GOODRICH CORP
Form 10-K
February 28, 2005

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

Form 10-K

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

For the fiscal year ended December 31, 2004

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-892

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

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

Registrant s telephone number, including area code: (704) 423-7000
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

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

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

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

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

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

The aggregate market value of the voting stock, consisting solely of common stock, held by nonaffiliates of the registrant as of June 30, 2004 was $3.8 billion.

The number of shares of common stock outstanding as of January 31, 2005 was 119,568,200.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the proxy statement dated March 7, 2005 are incorporated by reference into Part III (Items 10, 11, 12, 13 and 14).

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PART I

Item 1. *Business*

Overview

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

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

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

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

Unless otherwise noted herein, disclosures in this Annual Report on Form 10-K relate only to our continuing operations. Our discontinued operations consist of the Engineered Industrial Products segment, which was spun-off to shareholders in May 2002, the Avionics business, which was divested in March 2003, and the Passenger Restraints business, which ceased operating during the first quarter of 2003.

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

Acquisition of TRW s Aeronautical Systems Businesses

On October 1, 2002, we completed our acquisition of TRW Inc. s Aeronautical Systems businesses. The acquired businesses design and manufacture commercial and military aerospace systems and equipment, including engine controls, flight controls, power systems, cargo systems, hoists and winches and actuation systems. At the time of acquisition, these businesses employed approximately 6,200 employees in 22 facilities in nine countries, including manufacturing and service operations in the United Kingdom, France, Germany, Canada, the United States and several Asia/ Pacific countries.

The purchase price for these businesses, after giving effect to post-closing purchase price adjustments, was approximately $1.4 billion. We financed the acquisition through a $1.5 billion, 364-day credit facility provided by some of our existing lenders. In the fourth quarter of 2002, we repaid $1.3 billion of the credit facility using proceeds from an offering of our common stock for net proceeds of $216.2 million, the issuance of $800 million of 5 and 10-year notes for net proceeds of $793.1 million, cash flow from operations and the sale of non-operating assets. During the first quarter 2003, we repaid the balance of the facility with funds generated from

the sale of the Noveon International, Inc. payment-in-kind notes (Noveon PIK Notes) and a portion of the proceeds from the sale of our Avionics business.

Subsequent to the acquisition, we submitted claims to Northrop Grumman Space & Mission Systems Corp. (Northrop Grumman), which acquired TRW, for reimbursement of certain liabilities and obligations that were retained by TRW under the Master Agreement of Purchase and Sale (Purchase Agreement), but which were administered by us after the closing. We entered into a partial settlement with Northrop Grumman on December 27, 2004. Under the terms of the partial settlement agreement, Northrop Grumman paid us $99 million to settle certain claims that were made against it under the Purchase Agreement relating to customer warranty and other contract claims for products designed, manufactured or sold by TRW prior to the acquisition, as well as certain other miscellaneous claims.

Under the terms of the settlement agreement, except as described below, we have, among other things:

- assumed certain liabilities associated with future customer warranty and other contract claims for products designed, manufactured or sold by TRW prior to the acquisition;

- released Northrop Grumman from any additional claims that may be made by us against it relating to such liabilities; and

- released Northrop Grumman from certain claims for damages arising in connection with a breach by TRW of its representations, warranties and pre-acquisition covenants under the Purchase Agreement.

The settlement agreement does not release Northrop Grumman from any claims that we may have against it relating to the A380 actuation systems development program and certain other liabilities retained by TRW under the Purchase Agreement.

As a result of the partial settlement, we recorded a charge of $23.4 million to Cost of Sales representing the amount by which our estimated undiscounted future liabilities plus our receivable from Northrop Grumman for these matters exceeded the settlement amount.

Discontinued Operations

Sale of the Avionics Business

On March 28, 2003, we completed the sale of our Avionics business to L-3 Communications Corporation for $188 million, or $181 million net of fees and expenses. The gain on the sale was $63 million after tax, which was reported as income from discontinued operations. The Avionics business marketed a variety of state-of-the art avionics instruments and systems primarily for general aviation, business jet and military aircraft. Prior period financial statements have been reclassified to reflect the Avionics business as a discontinued operation.

Passenger Restraint Systems

During the first quarter of 2003, our Passenger Restraint Systems (PRS) business ceased operations. Prior period financial statements have been reclassified to reflect the PRS business as a discontinued operation.

Spin-off of Engineered Industrial Products

On May 31, 2002, we completed the tax-free spin-off of our Engineered Industrial Products (EIP) segment. The spin-off was effected through a tax-free distribution to our shareholders of all of the capital stock of EnPro Industries, Inc. (EnPro), then a wholly owned subsidiary of Goodrich. In the spin-off, our shareholders received one share of EnPro common stock for every five shares of our common stock owned on the record date, May 28, 2002.

At the time of the spin-off, EnPro s only material asset was all of the capital stock and certain indebtedness of Coltec Industries Inc (Coltec). Coltec and its subsidiaries owned substantially all of the assets and liabilities of the EIP segment, including the associated asbestos liabilities and related insurance.

Prior to the spin-off, Coltec also owned and operated an aerospace business. Before completing the spin-off, Coltec s aerospace business assumed all intercompany balances outstanding between Coltec and us and Coltec then transferred to us by way of a dividend all of the assets, liabilities and operations of Coltec s aerospace business, including these assumed balances. Following this transfer and prior to the spin-off, all of the capital stock of Coltec was contributed to EnPro, with the result that at the time of the spin-off Coltec was a wholly-owned subsidiary of EnPro.

In connection with the spin-off, we and EnPro entered into a distribution agreement, a tax matters agreement, a transition services agreement, an employee matters agreement and an indemnification agreement, which govern the relationship between us and EnPro after the spin-off and provide for the allocation of employee benefits, tax and other liabilities and obligations attributable to periods prior to the spin-off.

The spin-off was recorded as a dividend and resulted in a reduction in shareholders equity of $409.1 million representing the recorded value of net assets of the business distributed, including cash of $47 million. The distribution agreement provided for certain post-distribution adjustments relating to the amount of cash to be included in the net assets distributed, which adjustments resulted in a cash payment by EnPro to us of $0.6 million.

The $150 million of outstanding Coltec Capital Trust $5^1/4$ percent convertible trust preferred securities (TIDES) that were reflected in liabilities of discontinued operations prior to the spin-off remained outstanding as part of the EnPro capital structure following the spin-off. At December 31, 2004, $145 million of the TIDES remained outstanding. The TIDES are convertible into shares of both Goodrich and EnPro common stock until April 15, 2028. We have guaranteed amounts owed by Coltec Capital Trust with respect to the TIDES and have guaranteed Coltec s performance of its obligations with respect to the TIDES and the underlying Coltec convertible subordinated debentures. EnPro, Coltec and Coltec Capital Trust have agreed to indemnify us for any costs and liabilities arising under or related to the TIDES after the spin-off.

Business Segments

We have three business segments: Airframe Systems, Engine Systems and Electronic Systems. Effective January 1, 2004, the customer services business unit that primarily supports aftermarket products for the businesses that were acquired as part of Aeronautical Systems was transferred from the Airframe Systems segment to the Engine Systems segment. Also effective January 1, 2004, costs and sales associated with products or services provided to customers through the customer services business are reflected in the business providing the product or service rather than the customer services business. Segment financial results and amounts for prior periods have been reclassified to reflect the new organization and reclassified to conform to the current year presentation.

For financial information about the sales, operating income and assets of our segments, as well as the sales attributable to our five product categories, see Note O to our Consolidated Financial Statements.

A summary of the products and services provided by our business segments is presented below.

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Airframe Systems

Airframe Systems provides systems and components pertaining to aircraft taxi, take-off, landing and stopping. Several business units within the segment are linked by their ability to contribute to the integration, design, manufacture and service of entire aircraft undercarriage systems, including landing gear, wheels and brakes and certain brake controls. Airframe Systems also includes the aviation technical services business unit, which performs comprehensive total aircraft maintenance, repair, overhaul and modification services for many commercial airlines, independent operators, aircraft leasing companies and airfreight carriers. The segment includes the actuation systems and flight controls business units that were acquired as part of Aeronautical Systems. The actuation systems business unit provides systems that control the movement of steering systems for missiles and electro-mechanical systems that are characterized by high power, low weight, low maintenance, resistance to extreme temperatures and vibrations and high reliability. The actuation systems business unit also provides actuators for primary flight control systems that operate elevators, ailerons and rudders, and secondary flight controls systems such as flaps and slats. The engineered polymer products business unit provides large-scale marine composite structures, marine acoustic materials, acoustic/vibration damping structures, fireproof composites and high performance elastomer formulations to government and commercial customers.

Engine Systems

Engine Systems includes the aerostructures business unit, a leading supplier of nacelles, pylons, thrust reversers and related aircraft engine housing components. The segment also produces engine and fuel controls, pumps, fuel delivery systems, and structural and rotating components such as discs, blisks, shafts and airfoils for both aerospace and industrial gas turbine applications. The segment includes the cargo systems, engine controls and customer services business units, which were acquired as part of Aeronautical Systems. The cargo systems business unit produces fully integrated main deck and lower lobe cargo systems for wide body aircraft. The engine controls business unit provides engine control systems and components for jet engines used on commercial and military aircraft, including fuel metering controls, fuel pumping systems, electronic control software and hardware, variable geometry actuation controls, afterburner fuel pump and metering unit nozzles, and engine health monitoring systems. The customer services business unit primarily supports aftermarket products for the businesses that were acquired as part of Aeronautical Systems.

Electronic Systems

Electronic Systems produces a wide array of products that provide flight performance measurements, flight management, and control and safety data. Included are a variety of sensor systems that measure and manage aircraft fuel and monitor oil debris, engine and transmission, and structural health. The segment s products also include ice detection systems, test equipment, aircraft lighting systems, landing gear cables and harnesses, satellite control, data management and payload systems, launch and missile telemetry systems, airborne surveillance and reconnaissance systems, laser warning systems, aircraft evacuation systems, de-icing systems, ejection seats, and crew and attendant seating. The power systems business unit, which was acquired as part of Aeronautical Systems, provides systems that produce and control electrical power for commercial and military aircraft, including electric generators for both main and back-up electrical power, electric starters and electric starter generating systems and power management and distribution systems. Also acquired as part of Aeronautical Systems was the hoists and winches business unit, which provides airborne hoists and winches used on both helicopters and fixed wing aircraft, and a business that produces engine shafts primarily for helicopters.

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Customers

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

In 2004, 2003 and 2002, direct and indirect sales to the United States government totaled approximately 20 percent, 19 percent and 20 percent, respectively, of consolidated sales. Indirect sales to the United States government include a portion of the direct and indirect sales to Boeing referred to in the preceding paragraph.

In 2004, 2003 and 2002, direct and indirect sales to Airbus S.A.S. (Airbus) totaled approximately 16 percent, 14 percent and 13 percent, respectively, of consolidated sales. In 2004, 2003 and 2002, direct and indirect sales to The Boeing Company (Boeing) totaled approximately 13 percent, 17 percent and 20 percent, respectively, of consolidated sales.

Competition

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

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

System	Market Segments(1)	Major Non-Captive Competitors(2)
Airframe Systems		
Flight Control Actuation	Large Commercial/ Military	Parker Hannifin Corporation; United Technologies Corporation; Smiths Group plc; Liebherr-Holding GmbH; Moog Inc.
Heavy Airframe Maintenance	Large Commercial	TIMCO Aviation Services, Inc.; SIA Engineering Company Limited; Singapore Technologies Engineering Ltd.; Lufthansa Technik AG; PEMCO Aviation Group, Inc.
Landing Gear	Large Commercial/ Military	Messier-Dowty (a member company of Snecma (3)); Liebherr-Holding GmbH; Héroux-Devtek
Wheels and Brakes	Large Commercial/ Business	Honeywell International Inc.; Messier-Bugatti (a subsidiary of Snecma (3)); Aircraft Braking Systems Corporation; Dunlop Standard Aerospace Group plc., a division of Meggitt plc.
Engine Systems		
Cargo Systems	Large Commercial	Telair International (a subsidiary of Teleflex Incorporated); Ancra International LLC
Turbomachinery Products	Aero and Industrial Turbine Components	Blades Technology; Samsung; Howmet (a division of Alcoa); PZL (a division of United Technologies Corporation); GE Power Systems (a division of General Electric Company)

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System	Market Segments(1)	Major Non-Captive Competitors(2)
Engine Controls	Large Commercial/ Military	United Technologies Corporation; BAE Systems plc; Honeywell International Inc.; Argo-Tech Corporation
Turbine Fuel Technologies	Commercial/Military/ Regional & Business	Parker Hannifin Corporation; Woodward Governor Company
Nacelles/ Thrust Reversers	Large Commercial	Aircelle (a subsidiary of Snecma (3)); General Electric Company
Electronic Systems		
Aerospace Hoists/ Winches	Military/Large Commercial	Breeze-Eastern (a division of TransTechnology Corporation); Telair International (a subsidiary of Teleflex Incorporated)
Aircraft Crew Seating	Large Commercial/ Business	Ipeco Holdings Ltd; Sicma Aero Seat (a subsidiary of Zodiac S.A.); EADS Sogerma Services (a subsidiary of EADS European Aeronautical Defense and Space Co.); B/EAerospace, Inc.; C&D Aerospace Group
De-Icing Systems	Regional/General Aviation	Aérazur S.A. (a subsidiary of Zodiac S.A.); B/E Aerospace, Inc.
Ejection Seats	Military	Martin-Baker Aircraft Co. Limited
Evacuation Systems	Large Commercial	Air Crusiers (a subsidiary of Zodiac S.A.)
Fuel and Utility Systems	Large Commercial	Smiths Group plc; Parker Hannifin Corporation
Lighting	Large Commercial/ Business	Honeywell International Inc.; DLE Diehl; Page Aerospace Limited; LSI Luminescent Systems Inc.
Optical Systems	Military/Space	BAE Systems, plc; ITT Industries, Inc.; L-3 Communications Holdings, Inc.; Honeywell International Inc.
Power Systems	Large Commercial	Honeywell International Inc.; Smiths Group plc; United Technologies Corporation
Propulsion Systems	Military	Danaher Corp (Pacific Scientific, McCormick Selph, SDI); Scot, Inc.; Talley Industries
Sensors	Large Commercial/ Military	Honeywell International Inc.; Thales, S.A.; Auxitrol (a subsidiary of Esterline Technologies)

(1) As used in this table, Large Commercial means commercial aircraft with a capacity for 100 or more seats.

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

(3) Snecma refers to Société Nationale d -tudes et de Construction de Moteurs d Aviation.

Backlog

At December 31, 2004, we had a backlog of approximately $3.5 billion, of which approximately 76 percent is expected to be filled during 2005. The amount of backlog at December 31, 2003 was approximately $3.2 billion. Backlog includes fixed, firm contracts that have not been shipped and for which cancellation is not anticipated. Backlog is subject to delivery delays or program cancellations, which are beyond our control.

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Raw Materials

Raw materials and components used in the manufacture of our products, including aluminum, steel and carbon fiber, are available from a number of manufacturers and are generally in adequate supply.

Environmental

We are subject to various domestic and international environmental laws and regulations, which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. We are currently involved in the investigation and remediation of a number of sites under these laws. Based on currently available information, we do not believe that future environmental costs in excess of those accrued with respect to such sites will have a material adverse effect on our financial condition. There can be no assurance, however, that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on our results of operations or cash flows in a given period.

For additional information concerning environmental matters, see Item 3. Legal Proceedings Environmental.

Research and Development

We perform research and development under company-funded programs for commercial products and under contracts with others. Research and development under contracts with others is performed on both military and commercial products. Total research and development expense from continuing operations in the years ended December 31, 2004, 2003 and 2002 was $348.3 million, $289.6 million and $190.7 million, respectively. Of these amounts, $99.5 million, $87.9 million, and $47.3 million, respectively, were funded by customers. Research and development expense in 2002 included $12.5 million of in-process research and development expense written-off as part of the Aeronautical Systems acquisition.

Intellectual Property

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

Human Resources

As of December 31, 2004, we had approximately 14,700 employees in the United States. Additionally, we employed approximately 6,600 people in other countries. We believe that we have good relationships with our employees. The hourly employees who are unionized are covered by collective bargaining agreements with a number of labor unions and with varying contract termination dates through July 2009. There were no material work stoppages during 2004.

Foreign Operations

We are engaged in business in foreign markets. Our manufacturing and service facilities are located in Australia, Canada, China, England, France, Germany, India, Indonesia, Mexico, Poland, Scotland and Singapore. We market our products and services through sales subsidiaries and distributors in a number of foreign countries. We also have joint venture agreements with various foreign companies.

