

CEVA INC
Form 10-Q/A
November 08, 2006

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

**FORM 10-Q/A
Amendment No.1**

(Mark One)

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

For the quarterly period ended: September 30, 2006

OR

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

For the transition period from _____ to _____

Commission file number: 000-49842

CEVA, Inc.

(Exact Name of Registrant as Specified in Its Charter)

**Delaware
(State or Other Jurisdiction of Incorporation or
Organization)**

**77-0556376
(I.R.S. Employer Identification No.)**

**2033 Gateway Place, Suite 150, San Jose,
California
(Address of Principal Executive Offices)**

**95110-1002
(Zip Code)**

**(408) 514-2900
(Registrant's Telephone Number, Including Area Code)**

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer Accelerated filer Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: 19,311,803 shares of common stock, \$0.001 par value, as of November 1, 2006.

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EXPLANATORY NOTE

This Amendment No. 1 to our Quarterly Report on Form 10-Q is being filed because our third-party filing agent inadvertently filed our Quarterly Report on Form 10-Q a day early. As a result, we have amended the signature page of our Quarterly Report on Form 10-Q and the Exhibits 31.1, 31.2 and 32 filed with the report relating to the certifications of our Chief Executive Officer and Chief Financial Officer to change the date set forth therein from November 9, 2006 to November 8, 2006. No other changes have been made to our originally filed Quarterly Report on Form 10-Q.

FORWARD-LOOKING STATEMENTS

FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This Quarterly Report contains forward-looking statements that involve risks and uncertainties, as well as assumptions that if they materialize or prove incorrect, could cause the results of CEVA to differ materially from those expressed or implied by such forward-looking statements and assumptions. All statements other than statements of historical fact are statements that could be deemed forward-looking statements. Forward-looking statements are generally written in the future tense and/or are preceded by words such as “will,” “may,” “should,” “could,” “expect,” “suggest,” “believe,” “an,” “intend,” “plan,” or other similar words. Forward-looking statements include the following:

- Our belief that given the complexity of applications for DSPs, there is increasingly an industry shift away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications, and that we are well positioned to take full advantage of these trends;
- Our ability to capitalize on various new technologies we are in the process of developing, including DSP cores and platforms for WiMax and cellular applications and the multimedia product lines, including the MobileMedia2000 technology;
- Any potential additional royalty revenues associated with new product launches and ramp-up of production of products incorporating our technology by our customers;
 - Our belief that we may be able to reach higher levels of royalty revenue in 2007;
- Our anticipation that our current cash on hand, short term deposits and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months; and
- Our belief that a successful surrender of our long-term lease in Ireland in the fourth quarter of 2006 will result in an associated cash outflow of approximately \$3.5 million in the fourth quarter of 2006.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this report are based on information that is currently available to us and expectations and assumptions that we deem reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this report or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this report. These factors include, but are not limited to, market acceptance of third-party

semiconductor IP, our OEM relationships and competition, as well as those risks described in Part II - Item 1A - "Risk Factors" of this Form 10-Q.

PART I. FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

U.S. dollars in thousands, except share and per share data

	September 30, 2006 Unaudited	December 31, 2005 Audited
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 36,509	\$ 35,111
Short term bank deposits	416	8,335
Marketable securities	26,843	18,174
Trade receivables, net	7,091	6,159
Deferred tax assets	571	600
Prepaid expenses	601	1,040
Other current assets	1,654	1,042
Total current assets	73,685	70,461
Severance pay fund	2,332	1,912
Deferred tax assets	434	292
Property and equipment, net	1,883	3,226
Investment in other company, net (see Note 3)	4,233	-
Goodwill	36,498	38,398
Other intangible assets, net	242	1,460
Total assets	\$ 119,307	\$ 115,749
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade payables	\$ 638	\$ 548
Accrued expenses and other payables	8,629	7,778
Taxes payable	331	442
Deferred revenues	589	453
Total current liabilities	10,187	9,221
Long term liabilities:		
Accrued severance pay	2,491	2,100
Accrued liabilities	1,829	2,195
Total long-term liabilities	4,320	4,295
Stockholders' equity:		
Common Stock:		
\$0.001 par value: 100,000,000 shares authorized; 19,284,803 and 18,923,071 shares issued and outstanding at September 30, 2006 and December 31, 2005, respectively	19	19
Additional paid in-capital	142,062	138,818
Accumulated deficit	(37,281)	(36,604)
Total stockholders' equity	104,800	102,233
Total liabilities and stockholders' equity	\$ 119,307	\$ 115,749

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
U.S. dollars in thousands, except per share data

	Nine months ended September 30,		Three months ended September 30,	
	2006	2005	2006	2005
Revenues:				
Licensing and royalties	\$ 21,553	\$ 24,235	\$ 6,938	\$ 7,169
Other revenue	2,886	3,720	955	1,217
Total revenues	24,439	27,955	7,893	8,386
Cost of revenues	3,022	3,412	992	1,003
Gross profit	21,417	24,543	6,901	7,383
Operating expenses:				
Research and development, net	14,159	15,477	4,270	5,036
Sales and marketing	4,791	4,855	1,414	1,619
General and administrative	4,535	4,481	1,577	1,399
Amortization of intangible assets	373	632	42	191
Reorganization and severance charge	-	3,307	-	1,650
Impairment of assets	-	510	-	-
Total operating expenses	23,858	29,262	7,303	9,895
Operating loss	(2,441)	(4,719)	(402)	(2,512)
Financial and other income, net	1,949	2,760	778	1,982
Income (loss) before taxes on income	(492)	(1,959)	376	(530)
Taxes on income	185	160	35	-
Net Income (loss)	\$ (677)	\$ (2,119)	\$ 341	\$ (530)
Basic net income (loss) per share	\$ (0.04)	\$ (0.11)	\$ 0.02	\$ (0.03)
Diluted net income (loss) per share	\$ (0.04)	\$ (0.11)	\$ 0.02	\$ (0.03)
Weighted-average number of shares of Common Stock used in computation of net income (loss) per share (in thousands):				
Basic	19,150	18,768	19,239	18,875
Diluted	19,150	18,768	19,324	18,875

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(unaudited)**
U.S. dollars in thousands, except share data

Nine months ended September 30, 2006	Common stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount			
Balance as of January 1, 2006	18,923,071	\$ 19	\$ 138,818	\$ (36,604)	\$ 102,233
Net loss	—	—	—	(677)	(677)
Stock-based compensation	—	—	1,660	—	1,660
Issuance of Common Stock upon exercise of stock options	41,195	—(*)	210	—	210
Issuance of Common Stock upon purchase of ESPP shares	320,537	—(*)	1,374	—	1,374
Balance as of September 30, 2006	19,284,803	\$ 19	\$ 142,062	\$ (37,281)	\$ 104,800

Nine months ended September 30, 2005	Common stock		Additional paid-in capital	Accumulated deficit	Total stockholders' equity
	Shares	Amount			
Balance as of January 1, 2005	18,557,818	\$ 19	\$ 136,868	\$ (34,338)	\$ 102,549
Net loss	—	—	—	(2,119)	(2,119)
Stock-based compensation	—	—	195	—	195
Issuance of Common Stock upon exercise of stock options	72,820	—(*)	369	—	369
Issuance of Common Stock upon purchase of ESPP shares	292,433	—(*)	1,386	—	1,386
Balance as of September 30, 2005	18,923,071	\$ 19	\$ 138,818	\$ (36,457)	\$ 102,380

(*) Amount less than \$1.

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
U.S. dollars in thousands

	Nine months ended September 30,	
	2006	2005
Cash flows from operating activities:		
Net loss	\$ (677)	\$ (2,119)
Adjustments required to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation	1,124	1,545
Amortization of intangible assets	373	1,032
Stock-based compensation	1,660	195
Gain from sale of property and equipment	—	(10)
Loss on marketable securities	24	57
Accrued interest on short term bank deposits	123	(51)
Unrealized foreign exchange loss (gain)	15	(78)
Gain on realization of investment	(57)	(1,507)
Marketable securities	(8,693)	3,072
Changes in operating assets and liabilities:		
(Increase) decrease in trade receivables	(932)	3,357
Increase in other current assets and prepaid expenses	(146)	(1,781)
(Increase) decrease in deferred income taxes	(113)	20
(Decrease) increase in trade payables	60	(926)
(Decrease) increase in deferred revenues	136	(517)
Increase in accrued expenses and other payables	53	5
Decrease in taxes payable	(111)	(118)
(Decrease) increase in accrued severance pay, net	(39)	84
Net cash (used in) provided by operating activities	(7,200)	2,260
Cash flows from investing activities:		
Purchase of property and equipment	(303)	(829)
Proceeds from sale of property and equipment	—	13
Purchase of technology	—	(153)
Proceeds from realization of investment	57	1,267
GPS divestment transaction and related costs	(913)	—
Investment in short term bank deposits	(5,135)	(8,204)
Proceeds from short term bank deposits	12,931	—
Net cash (used in) provided by investing activities	6,637	(7,906)
Cash flows from financing activities:		
Proceeds from issuance of Common Stock upon exercise of options	210	369
Proceeds from issuance of Common Stock under employee stock purchase plan	1,374	1,386
Net cash provided by financing activities	1,584	1,755
Effect of exchange rate movements on cash	377	(461)
Changes in cash and cash equivalents	1,398	(4,352)
Cash and cash equivalents at the beginning of the period	35,111	28,844
Cash and cash equivalents at the end of the period	\$ 36,509	\$ 24,492

INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited) (CONTINUED)

U.S. dollars in thousands

	Nine months ended	
	September 30,	
	2006	2005
Supplemental disclosure of noncash activities		
Investment in other company in regards to the GloNav transaction (see note 3):		
Goodwill	\$ (1,900)	\$ —
Intangible asset	(845)	—
Net working capital	(522)	—
Other transaction and related costs	(53)	—
Deferred gain related to GPS divestment transaction	(1,751)	—

The accompanying notes are an integral part of the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(U.S. dollars in thousands, except share and per share amounts)

NOTE 1: BUSINESS

The financial information in this quarterly report includes the results of CEVA, Inc. and its subsidiaries (the “Company” or “CEVA”). CEVA licenses to semiconductor companies and electronic equipment manufacturers (also known as original equipment manufacturers, or OEMs) digital signal processor (DSP) cores and related intellectual property (IP) solutions that enable a wide variety of electronic devices. The Company’s programmable DSP cores and application-level IP solutions power wireless devices, handheld devices, consumer electronics products, disk drives and automotive applications.

NOTE 2: BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (including non-recurring adjustments attributable to reorganization and severance and impairment) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, reference is made to the consolidated financial statements and footnotes thereto included in the Company’s Annual Report on Form 10-K, as amended, for the year ended December 31, 2005.

The interim condensed consolidated financial statements incorporate the financial statements of the Company and all of its subsidiaries. All significant intercompany balances and transactions have been eliminated on consolidation.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2005, contained in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 14, 2006, as further amended on April 28, 2006 (File No. 000-49842), have been applied consistently in these unaudited interim condensed consolidated financial statements, except as described in subsection (b) below.

b. Investment in Other Company

On June 23, 2006, the Company divested its GPS technology and associated business to a new U.S.-based company, GloNav Inc. (“GloNav”), as detailed below in note 3. The investment in GloNav is stated at cost, since the Company does not have the ability to exercise significant influence over operating and financial policies of GloNav. The Company records the investment on its Condensed Consolidated Balance Sheets as investment in other company. This investment will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable, in accordance with Accounting Principle Board Opinion No.18 “The Equity Method of Accounting for Investments in Common Stock” (“APB No.18”).

