and/or sales pricing and finalization of contract terms on current and/or follow-on contracts.

***Electronic Systems:*** Electronic Systems segment sales for the first quarter 2012 increased from the first quarter 2011 primarily due to the following:

Higher defense and space OE and aftermarket sales of approximately \$23 million across most businesses;

Higher regional, business, and general aviation airplane OE sales of approximately \$7 million, primarily in our sensors and integrated systems and engine controls and electrical power businesses; and

Higher large commercial airplane OE sales of approximately \$4 million, primarily in our sensors and integrated systems business.



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Electronic Systems segment operating income for the first quarter 2012 decreased from the first quarter 2011 primarily due to the following:

Higher operating costs across most businesses, partially offset by favorable pricing primarily in our sensors and integrated systems business, which resulted in lower income of approximately \$10 million; partially offset by

Higher sales volume primarily in our ISR business and favorable product mix across most businesses which resulted in higher income of approximately \$6 million.

**LIQUIDITY AND CAPITAL RESOURCES**

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

The following events have or will affect our liquidity and capital resources during 2012:

We contributed approximately \$142 million to our worldwide pension and postretirement benefit plans through March 31, 2012; and

We paid a quarterly dividend of \$0.29 per share on January 3 and April 2.

**Cash**

At March 31, 2012, we had cash and cash equivalents of \$704.1 million, as compared to \$987 million at December 31, 2011, of which \$259.9 million and \$253.6 million, respectively, was held at non U.S. locations. We would need to accrue and pay taxes if certain amounts held at non U.S. locations were repatriated. We currently do not intend to repatriate these funds.

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### **Credit Facilities**

We have the following amounts available under our credit facilities:

\$700 million committed global revolving credit facility that expires in May 2016, of which \$653.3 million was available at March 31, 2012; and

\$75 million of uncommitted domestic working capital facilities of which \$37.4 million was available at March 31, 2012 and \$157.5 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing and documentary credit requirements, of which \$150.2 million was available at March 31, 2012.

### **Off-Balance Sheet Arrangements**

#### ***Lease Commitments***

We lease certain of our office and manufacturing facilities, machinery and equipment and corporate aircraft under various committed lease arrangements provided by financial institutions. Future minimum lease payments under operating leases were \$259.3 million at March 31, 2012.

#### ***Derivatives***

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

***Foreign Currency Contracts Designated as Cash Flow Hedges:*** At March 31, 2012, our contracts had a notional amount of \$1,727.9 million, fair value of a \$44.2 million net asset and maturity dates ranging from April 2012 to September 2016. The amount of accumulated other comprehensive income that would be reclassified into earnings in the next 12 months is a gain of \$22.6 million. During the first quarter 2012 and 2011, we realized a net gain of \$0.7 million and \$1.2 million, respectively, related to contracts that settled.

***Foreign Currency Contracts not Designated as Hedges:*** At March 31, 2012, we had no contracts outstanding. During the first quarter 2012 and 2011, we realized a net gain of \$6.8 million and a net gain of \$10.2 million, respectively, for contracts entered into and settled during those periods.

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

**Contractual Obligations and Other Commercial Commitments**

As of March 31, 2012, purchase obligations were approximately \$1.2 billion compared to approximately \$960 million at December 31, 2011. There have been no other material changes to the table presented in our Annual Report on Form 10-K for the year ended December 31, 2011. The table excludes our liability for unrecognized tax benefits, which was \$159 million at March 31, 2012, since we cannot predict with reasonable reliability the timing of cash settlements to the respective taxing authorities.

**CASH FLOW**

The following table summarizes our cash flow activity for the first quarter 2012 and 2011:

	2012	2011	Change
	(Dollars in millions)		
<b><u>Net Cash Provided by (Used in):</u></b>			
Operating activities of continuing operations	\$ (177.4)	\$ 96.4	\$ (273.8)
Investing activities of continuing operations	\$ (71.7)	\$ (27.7)	\$ (44.0)
Financing activities of continuing operations	\$ (37.7)	\$ (61.8)	\$ 24.1
Discontinued operations	\$ (0.1)	\$ (0.1)	\$

***Operating Activities of Continuing Operations***

The decrease in net cash provided by operating activities for the first quarter 2012 as compared to the first quarter 2011 was primarily due to higher pension contributions and increased working capital to support our higher sales volume and new program requirements. Pension and postretirement benefit contributions were \$142.2 million and \$75.4 million for the first quarter 2012 and 2011, respectively.