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Currency fluctuations, tariffs and similar import limitations, price controls and labor regulations can affect our foreign operations, including foreign affiliates. Other potential limitations on our foreign operations include expropriation, nationalization, restrictions on foreign investments or their transfers and additional political and economic risks. In addition, the transfer of funds from foreign operations could be impaired by the unavailability of dollar exchange or other restrictive regulations that foreign governments could enact. We do not believe that such restrictions or regulations would have a material adverse effect on our business, in the aggregate.

For financial information about U.S. and foreign sales and assets, see Note O to our Consolidated Financial Statements.

Certain Business Risks

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

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

We are currently under contract to supply components and systems for a number of new commercial and military aircraft programs, including the Airbus A380 and A350, the Boeing 787 Dreamliner, the Embraer 190 and the Lockheed Martin F-35 Joint Strike Fighter. We have made and will continue to make substantial investments and incur substantial development costs in connection with these programs. We cannot assure you that each of these programs will enter full-scale production as expected or that demand for the aircraft will be sufficient to allow us to recoup our investment in these programs. If any of these programs are not successful, it could have a material adverse effect on our business, financial condition or results of operations.

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

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

The terrorist attacks of September 11, 2001 adversely impacted the U.S. and world economies and a wide range of industries. These terrorist attacks, the allied military response and subsequent developments may lead to future acts of terrorism and additional hostilities, including possible retaliatory attacks on sovereign nations, as well as financial, economic and political instability. While the precise effects of such instability on our industry and our business is difficult to determine, it may negatively impact our business, financial condition, results of operations and cash flows.

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

The downturn in the commercial air transport market segment, the lingering impact of the 2001 terrorist attacks, increases in fuel costs and heightened competition from low cost carriers have adversely affected the financial condition of some commercial airlines. Recently, several airlines have declared bankruptcy or indicated that bankruptcy may be imminent. A portion of our sales are derived from the sale of products directly to airlines, and we sometimes provide sales incentives to airlines and record unamortized sales incentives as other assets. If an airline declares bankruptcy, we may be unable to collect our outstanding accounts receivable from the airline and we may be required to record a charge related to unamortized and unrecoverable sales incentives.

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

For the year ended December 31, 2004, approximately 16 percent and 13 percent of our sales were made to Airbus and Boeing, respectively, for all categories of products, including original equipment and aftermarket products for commercial and military aircraft and space applications. Accordingly, a significant reduction in purchases by either of these customers could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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

Approximately 30 percent of our sales for the year ended December 31, 2004 were derived from the military and space market segments. Included in that category are direct and indirect sales to the United States government, which represented approximately 20 percent of our sales for the year ended December 31, 2004. The military and space market segments are largely dependent upon government budgets, particularly the U.S. defense budget. We cannot assure you that an increase in defense spending will be allocated to programs that would benefit our business. Moreover, we cannot assure you that new military aircraft programs in which we participate will enter full-scale production as expected. A change in levels of defense spending could curtail or enhance our prospects in these market segments, depending upon the programs affected. A change in the level of anticipated new product development costs for military aircraft could negatively impact our business.

Competitive pressures may adversely affect our business and financial results.

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

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

The aerospace industry in which we operate has been experiencing significant consolidation among suppliers, including us and our competitors, and the customers we serve. Commercial airlines have increasingly been merging and creating global alliances to achieve greater

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

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

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

The aerospace industry is highly regulated.

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

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

We are subject to various domestic and international environmental laws and regulations which may require that we investigate and remediate the effects of the release or disposal of materials at sites associated with past and present operations. We are currently involved in the investigation and remediation of a number of sites under these laws. Based on currently available information, we do not believe that future environmental costs in excess of those accrued with respect to such sites will have a material adverse effect on our financial condition. There can be no assurance, however, that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on our results of operations or cash flows in a given period.

Third parties may not satisfy their contractual obligations to indemnify us for environmental and other claims arising out of our divested businesses.

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

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

Our operations expose us to potential liability for personal injury or death as a result of the failure of an aircraft component that has been serviced by us, the failure of an aircraft component designed or manufactured by us, or the irregularity of products processed or distributed by us. While we believe that our liability insurance is adequate to protect us from these liabilities, our insurance may not cover all liabilities. Additionally, insurance coverage may not be available in the future at a cost acceptable to us. Any material liability not covered by insurance or for which third-party indemnification is not available could have a material adverse effect on our financial condition, results of operations and cash flows.

Any material product warranty obligations may adversely affect us.

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

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

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

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

We have operations and assets throughout the world. In addition, we sell our products and services in foreign countries and seek to increase our level of international business activity. Accordingly, we are subject to various risks, including: U.S.-imposed embargoes of sales to specific countries; foreign import controls (which may be arbitrarily imposed or enforced); price and currency controls; exchange rate fluctuations; dividend remittance restrictions; expropriation of assets; war, civil uprisings and riots; government instability; the necessity of obtaining governmental approval for new and continuing products and operations; legal systems of decrees, laws, taxes, regulations, interpretations and court decisions that are not always fully developed and that may be retroactively or arbitrarily applied; and difficulties in managing a global enterprise. We may also be subject to unanticipated income taxes, excise duties, import taxes, export taxes or other governmental assessments. Any of these events could result in a loss of business or other unexpected costs that could reduce sales or profits and have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

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

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

Item 2. ***Properties***

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

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

Segment	Location	Owned or Leased	Approximate Number of Square Feet
Airframe Systems	Everett, Washington(1)	Owned/Leased	962,000
	Cleveland, Ohio	Owned/Leased	445,000
	Troy, Ohio	Owned	405,000
	Wolverhampton, England	Owned	405,000
	Oakville, Canada	Owned/Leased	390,000
	Vernon, France	Owned	273,000
	Miami, Florida	Owned	200,000

Segment	Location	Owned or Leased	Approximate Number of Square Feet
Engine Systems	Chula Vista, California	Owned	1,835,000
	Riverside, California	Owned	1,162,000
	Neuss, Germany	Owned/Leased	380,000
	Birmingham, England	Owned	377,000
	Foley, Alabama	Owned	343,000
	Toulouse, France	Owned/Leased	302,000
	Singapore, Singapore	Owned	300,000
	Arkadelphia, Arkansas	Owned	275,000
	Jamestown, North Dakota	Owned	272,000
	West Hartford, Connecticut	Owned	262,000
Electronic Systems	Danbury, Connecticut	Owned	523,000
	Aurora, Ohio(2)	Leased	300,000
	Burnsville, Minnesota	Owned	253,000
	Vergennes, Vermont	Owned	211,000
	Phoenix, Arizona	Owned	206,000

(1) Although three of the buildings are owned, the land at this facility is leased.

(2) The building in Aurora is leased until July 31, 2005. We have transferred all of the manufacturing at this facility to other sites. The remaining support functions will be relocated to a new site prior to the end of the lease.

Our headquarters operation is in Charlotte, North Carolina. In May 2000, we leased approximately 110,000 square feet for an initial term of ten years, with two five-year options to 2020. The offices provide space for the corporate headquarters as well as the headquarters of our Engine Systems and Electronic Systems segments.

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

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

Item 3. *Legal Proceedings*

General

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

Environmental

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

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

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

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

Our Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of $88.5 million and $87.8 million at December 31, 2004 and December 31, 2003, respectively. At December 31, 2004 and December 31, 2003, $16.2 million and $17.6 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as Accrued Expenses. At December 31, 2004 and December 31, 2003, $29.6 million and $24.9 million, respectively, was associated with ongoing operations and $58.9 million and $62.9 million, respectively, was associated with businesses previously disposed of or discontinued.

The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the

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

Asbestos

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

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

In addition, a portion of our primary and excess layers of general liability insurance coverage for some of these claims was provided by insurance subsidiaries of London United Investments plc (KWELM). KWELM is insolvent and in the process of distributing its assets and dissolving. In September 2004, we entered into a settlement agreement with KWELM pursuant to which we agreed to give up our rights with respect to the KWELM insurance policies in exchange for $18.3 million. The settlement amount is subject to increase under certain circumstances. The settlement represents a negotiated payment for our loss of insurance coverage, as we no longer have the KWELM insurance available for claims that would have qualified for coverage. The settlement amount of $18.3 million was recorded as a deferred settlement credit.

Tax

In 2000, Coltec, our former subsidiary, made a $113.7 million payment to the Internal Revenue Service (IRS) for an income tax assessment and the related accrued interest arising out of certain capital loss deductions and tax credits taken in 1996. On February 13, 2001, Coltec filed suit against the U.S. Government in the U.S. Court of Federal Claims seeking a refund of this payment. The trial portion of the case was completed in May 2004. On November 2, 2004, we were notified that the trial court ruled in favor of Coltec and ordered the Government to refund federal tax payments of $82.8 million to Coltec. This tax refund will also bear interest to the date of payment. As of December 31, 2004, the interest amount was approximately $46.6 million before tax, or $30.3 million after tax. A final judgment was entered in this case by the U.S. Court of Federal Claims on February 15, 2005. The Government has until April 18, 2005 to appeal the decision to the United States Court of Appeals for the Federal Circuit. If the Government does not appeal the decision or the trial court judge s decision is ultimately upheld, we will be entitled to this tax refund and related interest pursuant to an agreement with Coltec. If we receive these amounts, we expect to record net income of approximately $145 million, based on interest through December 31, 2004, and including the release of previously established reserves. If the IRS were to appeal the judgment and ultimately prevail in this case, Coltec will not owe any additional interest or taxes with respect to 1996. We may,

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however, be required by the IRS to pay up to $32.7 million plus accrued interest with respect to the same items claimed by Coltec in its tax returns for 1997 through 2000. The amount of the previously estimated liability if the IRS were to prevail for the 1997 through 2000 period remains fully reserved.

In 2000, the IRS issued a statutory notice of deficiency asserting that Rohr, Inc. (Rohr), our subsidiary, was liable for $85.3 million of additional income taxes for the fiscal years ended July 31, 1986 through 1989. In 2003, the IRS issued an additional statutory notice of deficiency asserting that Rohr was liable for $23 million of additional income taxes for the fiscal years ended July 31, 1990 through 1993. The proposed assessments relate primarily to the timing of certain tax deductions and tax credits. Rohr has filed petitions in the U.S. Tax Court opposing the proposed assessments. Rohr expects that these cases may be scheduled for trial in 2005 and that it will ultimately be successful in these cases. At the time of settlement or final determination by the court, there will be a net cash cost to us due at least in part to the reversal of a timing item. We believe that our total net cash cost is unlikely to exceed $100 million. We are reserved for the estimated liability associated with these cases and as a result, we do not expect a charge to earnings to result from the resolution of these matters.

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

Not applicable.

Executive Officers of the Registrant

Marshall O. Larsen, age 56, Chairman, President and Chief Executive Officer

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

Terrence G. Linnert, age 58, Executive Vice President, Administration and General Counsel

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

Ulrich Schmidt, age 55, Executive Vice President and Chief Financial Officer

Mr. Schmidt joined the Company in 1994 as Vice President of Finance for Goodrich Aerospace and served in that capacity until 1999, when he was named Vice President of Finance and Business Development for Goodrich Aerospace. In 2000, Mr. Schmidt was elected Senior Vice President and Chief Financial Officer of the Company. He was elected Executive Vice President

and Chief Financial Officer in 2002. Mr. Schmidt received a B.A. in business administration and an M.B.A. in finance from Michigan State University.

Stephen R. Huggins, age 61, Senior Vice President, Strategy and Business Development
Mr. Huggins joined the Company in 1988 as Group Vice President, Specialty Products. He later served as Group Vice President, Engine and Fuel Systems from 1991 to 1995 and as Vice President Business Development, Aerospace from 1995 to 1999. In 1999, he was elected Vice President, Strategic Planning and Chief Knowledge Officer. In 2000, Mr. Huggins was elected Senior Vice President, Strategic Resources and Information Technology. In 2003, Mr. Huggins was elected Senior Vice President, Strategy and Business Development. Mr. Huggins received a B.S. in aerospace engineering from Virginia Polytechnic Institute.

Jerry S. Lee, age 63, Senior Vice President, Technology and Innovation
Mr. Lee joined the Company in 1979 as Manager of Engineering Science, Engineered Products Group. He later served as Director of R&D, Goodrich Aerospace from 1983 to 1988, Vice President Technology from 1989 1998 and Vice President Technology and Innovation from 1998 to 2000. In 2000, Mr. Lee was elected Senior Vice President Technology and Innovation. Mr. Lee received a B.S. in mechanical engineering and Ph.D. in mechanical engineering from North Carolina State University.

Jennifer Pollino, age 40, Senior Vice President, Human Resources
Ms. Pollino joined the Company in 1992 as an Accounting Manager at Aircraft Evacuation Systems and since that time has served in a variety of positions, including Controller of Aircraft Evacuation Systems from 1995 to 1998, Vice President, Finance of the Safety Systems from 1999 to 2000, Vice President and General Manager of Aircraft Seating Products from 2000 to 2001, President and General Manager of Turbomachinery Products from 2001 to 2002 and President and General Manager of the Aircraft Wheels and Brakes from 2002 to 2005. She was elected as Senior Vice President, Human Resources in February 2005. Prior to joining Goodrich, Ms. Pollino served as a Field Accounting Officer for the Resolution Trust Corporation from 1990 to 1992, as Controller of Lincoln Savings and Loan Association from 1987 to 1990 and as an Auditor for Peat Marwick Main & Co. from 1986 to 1987. Ms. Pollino received a B.B.A. in accounting from the University of Notre Dame.

John J. Carmola, age 49, Vice President and Segment President, Engine Systems
Mr. Carmola joined the Company in 1996 as President of the Landing Gear Division. He served in that position until 2000, when he was appointed President of the Engine Systems Division. Later in 2000, Mr. Carmola was elected a Vice President of the Company and Group President, Engine and Safety Systems. In 2002, he was elected Vice President and Group President, Electronic Systems. In 2003, he was elected Vice President and Segment President, Engine Systems. Prior to joining the Company, Mr. Carmola served in various management positions with General Electric Company. Mr. Carmola received a B.S. in mechanical and aerospace engineering from the University of Rochester and an M.B.A. in finance from Xavier University.

Cynthia M. Egnotovich, age 47, Vice President and Segment President, Electronic Systems
Ms. Egnotovich joined the Company in 1986 and served in various positions with the Ice Protection Systems Division, including Controller from 1993 to 1996, Director of Operations from 1996 to 1998 and Vice President and General Manager from 1998 to 2000. Ms. Egnotovich was appointed as Vice President and General Manager of Commercial Wheels and Brakes in 2000. She was elected a Vice President of the Company and Group President, Engine and Safety Systems in 2002. In 2003, she was elected Vice President and Segment President, Electronic

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Systems. Ms. Egnotovich received a B.B.A. in accounting from Kent State University and a B.S. in biology from Immaculata College.

John J. Grisik, age 58, Vice President and Segment President, Airframe Systems

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

Scott E. Kuechle, age 45, Vice President and Controller

Mr. Kuechle joined the Company in 1983 as a Financial Analyst in the Company s former Tire Division. He has held several subsequent management positions, including Manager of Planning and Analysis in the Tire Division, Manager of Analysis in Corporate Analysis and Control as well as Director of Planning and Control for the Company s former Water Systems and Services Group. He was promoted to Director of Finance and Banking in 1994. He was elected Vice President and Treasurer in 1998 and was named Vice President and Controller in September 2004. Mr. Kuechle received a B.B.A. in economics from the University of Wisconsin Eau Claire in 1981 and an M.S.I.A. in finance from Carnegie-Mellon University.

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PART II

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

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

Quarter	High	Low	Dividend
2004			
First	$ 32.60	$ 26.75	$ .20
Second	32.33	27.03	.20
Third	33.33	29.71	.20
Fourth	33.55	29.57	.20
2003			
First	$ 20.05	$ 13.10	$ .20
Second	21.14	12.20	.20
Third	26.48	20.25	.20
Fourth	30.30	24.16	.20

As of December 31, 2004, there were 9,922 holders of record of our common stock.

Our debt agreements contain various restrictive covenants that, among other things, place limitations on the payment of cash dividends and our ability to repurchase our capital stock. Under the most restrictive of these agreements, $531.6 million of income retained in the business and additional capital was free from such limitations at December 31, 2004.

The following table summarizes our purchases of our common stock for the quarter ending December 31, 2004:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs(2)
October 2004	65	$ 30.69	N/A	N/A
November 2004	3,232	$ 29.06	N/A	N/A
December 2004	3,609	$ 31.78	N/A	N/A

Total	6,906	$ 30.51	N/A	N/A

(1) The issuer purchases during the period reflected in the table represent shares delivered to us by employees to pay the exercise price of employee stock options and to pay withholding taxes due upon vesting of a restricted stock award and the payout of a long-term incentive plan award.