NOTE 3: DIVESTMENT OF GPS TECHNOLOGY

As discussed above, on June 23, 2006, the Company divested its GPS technology and associated business to GloNav in return for an equity ownership of 19.9% in GloNav on a fully diluted basis. Out of the 19.9%, CEVA received as consideration 10% in Series A-1 Convertible Voting Preferred Stock (the “Series A-1”) and 9.9% in Series A-2 Convertible Non-Voting Preferred Stock (the “Series A-2”). The Series A-1 and Series A-2 are convertible into voting

common stock and non-voting common stock, respectively, of GloNav on a one-for-one basis. Subject to certain limitations, if GloNav engages in future equity funding of up to \$20,000, CEVA also will receive additional shares of Series A-2 for no consideration as anti-dilution protection. The additional share issuance is capped at 6.8% of GloNav's then outstanding shares of capital stock calculated on a post-funding basis after completion of equity funding of up to \$20,000. Although CEVA has transferred the GPS customer contracts and GPS intellectual property to GloNav, CEVA will continue to share with GloNav certain revenues relating to the GPS assets. CEVA's valuation of its equity investment in GloNav is \$5,984 based on the value of the assets and cash attributable to GloNav and the investment was recorded as an investment in other company, net on the Condensed Consolidated Balance Sheets and stated at cost. Since GloNav is a newly formed research and development start-up, the gain resulting from the divestment of the GPS technology and associated business in the total amount of \$1,751 has been deferred. The excess of the consideration from the divestment over the net book value of the assets in the amount of \$1,751 is set below:

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(U.S. dollars in thousands, except share and per share amounts)

	(unaudited)
Equity investment in GloNav	\$ 5,984
Goodwill	(1,900)
Intangible asset	(845)
Net working capital	(522)
Other transaction and related costs	(966)
Deferred gain related to transaction with GloNav	\$ 1,751
	(unaudited)
Investment in other company, net:	
Investment in other company	\$ 5,984
Deferred gain	(1,751)
Total investment in other company, net	\$ 4,233

GloNav also has licensed the CEVA-TeakLite DSP core for the development of its GPS chipsets and will pay royalties to CEVA based on its future GPS chip sales.

NOTE 4: GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER DATA

a. Summary information about geographic areas:

The Company manages its business on the basis of one industry segment: the licensing of intellectual property to semiconductor companies and electronic equipment manufacturers (see Note 1 for a brief description of the Company's business).

The following is a summary of operations within geographic areas:

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2006	2005	2006	2005
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Revenues based on customer location:				
United States	\$ 9,781	\$ 10,654	\$ 2,050	\$ 2,444
Europe, Middle East and Africa	9,232	5,579	2,474	1,484
Asia Pacific (1)	5,426	11,722	3,369	4,458
	\$ 24,439	\$ 27,955	\$ 7,893	\$ 8,386

One country representing 10% or more of total revenues included in the table above is as follows:

(1) Japan	\$ 2,455	\$ 4,357	\$ 1,386	\$ 1,118
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b. Major customer data as a percentage of total revenues:

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(U.S. dollars in thousands, except share and per share amounts)

The following table sets forth the customers that represented 10% or more of the Company's total revenues in each of the periods set forth below.

	Nine months ended September 30,		Three months ended September 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
Customer A	20%	—	—	—
Customer B	10%	—	14%	—
Customer C	—	—	10%	—
Customer D	—	13%	—	—
Customer E	—	—	13%	19%
Customer F	—	—	—	18%
Customer G	—	—	—	16%

NOTE 5: NET INCOME (LOSS) PER SHARE OF COMMON STOCK

Basic net income (loss) per share is computed based on the weighted-average number of shares of Common Stock outstanding during each period. Diluted net income (loss) per share is computed based on the weighted average number of shares of Common Stock outstanding during each period, plus potential dilutive shares of Common Stock considered outstanding during the period, in accordance with Statement of Financial Accounting Standard ("SFAS") No. 128, "Earnings Per Share."

	Nine months ended September 30,		Three months ended September 30,	
	2006 (unaudited)	2005 (unaudited)	2006 (unaudited)	2005 (unaudited)
Numerator:				
Numerator for basic and diluted net income (loss) per share	\$ (677)	\$ (2,119)	\$ 341	\$ (530)
Denominator:				
Denominator for basic net income (loss) per share				
Weighted-average number of shares of Common Stock	19,150	18,768	19,239	18,875
Effect of employee stock options	-	-	85	-
	19,150	18,768	19,324	18,875
Net income (loss) per share				
Basic and Diluted	\$ (0.04)	\$ (0.11)	\$ 0.02	\$ (0.03)

The total number of shares related to outstanding options excluded from the calculation of diluted net income (loss) per share were 4,100,763 and 4,571,997 for the three and nine months period ended September 30, 2006, and 5,473,071 for both corresponding periods of 2005.

NOTE 6: MARKETABLE SECURITIES

Marketable securities consist of certificates of deposits, corporate bonds and securities and U.S. government and agency securities. Marketable securities are stated at market value, and by policy, CEVA invests in high grade marketable securities to reduce risk of loss. All marketable securities are defined as trading securities under the provisions of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and holding gains and losses are reflected in the Condensed Consolidated Statements of Operations.

	As of September 30, 2006		
	Cost	Gain (loss)	Market Value
Corporate bonds and securities	\$ 16,494	\$ (82)	\$ 16,412
U.S. government and agency securities	10,389	42	10,431
	\$ 26,883	\$ (40)	\$ 26,843

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(U.S. dollars in thousands, except share and per share amounts)

NOTE 7: COMMON STOCK AND STOCK-BASED COMPENSATION PLANS

During the first quarter of 2006, the Company granted options to purchase 53,500 shares of Common Stock, at exercise prices ranging from \$6.05 to \$6.59 per share, and the Company issued 213,420 shares of Common Stock under its stock option and purchase programs for consideration of \$936. Options to purchase 4,941,096 shares were outstanding at March 31, 2006. During the comparable period of 2005, the Company granted options to purchase 51,000 shares of Common Stock, at exercise prices ranging from \$7.93 to \$8.51 per share, and the Company issued 175,235 shares of Common Stock under its stock option and purchase programs for consideration of \$880. Options to purchase 5,820,471 shares were outstanding at March 31, 2005.

During the second quarter of 2006, the Company granted options to purchase 160,000 shares of Common Stock, at exercise prices ranging from \$5.76 to \$7.59 per share, and the Company issued 12,917 shares of Common Stock under its stock option and purchase programs for consideration of \$67. Options to purchase 4,722,303 shares were outstanding at June 30, 2006. During the comparable period of 2005, the Company granted options to purchase 196,700 shares of Common Stock, at exercise prices ranging from \$5.85 to \$7.12 per share, and the Company issued 46,341 shares of Common Stock under its stock option and purchase programs for consideration of \$239. Options to purchase 4,993,542 shares were outstanding at June 30, 2005.

During the third quarter of 2006, the Company granted options to purchase 25,500 shares of Common Stock, at an exercise price of \$5.50 per share, and the Company issued 135,395 shares of Common Stock under its stock option and purchase programs for consideration of \$581. Options to purchase 4,571,997 shares were outstanding at September 30, 2006. During the comparable period of 2005, the Company granted options to purchase 560,000 shares of Common Stock, at exercise prices ranging from \$5.16 to \$5.88 per share, and the Company issued 143,677 shares of Common Stock under its stock option and purchase programs for consideration of \$636. Options to purchase 5,473,071 shares were outstanding at September 30, 2005.

The weighted-average fair value per share of the options granted during the three months ended March 31, June 30 and September 30, 2006 was \$6.52, \$5.90 and \$5.50, respectively. During the comparable periods of 2005, the weighted-average fair value per share of the options granted was \$8.21, \$6.15 and \$5.50, respectively. The exercise prices of such options were equal to the market price of the Company's Common Stock on the date of the respective option grants.

A summary of activity of options granted to purchase the Company's Common Stock under the Company's stock option plans is as follows:

	Nine months ended September 30, 2006 (unaudited)		Three months ended September 30, 2006 (unaudited)	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year/period	5,020,383	\$ 8.54	4,722,303	\$ 8.48
Granted	239,000	5.99	25,500	5.50

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Exercised	(41,195)		5.10	(1,250)		3.52
Forfeited	(646,191)		8.24	(174,556)		8.17
Outstanding at the end of the period	4,571,997	\$	8.48	4,571,997	\$	8.48
Number of options exercisable as of September 30, 2006	3,137,231	\$	9.41	3,137,231	\$	9.41

Effective January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standard (SFAS) No. 123R, "Share-Based Payment" ("SFAS 123(R)"), which requires the Company to measure all employee stock-based compensation awards using a fair value method and record the related expense in the financial statements. The Company used the Black-Scholes option pricing model. The Company elected to use the modified prospective method of adoption which requires that compensation expense be recorded in the financial statements over the expected requisite service period for any new options granted after the adoption of SFAS 123(R) as well as for existing awards for which the requisite service has not been rendered as of the date of adoption and requires that prior periods not be restated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(U.S. dollars in thousands, except share and per share amounts)

The following table shows the total stock-based compensation expense included in the Condensed Consolidated Statement of Operations:

	Nine months ended September 30, 2006 (unaudited)	Three months ended September 30, 2006 (unaudited)
Cost of revenue	\$ 38	\$ 14
Research and development expenses	523	170
Sales and marketing expenses	258	78
General and administrative expenses	841	248
Total	\$ 1,660	\$ 510

Under SFAS 123(R), the expense has been determined as if CEVA had accounted for its employee stock options under the fair value method of SFAS 123(R). The fair value for these options was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Three months ended September 30, 2006 (unaudited)
Dividend yield	0%
Expected volatility	40%
Risk-free interest rate	5%
Expected forfeiture	10%
Expected life	4 Years

The fair value for rights to purchase awards under the Employee Share Purchase Plan was estimated on the date of grant using the same assumptions above, except the expected life was assumed to be 6 months.

As of September 30, 2006, there was a balance of \$1,414 of unrecognized compensation expense related to non-vested awards. The impact of stock-based compensation expense on basic and diluted income (loss) per share for the three and nine months ended September 30, 2006 was \$0.03 and \$0.09 per share, respectively.

The Company issues stock options to its employees, directors and certain consultants and provides the right to purchase stock pursuant to approved stock option and employee stock purchase programs. Prior to the adoption of SFAS 123(R), the Company elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Options Issued to Employees" ("APB No. 25") and related interpretations (collectively "APB No. 25"), in accounting for its stock option plans. Under APB No. 25, when the exercise price of an employee stock option is less than the market price of the underlying stock on the date of grant, compensation expense is recognized. All options granted under these plans had an exercise price equal to the fair market value of the underlying Common Stock on the date of grant.

Certain stock options issued to non-employee consultants were accounted for under SFAS No. 123 “Accounting for Stock Based Compensation” (“SFAS No. 123”) using the fair value method. A stock compensation charge of \$0 and \$195 in respect of 96,000 fully vested options granted to non-employee consultants is reflected in the Condensed Consolidated Statements of Operations for the three and nine month periods ended September 30, 2005, respectively, as required under APB No. 25. There was no similar charge for the three and nine month periods ended September 30, 2006. The fair value for these options was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 2%; dividend yield of 0%; volatility factor of 80%; and a weighted-average expected life of the options of four years.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(U.S. dollars in thousands, except share and per share amounts)

The following table illustrates the pro forma effect on net income and net income per share for the three and nine month periods ended September 30, 2005, had we applied the fair value recognition provisions of SFAS No. 123 as expenses:

	Nine months ended September 30, 2005	Three months ended September 30, 2005
Net loss as reported	\$ (2,119)	\$ (530)
Add (deduct): Total stock-based employee compensation credit (expense) determined under fair value based method for all awards, net of related tax effects	\$ (1,959)	\$ (1,040)
Pro forma net loss	\$ (4,078)	\$ (1,570)
Net loss per share:		
Basic and diluted as reported	\$ (0.11)	\$ (0.03)
Basic and diluted pro forma	\$ (0.22)	\$ (0.08)

The fair value for these options was estimated on the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 2%; dividend yield of 0%; volatility factor of 34-39%; and a weighted-average expected life of the options of 3-4 years.

NOTE 8: REORGANIZATION AND SEVERANCE CHARGE

Reorganization and restructuring plans implemented in 2005 resulted in a total charge of \$3,200, of which \$1,650 were recorded in the third quarter of 2005. The charge arose in connection with the decision to restructure the Company's corporate management, reduce overhead and consolidate its activities. Included in the total charges were severance charges and employee related liabilities arising in connection with a head-count reduction of nine employees and provision for future operating lease charges on idle facilities.

The Company was required to make, and is required to review, certain estimates and assumptions in assessing the under-utilized building operating lease charges arising from the reduction in facility requirements. The Company takes into account current market conditions and the ability of the Company to either exit the lease property or sublet the property in determining the estimates and assumptions used. The Company expects to revise its assumptions quarterly, as appropriate, in respect of future vacancy rates and sublet rents in light of current market conditions and the applicable discount rate based on projected interest rates.

There was no additional charge to the Condensed Consolidated Statements of Operations during the three-and nine month periods ended September 30, 2006.

The balance as of September 30, 2006 of the restructuring and other charges is \$3,552, of which \$1,723 is included in accrued expenses and other payables and \$1,829 is included in long term accrued liabilities.