***Investing Activities of Continuing Operations***

Net cash used by investing activities for the first quarter 2012 and 2011 included capital expenditures of \$71.7 million and \$35.6 million, respectively.

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***Financing Activities of Continuing Operations***

The decrease in net cash used in financing activities for the first quarter 2012 as compared to the first quarter 2011 was primarily due to lower purchases of our common stock in connection with our share repurchase program, partially offset by higher dividend payments, as the dividend declared in the fourth quarter of 2010 was paid on December 30, 2010, and higher net repayments of our short-term borrowings.

**CONTINGENCIES**

See Note 16, Contingencies , to our condensed consolidated financial statements.

**NEW ACCOUNTING STANDARDS NOT YET ADOPTED**

As of March 31, 2012, there were no new standards applicable to us that have not yet been adopted. We do not expect the adoption of new accounting standards in 2012 to have a material impact on our financial condition or results of operations. See Note 3, New Accounting Standards , to our condensed consolidated financial statements.

**CRITICAL ACCOUNTING ESTIMATES**

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

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

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**Contract Accounting Percentage of Completion**

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

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

Escalation of future sales prices under the contracts;

Ability to recover costs incurred for change orders and claims;

Costs, including material and labor costs and related escalation;

Labor improvements due to the learning curve experience;

Anticipated cost productivity improvements, including overhead absorption, related to new, or changes to, manufacturing methods and processes;

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

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

Effect of foreign currency exchange fluctuations.

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### ***Inventory***

Inventoried costs on long-term contracts include certain pre-production costs, consisting primarily of tooling and design costs and production costs, including applicable overhead. The costs attributed to units delivered under long-term commercial contracts are based on the estimated average cost of all units expected to be produced and are determined under the learning curve concept, which anticipates a predictable decrease in unit costs as tasks and production techniques become more efficient through repetition. During the early years of a contract, manufacturing costs per unit delivered are typically greater than the estimated average unit cost for the total contract. This excess manufacturing cost for units shipped results in an increase in inventory (referred to as excess-over-average ) during the early years of a contract. See Note 9, Inventories , to our condensed consolidated financial statements.

If in-process inventory plus estimated costs to complete a specific contract exceed the anticipated remaining sales value of such contract, such excess is charged to cost of sales in the period identified, thus reducing inventory to its estimated realizable value. Progress payments and advances are classified as a reduction of inventory when they represent non-refundable payments for work-in-process and cash received from government customers where the government has legal title to the work-in-process.

### ***Unbilled Receivables***

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

### ***Product Maintenance Arrangements***

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

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### **Income Taxes**

As of each reporting period, we estimate an effective income tax rate that is expected to be applicable for the full fiscal year. In addition, we establish reserves for uncertain tax positions and record interest (net of any applicable tax benefit) on potential tax contingencies as a component of our tax expense. The estimate of our effective income tax rate involves significant judgments regarding the application of complex tax regulations across many jurisdictions and estimates as to the amount and jurisdictional source of income expected to be earned during the full fiscal year. Further influencing this estimate are evolving interpretations of new and existing tax laws, rulings by taxing authorities and court decisions. Due to the subjective and complex nature of these underlying issues, our actual effective tax rate and related tax liabilities may differ from our initial estimates. Differences between our estimated and actual effective income tax rates and related liabilities are recorded in the period they become known. The resulting adjustment to our income tax expense could have a material effect on our results of operations in the period the adjustment is recorded.

### **Goodwill and Identifiable Intangible Assets**

Goodwill is not amortized but is tested for impairment annually, or when an event occurs or circumstances change such that it is reasonably possible that an impairment may exist. Our annual testing date is November 30. Qualitative factors are assessed to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of the reporting units is less than the net book value. Based upon the qualitative assessment as of our November 30, 2011 testing date, we determined that our goodwill was not impaired in 2012.

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' long-term strategic plans. The revenue growth is based upon aircraft build projections from aircraft manufacturers and widely available external publications. The profit margin assumption is based upon the current cost structure and anticipated cost reductions. Changes to these assumptions could result in the recognition of impairment.