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

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Item 6. *Selected Financial Data*

Selected Financial Data(a)

	2004(b)(c)(d)	2003(e)	2002(f)	2001(f)	2000(f)
	(Dollars in millions, except per share amounts)				
Statement of Income Data:					
Sales	$ 4,724.5	$ 4,382.9	$ 3,808.5	$ 4,062.2	$ 3,579.4
Operating income	399.8	245.0	358.6	378.8	468.6
Income from continuing operations	156.0	38.5	164.2	172.9	228.0
Net income	172.2	100.4	117.9	289.2	325.9
Balance Sheet Data:					
Total assets	$ 6,217.5	$ 5,951.5	$ 6,041.7	$ 5,219.0	$ 6,090.7
Long-term debt and capital lease obligations	1,899.4	2,136.6	2,129.0	1,307.2	1,301.4
Mandatorily redeemable preferred securities of trust			125.4	125.0	124.5
Total shareholders equity	1,342.9	1,193.5	932.9	1,361.4	1,228.5
Other Financial Data:					
Segment operating income	$ 492.8	$ 316.4	$ 419.2	$ 440.5	$ 562.5
Operating cash flow	415.6	553.1	524.2	374.8	168.2
Investing cash flow	(141.1)	57.3	(1,507.8)	(278.1)	(349.4)
Financing cash flow	(358.1)	(525.4)	1,163.6	(925.0)	80.6
Capital expenditures	152.0	125.1	106.1	187.4	133.8
Depreciation and amortization	222.9	219.1	180.8	169.5	111.9
Cash dividends	94.7	94.0	96.9	113.7	117.6
Distributions on trust preferred securities		7.9	10.5	10.5	10.5
Per Share of Common Stock:					
Income from continuing operations, diluted	$ 1.30	$ 0.33	$ 1.56	$ 1.62	$ 2.09
Net income, diluted	1.43	0.85	1.14	2.76	3.04
Cash dividends declared	0.80	0.80	0.88	1.10	1.10
Ratios:					
Segment operating income as a percent of sales (%)	10.4	7.2	11.0	10.8	15.7
Effective income tax rate (%)(g)	21.8	33.0	34.5	33.5	33.1
Other Data:					
Common shares outstanding at end of year (millions)	119.1	117.7	117.1	101.7	102.3
Number of employees at end of year(h)	21,300	20,600	22,900	24,000	26,300

(a) Except as otherwise indicated, the historical amounts presented above have been restated to present our former Performance Materials, Engineered Industrial Products, Avionics, and Passenger Restraints Systems businesses as discontinued operations. We acquired TRW s Aeronautical Systems business on October 1, 2002. Financial results for Aeronautical Systems have been included subsequent to that date.

(b) Effective January 1, 2004, the Company changed two aspects of its method of contract accounting for its Aerostructures business. The impact of the changes in accounting

methods was to record an after tax gain of $16.2 million ($23.3 million before tax gain) as a Cumulative Effect of a Change in Accounting representing the cumulative profit that would have been recognized prior to January 1, 2004 had these methods of accounting been in effect in prior periods. See Note A Significant Accounting Policies.

(c) Effective January 1, 2004, the Company began expensing stock options and the shares issued under its employee stock purchase plan. The expense is recognized over the period the stock options and shares are earned and vest. The adoption reduced before tax income by $12.1 million, or $7.7 million after tax, for the year ended December 31, 2004. The change in accounting reduced EPS-net income (diluted) by $0.06 per share. See Note V Stock Based Compensation.

(d) The Company entered into a partial settlement with Northrop Grumman on December 27, 2004 in which Northrop Grumman paid the Company approximately $99 million to settle certain claims relating to customer warranty and other contract claims for products designed, manufactured or sold by TRW prior to the acquisition, as well as certain other miscellaneous claims. Under the terms of the settlement, the Company has assumed certain liabilities associated with future customer warranty and other contract claims for these products. The Company recorded a charge of $23.4 million to Cost of Sales, or $14.7 million after tax, representing the amount by which the Company s estimated undiscounted future liabilities plus its receivable from Northrop Grumman for these matters exceeded the settlement amount. See Note B Acquisitions and Dispositions.

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

(f) Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. At that time, the Company completed its measurement of the goodwill impairment and recognized an impairment of $36.1 million (representing total goodwill of a reporting unit). See Note J Goodwill and Identifiable Intangible Assets. Prior to January 1, 2002, goodwill was amortized on a straight-line basis over a period not exceeding 40 years.

(g) In calculating the Company s effective tax rate, the Company accounts for tax contingencies according to SFAS 5. See Note N Income Taxes and Note X Contingencies for a discussion of the Company s effective tax rate and material tax contingencies.

(h) Includes employees of our former Performance Materials (through 2000) and Engineered Industrial Products (through 2001) segments and the Avionics and Passenger Restraints Systems (through 2002) businesses, rounded to the nearest hundred.

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

YOU SHOULD READ THE FOLLOWING DISCUSSION AND ANALYSIS IN CONJUNCTION WITH OUR AUDITED CONSOLIDATED FINANCIAL STATEMENTS INCLUDED ELSEWHERE IN THIS DOCUMENT. THIS MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS CONTAINS FORWARD-LOOKING STATEMENTS. SEE FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY FOR A DISCUSSION OF CERTAIN OF THE UNCERTAINTIES, RISKS AND ASSUMPTIONS ASSOCIATED WITH THESE STATEMENTS.

OUR FORMER AVIONICS BUSINESS, PASSENGER RESTRAINT SYSTEMS BUSINESS (PRS) AND ENGINEERED INDUSTRIAL PRODUCTS SEGMENT HAVE BEEN ACCOUNTED FOR AS DISCONTINUED OPERATIONS. UNLESS OTHERWISE NOTED HEREIN, DISCLOSURES PERTAIN ONLY TO OUR CONTINUING OPERATIONS.

OVERVIEW

We are one of the largest worldwide suppliers of aerospace components, systems and services to the commercial, regional, business and general aviation markets. We are also a leading supplier of systems and products to the global military 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.

For the year ended December 31, 2004, we reported net income of $172 million, or $1.43 per diluted share. Sales for the year ended December 31, 2004 were $4,725 million. For the year ended December 31, 2003, we reported net income of $100 million, or $0.85 per diluted share. Sales for the year ended December 31, 2003 were $4,383 million. Foreign currency translation was responsible for approximately $84 million of the $342 million increase in sales. The remaining increase resulted primarily from increased sales of military and space, large commercial aircraft aftermarket and regional, business and general aviation original equipment and aftermarket parts and services. Net income for both periods included certain charges, including charges for the partial settlement with Northrop Grumman related to the acquisition of TRW s Aeronautical Systems businesses, as described in the Results of Operations and Business Segment Performance sections. In addition, on January 1, 2004, we changed certain aspects of our contract accounting policy and began expensing stock-based compensation.

Income from continuing operations for the year ended December 31, 2004, increased $118 million over the year ended December 31, 2003. The increase was primarily due to reduced charges for facility closure and headcount reduction actions and reduced asset impairment expenses which totaled $14 million after tax ($0.12 per diluted share) for the year ended December 31, 2004 and $103 million after tax ($0.87 per diluted share) for the year ended December 31, 2003. Also, in the year ended December 31, 2004, we reported a charge for the partial settlement with Northrop Grumman of $15 million after tax, or $0.12 per diluted share, charges for premiums and associated costs related to the early retirement of long-term debt of $10 million after tax, or $0.08 per diluted share, and a charge for the early conclusion of Boeing 717 production of $4 million after tax, or $0.04 per diluted share. The 2003 results included a charge for the early termination of original equipment (OE) deliveries of PW4000 engine nacelle components of $10 million after tax, or $0.08 per diluted share, and a gain on the sale of the Noveon International, Inc. payment-in-kind notes (Noveon PIK Notes) issued to us in 2001 in connection with the sale of the Performance Materials segment of $5 million after tax, or $0.04 per diluted share. These items, which totaled $108 million after tax, or $0.91 per diluted share, during the year ended December 31, 2003, were reduced to $43 million after tax, or $0.36 per diluted share, during the year ended December 31, 2004. In the year ended December 31, 2004, we experienced reduced earnings relating to foreign

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currency translation of non-U.S. Dollar net expenses of approximately $10 million after tax, or $0.08 per diluted share, compared to the year ended December 31, 2003. Also in the year ended December 31, 2004, we experienced reduced earnings totaling approximately $7 million after tax, or $0.06 per diluted share, compared to the year ended December 31, 2003, relating to certain medical expenses, liability insurance premiums, litigation costs and performance-based management incentive compensation expenses. We also adjusted our effective tax rate to 21.8 percent during the year ended December 31, 2004 compared to 33 percent during the year ended December 31, 2003. The lower rate in the year ended December 31, 2004 as compared to the year ended December 31, 2003 reflected favorable state and foreign tax settlements, adjustments related to state income taxes and finalization of our 2003 federal tax return, offset in part by additional reserves for certain income tax issues.

We recorded income from discontinued operations of $62 million during the year ended December 31, 2003, associated with the gain on the sale of our Avionics business.

Net cash from operating activities was $416 million in the year ended December 31, 2004 and $553 million in the year ended December 31, 2003. Net cash provided by operating activities of continuing operations in the year ended December 31, 2004 included cash received from the partial settlement with Northrop Grumman of $99 million. Worldwide pension contributions increased from $63 million in the year ended December 31, 2003 to $128 million in the year ended December 31, 2004. Net cash from operating activities included tax refunds of $107 million in the year ended December 31, 2003. There were net income tax payments during the year ended December 31, 2004 of approximately $32 million. Net cash from operating activities in the year ended December 31, 2004 included cash received from the termination of certain life insurance policies of $23 million and commutation of a general liability insurance policy of $18 million, offset in part by a reduction of $25 million in receivables sold under our receivables securitization program and the acquisition of certain aftermarket rights of $15 million.

Net cash used by investing activities was $141.1 million in the year ended December 31, 2004, compared to net cash provided by investing activities of $57.3 million in the year ending December 31, 2003. Net cash used by investing activities included $152 million of capital expenditures in the year ended December 31, 2004 as compared with $125 million in the year ended December 31, 2003. Proceeds of $152 million from the sale of the Noveon PIK Notes provided net cash to investing activities in the year ended December 31, 2003.

Net cash used by financing activities was $358 million in the year ended December 31, 2004 which was primarily due to the repurchase of $142 million principal value of long-term debt, the redemption of the $63.5 million of 8.30% Cumulative Quarterly Income Preferred Securities, Series A (QUIPS Debentures), the redemption of $60 million of Special Facilities Airport Revenue Bonds, the redemption of $6 million of industrial revenue bonds and common stock dividend payments of $95 million. Net cash used by financing activities was $525 million in the year ended December 31, 2003 primarily due to the repayment of debt with the proceeds from the sale of the Avionics business and the sale of the Noveon PIK Notes.

Long-term debt and capital lease obligations, including current maturities of long-term debt and capital lease obligations, at December 31, 2004 was $1,902 million compared to $2,212 million at December 31, 2003. At December 31, 2004, we had cash and marketable securities of $298 million as compared to $378 million at December 31, 2003. The reduction in debt and cash and marketable securities from the December 31, 2003 levels resulted primarily from the repayment of the QUIPS Debentures, the redemption of Special Facilities Airport Revenue Bonds and industrial revenue bonds, the repurchase of long-term debt and the revision of the accounting treatment of a technology development grant from a non-U.S. government entity.

We maintain a committed syndicated revolving credit facility expiring in August 2006 that permits borrowing, including letters of credit, up to a maximum of $500 million. At December 31, 2004, there were no borrowings and $26 million in letters of credit outstanding under this facility. At December 31, 2004, we had borrowing capacity under this facility of $474 million, after reductions for letters of credit outstanding. At December 31, 2004, we maintained $25 million of uncommitted domestic money market facilities and $21 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. At December 31, 2004, there were no borrowings under these facilities. We maintain a shelf registration that allows us to issue up to $1.4 billion of debt securities, series preferred stock, common stock, stock purchase contracts and stock purchase units.

Our sales for 2005 are expected to grow about 6 to 8 percent from 2004 levels, to a range of $5 billion to $5.1 billion. Margin growth in excess of the growth in sales is expected to result in diluted earnings per share from continuing operations in the range of $1.60 per share to $1.80 per share, an increase of 23 to 38 percent from the 2004 diluted earnings from continuing operations. We expect cash flow from operations, minus capital expenditures, to exceed 75 percent of net income in 2005. We expect 2005 capital expenditures to be in the range of $190 million to $210 million. Refer to Outlook for specific assumptions relating to our outlook for 2005.

Our business balance across the aerospace and defense markets continues to be an important strategic aspect of our business. We believe that trends in these markets will have an important impact on future sales. Looking at our 2004 sales by market channel, military and space sales represented approximately 30 percent of sales, total commercial aircraft original equipment sales, including regional, business and general aviation original equipment sales, represented approximately 29 percent of our sales and total commercial aircraft aftermarket sales for these same aircraft and for aircraft heavy maintenance represented approximately 35 percent of sales. Other areas, including industrial gas turbine components, made up the remaining 6 percent. Overall, our aftermarket sales both for commercial aircraft and in the military and space markets represented approximately 43 percent of total sales.

We are currently under contract to supply components and systems for a number of new commercial and military aircraft programs, including the Airbus A380 and A350, the Boeing 787 Dreamliner, the Embraer 190 and the Lockheed Martin F-35 Joint Striker Fighter, which should fuel consistent long-term growth.

We expect continued growth in our key markets in 2005. In this environment, we are carefully focused on resource allocation to deliver maximum long-term value for all of our stakeholders.

OUTLOOK

Sales for 2005 are expected to grow about 6 to 8 percent from 2004 levels, to a range of $5 billion to $5.1 billion. Margin growth in excess of the growth in sales is expected to result in diluted earnings per share (EPS) from continuing operations in the range of $1.60 per share to $1.80 per share, an increase of 23 to 38 percent from the 2004 diluted EPS from continuing operations. Our outlook assumes an effective tax rate of 32 percent for 2005, compared to 22 percent in 2004.

Our 2005 outlook is based on the following market assumptions:

- Deliveries of Airbus and Boeing large commercial aircraft are expected to be significantly higher in 2005, compared to 2004. Airbus and Boeing reported actual deliveries for 2004 of 605 aircraft. Their deliveries for 2005 are expected to increase by approximately 11 percent, to about 670 aircraft.

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Capacity in the global airline system, as measured by available seat miles (ASMs), is expected to continue to grow. We expect global ASM growth of about 5 percent in 2005, compared to 2004. Our sales to airlines for large commercial and regional aircraft aftermarket parts and service are expected to grow approximately in-line with increases in capacity.

Total regional and business aircraft production is expected to be relatively flat in 2005, compared to 2004, as deliveries of business jets are expect to increase, offsetting the expected decrease in regional aircraft deliveries.

Military sales (OE and aftermarket) are expected to increase roughly in line with global military budgets, which are expected to grow in the low single digit range for 2005, compared to 2004.

We expect cash flow from operations, minus capital expenditures, to exceed 75 percent of net income in 2005. We expect 2005 capital expenditures to be in the range of $190 million to $210 million.

The current earnings and cash flow from operations outlook for 2005 does not include resolution of the previously disclosed Rohr and Coltec tax litigation or any premiums and associated costs, or interest expense savings related to further early retirement of debt during 2005. We currently expect to continue our debt reduction efforts with a target of $150 million to $200 million in debt reduction in 2005.

RESULTS OF OPERATIONS

Changes in Accounting Methods

Effective January 1, 2004, we changed two aspects of the application of contract accounting to preferable methods for our aerostructures business, which is included in the Engine Systems segment. The first is a change to the cumulative catch-up method from the reallocation method for accounting for changes in contract estimates of revenue and costs. The change was effected by adjusting contract profit rates from the balance to complete gross profit rate to the estimated gross profit rate at completion of the contract. The second change related to pre-certification costs. Under the old policy, pre-certification costs exceeding the level anticipated in our original investment model used to negotiate contractual terms were expensed when determined regardless of overall contract profitability. Under the new policy, pre-certification costs, including those in excess of original estimated levels, will be included in total contract costs used to evaluate overall contract profitability. The impact of the changes in accounting method was to record a $16.2 million after tax gain ($23.3 million before tax gain) as a Cumulative Effect of Change in Accounting. Had these methods of accounting been in effect during 2003, the segment operating income as previously reported for the Engine Systems segment, as well as our total operating income for the year ended December 31, 2003, would have been $21.4 million lower. Had these methods of accounting been in effect during 2002, the segment operating income as previously reported for the Engine Systems segment, as well as our total operating income for the year ended December 31, 2002, would have been $20.4 million lower.

Also effective January 1, 2004, we changed our method of accounting for stock-based compensation. We previously accounted for stock-based compensation under APB No. 25. We have adopted the provisions of Financial Accounting Standard No. 123 Accounting for Stock-Based Compensation (FASB No. 123) and Financial Accounting Standard No. 148 Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123. As such, we now expense stock options and the shares issued under our employee stock purchase plan. The expense is recognized over the period the stock options and shares

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are earned and vest. The adoption of FASB No. 123 reduced before tax income by $12.1 million ($7.7 million after tax, $0.06 per diluted share) for the year ended December 31, 2004.