NOTE 9: RECENTLY ISSUED ACCOUNTING STANDARDS

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments" ("FAS 155"), which amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("FAS 133") and SFAS No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" ("FAS 140"). FAS 155 provides guidance to simplify the accounting for certain hybrid instruments by permitting fair value remeasurement for any hybrid financial instrument that contains an embedded derivative, as well as, clarifies that beneficial interests in securitized financial assets are subject to FAS 133. In addition, FAS 155 eliminates a restriction on the passive derivative instruments that a qualifying special-purpose entity may hold under FAS 140. FAS 155 is effective for all financial instruments acquired, issued or subject to a new basis occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. We believe that the adoption of this statement will not have a material effect on our financial condition or results of operations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(U.S. dollars in thousands, except share and per share amounts)

In March 2006, the FASB issued SFAS No. 156, "Accounting for Servicing of Financial Assets" ("FAS 156"), which amends SFAS No. 140. FAS 156 provides guidance addressing the recognition and measurement of separately recognized servicing assets and liabilities, common with mortgage securitization activities, and provides an approach to simplify efforts to obtain hedge accounting treatment. FAS 156 is effective for all separately recognized servicing assets and liabilities acquired or issued after the beginning of an entity's fiscal year that begins after September 15, 2006, with early adoption being permitted. We believe that the adoption of this statement will not have a material effect on our financial condition or results of operations.

In July 2006, the FASB issued FASB Interpretation 48, "Accounting for Income Tax Uncertainties" ("FIN 48"). FIN 48 defines the threshold for recognizing the benefits of tax return positions in the financial statements as "more-likely-than-not" to be sustained by the taxing authority. The recently issued literature also provides guidance on derecognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. FIN 48 also includes guidance concerning accounting for income tax uncertainties in interim periods and increases the level of disclosures associated with any recorded income tax uncertainties. FIN 48 is effective for fiscal years beginning after December 15, 2006. The differences between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts reported after adoption will be accounted for as a cumulative-effect adjustment recorded to the beginning balance of retained earnings. Because the guidance was recently issued, the Company has not yet determined the impact, if any, of adoption of the provisions of FIN 48 on its financial position, results of operations and cash flows.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with the unaudited financial statements and related notes appearing elsewhere in this quarterly report. This discussion contains forward-looking statements that involve risks and uncertainties. Any or all of our forward-looking statements in this quarterly report may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Factors which could cause actual results to differ materially include those set forth under in Part II - Item 1A - "Risk Factors", as well as those discussed elsewhere in this quarterly report. See "Forward-Looking Statements".

BUSINESS OVERVIEW

The financial information presented in this quarterly report includes the results of CEVA, Inc. and its subsidiaries (the "Company" or "CEVA"). CEVA is one of the world's leading licensor of DSP cores and related application solutions to the semiconductor and electronics industry. For more than ten years, CEVA has been licensing DSP cores and application-specific intellectual property "IP" to leading semiconductor and electronics companies worldwide.

CEVA addresses the requirements of the wireless, wired communications and multimedia markets by designing and licensing programmable DSP cores, DSP-based subsystems, application-specific platforms, and range of software components which enable the rapid design of DSP-based chips or application-specific solutions for developing a wide variety of applications. Our offerings include a family of programmable DSP cores with a range of cost, power-efficiency and performance points; DSP-based subsystems (the essential hardware components integrated with the DSP core to form a System-on-Chip (SoC) design); and a portfolio of application platforms, including multimedia, audio, Voice over Packet (VoP), and Serial ATA (SATA). In addition, we offer design services to our customers mainly in the form of porting our technology to customer foundries and processes.

Given the complexity of applications for DSPs, there is increasingly an industry shift away from the traditional approach of licensing standalone DSPs and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. With more complex designs and shorter design cycles we believe it is no longer cost efficient and becoming progressively more difficult for most semiconductor companies and designers to develop the technology in-house. Therefore, companies increasingly rely on licensing other intellectual property, such as DSP cores, from third parties like CEVA. Such business models also enable semiconductor companies to further enhance their open-architecture-based offerings with complementary products, available through a third-party community of developers, such as CEVAnet, CEVA's third-party network.

In order to capitalize on this industry shift and grow our business, as well as maintain profitability, we will need to introduce new products and penetrate new markets. In that regard we demonstrated for the first time in February 2006 at the 3GSM conference in Barcelona, Spain, the MobileMedia2000 silicon running a full video solution. In this respect we plan to extend our offering and develop new video codecs based on market need. We are developing a new DSP core aimed at the mobile WiMAX market, as well as higher performance DSP cores based our most successful architecture, the TeakLite.

In June 2006 the Company divested its GPS technology and associated business to a new U.S.-based company, GloNav Inc., in return for an equity ownership of 19.9% in GloNav on a fully diluted basis. GloNav also has licensed the CEVA-TeakLite DSP core for the development of its GPS chipsets and will pay royalties to CEVA based on its future GPS chip sales. CEVA will continue to promote its CEVA-TeakLite DSP core to power GPS IP-based solutions for new GloNav customers looking to integrate GPS functionality into cellular handsets and personal navigation devices.

Our business operates in a highly competitive environment with varieties of implementations, both software-based and hardware-based IP solutions. Although our MobileMedia2000 silicon generated a good amount of interest, we anticipate that our customers will take a very cautious approach in adopting such technology and therefore the time to market of products incorporating our new technology may be prolonged and we may not realize any revenue from this technology in the near future, if at all. In addition, it is widely known in the industry that software-based video, though providing flexibility and shorter time to market, has a larger die size which may concern customers, especially those that manufacture consumer products that target the low end market. Additionally the markets for our technology are rapidly changing with divergent trends and end-user needs emerging at a pace that makes current technology obsolete in a short amount of time. This obsolescence trend as well as aggressive competition has resulted, and could result in the future, in substantial declines in the prices that we are able to charge for our existing intellectual property. We will need to enter into additional licensing arrangements to offset the continuing decline of licensing fees generated by our existing technology or introduce new products and expand into new markets to boost our revenue. However, the introduction of new products and the penetration of new markets will require the expenditure of greater research and development resources and cause us to re-assess the viability of our older product lines and less productive business divisions, all of which may increase our operating expenses without the offset of additional revenue. We cannot provide any assurances that we will succeed in growing our business or achieve profitability.

RESULTS OF OPERATIONS*Total Revenues*

	Nine months 2006		Nine months 2005		Third Quarter 2006		Third Quarter 2005	
Total revenues (in millions)	\$	24.4	\$	28.0	\$	7.9	\$	8.4

Total revenues decreased 6% and 13% in the third quarter and the first nine months of 2006, respectively, compared to corresponding periods in 2005. The decrease in total revenues in the third quarter of 2006 compared to corresponding period in 2005 is due to slightly lower revenues in licensee fees, support and maintenance services and royalty revenue. The decrease in total revenues in the first nine months of 2006 as compared to the same period in 2005 reflects lower revenues, specifically in the GPS and SATA product lines.

Licensing and royalty revenues accounted for 88% of our total revenues in the first nine months of 2006 compared to 87% in 2005. Two customers accounted for more than 10% of revenues in the first nine months of 2006 compared to one customer in the first nine months of 2005. Licensing and royalty revenues accounted for 88% of our total revenues in the third quarter of 2006 compared to 85% in 2005. Three different mix of customers accounted for more than 10% of revenues in both the third quarter of 2006 and 2005. Due to the nature of our license agreements and the associated large individual contract amounts, our major customers generally vary from quarter to quarter.

We generate our revenues from licensing our IP, which in certain circumstances is modified to customer-specific requirements. Revenues from license fees that involve customization of our IP to customer specifications are recognized in accordance with Statement of Position 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts." We account for all of our other IP license revenues in accordance with Statement of Position ("SOP") 97-2, "Software Revenue Recognition," as amended.

We generate royalties from licensing activities in two manners: (1) royalties paid by our customers over the period in which they ship units, which we refer to as per unit royalties, and (2) royalties which are paid in a lump sum which cover a fixed number of shipments of future units incorporating our technology, which we refer to as prepaid royalties. Prepaid royalties may be negotiated as part of an initial license agreement or may be subsequently negotiated with an existing licensee who has begun or about to begin making shipments of units incorporating our technology and has used up all of the prepayments covered in their initial license agreement. In the latter case, we negotiate an additional lump sum payment to cover a fixed number of additional future unit shipments. In either case, these prepaid royalties are non-refundable payments that do not require any continuing commitment by us and are recognized upon invoicing for payment, provided that no future obligation exists. Only royalty revenue from customers who are paying as they ship units is recognized in our royalty revenue line. These per unit royalties are invoiced and recognized on a quarterly basis as we receive quarterly shipment reports from our licensees for the prior quarter.

Licensing and Royalty Revenues

	Nine months 2006		Nine months 2005		Third quarter 2006		Third quarter 2005	
Licensing and royalty revenues (in millions)	\$	21.6	\$	24.2	\$	6.9	\$	7.2
<i>of which:</i>								
Licensing revenues (in millions)	\$	16.9	\$	19.3	\$	5.5	\$	5.7
Royalty revenues (in millions)	\$	4.7	\$	4.9	\$	1.4	\$	1.5

The decrease in licensing revenues for the first nine months of 2006 over the corresponding period of 2005 reflects lower revenues from our GPS and SATA technologies.

There was a moderate decrease in per-unit royalty revenue in the third quarter and first nine months of 2006 over the corresponding period in 2005. This decrease resulted from a lower overall royalty rate applied in the third quarter and first nine months of 2006 and from the phasing out of an older product line. This decrease was offset by increases in the number of units of customers' products incorporating our IP that were shipped during the third quarter and first nine months of 2006. In particular, licensees of our Ceva Teak and TeakLite cores continued to report increased unit shipments in 2/2.5G and 3G baseband cellular phones and disk drive controllers. Our per unit and prepaid royalty customers reported aggregate sales of 47 and 140 million units incorporating our technology in the third quarter and first nine months of 2006, respectively, compared to 27 and 84 million in the comparable periods of 2005. Five largest customers paying per unit royalties accounted for 76% and 73% of total royalty revenues for the third quarter and first nine months of 2006, respectively, compared to 72% and 71 % for the comparable periods of 2005.

We had 24 customers shipping units incorporating our technology in the third quarter of 2006, compared to 23 customers in the third quarter of 2005. On September 30, 2006, we had 16 per unit royalty customers and 8 prepaid royalty customers, compared to 16 per unit royalty customers and 7 prepaid royalty customers at September 30, 2005.

In the third quarter of 2006, we experienced an increase in activities with our customers as well as increased interest by electronic equipment manufacturers to evaluate our technology as compared to previous quarters. On the licensing front, a major achievement in the third quarter of 2006 was getting two leading customers to adopt our next generation DSP cores and platforms for WiMax and cellular applications. We executed a license agreement with one of the customers in the third quarter of 2006, and with the other customer during the fourth quarter of 2006. The adoption of our technology by these two leading customers illustrates the continued market acceptance of our new technology. Also during the third quarter of 2006, we continued the positive momentum with market acceptance of our multimedia product lines, specifically in the MobileTV segment. During the third quarter of 2006, we signed one agreement for our MobileMedia2000 technology with a China-based company. This is our fifth design win with our MobileMedia2000 technology.

On the royalty front, during the third quarter of 2006 two of our customers started to ramp up volume production. One of the customers has exhausted its prepaid royalty amount, and the other customer went into production during the first quarter of 2006. In separate meetings held with two other customers during the third quarter of 2006, we were notified that volume production of products incorporating our technology by these two customers is on track as early as the fourth quarter of 2006 or during the first quarter of 2007. These encouraging signs for new royalty customers along with seasonal improvements with our existing royalty customers should enable us to reach higher levels of royalty revenue in 2007.

Moreover, our products and technologies continue to reach new markets across a range of products and applications. Recently, we saw a number of notable new products emerging with CEVA DSP technology inside. In September 2006, Panasonic launched a new Dual Mode 3G/GSM cell phone in Japan under the Softbank brand powered by Infineon's MP-EU platform. Other CEVA-powered new products to the market include VoIP applications and Wi-Fi phones from the Taiwanese original equipment manufacturer, Senao, using a CEVA DSP from Atmel for voice processing. Also introduced by Atmel is a CEVA-powered digital audio broadcasting processor that is integrated into LG's LW Express laptop for digital multimedia broadcasting. Finally, Sony Ericsson deployed three new phones based on the Philips PNX4008 multimedia processor using CEVA's Xpert-Teak DSP.

Other Revenues

Other revenues accounted for 12% of our total revenues in the third quarter and first nine months of 2006, compared to 15% and 13% in the third quarter and first nine months of 2005, respectively. Other revenues include services, development systems, training and support for licensees. Other revenues decreased by 22% in the third quarter and first nine months of 2006, compared to the comparable periods of 2005, reflecting the completion of a number of service contracts.