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### **Other Assets**

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

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

Performance of subcontract suppliers and other production risks;

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

Availability of specialized raw materials in the marketplace.

### ***Participation Payments***

Certain of our businesses make cash payments under long-term contractual arrangements to OEM or system contractors in return for a secured position on an aircraft program. Participation payments are capitalized, when a contractual liability has been incurred, as other assets and amortized as a reduction to sales, as appropriate. At March 31, 2012 and December 31, 2011, the carrying amount of participation payments was \$175.5 million and \$175.8 million, respectively. The carrying amount of participation payments is evaluated for recovery at least annually or when other indicators of impairment exist, such as a change in the estimated number of units or a revision in the economics of the program. If such estimates change, amortization expense is adjusted and/or an impairment charge is recorded, as appropriate, for the effect of the revised estimates. No such impairment charges were recorded in the three months ended March 31, 2012 or 2011.

### ***Sales Incentives***

We offer sales incentives such as up-front cash payments, merchandise credits and/or free products to certain airline customers in connection with sales contracts. The cost of these incentives is recognized in the period incurred unless recovery of these costs is specifically guaranteed by the customer in the contract. If the contract contains such a guarantee, then the cost of the sales incentive is capitalized as other assets and amortized to cost of sales, or as a reduction to sales, as appropriate. At March 31, 2012 and December 31, 2011, the carrying amount of sales incentives was \$62.7 million. 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



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annually to the amount recoverable under the terms of the guarantee in the customer contract. If the amount of the carrying value of the sales incentives exceeds the amount recoverable in the contract, the carrying value is reduced. No such impairment charges were recorded in the three months ended March 31, 2012 or 2011.

### ***Flight Certification Costs***

When a supply arrangement is secured, certain of our businesses may agree to supply hardware to an OEM to be used in flight certification testing and/or make cash payments to reimburse an OEM for costs incurred in testing the hardware. The flight certification testing is necessary to certify aircraft systems/components for the aircraft's airworthiness and allows the aircraft to be flown and thus sold in the country certifying the aircraft. Flight certification costs are capitalized in other assets and are amortized to cost of sales, or as a reduction to sales, as appropriate. At March 31, 2012 and December 31, 2011, the carrying amount of sales flight certification costs was \$46.4 million and \$47 million, respectively. The carrying amount of flight certification costs is evaluated for recovery when indicators of impairment exist or when the estimated number of units to be manufactured changes. No such impairment charges were recorded in the three months ended March 31, 2012 or 2011.

### **Service and Product Warranties**

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

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

The mix and volumes of products being sold; and

The impact of product changes.

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### **Share-Based Compensation**

We utilize the fair value method of accounting to account for share-based compensation awards. See Note 6, **Share-Based Compensation** to our condensed consolidated financial statements.

As described in Note 1, **Goodrich Merger Agreement with United Technologies Corporation**, to our condensed consolidated financial statements, the Merger Agreement prohibits us from granting new awards pursuant to employee share-based compensation plans after September 21, 2011 (except under certain conditions in the event the Merger is not consummated prior to August 31, 2012).

### **Pension and Postretirement Benefits Other Than Pensions**

We consult with an outside actuary as to the appropriateness for many of the assumptions used in determining the benefit obligations and the annual expense for our worldwide pension and postretirement benefits other than pensions. All significant assumptions are evaluated at least annually. Assumptions such as the rate of compensation increase, health care cost projections, the mortality rate assumption, and the long-term rate of return on plan assets are based upon our historical and benchmark data, as well as our outlook for the future. The U.S. and the U.K. discount rates are determined using a bond settlement approach based on a hypothetical portfolio of high quality corporate bonds whose coupon payments and maturity values are designed to match the projected benefit payment cash flows of the underlying pension and OPEB obligations. Only high quality AA-graded or better, non-callable corporate bonds are included in this bond portfolio. The appropriate benchmarks by applicable country are used for pension plans other than those in the U.S. and U.K. The effect of the annual valuation will be completed in the second quarter of 2012.