The U.S. Medicare Prescription Drug Improvement and Modernization Act of 2003 (the Medicare Act) was signed into law on December 8, 2003. Effective with the second quarter 2004, we adopted retroactively to January 1, 2004, the Financial Accounting Standards Board Staff Position No. FAS 106-2 Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. The effect of the Medicare Act was measured as of January 1, 2004 and is now reflected in our Consolidated Financial Statements. The effect of the Medicare Act is a $34 million reduction of the accumulated postretirement benefit obligation for our retiree benefit plans as well as a reduction in the net periodic postretirement benefit cost. The effect of the reduction in net periodic postretirement benefit cost is an increase to before tax income from continuing operations of $5 million ($3.2 million after tax) for the year ended December 31, 2004.

Partial Settlement with Northrop Grumman

During the fourth quarter 2004, we entered into a $99 million partial settlement agreement with Northrop Grumman relating to our acquisition of TRW s Aeronautical Systems businesses in October 2002. The partial settlement agreement primarily relates to customer warranty and other contract claims for products that were designed, manufactured or sold by TRW prior to our purchase of Aeronautical Systems. Under the terms of the settlement, we have assumed certain liabilities associated with future customer warranty and other contract claims for these products. The settlement excluded amounts associated with any claims that we may have against Northrop Grumman relating to the Airbus 380 actuation systems development program and certain other liabilities retained by TRW under the acquisition agreement. As a result of the partial settlement, we recorded a liability for the estimated undiscounted future liabilities of $71.7 million that we assumed. We recorded a charge of $23.4 million to Cost of Sales representing the amount by which our estimated undiscounted future liabilities plus our receivable from Northrop Grumman for these matters exceeded the settlement amount. The charge is reflected in the applicable segments operating income.

Year Ended December 31, 2004 Compared with Year Ended December 31, 2003

	Year Ended December 31,	
	2004	**2003**
	(Dollars in millions)	
Sales	$ 4,724.5	$ 4,382.9
Segment Operating Income	$ 492.8	$ 316.4
Corporate General and Administrative Costs	(93.0)	(71.4)
Total Operating Income	399.8	245.0
Net Interest Expense	(139.8)	(149.5)
Other Income (Expense) Net	(60.7)	(26.3)
Income Tax (Expense)	(43.3)	(22.8)
Distribution on Trust Preferred Securities		(7.9)
Income from Continuing Operations	156.0	38.5
Income from Discontinued Operations		62.4
Cumulative Effect of Change in Accounting	16.2	(0.5)
Net Income	$ 172.2	$ 100.4

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

Corporate general and administrative costs of $93 million for the year ended December 31, 2004 increased $21.6 million, or 30.3 percent, from $71.4 million for the year ended December 31, 2003 primarily due to higher incentive compensation costs including expensing of stock-based compensation, higher tax litigation expenses and expenses to comply with the Sarbanes-Oxley Act of 2002. Corporate general and administrative costs as a percentage of sales were 2 percent in the year ended December 31, 2004 and 1.6 percent in the year ended December 31, 2003.

Net interest expense decreased $9.7 million, or 6.5 percent, primarily due to a lower debt level in 2004 and the favorable effect of interest rate swaps entered into in 2003. This was offset in part by lower interest income due to the sale of the Noveon PIK Notes in the first quarter of 2003.

Other Income (Expense) Net increased by $34.4 million, or 130.8 percent, to expense of $60.7 million in the year ended December 31, 2004 from expense of $26.3 million in the year ended December 31, 2003. The increase in expense resulted from $15.1 million for premiums and associated costs related to the early retirement of debt, a $7 million impairment of a note receivable, the absence in the year ended December 31, 2004 of the $6.9 million gain on the sale of the Noveon PIK Notes, which was recognized in the first quarter 2003, $7.9 million in costs associated with businesses previously sold, including settlement of a lawsuit and higher life insurance expense, $2.8 million of lower income from affiliated companies and $1.6 million of higher minority interest expense offset in part by a $1.5 million gain on the sale of a product line. Included in the first quarter 2003 was the write-off of our equity investment in Cordiem LLC of $11.7 million.

Our effective tax rate from continuing operations was 21.8 percent during the year ended December 31, 2004 and 33 percent during the year ended December 31, 2003. The lower rate in the year ended December 31, 2004 as compared to the year ended December 31, 2003 reflected favorable state and foreign tax settlements and adjustments related to state income taxes and to the finalization of our 2003 federal tax return, offset in part by additional reserves for certain income tax issues.

Income from discontinued operations, after tax, was $62.4 million during the year ended December 31, 2003 primarily representing the $63 million gain on the sale of the Avionics business. Income from discontinued operations for Avionics and PRS was a loss of $0.6 million in the year ended December 31, 2003. Our PRS business ceased operations in the first quarter of 2003. Refer to Note W Discontinued Operations of the Consolidated Financial Statements.

As noted above, effective January 1, 2004, we changed two aspects of the application of contract accounting for our aerostructures business which resulted in a $16.2 million after tax gain ($23.3 million before tax gain) that was recorded as a Cumulative Effect of Change in Accounting in the first quarter 2004.

The Cumulative Effect of Change in Accounting for the year ended December 31, 2003 of a loss of $0.5 million, after tax, represented the adoption of Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations. We established a liability for contractual obligations for the retirement of long-lived assets.

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Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

	Year Ended December 31,	
	2003	2002
	(Dollars in millions)	
Sales	$ 4,382.9	$ 3,808.5
Segment Operating Income	$ 316.4	$ 419.2
Corporate General and Administrative Costs	(71.4)	(60.6)
Total Operating Income	245.0	358.6
Net Interest Expense	(149.5)	(73.6)
Other Income (Expense) Net	(26.3)	(18.1)
Income Tax Expense	(22.8)	(92.2)
Distribution on Trust Preferred Securities	(7.9)	(10.5)
Income from Continuing Operations	38.5	164.2
Income (Loss) from Discontinued Operations	62.4	(10.2)
Cumulative Effect of Change in Accounting	(0.5)	(36.1)
Net Income	$ 100.4	$ 117.9

Included in the results from continuing operations for 2003 was increased pension expense, from $35 million in 2002 to $88 million in 2003. The increase in pension expense was primarily due to the weak performance of the U.S. and international equity markets in 2002, in which approximately 50 percent of the U.S. qualified defined benefit pension plans trust assets were invested. Approximately 89 percent of pension expense in 2003 was recorded in segment operating income. Foreign exchange also negatively impacted the financial results in our business segments. In 2003, approximately 10 percent of our revenues and 25 percent of our costs were denominated in currencies other than the U.S. Dollar. Over 95 percent of these net costs were in Euros, Great Britain Pounds Sterling and Canadian Dollars. We hedged a portion of our exposure on an ongoing basis. When the U.S. Dollar weakened, our unhedged net costs rose in U.S. Dollar terms. On a weighted basis, the U.S. Dollar declined about 12.5 percent against these currencies in 2003.

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

Corporate general and administrative costs of $71.4 million for the year ended December 31, 2003 increased $10.8 million, or 17.8 percent, from $60.6 million for the year ended December 31, 2002 primarily due to higher non-qualified pension costs and higher incentive compensation costs. Corporate general and administrative costs as a percentage of sales were 1.6 percent in the year ended December 31, 2003 and December 31, 2002.

Net interest expense increased $75.9 million, or 103.1 percent, primarily due to interest of $58.4 million on the $800 million of long-term debt issued in the fourth quarter of 2002 to partially finance the acquisition of Aeronautical Systems. Net interest expense also increased due to lower interest income of $26.6 million, primarily due to the sale of the Noveon PIK Notes in the first quarter of 2003. Lower short-term debt in 2003 as compared to 2002 somewhat mitigated interest expense by approximately $10 million.

Other Income (Expense) Net increased by $8.2 million, or 45.3 percent, to expense of $26.3 million in the year ended December 31, 2003 from expense of $18.1 million in the year ended December 31, 2002. The increase in expense

resulted from the impairment of our equity investment in Cordiem LLC of $11.7 million in 2003 and the absence in 2003 of an $11.8 million gain on the sale of an intangible asset and a $2.4 million gain from the sale of a portion of an

investment in a subsidiary sold in 2002. These items were offset in part by several favorable 2003 items, including a gain on the sale of the Noveon PIK Notes of $6.9 million, favorable foreign exchange of $4.8 million, affiliate income of $4 million and favorable employee benefit and divested operations costs of $3.1 million.

Our effective tax rate from continuing operations was 33 percent during the year ended December 31, 2003 and 34.5 percent during the year ended December 31, 2002. The higher effective tax rate in 2002 compared to 2003 was due to lower tax benefits from export sales expressed as a percentage of income from operations before taxes and trust distributions, a higher incremental U.S. tax on the deemed repatriation of foreign earnings and the write-off of in-process research and development with no tax benefit in 2002. Refer to Note N Income Taxes of the Consolidated Financial Statements.

Income (loss) from discontinued operations, after tax, was $62.4 million during the year ended December 31, 2003 primarily representing the $63 million gain on the sale of the Avionics business in the first quarter of 2003. Income (loss) from discontinued operations for the Avionics and PRS operating results was a loss of $0.6 million in the year ended December 31, 2003 and income of $1.7 million in the year ended December 31, 2002. Our PRS business ceased operations in the first quarter of 2003. Also included in income (loss) from discontinued operations was a loss of $12 million in the year ended December 31, 2002 for the Engineered Industrial Products segment, which was spun-off to shareholders on May 31, 2002. A charge of $7.4 million for a court ruling related to an employee benefit matter of a discontinued business and fees and expenses related to the spin-off of the segment contributed to the loss.

The cumulative effect of an accounting change for the year ended December 31, 2003 of a loss of $0.5 million, after tax, represents the adoption of Statement of Financial Accounting Standards No. 143 Accounting for Asset Retirement Obligations. We established a liability for contractual obligations for the retirement of long-lived assets. The cumulative effect of an accounting change for the year ended December 31, 2002 of a loss of $36.1 million, after tax, represents the adoption of Statement of Financial Accounting Standards No. 142 Goodwill and Other Intangible Assets. Based upon the impairment test of goodwill and indefinite lived intangible assets, we determined that goodwill relating to the Aviation Technical Services (ATS) reporting unit, reported in the Airframe Systems segment, had been impaired. As a result, we recognized an impairment charge, representing total goodwill of the ATS reporting unit. The goodwill write-off was non-deductible for tax purposes.

BUSINESS SEGMENT PERFORMANCE

Our operations are reported as three business segments: Airframe Systems, Engine Systems and Electronic Systems. Effective January 1, 2004, we realigned the business units within our three reportable segments. These segments are described in Note O Business Segment Information to our Consolidated Financial Statements. Effective January 1, 2004, the customer services business unit that supports aftermarket products for the businesses that were acquired as part of Aeronautical Systems was transferred from the Airframe Systems segment to the Engine Systems segment to better align our enterprise resources with our global customer base and to streamline the business to support future growth. In addition, the costs and sales associated with products or services provided to customers through the customer services business are allocated to the business providing the product or service rather than allocated to the customer services business. Prior periods have been reclassified to conform to the current year presentation.

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An analysis of Net Customer Sales and Operating Income by business segment follows.
In the following tables, segment operating income is total segment revenue reduced by operating expenses directly identifiable with that business segment.

Year Ended December 31, 2004 Compared with the Year Ended December 31, 2003

	Year Ended December 31,				
			%	% of Sales	
	2004	2003	Change	2004	2003
	(Dollars in millions)				
NET CUSTOMER SALES					
Airframe Systems	$ 1,629.7	$ 1,563.8	4.2		
Engine Systems	1,939.6	1,714.9	13.1		
Electronic Systems	1,155.2	1,104.2	4.6		
Total Sales	$ 4,724.5	$ 4,382.9	7.8		
SEGMENT OPERATING INCOME					
Airframe Systems	$ 90.1	$ 79.1	13.9	5.5	5.1
Engine Systems	264.9	97.3	172.3	13.7	5.7
Electronic Systems	137.8	140.0	(1.6)	11.9	12.7
Segment Operating Income	$ 492.8	$ 316.4	55.8	10.4	7.2

Airframe Systems: Airframe Systems segment sales of $1,629.7 million in the year ended December 31, 2004 increased $65.9 million, or 4.2 percent, from $1,563.8 million in the year ended December 31, 2003. The increase was due to:

Favorable currency translation on non-U.S. Dollar sales and the impact of foreign currency hedge gains, primarily in the actuation systems and landing gear businesses; and

Higher sales volume of commercial aircraft wheels and brakes, landing gear and engineered polymer products.

Partially offsetting the higher sales were decreased sales volumes in military aircraft wheels and brakes.
Airframe Systems segment operating income increased $11 million, or 13.9 percent, from $79.1 million in the year ended December 31, 2003 to $90.1 million in the year ended December 31, 2004. The increase in operating income was primarily due to the following:

Lower asset impairment, facility closure and headcount reduction charges. Asset impairment, including rotable landing gear, facility closure and headcount reduction charges were $17.4 million for the year ended December 31, 2003 and $2 million for the year ended December 31, 2004;

Increase in sales volume as described above;

Lower operating costs; and

Favorable income effect of $6 million before tax from the revision of the accounting treatment of a technology development grant from a non-U.S. government entity.

Partially offsetting the increase in segment operating income were the following:

- Unfavorable foreign exchange translation of non-U.S. Dollar net expenses primarily in the actuation systems and landing gear businesses;

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- Higher new program research and development expenditures primarily in the actuation systems business;
- A charge of $9.2 million for the partial settlement with Northrop Grumman; and
- Unfavorable effect of downward pressure on pricing from commercial customers.

Engine Systems: Engine Systems segment sales in the year ended December 31, 2004 of $1,939.6 million increased $224.7 million, or 13.1 percent, from $1,714.9 million in the year ended December 31, 2003. The increase was due to the following:

- Higher aerostructures maintenance, repair and overhaul (MRO), engine OE and aftermarket sales volume;
- Higher cargo systems aftermarket sales volume;
- Favorable currency translation on non-U.S. Dollar sales and the impact of foreign currency hedge gains, primarily in the engine controls business;
- Increased sales volume of U.S. military original equipment and aftermarket engine controls; and
- Higher sales volume of turbine fuel engine components for U.S. military and regional aircraft applications and to the power generation market.

The increase was partially offset by lower U.S. military turbomachinery repair sales.

Engine Systems segment operating income increased $167.6 million, or 172.3 percent, from $97.3 million in the year ended December 31, 2003 to $264.9 million in the year ended December 31, 2004. Segment operating income was higher due to:

- The absence in 2004 of non-cash write-downs of inventory and long-term receivables relating to the Super 27 re-engining program of $79.9 million and non-cash asset impairment charges related to a facility held for sale of $24.4 million, which were recorded in 2003;
- The absence in 2004 of a $15.1 million charge associated with early termination of original equipment deliveries of Pratt & Whitney PW4000 engine nacelle components, which was recorded in 2003;
- Higher sales volume as described above; and
- Favorable mix of sales for aftermarket applications.

The increase in Engine Systems segment operating income was partially offset by the following:

- A charge of $10.6 million for the partial settlement with Northrop Grumman;
- Increased aerostructures contract costs for certain commercial, military and regional jet applications;
- A charge in 2004 of $6.8 million related to the early conclusion of Boeing 717 production;
- Increased new program development costs for the aerostructures and engine controls businesses; and
- Unfavorable currency translation of non-U.S. Dollar costs, primarily in the aerostructures business.

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Electronic Systems: Electronic Systems segment sales of $1,155.2 million in the year ended December 31, 2004 increased $51 million, or 4.6 percent, from $1,104.2 million in the year ended December 31, 2003. The increase was primarily due to:

- Increased sales volume for all businesses for the regional and business OE and aftermarket markets; and
- Increased sales volume in military and space OE in our optical and space systems, power systems and sensor systems businesses.

The increase in Electronic Systems segment sales was partially offset by the following:

- Lower military aftermarket sales volume in our sensor systems and fuel and utility systems businesses; and
- Lower commercial OE sales volume in our aircraft interior products, lighting systems and power businesses and lower commercial aftermarket sales volume in our fuel and utility systems and power systems businesses.

Electronic Systems segment operating income decreased $2.2 million, or 1.6 percent, from $140 million in the year ended December 31, 2003 to $137.8 million in the year ended December 31, 2004. Segment operating income was unfavorably affected by:

- The decline in sales volume of commercial OE and aftermarket discussed above;
- A charge of $3.6 million for the partial settlement with Northrop Grumman;
- Unfavorable costs resulting from operating inefficiencies in our propulsion products and optical and space businesses;
- Less favorable product mix in our fuel and utility systems business;
- Unfavorable currency translation of non-U.S. Dollar costs in our lighting systems and power systems businesses; and
- Increased research and development costs and bid and proposal costs on potential new programs.