Geographic Revenue Analysis

	Nine months 2006		Nine months 2005		Third quarter 2006		Third quarter 2005	
	(in millions, except percentages)							
United States	\$ 9.8	40%	\$ 10.7	38%	\$ 2.0	26%	\$ 2.4	29%
Europe, Middle East, Africa	\$ 9.2	38%	\$ 5.6	20%	\$ 2.5	31%	\$ 1.5	18%
Asia Pacific	\$ 5.4	22%	\$ 11.7	42%	\$ 3.4	43%	\$ 4.5	53%

Due to the nature of our license agreements and the associated large individual contract amounts, the geographic split of revenues both in absolute dollars and as a percentage of total revenues generally varies from quarter to quarter depending on the timing of deals in each region.

Divestment of GPS Technology

On June 23, 2006, we divested our GPS technology and associated business to GloNav in return for an equity ownership of 19.9% in GloNav on a fully diluted basis. Out of the 19.9%, CEVA received as consideration 10% in Series A-1 Convertible Voting Preferred Stock and 9.9% in Series A-2 Convertible Non-Voting Preferred Stock. The Series A-1 Convertible Voting Preferred Stock and Series A-2 Convertible Non-Voting Preferred Stock are convertible into voting common stock and non-voting common stock, respectively, of GloNav on a one-for-one basis. Subject to certain limitations, if GloNav engages in future equity funding of up to \$20 million, we also will receive additional shares of GloNav's Series A-2 Convertible Non-Voting Preferred Stock for no consideration as anti-dilution protection. The additional share issuance is capped at 6.8% of GloNav's then outstanding shares of capital stock calculated on a post-funding basis after completion of equity funding of up to \$20 million. Although we have transferred the GPS customer contracts and GPS intellectual property to GloNav, we will continue to share with GloNav certain revenues relating to the GPS assets. Our valuation of our equity investment in GloNav is \$5,984,000 based on the value of the assets and cash attributable to GloNav and the investment was recorded on our Condensed Consolidated Balance Sheets as an investment in other company, net and stated at cost. Since GloNav is a newly formed research and development start-up, the gain resulting from the divestment of the GPS technology and associated business in the total amount of \$1,751,000 has been deferred. The excess of the consideration from the divestment over the net book value of the assets in the amount of \$1,751,000 is set out below:

	(unaudited)
Equity investment in GloNav	\$ 5,984
Goodwill	(1,900)
Intangible asset	(845)
Net working capital	(522)
Other transaction and related costs	(966)
Deferred gain related to transaction with GloNav	\$ 1,751

Cost of Revenues

Cost of revenues accounted for 13% and 12% of total revenues for the third quarter and first nine months of 2006, respectively, compared with 12% for both comparable periods of 2005. Gross margins for the third quarter and first nine months of 2006 were 87% and 88%, respectively, compared with 88% for both comparable periods of 2005. Included in the third quarter and first nine months of 2006 was a non-cash stock compensation expense of \$14,000 and \$38,000, respectively, following the adoption of SFAS 123(R) on January 1, 2006.

Operating Expenses

Total operating expenses were \$7.3 million for the third quarter of 2006, down from \$9.9 million for the third quarter of 2005. For the first nine months of 2006, total operating expenses decreased to \$23.9 million from \$29.3 million for the first nine months of 2005. The decrease in total operating expenses principally reflects no reorganization and impairment charges in 2006, as well as cost saving measures taken as a result of the divestment of our GPS technology and associated business on June 23, 2006, offset by the non-cash stock compensation expense of \$496,000 and \$1,622,000 for the third quarter and first nine months of 2006, respectively.

Research and Development Expenses, Net

Our research and development expenses were \$4.3 million and \$14.2 million for the third quarter and first nine months of 2006, respectively, compared to \$5.0 million and \$15.5 million for the comparable periods in 2005. The net decrease reflects the divestment of our GPS technology and associated business which led to a lower number of research and development personnel, as well as lower sub-contract design costs primarily in our serial ATA research

and development programs, offset by a non-cash stock compensation expense of \$170,000 and \$523,000 in the third quarter and first nine months of 2006, respectively. The number of research and development personnel was 139 at September 30, 2006, compared to 166 at September 30, 2005.

Sales and Marketing Expenses

Our sales and marketing expenses were \$1.4 million and \$4.8 million for the third quarter and first nine months of 2006, respectively, compared to \$1.6 million and \$4.9 million for the comparable periods of 2005. The decrease in sales and marketing expenses in 2006 from 2005 principally reflects lower headcount and lower marketing activities as a result of the divestment of our GPS technology and associated business, offset by a non-cash stock compensation expense of \$78,000 and \$258,000 in the third quarter and first nine months of 2006, respectively. Sales and marketing expenses as a percentage of total revenues were 18% and 20% for the third quarter and first nine months of 2006, respectively, compared to 19% and 17% for the comparable periods of 2005. The total number of sales and marketing personnel was 18 at September 30, 2006, compared to 22 at September 30, 2005.

General and Administrative Expenses

Our general and administrative expenses were \$1.6 million and \$4.5 million for the third quarter and first nine months of 2006, respectively, compared to \$1.4 million and \$4.5 million for the comparable periods of 2005. The net changes in comparable periods reflect a non-cash stock compensation expense of \$248,000 and \$841,000 in the third quarter and first nine months of 2006, respectively, offset by a combination of lower corporate management, overhead, professional services costs and facility costs. The number of general and administrative personnel was 26 at September 30, 2006, compared to 30 at September 30, 2005.

Amortization of Other Intangibles

Our amortization charge decreased to \$42,000 and \$373,000 for the third quarter and first nine months of 2006, respectively, from \$191,000 and \$632,000 for the comparable periods of 2005. The amount of other intangible assets was \$0.2 million at September 30, 2006 and \$1.7 million at September 30, 2005. During the first nine months of 2006, there was a decrease in the amount of other intangible assets, net of \$845,000 as a result of the divestment of our GPS technology and associated business to GloNav in the second quarter of 2006.

Reorganization and severance charge

Reorganization and restructuring plans implemented in 2005 resulted in a total charge of \$3.3 million for the first nine months of 2005, of which \$1.7 million was recorded in the third quarter of 2005. The charge arose in connection with the decision to restructure the Company's corporate management, reduce overhead and consolidate its activities. Included in the total charges were severance charges and employee related liabilities arising in connection with a head-count reduction of nine employees and provision for future operating lease charges on idle facilities.

We were required to make, and are required to review, certain estimates and assumptions in assessing the under-utilized building operating lease charges arising from the reduction in facility requirements. Management takes into account current market conditions and the ability of the company to either exit the lease property or sub-let the property in determining the estimates and assumptions used. We expect to revise our assumptions quarterly, as appropriate, in respect of future vacancy rates and sublet rents in light of current market conditions and the applicable discount rate based on projected interest rates.

There was no additional charge to the income statement during the three and nine month periods ended September 30, 2006. However, if we are successful in surrendering our long term lease in respect of one of our properties in Ireland in the last quarter of 2006, we would expect an associated cash outflow of approximately \$3.5 million in the last quarter of 2006. Revisions to our estimates of this liability could materially impact our operating results and financial position in future periods if anticipated events and assumptions either change or do not materialize.

Financial and Other Income, net (in millions)

	Nine months 2006	Nine months 2005	Third quarter 2006	Third quarter 2005
Financial income, net	\$ 1.95	\$ 2.76	\$ 0.78	\$ 1.98
<i>of which:</i>				
Interest income and gains from marketable securities	\$ 2.00	\$ 1.15	\$ 0.79	\$ 0.47
Foreign exchange gain (loss)	\$ (0.11)	\$ 0.10	\$ (0.01)	\$ 0.00
Other income				

Gain on realization of investment	\$	0.06	\$	1.51	\$	-	\$	1.51
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Financial income, net and other income, consists of interest earned on investments, gains from marketable securities, foreign exchange movements and gain on realization of investment. The increase in interest earned in the third quarter and first nine months of 2006 from the corresponding periods of 2005 reflects a higher interest rate environment and higher combined cash and marketable securities balances held.

We review our monthly expected non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations and this resulted in a foreign exchange loss of \$114,000 in the first nine months of 2006, and a gain of \$100,000 for the corresponding period of 2005.

We recorded a gain of \$1.5 million in the third quarter of 2005 from the realization of a minority investment in a private company acquired on the combination with Parthus Technologies plc in 2002. In December 2003, we had fully written down the carrying value of the investment after considering the discounted projected future cash flows, the valuation derived from the then most recent proposed private placement, the liquidity of the investment and the general market conditions in which this private company operated at that time.

Provision for Income Taxes

The provision for income taxes in the first nine months of 2005 and 2006 reflects income earned domestically and in certain foreign jurisdictions. We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income is generated there. Currently, our Israeli and Irish subsidiaries are taxed at rates substantially lower than U.S. tax rates.

The Irish operating subsidiary currently qualifies for a 10% tax rate, which under current legislation will remain in force until December 31, 2010. The Israeli operating subsidiary's production facilities have been granted "Approved Enterprise" status under Israeli law in connection with six separate investment plans. Accordingly, income from an "Approved Enterprise" is tax-exempt for a period of two or four years and is subject to a reduced corporate tax rate of ten percent to twenty five percent (based on percentage of foreign ownership) for an additional period of six or eight years. Certain expenditure in connection with the investment plans is allowable as a tax deduction over a three year period which has resulted in higher deferred tax asset in 2006.

LIQUIDITY AND CAPITAL RESOURCES

As of September 30, 2006, we had approximately \$36.5 million in cash and cash equivalents and \$27.3 million in deposits and marketable securities, totaling \$63.8 million compared to \$61.6 million at December 31, 2005. During the first nine months of 2006, we invested \$30.4 million of our cash in U.S. government and agency securities and corporate bonds and securities. In addition, U.S. government and agency securities and corporate bonds and securities were sold for cash amounting to \$21.7 million. These instruments are classified as marketable securities and the purchases and sales are considered part of operating cash flow. Deposits are short-term bank deposits with maturities of more than three months but less than one year. The deposits are in U.S. dollars and are presented at their cost, including accrued interest and purchases and sales are considered part of cash flows from investing activities.

Net cash used in operating activities in the first nine months of 2006 was \$7.2 million, compared with \$2.3 million of net cash provided by operating activities for the comparable period of 2005. Included in the operating cash inflow in the first nine months of 2006 was a net investment of \$8.7 million in marketable securities. Included in the operating cash inflow for the first nine months of 2005 were net proceeds of \$3.1 million from marketable securities and an outflow of \$2.7 million in connection with restructuring and reorganization costs.

Cash flows from operating activities may vary significantly from quarter to quarter depending on the timing of our receipts and payments. Our ongoing cash outflows from operating activities are principally associated with payroll-related costs and obligations under our property leases and design tool licenses. Our primary sources of cash inflows are receipts from our accounts receivable and interest earned from our cash and marketable securities. The timing of receipts from our accounts receivable is based upon the completion of agreed milestones or agreed dates as set out in the contracts.

Net cash provided by investing activities in the first nine months of 2006 was \$6.6 million, compared with \$7.9 million of net cash provided by investing activities for the comparable period of 2005. We had a cash outflow of \$5.1 million and cash inflow of \$12.9 million in the first nine months of 2006, compared to a cash outflow of \$8.2 million in the first nine months of 2005 in respect of investments in short term bank deposits. Capital equipment purchases of computer hardware and software used in engineering development, furniture and fixtures amounted to \$0.3 million for the first nine months of 2006, compared to \$0.8 million for the comparable period in 2005. We had a cash outflow of \$0.9 million in respect of transaction and related costs on the divestment of GPS technology and associated business in the second quarter of 2006. We had a cash outflow of \$0.2 for acquired technology for the first nine months of 2005. We had a cash inflow of \$0.06 million and \$1.3 million from the disposal of a minority investment in a private company in the first nine months of 2006 and 2005, respectively.

Net cash provided by financing activities of \$1.6 and \$1.8 million for the first nine months of 2006 and 2005, respectively, reflects proceeds from the issuance of shares upon exercise of employee stock options and issuance of shares under our employee stock purchase plan.

We believe that our current cash on hand and marketable securities, along with cash from operations, will provide sufficient capital to fund our operations for at least the next 12 months. We cannot assure you, however, that the underlying assumed levels of revenues and expenses will prove to be accurate.