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

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

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

demand for and market acceptance of new and existing products, such as the Airbus A350 XWB, A320neo and A380, the Boeing 787 and 737 MAX, the EMBRAER 190, the Mitsubishi Regional Jet (MRJ), the Bombardier CSeries, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and the Northrop Grumman Joint STARS re-engining program;

our ability to maintain profitability on the aerostructures 787 OE contract with Boeing;

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

cancellation or delays of orders or contracts by customers or with suppliers, including delays or cancellations associated with the Airbus A350 XWB, A320neo and A380, the Boeing 787 and 737 MAX, the EMBRAER 190, the Mitsubishi Regional Jet (MRJ), the Bombardier CSeries, the Dassault Falcon 7X and the Lockheed Martin F-35 Lightning II and the Northrop Grumman Joint STARS re-engining program;

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

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

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

performance issues with products currently in production or in use and successful development of products and advanced technologies;

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

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

global demand for aircraft spare parts and aftermarket services;

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

the possibility of restructuring and consolidation actions and the successful implementation of any announced actions;

threats and events associated with and efforts to combat terrorism;

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

competitive product and pricing pressures;

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

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

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

domestic and foreign government spending, budgetary and trade policies;

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

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

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



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uncertainties and business impacts associated with the proposed acquisition of the Company by United Technologies, including uncertainties relating to the anticipated timing of filings and approvals relating to the transaction, the expected timing of completion of the transaction and the ability to complete the transaction; and

the potential impact of litigation relating to the proposed transaction with United Technologies.

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

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

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in interest rates and foreign currency exchange rates, which could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We use such derivative financial instruments as risk management tools and not for speculative investment purposes.

We are exposed to interest rate risk as a result of our outstanding variable rate debt obligations. At March 31, 2012, a hypothetical 100 basis point unfavorable change in interest rates would increase annual interest expense by \$0.4 million. At March 31, 2012, a hypothetical 10 percent strengthening of the U.S. dollar against other foreign currencies would decrease the value of our forward contracts by \$188.4 million. The fair value of these foreign currency forward contracts was an asset of \$44.2 million at March 31, 2012. 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.

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

#### **Evaluation of Disclosure Controls and Procedures**

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

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

#### **Changes in Internal Control**

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

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

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In connection with the Merger Agreement with UTC, eleven putative class-action complaints were filed in the Supreme Court of the State of New York relating to the Merger. Nine of these complaints were filed in the County of New York: Rice v. Goodrich Corp., et al., Index No. 652619/2011, New Jersey Carpenters Annuity Fund v. Goodrich Corp., et al., Index No. 652637/2011, Louisiana Municipal Police Employees Retirement Sys. v. Goodrich Corp., et al., Index No. 652649/2011, Pill v. Goodrich Corp., et al., Index No. 652655/2011, IUE-CWA Local 475 Pension Plan v. Goodrich Corp., et al., Index No. 652661/2011, Mass. Laborers Pension Fund v. Goodrich Corp., et al., Index No. 652664/2011, Pifko v. Goodrich Corp., et al., Index No. 11111146, Ruschel v. Goodrich Corp., et al., Index No. 652695/2011, and Astor BK Realty Trust v. Larsen, et al., Index No. 652706/2011. Two additional putative class-action complaints were filed in Nassau County: Casey v. Larsen, et al., Index No. 13699/2011, and Minneapolis Retail Meat Cutters and Food Handlers Pension Fund v. Goodrich Corp., et al., Index No. 14366/2011. On November 7, 2011, upon plaintiffs' motions, all eleven actions were consolidated into In re Goodrich Shareholders Litigation, Index No. 13699/2011 in the Supreme Court for Nassau County and, on November 9, plaintiffs filed a Consolidated Amended Class Action Complaint (Consolidated Complaint) in that court.

The Consolidated Complaint purports to be brought on behalf of a putative class of Goodrich shareholders and names Goodrich, its directors, UTC and a merger subsidiary as defendants. The Consolidated Complaint generally alleges that, in approving the proposed transaction, the Goodrich directors breached their fiduciary duties of care, loyalty, good faith and fair dealing owed to the putative class. The Consolidated Complaint further alleges that UTC, the merger subsidiary and Goodrich aided and abetted the Goodrich directors in the breach of their fiduciary duties. In addition to damages, the Consolidated Complaint seeks, among other things, injunctive relief barring the named defendants from consummating the merger, as well as attorneys' fees and costs. Goodrich and its directors believe that these consolidated lawsuits and the underlying claims are without merit.