The decrease in operating income was partially offset by lower restructuring costs. Restructuring costs for the year ended December 31, 2004 were $7.7 million, compared to $9 million for the year ended December 31, 2003.

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Year Ended December 31, 2003 Compared with Year Ended December 31, 2002

	Year Ended December 31,				
			%	% of Sales	
	2003	2002	Change	2003	2002
	(Dollars in millions)				
NET CUSTOMER SALES					
Airframe Systems	$ 1,563.8	$ 1,390.1	12.5		
Engine Systems	1,714.9	1,466.0	17.0		
Electronic Systems	1,104.2	952.4	15.9		
Total Sales	$ 4,382.9	$ 3,808.5	15.1		
SEGMENT OPERATING INCOME					
Airframe Systems	$ 79.1	$ 102.5	(22.8)	5.1	7.4
Engine Systems	97.3	168.9	(42.4)	5.7	11.5
Electronic Systems	140.0	147.8	(5.3)	12.7	15.5
Segment Operating Income	$ 316.4	$ 419.2	(24.5)	7.2	11.0

Airframe Systems: Airframe Systems segment sales of $1,563.8 million in the year ended December 31, 2003 increased $173.7 million, or 12.5 percent, from $1,390.1 million in the year ended December 31, 2002. The increase was primarily due to the sales associated with the acquisition of the Aeronautical Systems businesses in this segment, which represented approximately $311 million in sales for the first nine months of 2003.
The increase in sales was offset in part by the following:

- Lower sales volume for landing gear OE;
- Lower sales volume for wheel and brake repair services; and
- Lower sales volume for airframe heavy maintenance.

Airframe Systems segment operating income decreased $23.4 million, or 22.8 percent, from $102.5 million in the year ended December 31, 2002 to $79.1 million in the year ended December 31, 2003. The decrease in operating income for the year ended December 31, 2003 as compared to the year ended December 31, 2002 was primarily due to the following:

- Higher asset impairments in the year ended December 31, 2003 of $17.4 million, including rotable landing gears, facility closure and headcount reductions as compared to $3.6 million in the year ended December 31, 2002;
- Lower profit from decreased sales for landing gear, wheel and brake repair services and airframe heavy maintenance;
- Increased pension expense, unfavorable foreign exchange, and an impairment charge related to the Boeing 767 program in 2003; and

- A favorable insurance settlement in the year ended December 31, 2002 that did not recur in the year ended December 31, 2003.

These items were partially offset by:

- Increased profit from higher sales of aftermarket wheels and brakes;
- A charge for inventory, capitalized sales incentive and supplier termination costs relating to the Fairchild Dornier 728 and 928 programs in the year ended December 31, 2002 that did not recur in the year ended December 31, 2003;

A charge of $26.8 million for the inventory step-up adjustment related to the acquisition of Aeronautical Systems in the year ended December 31, 2002. The inventory for the Aeronautical Systems business in the Airframe Systems segment was increased to record the inventory at its fair market value at the time of the acquisition. Subsequent sale of the acquired inventory increased cost of sales and reduced our profit margin; and

A charge of $12.5 million for in-process research and development in the year ended December 31, 2002. The charge reflects the valuation of the actuation and flight controls business in-process research and development projects that had not reached technical feasibility and had no alternative future use.

Engine Systems: Engine Systems segment sales in the year ended December 31, 2003 of $1,714.9 million increased $248.9 million, or 17 percent, from $1,466 million in the year ended December 31, 2002. The increase was due to the following:

Sales associated with the acquisition of the Aeronautical Systems businesses in this segment, which represented approximately $290 million for the first nine months of 2003; and

Higher sales of aerostructures military and MRO businesses.

The increase in Engine Systems segment sales was partially offset by:

Lower aerostructures OE and aftermarket spares sales; and

Declines in demand for industrial gas turbine components resulting in lower sales of engine components and fuel delivery systems.

Engine Systems segment operating income decreased $71.6 million, or 42.4 percent, from $168.9 million in the year ended December 31, 2002 to $97.3 million in the year ended December 31, 2003. Segment operating income was lower due to:

Non-cash write-downs of inventory and long-term receivables relating to the Super 27 re-engining program of $79.9 million and the $24.4 million non-cash asset impairment of a facility held for sale in the year ended December 31, 2003;

A $15.1 million charge for a contract termination for the PW4000 engine nacelles in the year ended December 31, 2003;

A favorable reserve adjustment of $7 million related to the implementation of a new SAP system at aerostructures in the year ended December 31, 2002 that did not recur in the year ended December 31, 2003; and

Reduced volume, higher initial costs for the next generation 747 cargo systems introduced in the first quarter 2003 and higher pension cost.

The decrease in Engine Systems segment operating income was partially offset by:

Contract loss provisions on five contracts of $26.8 million in the aerostructures business in the year ended December 31, 2002 that did not recur in the year ended December 31, 2003. The loss provisions resulted from increased overhead rates, due in part to a lower manufacturing base as volume declined consistent with the lower level of aircraft production rates;

A charge of $24.1 million for the inventory step-up adjustment related to the acquisition of Aeronautical Systems in the year ended December 31, 2002. The inventory for the Aeronautical Systems business in the Engine Systems segment was increased to record the inventory at its fair market value at the time of the acquisition. Subsequent sale of the acquired inventory increased cost of sales and reduced our profit margin;

- Lower restructuring and consolidation and other asset impairment costs in the year ended December 31, 2003 of $6.5 million as compared to $26.1 million in the year ended December 31, 2002; and
- Cost controls in the aerostructures and engine components businesses reflecting the benefit from prior downsizings.

Electronic Systems: Electronic Systems segment sales of $1,104.2 million in the year ended December 31, 2003 increased $151.8 million, or 15.9 percent, from $952.4 million in the year ended December 31, 2002. The increase was primarily due to:

- Sales associated with the acquisition of the Aeronautical Systems businesses in this segment, which represented approximately $154 million for the first nine months of 2003; and
- Higher sales volume in propulsion products, sensor systems and lighting systems.

Partially offsetting the increase in sales were decreased sales volume for evacuation slides and seats, fuel monitoring systems and optical and space systems.

Electronic Systems segment operating income decreased $7.8 million, or 5.3 percent, from $147.8 million in the year ended December 31, 2002 to $140 million in the year ended December 31, 2003. The decrease in segment operating income was due to:

- Lower sales in optical and space systems;
- Increased investments in research and development costs primarily at aircraft electrical power systems and aircraft evacuation slides and seats businesses;
- Unfavorable foreign exchange and higher pension costs; and
- Higher restructuring and consolidation costs of $9 million in the year ended December 31, 2003 and $7.4 million in the year ended December 31, 2002.

The decrease in operating income was partially offset by a charge of $7.9 million for the inventory step-up adjustment related to the acquisition of Aeronautical Systems in the year ended December 31, 2002. The inventory for the Aeronautical Systems business in the Electronic Systems segment was increased to record the inventory at its fair market value at the time of the acquisition. Subsequent sale of the acquired inventory increased cost of sales and reduced our profit margin.

FOREIGN OPERATIONS

We are engaged in business in foreign markets. Our manufacturing and service facilities are located in Australia, Canada, China, England, France, Germany, India, Indonesia, Mexico, Poland, Scotland and Singapore. We market our products and services through sales subsidiaries and distributors in a number of foreign countries. We also have joint venture agreements with various foreign companies.

Currency fluctuations, tariffs and similar import limitations, price controls and labor regulations can affect our foreign operations, including foreign affiliates. Other potential limitations on our foreign operations include expropriation, nationalization, restrictions on foreign investments or their transfers, and additional political and economic risks. In addition, the transfer of funds from foreign operations could be impaired by the unavailability of dollar exchange or other restrictive regulations that foreign governments could enact. We do not believe that such restrictions or regulations would have a materially adverse effect on our business, in the aggregate.

Sales to non-U.S. customers were $2,224.2 million or 47 percent of total sales, $1,860.5 million or 42 percent of total sales, and $1,423.9 million or 37 percent of total sales, for the years ended December 31, 2004, 2003 and 2002, respectively.

LIQUIDITY AND CAPITAL RESOURCES

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

Cash

At December 31, 2004, we had cash and marketable securities of $297.9 million, as compared to $378.4 million at December 31, 2003.

Credit Facilities

We have a committed syndicated revolving credit facility expiring in August 2006 that permits borrowing, including letters of credit, up to a maximum of $500 million. At December 31, 2004, there were no borrowings and $26.2 million in letters of credit outstanding under this facility. At December 31, 2003, there were no borrowings and $17.1 million in letters of credit outstanding under this facility.

The level of unused borrowing capacity under our committed syndicated revolving credit facility varies from time to time depending in part upon our consolidated net worth and leverage ratio levels. In addition, our ability to borrow under this facility is conditioned upon compliance with financial and other covenants set forth in the related agreement, including the consolidated net worth requirement and maximum leverage ratio. We are currently in compliance with all such covenants. As of December 31, 2004, we had borrowing capacity under this facility of $473.8 million, after reductions for letters of credit outstanding.

At December 31, 2004, we maintained $25 million of uncommitted domestic money market facilities and $21 million of uncommitted and committed foreign working capital facilities with various banks to meet short-term borrowing requirements. As of December 31, 2004 and December 31, 2003, there were no borrowings under these facilities. These credit facilities are provided by a small number of commercial banks that also provide us with committed credit through the syndicated revolving credit facility and with various cash management, trust and other services.

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

QUIPS

On March 2, 2004, we completed the redemption of all of the $63.5 million in outstanding 8.30% Cumulative Quarterly Income Preferred Securities, Series A (QUIPS) issued by BFGoodrich Capital, a Delaware business trust, all of the common equity of which is owned by us. The QUIPS were supported by our 8.30% Junior Subordinated Debentures, Series A (QUIPS Debentures), which were also redeemed on March 2, 2004.

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Long-Term Financing

At December 31, 2004, we had long-term debt and capital lease obligations, including current maturities, of $1,901.8 million with maturities ranging from 2005 to 2046. On August 1, 2004, we redeemed $60 million principal amount of Special Facilities Airport Revenue Bonds and in May 2004 redeemed $5.9 million principal amount of industrial revenue bonds. During the third and fourth quarters of 2004, we repurchased $15.2 million and $127 million, respectively, principal amount of long-term debt securities with stated interest of 6.45 percent. Approximately $117.9 million of the long-term debt securities were due in 2007 and approximately $24.3 million were due in 2008. We recorded $15.1 million of expenses in Other Income (Expense) Net for premiums and associated costs related to the redemptions. We also revised the accounting for a technology development grant from a non-U.S. government entity resulting in a reduction of long-term debt of $25 million, which had no cash impact. The earliest maturity of a material long-term debt obligation is December 2007. We also maintain a shelf registration statement that allows us to issue up to $1.4 billion of debt securities, series preferred stock, common stock, stock purchase contracts and stock purchase units.

Off-Balance Sheet Arrangements

We utilize several forms of off-balance sheet financing arrangements. At December 31, 2004, these arrangements included:

	Undiscounted Minimum Future Lease Payments	Receivables Sold
	(Dollars in millions)	
Tax Advantaged Operating Leases	$ 49.3	
Standard Operating Leases	152.3	
	$ 201.6	
Short-term Receivables Securitization Program		$ 72.3

Lease Agreements

We finance our use of certain equipment, including corporate aircraft, under committed lease arrangements provided by financial institutions. Certain of these arrangements allow us to claim a deduction for the tax depreciation on the assets, rather than the lessor, and allow us to lease equipment having a maximum unamortized value of $90 million at December 31, 2004. At December 31, 2004, $49.3 million of future minimum lease payments were outstanding under these arrangements. The other arrangements are standard operating leases. Future minimum lease payments under the standard operating leases approximated $152.3 million at December 31, 2004.

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

Sale of Receivables

At December 31, 2004, we had in place a variable rate trade receivables securitization program pursuant to which we could sell receivables up to a maximum of $140 million. Accounts receivable sold under this program were $72.3 million at December 31, 2004. Continued

availability of the securitization program is conditioned upon compliance with covenants, related primarily to operation of the securitization, set forth in the related agreements. We are currently in compliance with all such covenants. The securitization does not contain any credit rating downgrade triggers pursuant to which the program could be terminated.

Cash Flow Hedges

We have subsidiaries that conduct a substantial portion of their business in Euros, Great Britain Pounds Sterling, Canadian Dollars and Polish Zlotys, but have significant sales contracts that are denominated in U.S. Dollars. Approximately 10 percent of our revenues and approximately 25 percent of our costs are denominated in currencies other than the U.S. Dollar. Over 95 percent of these net costs are in Euros, Great Britain Pounds Sterling and Canadian Dollars. Periodically, we enter into forward contracts to exchange U.S. Dollars for Euros, Great Britain Pounds Sterling, Canadian Dollars, and Polish Zlotys to hedge a portion of our exposure. When the U.S. Dollar weakens, our unhedged net costs rise in U.S. Dollar terms and our average hedge rates also rise over time.

The forward contracts described above are used to mitigate the potential volatility of earnings and cash flow arising from changes in currency exchange rates that impact our non-U.S. Dollar sales and expenses. The forward contracts are being accounted for as cash flow hedges. The forward contracts are recorded on our Consolidated Balance Sheet at fair value with the net change in fair value reflected in Accumulated Other Comprehensive Income, net of deferred taxes. The notional value of the forward contracts at December 31, 2004 was $712.8 million. The fair value of the forward contracts at December 31, 2004 was an asset of $110.3 million, of which $81.1 million is recorded in Prepaid Expenses and Other Assets and $29.2 million is recorded in Other Assets.

The total fair value of the forward contracts of $110.3 million (before deferred taxes of $38.6 million), including terminated forward contracts as discussed below, were recorded in Accumulated Other Comprehensive Income and were reflected in income as the individual contracts matured, which will offset the earnings effect of the hedged item. As of December 31, 2004, the portion of the $110.3 million fair value that would be reclassified into earnings as an increase in sales to offset the effect of the hedged item in the next 12 months is a gain of $81.1 million.

In 2003, we terminated certain forward contracts prior to their scheduled maturities in 2004 and received cash of $3.8 million. As of December 31, 2004, all of the gain was reflected in income and sales when the original forward contracts would have matured.

Fair Value Hedges

In September 2002, we terminated an interest rate swap agreement, prior to its maturity in 2009, on our $200 million in principal amount of 6.6 percent senior notes due in 2009. At termination, we received $29.4 million in cash, comprised of a $2.6 million receivable representing the amount owed on the interest rate swap from the previous settlement date and $26.8 million representing the fair value of the interest rate swap at the time of termination. The carrying amount of the notes was increased by $26.8 million representing the fair value of the debt due to changes in interest rates for the period hedged. This amount is being amortized as a reduction to interest expense over the remaining term of the debt.

In July 2003, we entered into a $100 million fixed-to-floating interest rate swap on our 6.45 percent senior notes due in 2007. In October 2003, we entered into two $50 million fixed-to-floating interest rate swaps. One $50 million swap is on our 7.5 percent senior notes due in 2008 and the other $50 million swap is on our 6.45 percent medium-term notes due in 2008. In December 2003, we entered into a $50 million fixed-to-floating interest rate swap on our 7.5 percent senior notes due in 2008. The purpose of entering into these swaps was to

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increase our exposure to variable interest rates. The settlement and maturity dates on each swap are the same as those on the related notes. In accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities, the interest rate swaps are being accounted for as fair value hedges and the carrying value of the notes has been adjusted to reflect the fair values of the related interest rate swaps. The fair value of the interest rate swaps was a liability (loss) of $1.1 million at December 31, 2004.

Other Forward Contracts

As a supplement to our foreign exchange cash flow hedging program, in January 2004 we began to enter into forward contracts to manage our foreign currency risk related to the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency. These forward contracts mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. The gains or losses on these forward contracts are being recorded in earnings when realized in order to mitigate the earnings impact of the translation of net monetary assets. As of December 31, 2004, we had forward contracts with a notional value of $81 million to buy Great Britain Pounds Sterling, contracts with a notional value of $11 million to buy Euros and contracts with a notional value of $5.4 million to sell Canadian Dollars.

Contractual Obligations and Other Commercial Commitments

The following charts reflect our contractual obligations and commercial commitments as of December 31, 2004. Commercial commitments include lines of credit, guarantees and other potential cash outflows resulting from a contingent event that requires performance by us pursuant to a funding commitment.