In addition, as part of our business strategy, we occasionally evaluate potential acquisitions of businesses, products and technologies. Accordingly, a portion of our available cash may be used at any time for the acquisition of complementary products or businesses. Such potential transactions may require substantial capital resources, which may require us to seek additional debt or equity financing. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions, integrate acquired businesses into our current operations, or expand into new markets. Furthermore, we cannot assure you that additional financing will be available to us in any required time frame and on commercially reasonable terms, if at all. See “Factors Affecting Future Operating Results—We may seek to expand our business through acquisitions that could result in diversion of resources and extra expenses.” for more detailed information.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A majority of our revenues and a portion of our expenses are transacted in U.S. dollars and our assets and liabilities together with our cash holdings are predominately denominated in U.S. dollars. However, the bulk of our expenses are denominated in currencies other than the U.S. dollar, principally the euro and the Israeli NIS. Increases in the volatility of the exchange rates of the euro and the NIS versus the U.S. dollar could have an adverse effect on the expenses and liabilities that we incur when remeasured into U.S. dollars. We review our expected monthly non-U.S. dollar denominated expenditure and look to hold equivalent non-U.S. dollar cash balances to mitigate currency fluctuations and this has resulted in a foreign exchange loss of \$13,000 and \$114,000 in the third quarter and first nine months of 2006, respectively, and a gain of \$5,000 and \$100,000 for the corresponding period of 2005.

As a result of such currency fluctuations and the conversion to U.S. dollars for financial reporting purposes, we may experience fluctuations in our operating results on an annual and quarterly basis going forward. We have not in the past, but may in the future, hedge against fluctuations in exchange rates. Future hedging transactions may not successfully mitigate losses caused by currency fluctuations. We expect to continue to experience the effect of exchange rate fluctuations on an annual and quarterly basis, and currency fluctuations could have a material adverse impact on our results of operations.

We invest our cash in high grade certificates of deposits, U.S. government and agency securities and corporate bonds. Cash held by foreign subsidiaries is generally held in short-term time deposits denominated in the local currency.

Interest income and gains from marketable securities were \$0.8 million and \$2.0 million for the third quarter and first nine months of 2006, respectively, compared to \$0.5 million and \$1.2 million for the comparable periods of 2005. The increase in interest and gains from marketable securities earned is reflective of higher interest rate environment and higher combined cash and marketable securities balance held.

We are exposed primarily to fluctuations in the level of U.S. and EMU (European Monetary Union) interest rates. To the extent that interest rates rise, fixed interest investments may be adversely impacted, whereas a decline in interest rates may decrease the anticipated interest income for variable rate investments. We are exposed to financial market risks, including changes in interest rates. We typically do not attempt to reduce or eliminate our market exposures on our investment securities because the majority of our investments are short-term. We do not have any derivative instruments. The fair value of our investment portfolio or related income would not be significantly impacted by either a 100 basis point increase or decrease in interest rates due mainly to the short-term nature of our investment portfolio. All the potential changes noted above are based on sensitivity analysis performed on our balances as of September 30, 2006.

Item 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information required to be included in this report.

There has been no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

The Company is not party to any litigation or other legal proceedings that the Company believes could reasonably be expected to have a material adverse effect on the Company's business, results of operations and financial condition.

Item 1A. RISK FACTORS

This Form 10-Q contains forward-looking statements concerning our future products, expenses, revenue, liquidity and cash needs as well as our plans and strategies. These forward-looking statements are based on current expectations and we assume no obligation to update this information. Numerous factors could cause our actual results to differ significantly from the results described in these forward-looking statements, including the following risk factors.

There are no material changes to the Risk Factors described under the title "Factors That May Affect Future Performance" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005 other than (1) changes to the Risk Factor below entitled "The markets in which we operate are highly competitive, and as a result we could experience a loss of sales, lower prices and lower revenues;" (2) changes to the Risk Factor below entitled "Our quarterly operating results fluctuate from quarter to quarter due to a variety of factors, including our lengthy sales cycle, and may not be a meaningful indicator of future performance;" and (3) changes to the Risk Factor below entitled: "We may seek to expand our business through acquisitions that could result in diversion of resources and extra expenses."

The markets in which we operate are highly competitive, and as a result we could experience a loss of sales, lower prices and lower revenue.

The markets for the products in which our technology is incorporated are highly competitive; for example, semiconductor customers may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly integrated chips that embed our technologies. Aggressive competition could result in substantial declines in the prices that we are able to charge for our intellectual property. Many of our competitors are large companies that have significantly greater financial and other resources than we have. The following factors may have an impact on our competitiveness:

- Microprocessor IP providers, such as ARM, MIPS, Tensilica and ARC, recently began to offer DSP extensions to their IP.
- SATA IP market is highly standardized with several vendors offering similar products, leading to price pressure for both licensing and royalty revenue.
- Our video solution is software based and competes with hardware implementation offered by companies such as Hantro and other software solution offered by Hantro, Sci Works and Imagination Technologies.
- ARC recently announced a new licensing model based on royalty payments specifically for Chinese customers that waives initial licensee fees.
 - Lower license fees and overall erosion of average selling prices of our IP.

In addition, we may face increased competition from smaller, niche semiconductor design companies in the future. Some of our customers may also decide to satisfy their needs through in-house design. We compete on the basis of price, product quality, design cycle time, reliability, performance, customer support, name recognition and reputation,

and financial strength. Our inability to compete effectively on these basis could have a material adverse effect on our business, results of operations and financial condition.

Our quarterly operating results fluctuate from quarter to quarter due to a variety of factors, including our lengthy sales cycle, and may not be a meaningful indicator of future performance.

In some quarters our operating results could be below the expectations of securities analysts and investors, which could cause our stock price to fall. Factors that may affect our quarterly results of operations in the future include, among other things:

- the timing of the introduction of new or enhanced technologies by us and our competitors, as well as the market acceptance of such technologies;
- the timing and volume of orders and production by our customers, as well as fluctuations in royalty revenues resulting from fluctuations in unit shipments by our licensees;

- our lengthy sales cycle and specifically in the third quarter of any fiscal year during which summer vacations slow down decision-making processes of our customers in executing contracts;
- the gain or loss of significant licensees;
- delays in the commercialization of end products that incorporate our technology;
- changes in our pricing policies and those of our competitors; and
- restructuring, asset impairment and related charges.

We rely significantly on revenue derived from a limited number of customers.

We expect that a limited number of customers, varying in identity from period-to-period, will account for a substantial portion of our revenues in any period. One customer accounted for 20% and another customer accounted for 10% of our total revenues for the first nine months of 2006. Three customers accounted for more than 10% of revenues for the third quarter of 2006. Moreover, license agreements for our DSP cores have not historically provided for substantial ongoing license payments. Significant portions of our anticipated future revenue, therefore, will likely depend upon our success in attracting new customers or expanding our relationships with existing customers. Our ability to succeed in these efforts will depend on a variety of factors, including the performance, quality, breadth and depth of our current and future products, as well as our sales and marketing skills. In addition, some of our licensees may decide to satisfy their needs through in-house design and production. Our failure to obtain future customer licenses would impede our future revenue growth and could materially harm our business.

We depend on market acceptance of third-party semiconductor intellectual property.

The semiconductor intellectual property (SIP) industry is a relatively new and emerging trend. Our future growth will depend on the level of acceptance by the market of our third-party licensable intellectual property model, the variety of intellectual property offerings available on the market, and a shift in customer preference away from the traditional approach of licensing standalone DSPs, and towards licensing highly integrated application platforms incorporating all the necessary hardware and software for their target applications. These trends that will enable our growth are largely beyond our control. Semiconductor customers may choose to adopt a multi-chip, off-the-shelf chip solution versus licensing or using highly integrated chips that embed our technologies. Semiconductor customers may also decide to design programmable DSP core products in-house rather than license them from us. If the market shifts and third-party SIP is no longer desired by our customers, our business, results of operations and financial condition could be materially harmed.

Because our IP solutions are components of end products, if semiconductor companies and electronic equipment manufacturers do not incorporate our solutions into their end products or if the end products of our customers do not achieve market acceptance, we may not be able to generate adequate sales of our products.

We do not sell our IP solutions directly to end-users; we license our technology primarily to semiconductor companies and electronic equipment manufacturers, who then incorporate our technology into the products they sell. As a result, we rely upon our customers to incorporate our technology into their end products at the design stage. Once our customer incorporates a competitor's technology into its end product, it becomes significantly more difficult for us to sell our technology to that customer because changing suppliers involves significant cost, time, effort and risk for the customer. As a result, we may incur significant expenditures on the development of a new technology without any assurance that our customer will select our technology for incorporation into its own product and without this "design win," it becomes significantly difficult to sell our IP solutions. Moreover, even after our customer agrees to incorporate our technology into its end products, the design cycle is long and may be delayed due to factors beyond our control

which may result in the end product incorporating our technology not to reach the market until long after the initial “design win” with the our customer. From initial product design-in to volume production, many factors could impact the timing and/or amount of sales actually realized from the design-in. These factors include, but are not limited to, changes in the competitive position of our technology, our customers’ financial stability, and our ability to ship products according to our customers’ schedule.

Further, because we do not control the business practices of our customers, we do not influence the degree to which they promote our technology or set the prices at which they sell products incorporating our technology. We cannot assure you that our customers will devote satisfactory efforts to promote our IP solutions. In addition, our unit royalties from licenses are totally dependent upon the success of our customers in introducing products incorporating our technology and the success of those products in the marketplace. The primary customers for our products are semiconductor design and manufacturing companies, system OEMs and electronic equipment manufacturers, particularly in the telecommunications field. These industries are highly cyclical and have been subject to significant economic downturns at various times, particularly in recent periods. These downturns are characterized by production overcapacity and reduced revenues, which at times may encourage semiconductor companies or electronic product manufacturers to reduce their expenditure on our technology. If we do not retain our current customers and continue to attract new customers, our business may be harmed.

We depend on a limited number of key personnel who would be difficult to replace.

Our success depends to a significant extent upon certain of our key employees and senior management; the loss of the service of these employees could materially harm our business. Competition for skilled employees in our field is intense. We cannot assure you that in the future we will be successful in attracting and retaining the required personnel.

The sales cycle for our IP solutions is lengthy, which makes forecasting of our customer orders and revenues difficult.

The sales cycle for our IP solutions is lengthy, often lasting three months to a year. Our customers generally conduct significant technical evaluations, including customer trials, of our technology as well as competing technologies prior to making a purchasing decision. In addition, purchasing decisions may also be delayed because of a customer's internal budget approval process. Because of the lengthy sales cycle and the size of customer orders, if orders forecasted for a specific customer for a particular period do not occur in that period, our revenues and operating results for that particular quarter could suffer. Moreover, a portion of our expenses related to an anticipated order is fixed and difficult to reduce or change, which may further impact our operating results for a particular period.

We may dispose of or discontinue existing product lines and technology developments, which may adversely impact our future results.

On an ongoing basis, we evaluate our various product offerings and technology developments in order to determine whether any should be discontinued or, to the extent possible, divested. For example, in connection with our reorganization and restructuring plans in 2003 and 2005, we ceased manufacturing of our hard IP products and certain non-strategic technology areas. In June 2006, we divested our GPS technology and related business. We cannot guarantee that we have correctly forecasted, or will correctly forecast in the future, the right product lines and technology developments to dispose or discontinue or that our decision to dispose of or discontinue various investments, products lines and technology developments is prudent if market conditions change. In addition, there are no assurances that the discontinuance of various product lines will reduce our operating expenses or will not cause us to incur material charges associated with such decision. Furthermore, the discontinuance of existing product lines entails various risks, including the risk that we will not be able to find a purchaser for a product line or the purchase price obtained will not be equal to the book value of the assets for the product line. Other risks include managing the expectations of, and maintaining good relations with, our customers who previously purchased products from our disposed or discontinued product lines, which could prevent us from selling other products to them in the future. We may also incur other significant liabilities and costs associated with our disposal or discontinuance of product lines, including employee severance costs and excess facilities costs.

Our restructuring efforts in 2003, 2005 and 2006, as well as the divestment of our GPS technology and related business, could disrupt the operation of our business, distract our management from focusing on revenue-generating efforts, result in the erosion of employee morale, and impair our ability to respond rapidly to growth opportunities in the future.

We implemented reorganization and restructuring plans in 2003 and 2005, including personnel reduction of 9 people in 2005 and 40 people in 2003. In June 2006, we divested our GPS technology and related business, including the transfer of 25 employees. The employee reductions and changes in connection with our restructuring activities could result in an erosion of morale, and affect the focus and productivity of our remaining employees, including those directly responsible for revenue generation, which in turn may adversely affect our revenue in the future. Additionally, employees directly affected by the reductions may seek future employment with our business partners, customers or competitors. Such matters could divert the attention of our employees, including management, away from our operations, harm productivity, harm our reputation and increase our expenses.

Because our IP solutions are complex, the detection of errors in our products may be delayed, and if we deliver products with defects, our credibility will be harmed, the sales and market acceptance of our products may decrease and product liability claims may be made against us.