The parties to the consolidated action reached an agreement in principle, which is intended to resolve all issues in this litigation. On February 6, 2012, the parties entered into a Memorandum of Understanding (MOU) memorializing the key terms of that agreement. Pursuant to the MOU, Goodrich made various additional disclosures in its Definitive Proxy Statement filed on February 7, 2012 related to the Merger, and UTC agreed to forebear from exercising certain rights under the Merger Agreement.



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The effect of UTC's forbearance is to shorten the period of written notice Goodrich must give to UTC prior to making a Company Adverse Recommendation Change or terminating the Merger Agreement pursuant to Section 8.1(c) in light of a Company Superior Proposal (as those terms are defined in the Merger Agreement) from five calendar days to three business days, and the period of prior written notice Goodrich must give to UTC of its intention to make a Company Adverse Recommendation Change or terminate the Merger Agreement in light of any change to the financial or other material terms of a subsequent Company Superior Proposal from the longer of (i) three business days or (ii) the period remaining under the initial five calendar-day notice, to the longer of (i) two business days or (ii) the period remaining under the initial three business-day notice.

The MOU will not affect the merger consideration to be paid to shareholders of Goodrich pursuant to the Merger Agreement or the adoption of the Merger Agreement by Goodrich's shareholders which occurred on March 13, 2012. The settlement is subject to approval by the New York Supreme Court for Nassau County.

**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, 2011, which could materially affect our business, financial condition or results of operations. The risks described in our Annual Report of Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or results of operations.

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

(c) The following table summarizes Goodrich Corporation's purchases of its common stock for the three months ended March 31, 2012:

**ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid Per Share	(c) Total Number of (or Approximate Shares Purchased as Part of Publicly Announced Plans or Programs (2)		(d) Maximum Number
			Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (3)		
January 2012	151,668	123.60			
February 2012	9,536	125.57			
March 2012	215	126.11			
Total	161,419	123.72			\$ 479 million

(1) The category includes 161,419 shares delivered to us by employees to pay withholding taxes due upon vesting of a restricted unit award.

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(2) This balance represents the number of shares that were repurchased under the Company's repurchase program (the Program). The Program was approved by the Board of Directors for \$1.1 billion in total. Unless terminated earlier by resolution of the Company's Board of Directors, the Program will expire when the Company has purchased all shares authorized for repurchase. The Program does not obligate the Company to repurchase any particular amount of common stock, and may be suspended or discontinued at any time without notice.

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

**Item 4. Mine Safety Disclosures.**

Not applicable.

**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 3.1 to Goodrich Corporation's Current Report on Form 8-K dated February 16, 2011, is incorporated herein by reference. In accordance with Item 601(b)(4)(iii)(A) of Regulation S-K, Goodrich Corporation hereby undertakes to furnish to the Securities and Exchange Commission upon request, a copy of all instruments defining the rights of holders of long-term debt.
- Exhibit 10.1 First Amendment to the Goodrich Corporation Amended and Restated 2001 Equity Compensation Plan.
- Exhibit 10.2 First Amendment to the Goodrich Corporation Amended and Restated 2011 Equity Compensation Plan.
- Exhibit 15 Letter Re: Unaudited Interim Financial Information.
- Exhibit 31.1 Rule 13a-14(a)/15d-14(a) Certification.
- Exhibit 31.2 Rule 13a-14(a)/15d-14(a) Certification.
- Exhibit 32 Section 1350 Certifications.
- Exhibit 101 The following financial information from Goodrich Corporation's Quarterly Report on Form 10-Q for the quarter ended March 31, 2012 filed with the SEC on April 26, 2012, formatted in XBRL includes: (i) Condensed Consolidated Statements of Comprehensive Income for the fiscal periods ended March 31, 2012 and March 31, 2011 (ii) Condensed Consolidated Balance Sheets at March 31, 2012 and December 31, 2011, (iii) Condensed Consolidated Cash Flow Statements for the fiscal periods ended March 31, 2012 and March 31, 2011, and (iv) the Notes to the Condensed Consolidated Financial Statements.

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**SIGNATURE**

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

April 26, 2012

GOODRICH CORPORATION

By /s/ SCOTT E. KUECHLE  
Scott E. Kuechle  
Executive Vice President and Chief Financial Officer

By /s/ SCOTT A. COTTRILL  
Scott A. Cottrill  
Vice President and Controller (Principal Accounting Officer)

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\* Submitted electronically herewith.