	Total	2005	2006-2007	2008-2009	Thereafter
			(Dollars in millions)		
Contractual Obligations					
Payments Due by Period					
Short-Term and Long-Term Debt	$ 1,892.0	$ 1.9	$ 183.3	$ 591.2	$ 1,115.6
Capital Lease Obligations	18.7	1.8	2.3	2.2	12.4
Operating Leases	201.6	44.3	59.2	39.4	58.7
Purchase Obligations (1)	495.8	454.6	33.0	7.6	0.6
Other Long-Term Obligations	47.2	26.4	13.7	2.6	4.5
Total	$ 2.655.3	$ 529.0	$ 291.5	$ 643.0	$ 1,191.8
Other Commercial Commitments					
Amount of Commitments that Expire per Period					
Lines of Credit (2)	$	$	$	$	$
Standby Letters of Credit & Bank Guarantees	62.9	61.9	0.9	0.1	
Guarantees	160.5	7.2	6.3	2.0	145.0
Standby Repurchase Obligations					
Other Commercial Commitments	31.8	12.0	14.4	5.4	
Total	$ 255.2	$ 81.1	$ 21.6	$ 7.5	$ 145.0

(1) Purchase obligations include an estimated amount of agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including fixed or minimum quantities

to be purchased, minimum or variable price provisions and the approximate timing of the purchase.

(2) As of December 31, 2004, we had in place (a) a committed syndicated revolving credit facility which expires in August 2006 and permits borrowing up to a maximum of $500 million; (b) $25 million of uncommitted domestic money market facilities; and (c) $21 million of uncommitted and committed foreign working capital facilities. As of December 31, 2004, we had borrowing capacity under our committed syndicated revolving credit facility of $473.8 million.

The table excludes our pension and other postretirement benefits obligations. We made pension contributions of $128.6 million and $62.7 million worldwide in the years ended December 31, 2004 and 2003, respectively. These contributions include both voluntary and required employer contributions, as well as pension benefits paid directly by us. Of these amounts, $116 million and $40 million were contributed voluntarily to the qualified U.S. Trust in the years ended December 31, 2004 and 2003, respectively. We expect to contribute $50 million to $75 million worldwide during 2005. Our postretirement benefits other than pensions are not required to be funded in advance, so benefit payments, including medical costs and life insurance, are paid as they are incurred. We made postretirement benefit payments other than pension of $38 million and $37 million in the years ended December 31, 2004 and 2003, respectively. We expect to pay $40 million during 2005. See Note M Pensions and Postretirement Benefits of the Notes to Consolidated Financial Statements for a further discussion of our pension and postretirement other than pension plans.

CASH FLOW

The following table summarizes our cash flow activity for the years ended December 31, 2004, 2003 and 2002:

	Year Ended December 31,		
Net Cash Provided by (Used by):	**2004**	**2003**	**2002**
	(Dollars in millions)		
Operating activities of continuing operations	$ 415.6	$ 553.1	$ 524.2
Investing activities of continuing operations	$ (141.1)	$ 57.3	$ (1,507.8)
Financing activities of continuing operations	$ (358.1)	$ (525.4)	$ 1,163.6
Discontinued operations	$	$ 138.1	$ (118.7)

Year Ended December 31, 2004 as Compared to December 31, 2003

Operating Activities of Continuing Operations

Net cash provided by operating activities of continuing operations decreased $137.5 million from $553.1 million during the year ended December 31, 2003 to $415.6 million during the year ended December 31, 2004. Net cash provided by operating activities of continuing operations in the year ended December 31, 2004 included cash received from the partial settlement with Northrop Grumman of $99 million, termination of certain life insurance policies of $23 million and commutation of a general liability insurance policy of $18 million, offset in part by a reduction of $25 million in receivables sold under our receivables securitization program and cash paid to acquire certain aftermarket rights of $15 million. Net cash provided by operating activities of continuing operations in the year ended December 31, 2003 included tax refunds of $107 million. There were net income tax payments during the year ended December 31, 2004 of approximately $32 million. Net cash provided by operating activities of continuing operations was reduced by worldwide pension contributions of $128.6 million in the year ended December 31, 2004 and $62.7 million in the year ended December 31, 2003. Increased working capital, including higher inventory, also contributed to lower net cash provided by operating activities of continuing operations in the year ended December 31, 2004.

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Investing Activities of Continuing Operations

Net cash provided by (used by) investing activities of continuing operations was a use of cash of $141.1 million in the year ended December 31, 2004 and an inflow of cash of $57.3 million in the year ended December 31, 2003. Net cash used by investing activities of continuing operations for the year ended December 31, 2004 included capital expenditures of $152 million. Net cash provided by investing activities of continuing operations in the year ended December 31, 2003 included proceeds from the sale of the Noveon PIK Notes of $151.9 million and the receipt of a $35 million purchase adjustment related to the acquisition of Aeronautical Systems, offset in part by capital expenditures of $125.1 million. Capital expenditures for 2005 are expected to increase to approximately $190 million to $210 million from $152 million in 2004.

Financing Activities of Continuing Operations

Net cash used by financing activities of continuing operations was $358.1 million in the year ended December 31, 2004, compared to $525.4 million for the year ended December 31, 2003. During the year ended December 31, 2004, we repurchased $142.2 million principal amount of long-term debt, redeemed $60 million principal amount of Special Facilities Airport Revenue Bonds, $5.9 million principal amount of industrial revenue bonds and $63.5 million principal amount of the QUIPS Debentures. During the year ended December 31, 2003 we repaid short-term debt and redeemed a portion of the QUIPS Debentures, using the net after tax cash proceeds from the sale of our Avionics business, cash proceeds from the sale of the Noveon PIK Notes and cash provided by operating activities, net of dividends and capital expenditures.

Discontinued Operations

Net cash provided by discontinued operations of $138.1 million in the year ended December 31, 2003 included $134.1 million of proceeds from the sale of the Avionics business.

Year Ended December 31, 2003 as Compared to December 31, 2002

Operating Activities of Continuing Operations

Net cash provided by operating activities of continuing operations increased $28.9 million from $524.2 million during the year ended December 31, 2002 to $553.1 million during the year ended December 31, 2003. Cash provided by operating activities included tax refunds of $107 million in the year ended December 31, 2003 and $50 million in the year ended December 31, 2002. Cash provided by operating activities was reduced by worldwide pension contributions of $62.7 million in the year ended December 31, 2003 and $47.4 million in the year ended December 31, 2002. Net cash provided by operating activities for the year ended December 31, 2003 also included approximately $30 million for several items related to the acquisition of Aeronautical Systems for which we submitted claims for reimbursement to Northrop Grumman, which claims were partially settled in 2004. Also included in 2002 cash provided by operating activities was approximately $29.4 million resulting from the sale of an interest rate swap agreement associated with $200 million of our long-term debt and $30.8 million of cash received from the sale of hedges acquired as part of the acquisition of Aeronautical Systems.

Investing Activities of Continuing Operations

Net cash provided by investing activities of continuing operations was $57.3 million in the year ended December 31, 2003 and a use of cash of $1,507.8 million in the year ended December 31, 2002. Cash provided by investing activities in the year ended December 31, 2003 was due to proceeds from the sale of the Noveon PIK Notes of $151.9 million and the receipt of a $35 million purchase price adjustment related to the acquisition of Aeronautical Systems

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offset in part by capital expenditures of $125.1 million. Cash used by investing activities in the year ended December 31, 2002 resulted primarily from the acquisition of Aeronautical Systems for $1,472.6 million and capital expenditures of $106.1 million, offset in part by a receipt of $49.8 million on the Noveon PIK Notes.

Financing Activities of Continuing Operations

Net cash used by financing activities of continuing operations was $525.4 million in the year ended December 31, 2003, compared to net cash provided by financing activities of continuing operations of $1,163.6 million for the year ended December 31, 2002. During the year ended December 31, 2003, we repaid short-term debt and redeemed a portion of the QUIPS Debentures using the net after-tax cash proceeds from the sale of our Avionics business, cash proceeds from the sale of the Noveon PIK Notes and cash provided by operating activities net of dividends and capital expenditures. Net cash provided by financing activities for the year ended December 31, 2002 was due to the increase in long-term and short-term debt and capital stock to finance the acquisition of Aeronautical Systems in 2002.

Discontinued Operations

Net cash provided by discontinued operations of $138.1 million in the year ended December 31, 2003 included $134.1 million net after-tax proceeds from the sale of the Avionics business. Net cash used by discontinued operations of $118.7 million in the year ended December 31, 2002 included $47 million of cash included in the net assets of the EIP business distributed to shareholders, $47 million paid, net of insurance receipts, primarily for asbestos-related matters associated with the EIP business prior to the distribution to shareholders and $15.6 million relating to capital expenditures and debt repayments.

CONTINGENCIES

General

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

Environmental

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

The measurement of environmental liabilities by us is based on currently available facts, present laws and regulations and current technology. Such estimates take into consideration our prior experience in site investigation and remediation, the data concerning cleanup costs available from other companies and regulatory authorities and the professional judgment of our environmental specialists in consultation with outside environmental specialists, when necessary. Estimates of our environmental liabilities are further subject to uncertainties

regarding the nature and extent of site contamination, the range of remediation alternatives available, evolving remediation standards, imprecise engineering evaluations and estimates of appropriate cleanup technology, methodology and cost, the extent of corrective actions that may be required and the number and financial condition of other potentially responsible parties, as well as the extent of their responsibility for the remediation.
Accordingly, as investigation and remediation of these sites proceed, it is likely that adjustments in our accruals will be necessary to reflect new information. The amounts of any such adjustments could have a material adverse effect on our results of operations in a given period, but the amounts, and the possible range of loss in excess of the amounts accrued, are not reasonably estimable. Based on currently available information, however, we do not believe that future environmental costs in excess of those accrued with respect to sites for which we have been identified as a potentially responsible party are likely to have a material adverse effect on our financial condition. There can be no assurance, however, that additional future developments, administrative actions or liabilities relating to environmental matters will not have a material adverse effect on our results of operations or cash flows in a given period.
Environmental liabilities, including legal costs, are recorded when our liability is probable and the costs are reasonably estimable, which generally is not later than at completion of a feasibility study or when we have recommended a remedy or have committed to an appropriate plan of action. The liabilities are reviewed periodically and, as investigation and remediation proceed, adjustments are made as necessary. Liabilities for losses from environmental remediation obligations do not consider the effects of inflation and anticipated expenditures are not discounted to their present value. The liabilities are not reduced by possible recoveries from insurance carriers or other third parties, but do reflect anticipated allocations among potentially responsible parties at federal Superfund sites or similar state-managed sites and an assessment of the likelihood that such parties will fulfill their obligations at such sites.
Our Consolidated Balance Sheet included an accrued liability for environmental remediation obligations of $88.5 million and $87.8 million at December 31, 2004 and December 31, 2003, respectively. At December 31, 2004 and December 31, 2003, $16.2 million and $17.6 million, respectively, of the accrued liability for environmental remediation was included in current liabilities as Accrued Expenses. At December 31, 2004 and December 31, 2003, $29.6 million and $24.9 million, respectively, was associated with ongoing operations and $58.9 million and $62.9 million, respectively, was associated with businesses previously disposed of or discontinued.
The timing of expenditures depends on a number of factors that vary by site, including the nature and extent of contamination, the number of potentially responsible parties, the timing of regulatory approvals, the complexity of the investigation and remediation, and the standards for remediation. We expect that we will expend present accruals over many years, and will complete remediation in less than 30 years on all sites for which we have been identified as a potentially responsible party. This period includes operation and monitoring costs that are generally incurred over 15 to 25 years.

Asbestos

We and a number of our subsidiaries have been named as defendants in various actions by plaintiffs alleging injury or death as a result of exposure to asbestos fibers in products, or which may have been present in our facilities. A number of these cases involve maritime claims, which have been and are expected to continue to be administratively dismissed by the court. These actions primarily relate to previously owned businesses. We believe that pending and reasonably anticipated future actions, net of anticipated insurance recoveries, are not likely to have a material adverse effect on our financial condition, results of operations or cash flows.

There can be no assurance, however, that future legislative or other developments will not have a material adverse effect on our results of operations in a given period.

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

In addition, a portion of our primary and excess layers of general liability insurance coverage for some of these claims was provided by insurance subsidiaries of London United Investments plc (KWELM). KWELM is insolvent and in the process of distributing its assets and dissolving. In September 2004, we entered into a settlement agreement with KWELM pursuant to which we agreed to give up our rights with respect to the KWELM insurance policies in exchange for $18.3 million. The settlement amount is subject to increase under certain circumstances. The settlement represents a negotiated payment for our loss of insurance coverage, as we no longer have the KWELM insurance available for claims that would have qualified for coverage. The settlement amount of $18.3 million was recorded as a deferred settlement credit.

Liabilities of Divested Businesses

Asbestos

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

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

Other

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

Guarantees

We have guaranteed amounts owed by Coltec Capital Trust with respect to the $145 million of outstanding TIDES and have guaranteed Coltec s performance of its obligations with respect to the TIDES and the underlying Coltec convertible subordinated debentures. Following the spin-off of the EIP segment, the TIDES remained outstanding as an obligation of Coltec Capital Trust and our guarantee with respect to the TIDES remains an obligation of ours. EnPro, Coltec and Coltec Capital Trust have agreed to indemnify us for any costs and liabilities arising under or related to the TIDES after the spin-off.

In addition to our guarantee of the TIDES, at December 31, 2004, we have an outstanding contingent liability for guarantees of debt and lease payments of $2.8 million, letters of credit and bank guarantees of $62.9 million, residual value of leases of $54.6 million and executive loans to purchase our stock of $4.4 million.

Commercial Airline Customers

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

Tax

In 2000, Coltec, our former subsidiary, made a $113.7 million payment to the Internal Revenue Service (IRS) for an income tax assessment and the related accrued interest arising out of certain capital loss deductions and tax credits taken in 1996. On February 13, 2001, Coltec filed suit against the U.S. Government in the U.S. Court of Federal Claims seeking a refund of this payment. The trial portion of the case was completed in May 2004. On November 2, 2004, we were notified that the trial court ruled in favor of Coltec and ordered the Government to refund federal tax payments of $82.8 million to Coltec. This tax refund will also bear interest to the date of payment. As of December 31, 2004, the interest amount was approximately $46.6 million before tax, or $30.3 million after tax. A final judgment was entered in this case by the U.S. Court of Federal Claims on February 15, 2005. The Government has until April 18, 2005 to appeal the decision to the United States Court of Appeals for the Federal Circuit. If the Government does not appeal the decision or the trial court judge s decision is ultimately upheld, we will be entitled to this tax refund and related interest pursuant to an agreement with Coltec. If we receive these amounts, we expect to record net income of approximately $145 million, based on interest through December 31, 2004, and including the release of previously established reserves. If the IRS were to appeal the judgment and ultimately prevail in this case, Coltec will not owe any additional interest or taxes with respect to 1996. We may, however, be required by the IRS to pay up to $32.7 million plus accrued interest with respect to the same items claimed by Coltec in its tax returns for 1997 through 2000. The amount of

the previously estimated tax liability if the IRS were to prevail for the 1997 through 2000 period remains fully reserved.

In 2000, the IRS issued a statutory notice of deficiency asserting that Rohr, Inc. (Rohr), our subsidiary, was liable for $85.3 million of additional income taxes for the fiscal years ended July 31, 1986 through 1989. In 2003, the IRS issued an additional statutory notice of deficiency asserting that Rohr was liable for $23 million of additional income taxes for the fiscal years ended July 31, 1990 through 1993. The proposed assessments relate primarily to the timing of certain tax deductions and tax credits. Rohr has filed petitions in the U.S. Tax Court opposing the proposed assessments. Rohr expects that these cases may be scheduled for trial in 2005 and that it will ultimately be successful in these cases. At the time of settlement or final determination by the court, there will be a net cash cost to us due at least in part to the reversal of a timing item. We believe that our total net cash cost is unlikely to exceed $100 million. We are reserved for the estimated liability associated with these cases and as a result, we do not expect a charge to earnings to result from the resolution of these matters.

We are continuously undergoing examination by the IRS, as well as various state and foreign jurisdictions. The IRS and other taxing authorities routinely challenge certain deductions and credits reported by us on our income tax returns. In accordance with SFAS 109, Accounting for Income Taxes, and SFAS 5, Accounting for Contingencies, we establish reserves for tax contingencies that reflect our best estimate of the deductions and credits that we may be unable to sustain, or that we could be willing to concede as part of a broader tax settlement. As of December 31, 2004, we have recorded tax contingency reserves of approximately $316 million.

The current IRS examination audit cycle began in March, 2002 and relates to the following consolidated income tax groups for the following years:

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

There are numerous tax issues that have been raised during the examination by the IRS, including, but not limited to, transfer pricing, research and development credits, foreign tax credits, tax accounting for long-term contracts, tax accounting for inventory, tax accounting for stock options, depreciation, amortization and the proper timing for certain other deductions for income tax purposes.

One of our subsidiaries, Rohr, Inc. (Rohr) has been under examination by the State of California for the tax years ending July 31, 1985, 1986 and 1987. The State of California has disallowed certain expenses incurred by one of Rohr s subsidiaries in connection with the lease of certain tangible property. California s State Board of Equalization has held that the deductions associated with the leased equipment were non-business deductions, resulting in an additional tax assessment of approximately $5.5 million. The amount of interest on the tax assessment is approximately $23.5 million. We continue to contest the assessment. We are adequately reserved for this contingency.