Our IP solutions are complex and may contain errors, defects and bugs when introduced. If we deliver products with errors, defects or bugs, our credibility and the market acceptance and sales of our products could be significantly harmed. Furthermore, the nature of our products may also delay the detection of any such error or defect. If our products contain errors, defects and bugs, then we may be required to expend significant capital and resources to alleviate these problems. This could result in the diversion of technical and other resources from our other development efforts. Any actual or perceived problems or delays may also adversely affect our ability to attract or retain customers. Furthermore, the existence of any defects, errors or failure in our products could lead to product liability claims or lawsuits against us or against our customers. A successful product liability claim could result in substantial cost and divert management's attention and resources, which would have a negative impact on our financial condition and results of operations.

Our operating results may fluctuate significantly due to the cyclical nature of the semiconductor industry, which could adversely affect the market price of our stock.

Our primary operations are in the semiconductor industry, which is cyclical and subject to rapid technological change and evolving industry standards. From time to time, the semiconductor industry has experienced significant downturns such as the one we experienced during the 2000 and 2001 periods and from which the industry is slowly recovering. These downturns are characterized by diminished product demand, excess customer inventories, accelerated erosion of prices and excess production capacity. These factors could cause substantial fluctuations in our revenues and in our results of operations. The downturn we experienced during the 2000 and 2001 periods was, and future downturns in the semiconductor industry may be, severe and prolonged. Also the slow recovery from the downturn during the 2000 and 2001 periods and the failure of this industry to fully recover or any future downturn could seriously impact our revenue and harm our business, financial condition and results of operations. The semiconductor industry also periodically experiences increased demand and production capacity constraints, which may affect our ability to ship products in future periods. Our financial results may vary significantly as a result of the general conditions in the semiconductor industry, which could cause our stock price to decline.

Our success will depend on our ability to successfully manage our geographically dispersed operations.

Most of our employees are located in Israel and Ireland. Accordingly, our ability to compete successfully will depend in part on the ability of a limited number of key executives located in geographically dispersed offices to integrate management, address the needs of our customers and respond to changes in our markets. If we are unable to effectively manage and integrate our remote operations, our business may be materially harmed.

Our operations in Israel may be adversely affected by instability in the Middle East region.

One of our principal research and development facilities is located in, and our executive officers and some of our directors are residents of, Israel. Although substantially all of our sales currently are being made to customers outside Israel, we are nonetheless directly influenced by the political, economic and military conditions affecting Israel, including the current conflict with Lebanon. Any major hostilities involving Israel could significantly harm our business, operating results and financial condition.

In addition, certain of our officers and employees are currently obligated to perform annual reserve duty in the Israel Defense Forces and are subject to being called to active military duty at any time. Although we have operated effectively under these requirements since our inception, we cannot predict the effect of these obligations on the company in the future. Our operations could be disrupted by the absence, for a significant period, of one or more of our key officers or key employees due to military service.

Our research and development expenses may increase if the grants we currently receive from the Israeli and Irish governments are reduced or withheld.

We currently receive research grants from programs of the Chief Scientist of Israel and under the funding programs of Enterprise Ireland and Invest Northern Ireland. To be eligible for these grants, we must meet certain development conditions and comply with periodic reporting obligations. Although we have met such conditions in the past, should we fail to meet such conditions in the future our research grants may be repayable, reduced or withheld. The repayment or reduction of such research grants may increase our research and development expenses which in turn may reduce our operating income.

We are exposed to fluctuations in currency exchange rates.

A significant portion of our business is conducted outside the United States. Although most of our revenue is transacted in U.S. Dollars, we may be exposed to currency exchange fluctuations in the future as business practices evolve and we are forced to transact business in local currencies. Moreover, a portion of our expenses in Israel and Europe are paid in Israeli currency (NIS) and Euros, which subjects us to the risks of foreign currency fluctuations. Our primary expenses paid in NIS and Euro are employee salaries and lease payments on our Israeli and Dublin facilities. In the future, we may use derivative instruments in order to minimize the effects of currency fluctuations, but any hedging positions may not succeed in minimizing our foreign currency fluctuation risks.

Because we have significant international operations, we may be subject to political, economic and other conditions relating to our international operations that could increase our operating expenses and disrupt our revenues and business.

Approximately 60% of our total revenues for the nine months of 2006 and 62% of our total revenues in 2005 are derived from license agreements with customers located outside of the United States. We expect that international customers will continue to account for a significant portion of our revenue for the foreseeable future. As a result, the occurrence of any negative international political, economic or geographic events could result in significant revenue shortfalls. These shortfalls could cause our business, financial condition and results of operations to be harmed. Some of the risks of doing business internationally include:

- unexpected changes in regulatory requirements;
- fluctuations in the exchange rate for the United States dollar;
- imposition of tariffs and other barriers and restrictions;
- burdens of complying with a variety of foreign laws;
 - political and economic instability; and
- changes in diplomatic and trade relationships.

If we are unable to meet the changing needs of our end-users or to address evolving market demands, our business may be harmed.

The markets for programmable DSP cores and application IP are characterized by rapidly changing technology, emerging markets and new and developing end-user needs, requiring significant expenditure for research and development. We cannot assure you that we will be able to introduce systems and solutions that reflect prevailing industry standards on a timely basis, to meet the specific technical requirements of our end-users or to avoid significant losses due to rapid decreases in market prices of our products, and our failure to do so may seriously harm our business. For example, we have already licensed our multimedia solutions; however, this technology has not yet been deployed by our licensees to their end markets and may be subject to further modifications to address evolving market demands. In addition, the reduction in the number of our employees in connection with our recent restructuring efforts could adversely affect our ability to attract or retain customers who require certain research and development capabilities from their IP providers.

We may seek to expand our business through acquisitions that could result in diversion of resources and extra expenses.

We may pursue acquisitions of businesses, products and technologies, or establish joint venture arrangements in the future that could expand our business. We are unable to predict whether or when any other prospective acquisition will be completed. The process of negotiating potential acquisitions or joint ventures, as well as the integration of acquired or jointly developed businesses, technologies or products may be prolonged due to unforeseen difficulties and may require a disproportionate amount of our resources and management's attention. We cannot assure you that we will be able to successfully identify suitable acquisition candidates, complete acquisitions or integrate acquired businesses or joint venture with our operations. If we were to make any acquisitions or enter into a joint venture, we may not receive the intended benefits of the acquisition or joint venture or such an acquisition or joint venture may not achieve comparable levels of revenues, profitability or productivity as our existing business or otherwise perform as expected. The occurrence of any of these events could harm our business, financial condition or results of operations. Future acquisitions or joint ventures may require substantial capital resources, which may require us to seek additional debt or equity financing.

Future acquisitions or joint ventures by us could result in the following, any of which could seriously harm our results of operations or the price of our stock:

- issuance of equity securities that would dilute our current stockholders' percentages of ownership;
 - large one-time write-offs;
 - the incurrence of debt and contingent liabilities;
- difficulties in the assimilation and integration of operations, personnel, technologies, products and information systems of the acquired companies;
 - diversion of management's attention from other business concerns;
 - contractual disputes;

- risks of entering geographic and business markets in which we have no or only limited prior experience; and
- potential loss of key employees of acquired organizations.

We may not be able to adequately protect our intellectual property.

Our success and ability to compete depend in large part upon the protection of our proprietary technologies. We rely on a combination of patent, copyright, trademark, trade secret, mask work and other intellectual property rights, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. These agreements and measures may not be sufficient to protect our technology from third-party infringement or to protect us from the claims of others. As a result, we face risks associated with our patent position, including the potential need to engage in significant legal proceedings to enforce our patents, the possibility that the validity or enforceability of our patents may be denied, the possibility that third parties will be able to compete against us without infringing our patents and the possibility that our products may infringe patent rights of third parties.

Our trade names or trademarks may be registered or utilized by third parties in countries other than those in which we have registered them, impairing our ability to enter and compete in these markets. If we were forced to change any of our brand names, we could lose a significant amount of our brand equity.

Our business will suffer if we are sued for infringement of the intellectual property rights of third parties or if we cannot obtain licenses to these rights on commercially acceptable terms.

Although we are not currently involved in any litigation, we are subject to the risk of adverse claims and litigation alleging infringement of the intellectual property rights of others. There are a large number of patents held by others, including our competitors, pertaining to the broad areas in which we are active. We have not, and cannot reasonably, investigate all such patents. From time to time, we have become aware of patents in our technology areas and have sought legal counsel regarding the validity of such patents and their impact on how we operate our business, and we will continue to seek such counsel when appropriate in the future. Claims against us may require us to enter into license arrangements or result in protracted and costly litigation, regardless of the merits of these claims. Any necessary licenses may not be available or, if available, may not be obtainable on commercially reasonable terms. If we cannot obtain necessary licenses on commercially reasonable terms, we may be forced to stop licensing our technology, and our business would be seriously harmed.

Our business depends on our customers and their suppliers obtaining required complementary components.

Some of the raw materials, components and subassemblies included in the products manufactured by our OEM customers are obtained from a limited group of suppliers. Supply disruptions, shortages or termination of any of these sources could have an adverse effect on our business and results of operations due to the delay or discontinuance of orders for products containing our IP, especially our DSP cores, until those necessary components are available.

The future growth of our business depends in part on our ability to license to system OEMs and small-to-medium-sized semiconductor companies directly and to expand our sales geographically.

Historically, a substantial portion of our licensing revenues has been derived in any period from a relatively small number of licensees. Because of the substantial license fees we charge, our customers tend to be large semiconductor companies or vertically integrated system OEMs. Part of our current growth strategy is to broaden the adoption of our products by small and mid-size companies by offering different versions of our products, targeted at these companies. In addition we plan to continue expanding our sales to include additional geographic areas. Asia, in particular, is a region we have targeted for growth. If we are unable to develop and market effectively our intellectual property through these models, our revenues will continue to be dependent on a smaller number of licensees and a less

geographically dispersed pattern of licensees, which could materially harm our business and results of operations.

We will be exposed to risks relating to evaluations of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

We have spent and are spending a substantial amount of management time and resources to comply with changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and the NASDAQ Stock Exchange rules. In particular, Section 404 of the Sarbanes-Oxley Act of 2002 requires management's annual review and evaluation of our internal control systems, and attestations as to the effectiveness of these systems by our independent public accounting firm. We have expended and expect to continue to expend significant resources and management time documenting and testing our internal control systems and procedures. If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to maintain an effective internal control environment could have a material adverse effect on the market price of our stock.

Newly adopted accounting standard that requires companies to expense stock options will result in a decrease in our earnings and our stock price may decline.

Our adoption of the accounting standard SFAS 123(R) as of January 1, 2006 requires us to account for share-based compensation transactions using a fair-value-based method and record as compensation expense in our consolidated statement of income the unvested portion of previously granted awards that remain outstanding as of, and new options granted after, January 1, 2006. The adoption of this new accounting standard has had a significant impact on our results of operations as our reported earnings decreased as a result of including these non-cash equity-based compensation expenses. Furthermore, if we reduce or alter our use of stock-based compensation to minimize the recognition of these expenses or if we are unable to introduce alternative methods of compensation, our ability to recruit, motivate and retain employees may be impaired, which could put us at a significant disadvantage in the employee marketplace relative to our competitors.

The Israeli tax benefits that we currently receive and the government programs in which we participate require us to meet certain conditions and may be terminated or reduced in the future, which could increase our costs.

We enjoy certain tax benefits in Israel, particularly as a result of the “Approved Enterprise” status of our facilities and programs. To maintain our eligibility for these tax benefits, we must continue to meet certain conditions, relating principally to adherence to the investment program filed with the Investment Center of the Israeli Ministry of Industry and Trade and to periodic reporting obligations. We believe that we will be able to continue to meet such conditions. Should we fail to meet such conditions in the future, however, these benefits would be cancelled and we would be subject to corporate tax in Israel at the standard rate of 31%-36% and could be required to refund tax benefits already received. In addition, we cannot assure you that these tax benefits will be continued in the future at their current levels or otherwise. The termination or reduction of certain programs and tax benefits (particularly benefits available to us as a result of the Approved Enterprise status of our facilities and programs) or a requirement to refund tax benefits already received may seriously harm our business, operating results and financial condition.

Our corporate tax rate may increase, which could adversely impact our cash flow, financial condition and results of operations.