NEW ACCOUNTING STANDARDS

The Financial Accounting Standards Board (FASB) recently issued Statement of Financial Accounting Standards No. 151 (SFAS 151), Inventory Costs , an amendment of ARB No. 43, Chapter 4. Adoption of SFAS 151 is required by the year beginning January 1, 2006. We plan to adopt SFAS 151 no later than that date. The amendments made by SFAS 151 clarify that

abnormal amounts of idle facility expense, freight, handling costs and wasted materials (spoilage) should be recognized as current-period charges and requires the allocation of fixed production overheads to inventory based on the normal capacity of the production facilities. While SFAS 151 enhances ARB 43 and clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage), the statement also removes inconsistencies between ARB 43 and IAS 2 and amends ARB 43 to clarify that abnormal amounts of costs should be recognized as period costs. Under some circumstances, according to ARB 43, the above listed costs may be so abnormal as to require treatment as current period charges. SFAS 151 requires these items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal and requires allocation of fixed production overheads to the costs of conversion. This statement will apply to our businesses if they become subject to abnormal costs as defined in SFAS 151. We are currently evaluating the impact, if any, that adoption of SFAS 151 will have on our Consolidated Statement of Income and Consolidated Balance Sheet.

On December 16, 2004, the FASB issued Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123(R)), Share-Based Payment , which is a revision of SFAS No. 123, Accounting for Stock-Based Compensation . SFAS 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees (SFAS 123), and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows . Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. We adopted the SFAS 123 fair-value-based method of accounting for share-based payments effective January 1, 2004 using the modified prospective method described in Statement of Financial Accounting Standards No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure . Currently, we use the Black-Scholes formula to estimate the value of stock options granted to employees. SFAS 123(R) requires that we use the valuation technique that best fits the circumstances. We are currently evaluating other techniques. SFAS 123(R) requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow; thus, reducing net operating cash flows and increasing net financing cash flows in the periods after the effective date. While we cannot estimate what those amounts will be in the future because they depend on, among other things, when employees exercise stock options, the amounts of operating cash flow recognized in prior periods for such excess tax deductions for stock-based compensation were $3.5 million, $0.4 million and $0.5 million in 2004, 2003 and 2002, respectively. SFAS 123(R) also requires that we estimate the number of awards that are expected to vest and to revise the estimate as the actual forfeitures differ from the estimate. The effect of these items and other changes in SFAS 123(R) as well as the potential impact on our future consolidated statement of income and consolidated balance sheet is currently being evaluated. We will adopt SFAS 123(R) no later than July 1, 2005.

On December 21, 2004, the FASB issued FASB Staff Position 109-1 (FSP 109-1) and 109-2 (FSP 109-2). FSP 109-1 provides guidance on the application of SFAS 109, Accounting for Income Taxes , with regard to the tax deduction on qualified production activities provision within H.R. 4520 The American Jobs Creation Act of 2004 (Act) that was enacted on October 22, 2004. FSP 109-2 provides guidance on a special one-time dividends received deduction on the repatriation of certain foreign earnings to qualifying U.S. taxpayers. The Act contains numerous provisions related to corporate and international taxation including repeal of the Extraterritorial Income (ETI) regime, creation of a new Domestic Production Activities (DPA) deduction and a temporary dividends received deduction related to repatriation of foreign earnings. The Act contains various effective dates and transition periods related to its provisions. Under the guidance provided in FSP 109-1 the new DPA deduction will be treated as a special deduction as described in SFAS 109. As such, the special deduction has no effect on the Company s deferred tax assets and liabilities existing at the enactment date. Rather, the impact of this deduction will be reported in the period in which the deduction is claimed on our

income tax return. The repeal of ETI and its replacement with a DPA deduction were not in effect in 2004 and therefore, did not have an affect on our income tax provision for the year ended December 31, 2004. We do not expect the net effect of the phase-out of the ETI deduction and phase-in of the new DPA deduction to result in a material impact on our effective income tax rate in 2005. In FSP 109-2, the Financial Accounting Standards Board acknowledged that, due to the proximity of the Act s enactment date to many companies year-ends and the fact that numerous provisions within the Act are complex and pending further regulatory guidance, many companies may not be in a position to assess the impacts of the Act on their plans for repatriation or reinvestment of foreign earnings. Therefore, the FSP provided companies with a practical exception to the permanent reinvestment standards of SFAS 109 and APB No. 23 by providing additional time to determine the amount of earnings, if any, that they intend to repatriate under the Act s provisions. We are not yet in a position to decide whether, and to what extent, we might repatriate foreign earnings to the U.S. Therefore, under the guidance provided in FSP 109-2, no deferred tax liability has been recorded in connection with the repatriation provisions of the Act. We are currently analyzing the impact of the temporary dividends received deduction provisions contained in the Act.

CRITICAL ACCOUNTING POLICIES

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

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

REVENUE RECOGNITION

For revenues not recognized under the contract method of accounting, we recognize revenues from the sale of products at the point of passage of title, which typically is at the time of shipment. Revenues earned from providing maintenance service are recognized when the service is complete.

Contract Accounting-Percentage of Completion

Revenue Recognition

Included in contract costs, or estimated revenues, are the expected impact of specific contingencies that we believe are probable. In the event that actual experience differs from estimates or facts and circumstances change, estimated costs or revenues will be revised. Effective January 1, 2004, we changed two aspects of the application of contract accounting for our aerostructures business unit, including a change to the cumulative catch-up method from the reallocation method for accounting for changes in contract estimates of revenue and costs and a change to the accounting for certain pre-certification costs. Pre-certification costs,

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including those in excess of original estimated levels, are now included in total contract costs used to evaluate overall contract profitability. These contract accounting methods are described below. The impact of these changes on our financial statements was income of approximately $16 million after tax or $23 million before tax, which was reported as a Cumulative Effect of Change in Accounting in the first quarter of 2004.

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

Profit is estimated based on the difference between total estimated revenue and total estimated cost of a contract. Changes in estimated total revenue and estimated total cost are recognized as business or economic conditions change and the impact on contract profitability is recorded immediately in that period using the cumulative catch-up method. Cost includes the estimated cost of the preproduction effort, primarily tooling and design, plus the estimated cost of manufacturing a specified number of production units. The specified number of production units used to establish the profit margin is predicated upon contractual terms adjusted for market forecasts and does not exceed the lesser of those quantities assumed in original contract pricing as adjusted to the date of certification, or those quantities which we now expect to deliver in the timeframe/period assumed in the original contract pricing or at the date of certification. Our policies only allow the estimated number of production units to be delivered to exceed the quantity assumed within the original contract pricing or at date of certification when we receive firm orders for additional units or we are required to begin manufacturing of units under contractual production lead time. The assumed timeframe/period is generally equal to the period specified in the contract. If the contract is a life of program contract, then such period is equal to the time period used in the original pricing model adjusted, if appropriate, to the expected period of production estimated at the date of certification. Option quantities are combined with prior orders when follow-on orders are released.

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

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

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Inventory

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

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

Income Taxes

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

In accordance with SFAS 5, we record tax contingencies when the exposure item becomes probable and reasonably estimable. As of December 31, 2004, we had recorded tax contingency reserves of approximately $316 million.

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

Identifiable Intangible Assets

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

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

margin assumption is based upon the current cost structure and anticipated cost reductions. Measurement of the amount of impairment may be based upon an appraisal, market values of similar assets or estimated discounted future cash flows resulting from the use and ultimate disposition of the asset.

Sales Incentives

We offer sales incentives to certain airline customers in connection with sales contracts. These incentives may consist of up-front cash payments, merchandise credits and/or free products. The cost of these incentives is recognized in the period incurred unless recovery of these costs is specifically guaranteed by the customer in the contract. If the contract contains such a guarantee, then the cost of the sales incentive is capitalized as Other Assets and amortized as Cost of Sales over the contract period. At December 31, 2004 and 2003, the carrying amount of sales incentives was $68.7 million and $75.2 million, respectively.

Entry Fees-Investment in Risk and Revenue Sharing Programs

Certain businesses in our Engine Systems Segment make cash payments, referred to as entry fees, to an original equipment manufacturer (OEM) under long-term contractual arrangements related to new engine programs. In return, we receive a controlled access supply contract and a percentage of program revenue generated by the OEM as part of these arrangements. The program revenue generated by the OEM may result from the sale of components produced by us or other program participants by selling original equipment or aftermarket products (spares).

At the time of payment, the aircraft manufacturer has launched a new aircraft platform, critical suppliers have been selected and we have deemed our product to be technologically feasible. Although our product is technologically feasible, we do not have access to information on the technological feasibility of the products of the OEM s other critical suppliers. However, we are not aware of any program for which we have entered into a contract that has been cancelled prior to engine delivery due to the lack of technological feasibility of the engine.

In our agreement with the OEM, there are no restrictions on the use of the entry fees by the OEM; however, in the OEM s annual report, it states that entry fees have enabled it to build a broad portfolio of engines, thereby reducing its exposure to individual product risk. The OEM also states that the primary financial benefit of entry fees to it is a reduction of its own funding of research and development on new programs.

We account for entry fees similar to an investment in future cash flows. We begin to receive cash payments from the OEM, at the latest, after aircraft certification, which typically occurs approximately four years after payment of the entry fee. However, if the OEM s customers place orders with the OEM prior to that time, which frequently occurs, we will receive a percentage of any related deposits. Activities during the four-year period following our initial payment of entry fees include continued refinement of the engine systems, certification of the engine systems, flight certification of the engine, flight certification of the aircraft and entry into service of the aircraft.

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

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

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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.

Entry fees are recorded as Other Assets and are amortized on a straight-line basis to Cost of Sales over the program s estimated useful life following aircraft certification, which typically approximates 20 years. The net carrying amount of entry fees was $111.3 million and $91.4 million at December 31, 2004 and 2003, respectively. The carrying amount of entry fees is evaluated for impairment at least annually or when other indicators of impairment exist. Impairment is assessed based on the expected undiscounted cash flow from the program over the remaining program life as compared to the recorded amount of entry fees. If impairment exists, a charge would be recorded for the amount by which the carrying amount of the entry fee exceeds its fair value. No such impairment charges were recorded in the years ended December 31, 2004, 2003 or 2002.

Pension and Postretirement Benefits Other Than Pensions

Assumptions used in determining the benefit obligations and the annual expense for our pension and postretirement benefits other than pensions are evaluated by us in consultation with an outside actuary. Changes in assumptions such as the rate of compensation increase and the long-term rate of return on plan assets are based upon our historical and benchmark data. Health care cost projections are evaluated annually. The discount rate is evaluated at December 31, 2004 using the appropriate index (e.g., Moody s Aa long-term high quality bond rate for the U.S. Plans and iBoxx AA long-term high quality bond rate for the U.K. plans). The appropriate assumptions are used for the applicable country. Following is a summary of our 2004 assumptions for determining the pension and postretirement benefits other than pension obligations and the annual cost for 2004.

Weighted-Average Assumptions Used to Determine the Benefit Obligations as of December 31, 2004

	U.S. Plans	U.K. Plans	Other Non-U.S. Plans
Discount rate	5.875%	5.50%	5.75%
Rate of compensation increase	3.63%	3.50%	3.50%

Weighted-Average Assumptions Used to Determine the Net Periodic Pension Benefit Costs for the Year Ended December 31, 2004

	U.S. Plans	U.K. Plans	Other Non-U.S. Plans
Discount rate	6.25%	5.75%	6.25%
Expected long-term return on assets	9.00%	8.50%	8.43%
Rate of compensation increase	3.63%	3.25%	3.25%

The weighted-average discount rate assumption used to determine postretirement benefits other than pension obligations at December 31, 2004 was 5.875 percent. Also, for measurement purposes, a 9 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2005. The rate was assumed to decrease gradually to 5 percent for 2008 and remain at that level thereafter. The weighted-average discount rate assumption used to determine net periodic postretirement benefit cost for the year ended December 31, 2004 was 6.25 percent.

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Sensitivity Analysis

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

	.25 Percentage Point Increase	.25 Percentage Point Decrease
	(Dollars in millions)	
Increase (Decrease) in costs		
Discount rate	$ (8.2)	$ 8.3
Expected long-term rate of return	$ (6.1)	$ 6.1
Increase (Decrease) in projected benefit obligation		
Discount rate	$ (97)	$ 100

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

	One Percentage Point Increase	One Percentage Point Decrease
	(Dollars in millions)	
Increase (Decrease) in total of service and interest cost components		
Health care cost trend rate	$ 1.9	$ (1.6)
Increase (Decrease) in accumulated postretirement benefit obligation		
Health care cost trend rate	$ 29.0	$ (25.1)

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

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

- demand for and market acceptance of new and existing products, such as the Airbus A380 and A350, the Boeing 787 Dreamliner, the Embraer 190 and the Lockheed Martin F-35 Joint Strike Fighter;

our ability to extend our contracts with Boeing relating to the 787 Dreamliner beyond the initial contract period;

potential cancellation of orders by customers;

successful development of products and advanced technologies;

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

global demand for aircraft spare parts and aftermarket services;

the possibility of additional contractual disputes with Northrop Grumman related to the purchase of Aeronautical Systems;

the payment of premiums and associated costs by us in connection with the early retirement of debt;

the resolution of tax litigation involving Coltec Industries Inc and Rohr, Inc.;

the actual amount of future liabilities assumed by us pursuant to the partial settlement with Northrop Grumman related to the purchase of Aeronautical Systems;

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

threats and events associated with and efforts to combat terrorism, including the current situation in Iraq;

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

competitive product and pricing pressures;

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

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

the effect of changes in accounting policies;

domestic and foreign government spending, budgetary and trade policies;

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

the outcome of contingencies (including completion of acquisitions, divestitures, litigation and environmental remediation efforts).

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to certain market risks as part of our ongoing business operations, including risks from changes in interest rates and foreign currency exchange rates, which could impact our financial condition, results of operations and cash flows. We manage our exposure to these and other market risks through regular operating and financing activities and through the use of derivative financial instruments. We intend to use such derivative financial instruments as risk management tools and not for speculative investment purposes. Refer to Note Q Derivatives and Hedging Activities in Part 1 Item 1 of this Form 10-K for a description of current developments involving our hedging activities.

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Interest Rate Exposure

We are exposed to interest rate risk as a result of our outstanding variable rate debt obligations and interest rate swaps. The table below provides information about our financial instruments that are sensitive to changes in interest rates. In addition to those financial instruments, we had $72.3 million outstanding at year-end under our variable rate receivables securitization program. At December 31, 2004, a hypothetical 100 basis point unfavorable change in interest rates would increase annual interest expense by approximately $3.4 million.

In July 2003, we entered into a $100 million fixed-to-floating interest rate swap on our 6.45 percent senior notes due in 2007. In October 2003, we entered into two $50 million fixed-to-floating interest rate swaps. One $50 million swap is on our 7.5 percent senior notes due in 2008 and the other $50 million swap is on our 6.45 percent medium-term notes due in 2008. In December 2003, we entered into a $50 million fixed-to-floating interest rate swap on our 7.5 percent senior notes due in 2008. The purpose of the interest rates swaps was to increase our exposure to variable interest rates. The settlement and maturity dates on the swaps are the same as those on the related notes. In accordance with Statement of Financial Accounting Standards No. 133, the carrying values of the notes have been adjusted to reflect the fair values of the related interest rate swaps.

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

Debt	Expected Maturity Dates 2005	2006	2007	2008	2009	Thereafter	Total	Fair Value
					(Dollars in millions)			
Debt								
Fixed Rate	$ 0.7	$ 0.7	$ 182.2	$ 372.6	$ 218.2	$ 1,099.0	$ 1,873.4	$ 2,108.0
Average Interest Rate	5.0%	5.1%	6.4%	6.0%	6.6%	7.3%	6.9%	
Variable Rate	$ 1.2	$ 0.2	$ 0.2	$ 0.2	$ 0.2	$ 16.7	$ 18.7	$ 18.7
Average Interest Rate	2.4%	3.0%	3.0%	3.0%	3.0%	1.4%	1.5%	
Capital Lease Obligations	$ 1.8	$ 1.2	$ 1.1	$ 1.1	$ 1.1	$ 12.4	$ 18.7	$ 10.7
Interest Rate								
Swaps Fixed to Variable-Notional Value			$ 100.0	$ 150.0			$ 250.0	$ (1.1)
								Loss
Average Pay Rate			4.5%	5.2%			4.8%	
Average Receive Rate			6.5%	7.2%			6.8%	

Foreign Currency Exposure

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

Foreign exchange negatively impacted the financial results in our business segments in 2004. Approximately 10 percent of our revenues and approximately 25 percent of our costs are denominated in currencies other than the U.S. Dollar. Over 95 percent of these net costs are in Euros, Great Britain Pounds Sterling and Canadian Dollars. We do hedge a portion of our

exposure on an ongoing basis. When the U.S. Dollar weakens, our unhedged net costs rise in U.S. Dollar terms. With a weakening U.S. Dollar trend, our average hedge rates also become less favorable and thus have a negative impact on net income.

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

We have entered into foreign exchange forward contracts to sell U.S. Dollars for Great Britain Pounds Sterling, Canadian Dollars, Euros and Polish Zlotys. These forward contracts are used to mitigate a portion of the potential volatility to cash flows arising from changes in currency exchange rates. As of December 31, 2004 we had forward contracts with an aggregate notional amount of $332.3 million to buy Great Britain Pounds Sterling, forward contracts with an aggregate notional amount of $199.7 million to buy Canadian Dollars, forward contracts with an aggregate notional amount of $171.3 million to buy Euros and forward contracts with an aggregate notional amount of $9.5 million to buy Polish Zlotys. These forward contracts mature on a monthly basis with maturity dates that range from January 2005 to April 2007.

At December 31, 2004, a hypothetical 10 percent strengthening of the U.S. Dollar against other foreign currencies would decrease the value of the forward contracts described above by $74.7 million. The fair value of these forward contracts was $110.3 million at December 31, 2004. Because we hedge only a portion of our exposure, a strengthening of the U.S. Dollar as described above would have a more than offsetting benefit to our financial results in future periods.

In addition to the foreign exchange cash flow hedges, we have entered into foreign exchange forward contracts to manage foreign currency risk related to the translation of monetary assets and liabilities denominated in currencies other than the relevant functional currency. These forward contracts mature monthly and the notional amounts are adjusted periodically to reflect changes in net monetary asset balances. As of December 31, 2004, we had forward contracts with a notional value of $81 million to buy Great Britain Pounds, contracts with a net notional value of $11 million to buy Euros and contracts with a notional value of $5.4 million to sell Canadian Dollars.

Item 8. ***Financial Statements***

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MANAGEMENT S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

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

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

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

Goodrich s management assessed the effectiveness of Goodrich s internal control over financial reporting as of December 31, 2004. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on management s assessment and those criteria, management believes that Goodrich maintained effective internal control over financial reporting as of December 31, 2004.

Goodrich s independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on management s assessment and the effectiveness of Goodrich s internal control over financial reporting. This report appears on page 60.

/s/ Marshall O. Larsen

Marshall O. Larsen
Chairman, President and
Chief Executive Officer

/s/ Ulrich Schmidt

Ulrich Schmidt
Executive Vice President and
Chief Financial Officer

/s/ Scott E. Kuechle

Scott E. Kuechle
Vice President and Controller

February 25, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and Board of Directors of Goodrich Corporation

We have audited the accompanying consolidated balance sheet of Goodrich Corporation as of December 31, 2004 and 2003, and the related consolidated statements of income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Goodrich Corporation at December 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2004, in conformity with U.S. generally accepted accounting principles.

As described in Notes E, M and V to the consolidated financial statements, in 2004 the Company changed its method of accounting for certain aspects of the application of contract accounting, early adopted accounting guidance related to postretirement benefit obligations and changed its method of accounting for stock-based compensation. As described in Note J, in 2002 the Company adopted Statement of Financial Accounting Standard No. 142, Goodwill and Other Intangible Assets.

/s/ Ernst & Young LLP

Charlotte, North Carolina
February 25, 2005

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON MANAGEMENT S ASSESSMENT AND THE EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and Board of Directors of Goodrich Corporation

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that Goodrich Corporation maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Goodrich Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, management s assessment that Goodrich Corporation maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Goodrich Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

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We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2004 and 2003 and the related consolidated statements of income, shareholders equity and cash flows for each of the three years in the period ended December 31, 2004 of Goodrich Corporation and our report dated February 25, 2005 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Charlotte, North Carolina
February 25, 2005

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CONSOLIDATED STATEMENT OF INCOME

	Year Ended December 31,		
	2004	2003	2002
	(Dollars in millions, except per share amounts)		
Sales	$ 4,724.5	$ 4,382.9	$ 3,808.5
Operating costs and expenses:			
Cost of sales	3,507.1	3,365.9	2,893.5
Selling and administrative costs	803.9	720.9	519.0
Restructuring and consolidation costs	13.7	51.1	37.4
	4,324.7	4,137.9	3,449.9
Operating Income	399.8	245.0	358.6
Interest expense	(143.2)	(155.5)	(106.2)
Interest income	3.4	6.0	32.6
Other income (expense) net	(60.7)	(26.3)	(18.1)
Income from continuing operations before income taxes and trust distributions	199.3	69.2	266.9
Income tax expense	(43.3)	(22.8)	(92.2)
Distributions on trust preferred securities		(7.9)	(10.5)
Income From Continuing Operations	156.0	38.5	164.2
Income (loss) from discontinued operations net of taxes		62.4	(10.2)
Cumulative effect of change in accounting	16.2	(0.5)	(36.1)
Net Income	$ 172.2	$ 100.4	$ 117.9
Basic Earnings Per Share:			
Continuing operations	$ 1.32	$ 0.33	$ 1.58
Discontinued operations		0.52	(0.09)
Cumulative effect of change in accounting	0.13		(0.35)
Net Income	$ 1.45	$ 0.85	$ 1.14
Diluted Earnings Per Share:			
Continuing operations	$ 1.30	$ 0.33	$ 1.56
Discontinued operations		0.52	(0.08)
Cumulative effect of change in accounting	0.13		(0.34)
Net Income	$ 1.43	$ 0.85	$ 1.14

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET

	Year Ended December 31,	
	2004	2003
	(Dollars in millions, except share amounts)	
Current Assets		
Cash and cash equivalents	$ 297.9	$ 378.4
Accounts and notes receivable net	654.4	608.5
Inventories net	1,166.8	964.2
Deferred income taxes	118.9	114.3
Prepaid expenses and other assets	118.8	82.7
Total Current Assets	2,356.8	2,148.1
Property, plant and equipment net	1,165.0	1,175.9
Prepaid pension	275.5	219.5
Goodwill	1,266.3	1,259.5
Identifiable intangible assets net	507.0	484.7
Deferred income taxes	44.7	23.5
Other assets	602.2	640.3
Total Assets	$ 6,217.5	$ 5,951.5
Current Liabilities		
Short-term debt	$ 1.0	$ 2.7
Accounts payable	511.5	414.5
Accrued expenses	733.2	648.2
Income taxes payable	294.4	290.7
Deferred income taxes	22.0	15.7
Current maturities of long-term debt and capital lease obligations	2.4	75.6
Total Current Liabilities	1,564.5	1,447.4
Long-term debt and capital lease obligations	1,899.4	2,136.6
Pension obligations	761.7	642.0
Postretirement benefits other than pensions	302.7	319.2
Deferred income taxes	33.7	15.1
Other non-current liabilities	312.6	197.7
Commitments and contingent liabilities		
Shareholders Equity		
Common stock $5 par value		
Authorized 200,000,000 shares; issued 132,709,310 shares at December 31, 2004 and 131,265,173 shares at December 31, 2003 (excluding 14,000,000 shares held by a wholly-owned subsidiary)	663.5	656.3
Additional paid-in capital	1,077.9	1,035.8

Income retained in the business		119.5		42.4
Accumulated other comprehensive income (loss)		(103.7)		(126.1)
Unearned compensation				(1.4)
Common stock held in treasury, at cost (13,566,071 shares at December 31, 2004 and 13,539,820 shares at December 31, 2003)		(414.3)		(413.5)
Total Shareholders Equity		1,342.9		1,193.5
Total Liabilities And Shareholders Equity	$	6,217.5	$	5,951.5

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31		
	2004	2003	2002
	(Dollars in millions)		
Operating Activities			
Income from continuing operations	$ 156.0	$ 38.5	$ 164.2
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:			
Restructuring and consolidation:			
Expenses	13.3	51.1	37.4
Payments	(27.6)	(46.6)	(51.5)
In-process research and development			12.5
Aeronautical Systems inventory step-up			58.8
Asset impairments	0.4	86.1	
Depreciation and amortization	222.9	219.1	180.8
Stock-based compensation expense	18.0	2.8	1.3
Loss on extinguishment of debt	15.1		
Deferred income taxes	32.0	41.6	(2.3)
Net gains on sale of businesses			(2.5)
Noveon PIK Notes interest income		(4.3)	(23.3)
Change in assets and liabilities, net of effects of acquisitions and dispositions of businesses:			
Receivables	16.6	96.8	109.1
Change in receivables sold, net	(25.0)		
Inventories	(174.2)	(18.4)	55.1
Other current assets	(82.1)	(5.9)	(18.6)
Accounts payable	81.4	(52.2)	(97.1)
Accrued expenses	87.8	28.7	(27.8)
Income taxes payable	(0.1)	108.2	129.8
Tax benefit on non-qualified options	3.5	0.4	0.5
Other non-current assets and liabilities	77.6	7.2	(2.2)
Net Cash Provided By Operating Activities	415.6	553.1	524.2
Investing Activities			
Purchases of property, plant and equipment	(152.0)	(125.1)	(106.1)
Proceeds from sale of property, plant and equipment	11.4	6.9	15.1
Proceeds from sale of businesses			6.0
Proceeds from redemption of the Noveon PIK Notes		151.9	49.8
Payments received (made) in connection with acquisitions, net of cash acquired	(0.5)	23.6	(1,472.6)
Net Cash Provided (Used) By Investing Activities	(141.1)	57.3	(1,507.8)
Financing Activities			
Increase (decrease) in short-term debt, net	(2.8)	(377.4)	264.0

Proceeds from issuance of long-term debt		20.0	793.1
Repayment of long-term debt and capital lease obligations	(274.8)	(74.9)	(1.4)
Loss on extinguishment of debt	(13.1)		
Proceeds from issuance of common stock	27.5	9.1	220.2
Purchases of treasury stock	(0.2)	(0.3)	(4.9)
Dividends	(94.7)	(94.0)	(96.9)
Distributions on trust preferred securities		(7.9)	(10.5)
Net Cash Provided (Used) By Financing Activities	(358.1)	(525.4)	1,163.6
Discontinued Operations			
Net cash (used) provided by discontinued operations		138.1	(118.7)
Effect of exchange rate changes on cash and cash equivalents	3.1	5.4	2.8
Net increase (decrease) in cash and cash equivalents	(80.5)	228.5	64.1
Cash and cash equivalents at beginning of year	378.4	149.9	85.8
Cash and cash equivalents at end of year	$ 297.9	$ 378.4	$ 149.9

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY

	Common Stock		Additional Paid-In	Income Retained In The	Accumulated Other Comprehensive Income (Loss)	Unearned Portion of Restricted Stock	Treasury	
	Shares	Amount	Capital	Business		Awards	Stock	Total
	(In thousands)			(Dollars in millions)				
Balance December 31, 2001	115,145	$ 575.7	$ 973.5	$ 333.7	$ (110.1)	$ (0.6)	$ (410.8)	$ 1,361.4
Net income				117.9				117.9
Other comprehensive income (loss):								
Unrealized translation adjustments					37.4			37.4
Minimum pension liability adjustment					(327.8)			(327.8)
Unrealized gain on cash flow hedges					19.4			19.4
Total comprehensive income (loss)								(153.1)
Sale of common stock under public offering, net of expenses	14,950	74.8	141.4					216.2
Employee award programs	474	2.4	9.9			(1.0)	(2.0)	9.3
Tax benefit from employees share-based compensation programs			0.5					0.5
EnPro spin-off			(97.9)	(323.2)	12.0			(409.1)
Dividends (per share $0.875)				(92.3)				(92.3)
Balance December 31, 2002	130,569	$ 652.9	$ 1,027.4	$ 36.1	$ (369.1)	$ (1.6)	$ (412.8)	$ 932.9
Net income				100.4				100.4
Other comprehensive income (loss):								
Unrealized translation adjustments					131.3			131.3
					62.2			62.2

Minimum pension liability adjustment								
Unrealized gain on cash flow hedges					49.5			49.5
Total comprehensive income (loss)								343.4
Employee award programs	696	3.4	8.0			0.2	(0.7)	10.9
Tax benefit from employees share-based compensation programs			0.4					0.4
Dividends (per share $0.80)				(94.1)				(94.1)
Balance December 31, 2003	131,265	$ 656.3	$ 1,035.8	$ 42.4	$ (126.1)	$ (1.4)	$ (413.5)	$ 1,193.5
Net income				172.2				172.2
Other comprehensive income (loss):								
Unrealized translation adjustments					89.4			89.4
Minimum pension liability adjustment					(69.8)			(69.8)
Unrealized gain on cash flow hedges					2.8			2.8
Total comprehensive income (loss)								194.6
Employee award programs	1,444	7.2	20.6			1.4	(0.8)	28.4
Stock-based compensation			18.0					18.0
Tax benefit from employees share-based compensation programs			3.5					3.5
Dividends (per share $0.80)				(95.1)				(95.1)
Balance December 31, 2004	132,709	$ 663.5	$ 1,077.9	$ 119.5	$ (103.7)	$	$ (414.3)	$ 1,342.9

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A. Significant Accounting Policies

Basis of Presentation. The Consolidated Financial Statements reflect the accounts of Goodrich Corporation and its majority-owned subsidiaries (the Company or Goodrich). Effective October 1, 2003, the Company adopted Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 and deconsolidated BFGoodrich Capital. Investments in 20 to 50 percent-owned affiliates are accounted for using the equity method. Equity in earnings (losses) from these businesses is included in Other Income (Expense) Net. Intercompany accounts and transactions are eliminated.

As discussed in Note W, Discontinued Operations the Company s Avionics, Passenger Restraints Systems (PRS) and Engineered Industrial Products businesses have been accounted for as discontinued operations. Unless otherwise noted, disclosures herein pertain to the Company s continuing operations.

Cash Equivalents. Cash equivalents consist of highly liquid investments with a maturity of three months or less at the time of purchase.

Allowance for Doubtful Accounts. The Company evaluates the collectibility of trade receivables based on a combination of factors. The Company regularly analyzes significant customer accounts and, when the Company becomes aware of a specific customer s inability to meet its financial obligations to the Company, such as in the case of bankruptcy filings or deterioration in the customer s operating results or financial position, the Company records a specific reserve for bad debt to reduce the related receivable to the amount the Company reasonably believes is collectible. The Company also records reserves for bad debt for all other customers based on a variety of factors including the length of time the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, the Company s estimates of the recoverability of receivables could be further adjusted.

Sale of Accounts Receivable. The Company follows the provisions of Statement of Financial Accounting Standards No. 140 (SFAS 140), Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, and as such, trade accounts receivable sold are removed from the Balance Sheet at the time of sale.

Inventories. Inventories, other than inventoried costs relating to long-term contracts, are stated at the lower of cost or market. Certain domestic inventories are valued by the last-in, first-out (LIFO) cost method. Inventories not valued by the LIFO method are valued principally by the average cost method.

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

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

In accordance with industry practice, costs in inventory include amounts relating to contracts with long production cycles, some of which are not expected to be realized within one year.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Long-Lived Assets. Property, plant and equipment, including amounts recorded under capital leases, are recorded at cost. Depreciation and amortization is computed principally using the straight-line method over the following estimated useful lives: buildings and improvements, 15 to 40 years; and machinery and equipment, 5 to 15 years. In the case of capitalized lease assets, amortization is recognized over the lease term if shorter. Repairs and maintenance costs are expensed as incurred.

Goodwill. Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired businesses. Under the provisions of SFAS 142, intangible assets deemed to have indefinite lives and goodwill are not subject to amortization, but are reviewed for impairment annually, or more frequently, if indicators of potential impairment exist.

Identifiable Intangible Assets. Identifiable intangible assets are recorded at cost or, when acquired as part of a business combination, at estimated fair value. These assets include patents and other technology agreements, sourcing contacts, trademarks, licenses, customer relationships and non-compete agreements. For acquisitions completed subsequent to June 30, 2001, identifiable intangible assets are amortized over their useful life using undiscounted cash flows, a method that reflects the pattern in which the economic benefits of the intangible assets are consumed. Impairments of identifiable intangible assets are recognized when events or changes in circumstances indicate that the carrying amount of the asset, or related groups of assets, may not be recoverable and the Company s 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 the Company s segments plans. The revenue growth is based upon aircraft build projections from aircraft manufacturers and widely available external publications. The profit margin assumption is based upon the current cost structure and anticipated cost reductions. Measurement of the amount of impairment may be based upon an appraisal, market values of similar assets or estimated discounted future cash flows resulting from the use and ultimate disposition of the asset.

Revenue and Income Recognition. For revenues not recognized under the contract method of accounting, the Company recognizes revenues from the sale of products at the point of passage of title, which is generally at the time of shipment. Revenues earned from providing maintenance service are recognized when the service is complete.

For revenues recognized under the contract method of accounting, the Company recognizes sales and profits on each contract in accordance with the percentage-of-completion method of accounting, generally usi