We have significant operations in Israel and the Republic of Ireland and a substantial portion of our taxable income historically has been generated there. Currently, some of our Israeli and Irish subsidiaries are taxed at rates substantially lower than the United States of America (U.S.) tax rates. Although there is no expectation of any changes to Israeli and Irish tax law, if our Israeli and Irish subsidiaries were no longer to qualify for these lower tax rates or if the applicable tax laws were rescinded or changed, our operating results could be materially adversely affected. In addition, because our Israeli and Irish operations are owned by subsidiaries of a U.S. corporation, distributions to the U.S. corporation, and in certain circumstances undistributed income of the subsidiaries, may be subject to U.S. tax. Moreover, if U.S. or other authorities were to change applicable tax laws or successfully challenge the manner in which our subsidiaries’ profits are currently recognized, our overall taxes could increase, and our business, cash flow, financial condition and results of operations could be materially adversely affected.

Item 6. EXHIBITS

Exhibit

No.	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer

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SIGNATURES

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

CEVA, INC.

By: /s/ GIDEON WERTHEIZER

Gideon Wertheizer
Chief Executive Officer
(principal executive officer)

Date: November 8, 2006

By: /s/ YANIV ARIELI

Yaniv Arieli
Chief Financial Officer
(principal financial officer and
principal accounting officer)

Date: November 8, 2006

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interests in the shares identified, including derivative securities, hedged positions and other economic and voting interests.

See Appendix A for the full text of the relevant section of the By-Laws.

This notice requirement applies to matters being brought before the meeting for a vote. Shareholders, of course, may and are encouraged to ask appropriate questions at the meeting without having to comply with the notice provisions.

By Order of the Board of Directors

Frank DiPiero
Secretary

Dated March 10, 2011

PLEASE DATE, SIGN AND MAIL YOUR PROXY

Table of Contents

APPENDIX A

**BY-LAWS
ARTICLE I, SECTION 10**

Section 10.(A) Annual Meetings of Shareholders. (1) Nominations of persons for election to the Board of Directors of the Company and the proposal of other business to be considered by the shareholders may be made at an annual meeting of shareholders (a) pursuant to the Company's notice of meeting, (b) by or at the direction of the Board of Directors or (c) by any shareholder of the Company who (i) was a shareholder of record at the time of giving of notice provided for in this By-Law and at the time of the annual meeting, (ii) is entitled to vote at the meeting and (iii) complies with the notice procedures set forth in this By-Law as to such business or nomination; clause (c) shall be the exclusive means for a shareholder to make nominations or submit other business (other than matters properly brought under Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act)) and included in the Company's notice of meeting) before an annual meeting of shareholders.

(2) Without qualification, for any nominations or any other business to be properly brought before an annual meeting by a shareholder pursuant to clause (c) of paragraph (A) (1) of this By-Law, the shareholder must have given timely notice thereof in writing to the Secretary of the Company and such other business must otherwise be a proper matter for shareholder action. To be timely, a shareholder's notice shall be delivered to the Secretary at the principal executive offices of the Company not earlier than the close of business on the 120th day and not later than the close of business on the 90th day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the shareholder to be timely must be so delivered not earlier than the close of business on the 120th day prior to the date of such annual meeting and not later than the close of business on the later of the 90th day prior to the date of such annual meeting or the close of business on the 10th day following the day on which public announcement of the date of such meeting is first made by the Company. In no event shall any adjournment or postponement of an annual meeting or the announcement thereof commence a new time period for the giving of a shareholder's notice as described above. To be in proper form, a shareholder's notice (whether given pursuant to paragraph (A)(2) or paragraph (B) of this By-Law) must (a) set forth, as to the shareholder giving the notice and all beneficial owners, if any, on whose behalf the nomination or proposal is made, (i) the name and address of such shareholder, as they appear on the Company's books, and of such beneficial owner, if any, (ii) (A) the class or series and number of shares of the Company which are, directly or indirectly, owned beneficially and of record by such shareholder and such beneficial owner, (B) any option, warrant, convertible security, stock appreciation right, or similar right with an exercise or conversion privilege or a settlement payment or mechanism at a price related to any class or series of shares of the Company or with a value derived in whole or in part from the value of any class or series of shares of the Company, whether or not such instrument or right shall be subject to settlement in the underlying class or series of capital stock of the Company or otherwise (a Derivative Instrument) directly or indirectly owned beneficially by such shareholder and any other direct or indirect opportunity to profit or share in any profit derived from any increase or decrease in the value of shares of the Company, (C) any proxy, contract, arrangement, understanding, or relationship pursuant to which such shareholder has a sole or shared right to vote or direct the voting of any shares of any security of the Company, (D) any short interest in any security of the Company (for purposes of this By-Law a person shall be deemed to have a short interest in a security if such person directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has the opportunity to profit or share in any profit derived from, or avoid or offset in whole or in part any loss related to, any decrease in the value of the subject security), (E) any rights to dividends on the shares of the Company owned beneficially by such

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shareholder that are separated or separable from the underlying shares of the Company, (F) any proportionate interest in shares of the Company or Derivative Instruments held, directly or indirectly, by a general or limited partnership in which such shareholder is a general partner or, directly or indirectly, beneficially owns an interest in a general partner and (G) any performance-related fees (other than an asset-based fee) that such shareholder is entitled to based on any increase or decrease in the value of shares of the Company or Derivative Instruments, if any, as of the date of such notice, including without limitation any such interests held by members of such shareholder's immediate family sharing the same household (which information shall be supplemented by such shareholder and beneficial owner, if any, not later than 10 days after the record date for the meeting to disclose such ownership as of the record date), and (iii) any other information relating to such shareholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; (b) if the notice relates to any business other than a nomination of a director or directors that the shareholder proposes to bring before the meeting, set forth (i) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and any material interest of such shareholder and the beneficial owner (if any, on whose behalf the proposal is made) in such business and (ii) a description of all agreements, arrangements and understandings between such shareholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such shareholder; and (c) set forth, as to each person, if any, whom the shareholder proposes to nominate for election or reelection to the Board of Directors (i) all information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors in a contested election pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected) and (ii) a description of all direct and indirect compensation and other material monetary agreements, arrangements and understandings during the past three years, and any other material relationships, between or among such shareholder and beneficial owner, if any, and their respective affiliates and associates, or others acting in concert therewith, on the one hand, and each proposed nominee, and his or her respective affiliates and associates, or others acting in concert therewith, on the other hand, including, without limitation all information that would be required to be disclosed pursuant to Rule 404 promulgated under Regulation S-K if the shareholder making the nomination and any beneficial owner on whose behalf the nomination is made, if any, or any affiliate or associate thereof or person acting in concert therewith, were the registrant for purposes of such rule and the nominee were a director or executive officer of such registrant. The Company may require any proposed nominee to furnish such other information as may reasonably be required by the Company to determine the eligibility of such proposed nominee to serve as an independent director of the Company or that could be material to a reasonable shareholder's understanding of the independence, or lack thereof, of such nominee.

(3) Notwithstanding anything in the second sentence of paragraph (A)(2) of this By-Law to the contrary, in the event that the number of directors to be elected to the Board of Directors of the Company is increased and there is no public announcement naming all of the nominees for Director or specifying the size of the increased Board of Directors made by the Company at least 100 days prior to the first anniversary of the preceding year's annual meeting, a shareholder's notice required by this By-Law shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive offices of the Company not later than the close of business on the 10th day following the day on which such public announcement is first made by the Company.

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(B) *Special Meetings of Shareholders.* Only such business shall be conducted at a special meeting of shareholders as shall have been brought before the meeting pursuant to the Company's notice of meeting. Nominations of persons for election to the Board of Directors may be made at a special meeting of shareholders at which directors are to be elected pursuant to the Company's notice of meeting (a) by or at the direction of the Board of Directors or (b) provided that the Board of Directors has determined that directors shall be elected at such special meeting, by any shareholder of the Company who (i) is a shareholder of record at the time of giving of notice provided for in this By-Law and at the time of the special meeting, (ii) is entitled to vote at the meeting, and (iii) complies with the notice procedures set forth in this By-Law as to such nomination. In the event the Company calls a special meeting of shareholders for the purpose of electing one or more directors to the Board of Directors, any such shareholder may nominate a person or persons (as the case may be) for election to such position(s) as specified in the Company's notice of meeting, if the shareholder's notice required by paragraph (A)(2) of this By-Law with respect to any nomination shall be delivered to the Secretary at the principal executive offices of the Company not earlier than the close of business on the 120th day prior to the date of such special meeting and not later than the close of business on the later of the 90th day prior to such special meeting or the close of business on the 10th day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. In no event shall any adjournment or postponement of a special meeting or the announcement thereof commence a new time period for the giving of a shareholder's notice as described above.

(C) *General.* (1) Only such persons who are nominated in accordance with the procedures set forth in this By-Law shall be eligible to serve as directors and only such business shall be conducted at a meeting of shareholders as shall have been brought before the meeting in accordance with the procedures set forth in this By-Law. Except as otherwise provided by law, the Restated Certificate of Incorporation or these By-Laws, the Chairman of the meeting shall have the power and duty to determine whether a nomination or any business proposed to be brought before the meeting was made or proposed, as the case may be, in accordance with the procedures set forth in this By-Law and, if any proposed nomination or business is not in compliance with this By-Law, to declare that such defective proposal or nomination shall be disregarded.

(2) For purposes of this By-Law, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press or comparable national news service or in a document publicly filed by the Company with the Securities and Exchange Commission pursuant to Sections 13, 14 or 15(d) of the Exchange Act and the rules and regulations promulgated thereunder.

(3) Notwithstanding the foregoing provisions of this By-Law, a shareholder shall also comply with all applicable requirements of the Exchange Act and the rules and regulations promulgated thereunder with respect to the matters set forth in this By-Law; provided, however, that any references in these By-Laws to the Exchange Act or the rules and regulations promulgated thereunder are not intended to and shall not limit the requirements applicable to nominations or proposals as to any other business to be considered pursuant to paragraph (A)(1)(c) or paragraph (B) of this By-Law. Nothing in this By-Law shall be deemed to affect any rights of shareholders to request inclusion of proposals in the Company's proxy statement pursuant to Rule 14a-8 under the Exchange Act.

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APPENDIX B

**GOODRICH CORPORATION
2011 EQUITY COMPENSATION PLAN
(Effective April 19, 2011)**

1. Purpose; Effective Date. The purpose of this Plan is to promote the interests of the shareholders by providing stock-based incentives to selected employees (each, a Participant) to align their interests with shareholders and to motivate them to put forth maximum efforts toward the continued growth, profitability and success of Goodrich Corporation (the Company). In furtherance of this objective, stock options, stock appreciation rights, performance shares, restricted shares, performance units, restricted stock units, phantom shares, common stock of the Company (Common Stock), and/or other incentive awards (collectively, Awards) may be granted in accordance with the provisions of this Plan.

This Plan became effective as of April 19, 2011 (the Effective Date), following shareholder approval at the Company s 2011 annual meeting of its shareholders. Any Awards that were granted under this Plan prior to its approval by shareholders were specifically contingent on approval of this Plan by the shareholders of the Company at such annual meeting.

2. Administration. This Plan is to be administered by the Compensation Committee or any successor committee (the Committee) of the Board of Directors of the Company (the Board). The Committee shall consist of at least three members who shall not be eligible to participate in this Plan. The Committee shall have full power and authority to construe, interpret and administer this Plan. All decisions, actions or interpretations of the Committee shall be final, conclusive and binding on all parties.

The Committee may delegate to the Chief Executive Officer and to other senior officers of the Company the authority to make Awards under this Plan with respect to not more than ten percent of the shares authorized under this Plan, pursuant to such conditions and limitations as the Committee may establish, except that only the Committee may make Awards to participants who are subject to Section 16 of the Securities Exchange Act of 1934, as amended (the Exchange Act).

3. Shares Available For This Plan. Subject to Section 17 hereof, the maximum number of shares of Common Stock that shall be available for delivery pursuant to the provisions of this Plan shall be equal to the sum of: (i) 2,825,000 shares of Common Stock; (ii) any shares of Common Stock available as of the Effective Date for future awards under the Company s 2001 Equity Compensation Plan that became effective on April 17, 2001 (the Prior Plan); and (iii) any shares of Common Stock represented by any outstanding Prior Plan awards as of the Effective Date that are not issued or that are subject to a Prior Plan award that has lapsed or is forfeited, terminated, settled in cash or canceled without having been exercised, on or after the Effective Date. Such shares may be either authorized but unissued shares or treasury shares.

For purposes of calculating the number of shares of Common Stock available for delivery under this Plan:

there shall be counted against the limitations the number of shares subject to issuance upon exercise or settlement of Awards as of the dates on which such Awards are granted;

(i) the grant of a Performance Share Award (as defined in Section 9) or other unit or phantom share award shall be deemed to be equal to the maximum number of shares of Common Stock that may be issued under the

award and (ii) where the value of an award is variable on the date it is granted, the value shall be deemed to be the maximum limitation of the award;

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if the exercise price of any stock option granted under this Plan or any Prior Plan, or the tax withholding obligation associated with the exercise of such stock option, is satisfied by tendering shares of Common Stock to the Company (by either actual delivery or by attestation), any tendered or withheld shares shall not be available for Awards granted under this Plan;

if the tax withholding obligation associated with the vesting of an Award of restricted stock is satisfied by tendering shares of Common Stock to the Company (or by the withholding of shares of Common Stock by the Company) , any tendered or withheld shares shall not be available for Awards granted under this Plan;

the gross number of shares of Common Stock with respect to which a stock-settled stock appreciation right is exercised will be counted against such limit, rather than the net number of shares delivered upon the exercise of a stock-settled stock appreciation right;

Awards payable solely in cash will not reduce the number of shares of Common Stock available for Awards granted under this Plan; and

any shares awarded under this Plan or any Prior Plan that are not issued or that are subject to an award under this Plan or any Prior Plan that has lapsed or is forfeited, terminated, settled in cash or canceled without having been exercised shall again be available for other Awards under this Plan.

4. Limitation On Awards. Subject to Section 17 hereof, (a) no Participant may receive Awards under this Plan with respect to more than 500,000 shares in any calendar year, (b) the maximum number of shares of Common Stock that may be issued pursuant to options designated as Incentive Stock Options (as defined in Section 7) shall be 1,000,000 shares, (c) the maximum number of shares of Common Stock that may be issued pursuant to Performance Share Awards (as defined in Section 9), Performance Unit Awards (as defined in Section 9), Restricted Stock Awards (as defined in Section 11), Restricted Stock Unit Awards (as defined in Section 11) and Other Awards (as defined in Section 12) shall be 2,000,000 shares, and (d) in any calendar year, no Participant may receive Awards under the Plan paid in cash having an aggregate dollar value in excess of \$10,000,000.

5. Term. No Awards may be granted under this Plan after April 18, 2021, at which time the Plan shall expire but without affecting any Awards then outstanding.

6. Eligibility. Awards under this Plan may be made to any salaried, full-time employee of the Company or any subsidiary corporation (or other business entity) of which 50% or more of the stock (or other equitable interest) is owned by the Company (a Subsidiary). Directors who are not full-time employees are not eligible to participate.

7. Stock Options. The Committee may, in its discretion, from time to time grant to eligible Participants options to purchase Common Stock, at a price not less than 100% of the fair market value of the Common Stock on the date of grant (the option price), subject to the conditions set forth in this Plan. The Committee may not reduce the option price of any stock option grant after it is made, except in connection with a Corporate Reorganization (as defined in Section 17), nor may the Committee agree to exchange a new lower priced option for an outstanding higher priced option.

The Committee, at the time of granting to any Participant an option to purchase shares or any related stock appreciation right under this Plan, shall fix the terms and conditions upon which such option or appreciation right may be exercised, and may designate options as non-statutory stock options or incentive stock options (Incentive Stock Options) pursuant to Section 422 of the Internal Revenue Code of 1986, as amended (the Code) or any other statutory stock option that may be permitted under the Code from time to time; provided, however that (i) the date on which

such options and related appreciation rights shall expire, if

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not exercised, may not be later than ten years after the date of grant of the option, (ii) the terms and conditions of Incentive Stock Options must be in accordance with the qualification requirements of the Code and (iii) the provisions of any other statutory stock option permitted under the Code must be consistent with applicable Code requirements. Incentive Stock Options shall be granted only to full time employees of the Corporation and its subsidiaries within the meaning of Section 424 of the Code. The aggregate fair market value (determined as of the date the option is granted) of shares with respect to which Incentive Stock Options are exercisable for the first time by an individual during any calendar year (under this Plan or any other plan of the Corporation or any Subsidiary which provides for the granting of incentive stock options) may not exceed \$100,000 or such other number as may be applicable under the Code from time to time.

Within the foregoing limitations, the Committee shall have the authority in its discretion to specify all other terms and conditions relating to stock options in a written stock option agreement, including but not limited to provisions for the exercise of options in installments, any requirements imposed on a Participant to retain the Common Stock acquired upon exercise of the option, the time limits during which options may be exercised and, in lieu of payment in cash, the exercise in whole or in part of options by tendering Common Stock owned by the Participant, valued at the fair market value on the date of exercise, or other acceptable forms of consideration equal in value to the option price. The Committee may, in its discretion, issue rules or conditions with respect to utilization of Common Stock for all or part of the option price, including limitations on the pyramiding of shares.

No option shall have any feature that would allow for the deferral of compensation (within the meaning of Section 409A of the Code) other than the deferral or recognition of income until the later of exercise or disposition of the option or the time the shares acquired upon the exercise of the option first become substantially vested (as defined in Treasury Regulation § 1.83-3(b)).

8. Stock Appreciation Rights. The Committee may grant awards in the form of stock appreciation rights (SARs). SARs shall entitle the recipient to receive a payment (in the form of stock or cash as set forth in the Award) equal to the appreciation in market value of a stated number of shares of Common Stock from the price stated in the Award (which price must be no less than the fair market value of the Common Stock on the date of the grant of such SAR) to the market value of the Common Stock on the date of exercise or surrender. An SAR may be granted in tandem with all or a portion of a related stock option under the Plan (Tandem SARs), or may be granted separately (Freestanding SARs). A Tandem SAR may only be granted at the time of the grant of the related stock option.

A Tandem SAR shall be subject to the same terms and conditions as the related stock option and shall be exercisable at such times and to such extent as the Committee shall determine, but only so long as the related option is exercisable. The number of Tandem SARs shall be reduced not only by the number of Tandem SARs exercised but also by the number of shares purchased upon the exercise of the related option. A related stock option shall cease to be exercisable to the extent the Tandem SAR is exercised.

Freestanding SARs shall be exercisable in whole or in such installments and at such times as may be determined by the Committee. The base price of a Freestanding SAR shall also be determined by the Committee; provided, however, that such price shall not be less than the fair market value of the Common Stock, as determined by the Committee, on the date of the grant of the Freestanding SAR.

Upon surrender to the Company of the unexercised related stock option or any portion thereof (in the case of a Tandem SAR), or upon exercise of a Freestanding SAR, an SAR shall entitle the Participant to receive from the Company in exchange therefor a payment in stock or cash (as determined by the Committee and set forth in the Award). In the case of a payment in

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stock, the number of shares to be received by the Participant shall be determined by dividing (1) the product of (A) the total number of SARs being exercised times (B) the amount by which the fair market value of a share of Common Stock on the exercise date exceeds the option price of the related option (or the base price of a Freestanding SAR), by (2) the fair market value of a share of Common Stock on the exercise date. No fractional shares shall be issued. In the case of a payment in cash, the Participant shall receive a payment equal to the product of (A) the total number of SARs being exercised times (B) the amount by which the fair market value of a share of Common Stock on the exercise date exceeds the option price of the related option (or the base price of a Freestanding SAR).

The Committee may, consistent with the Plan, by way of the Award or otherwise, determine such other terms, conditions, restrictions and/or limitations, if any, on any SAR Award, including but not limited to determining the manner in which payment of the appreciation in value shall be made.

No SAR shall have any feature that would allow for the deferral of compensation (within the meaning of Section 409A of the Code) other than the deferral or recognition of income until the exercise or disposition of the SAR or the time any shares acquired upon the exercise of the SAR first become substantially vested (as defined in Treasury Regulation § 1.83-3(b)).

9. The Goodrich Corporation Long-Term Incentive Plan (LTIP). The Committee may make Performance Share Awards (denominated in shares of Common Stock) or Performance Unit Awards (denominated in units that are equivalent to a specified amount of cash or number of shares of Common Stock) under this LTIP.

At the time Performance Share Awards and Performance Unit Awards are made, the Committee shall determine, in its sole discretion, one or more performance periods and specific Performance Objectives (as defined below) to be achieved during the applicable performance periods, as well as such other restrictions and conditions as the Committee deems appropriate. In the case of Performance Unit Awards, the Committee shall also determine a target unit value or a range of unit values for each award.

At the end of the performance period, the Committee shall determine the extent to which Performance Objectives have been attained or a degree of achievement between minimum and maximum levels in order to establish the level of payment to be made, if any, and shall determine if payment is to be made in the form of cash or shares of Common Stock (valued at their fair market value at the time of payment) or a combination of cash and shares of Common Stock. Payments of Performance Share Awards and Performance Unit Awards shall generally be made as soon as practicable following the end of the performance period, but in any event such payments will be made no later than the end of the calendar year following the calendar year in which the performance period ends.

10. Performance Objectives. Performance objectives that may be used under the Plan (Performance Objectives) shall be based upon one or more of the following criteria (or upon changes in such criteria or in the growth rates of such criteria): operating income; net income; earnings (including earnings before interest, taxes, depreciation and/or amortization); earnings per share; sales; costs; profitability of an identifiable business unit or product; maintenance or improvement of profit margins; cost reduction goals; operating cash flow; free cash flow (operating cash flow less capital expenditures); working capital; improvements in capital structure; debt reduction; credit ratings; return on assets; return on equity; return on invested capital; stock price; total shareholder return; completion of joint ventures, divestitures, acquisitions or other corporate transactions; new business or expansion of customers or clients; strategic plan development and implementation; succession plan development and implementation; customer satisfaction indicators; employee metrics; or other objective individual or team goals.

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The Performance Objectives may relate to the Company, on an absolute basis and/or relative to one or more peer group companies or indices, or to a particular Participant, Subsidiary, division or operating unit, or any combination of the foregoing, all as the Committee shall determine. In addition, to the degree consistent with Section 162(m) of the Code (or any successor section thereto), the Committee may adjust, modify or amend the above criteria, either in establishing any Performance Objective or in determining the extent to which any Performance Objective has been achieved. Without limiting the generality of the foregoing, the Committee shall have the authority, at the time it establishes the Performance Objectives, to make equitable adjustments in the criteria in recognition of unusual or non-recurring events, in response to changes in applicable laws or regulations, or to account for items of gain, loss or expense determined to be extraordinary or unusual in nature or infrequent in occurrence or related to the disposal of a business or related to a change in accounting principles, or as the Committee determines to be appropriate to reflect a true measurement of the performance of the Company or any Subsidiary, division or operating unit, as applicable, and to otherwise satisfy the objectives of the Plan.

11. Restricted Stock and Restricted Stock Units. The Committee may make Awards in Common Stock (Restricted Stock) and Awards of restricted stock units (Restricted Stock Units) subject to conditions, if any, established by the Committee which may include continued service with the Company or its subsidiaries. Any Restricted Stock Award and Restricted Stock Unit Award which is conditioned upon continued employment shall be conditioned upon continued employment for a minimum period of three years following the award, except in the case of death, disability or retirement and except as otherwise provided pursuant to Section 26.

12. Other Awards. The Committee may make Awards authorized under this Plan in units or phantom shares, the value of which is based, in whole or in part, on the value of Common Stock, in lieu of making such Awards in Common Stock (Other Awards). The Committee may provide for Other Awards to be paid in cash, in Common Stock, or in a combination of both cash and Common Stock, under such terms and conditions as in its discretion it deems appropriate.

13. Deferred Awards. The Committee may permit Participants to elect to defer receipt of Awards (other than options or SARs), either in cash or in Common Stock, under such terms and conditions that the Committee may prescribe, provided that any such deferral shall be made in compliance with a plan designed to comply with the requirements of Section 409A of the Code. The Committee may authorize the Company to establish various trusts or make other arrangements with respect to any deferred Awards.

14. Fair Market Value. For all purposes of this Plan the fair market value of a share of Common Stock shall be the mean of the high and low prices of Common Stock on the relevant date (as of the close of trading) as reported on the New York Stock Exchange Composite Transactions listing (or similar report), or, if no sale was made on such date, then on the next preceding day on which such a sale was made.

15. Termination of Employment. The Committee may make such provisions as it, in its sole discretion, may deem appropriate with respect to the effect, if any, the termination of employment with the Corporation will have on any grants or Awards under this Plan provided that, to the extent applicable, a termination of employment shall mean a separation from service as such term is defined for purposes of Section 409A of the Code.

16. Assignability. Any Awards granted under this Plan shall not be transferable by the Participant other than by will or the laws of descent and distribution or by such other means as the Committee may approve from time to time; provided, however, that under no circumstances shall a transfer for value of any Award hereunder be permitted. The designation of a beneficiary for an Award shall not constitute the transfer of an Award.

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17. Corporate Reorganization. In the event of any change in corporate capitalization (including, but not limited to, a change in the number of shares of Common Stock outstanding), such as a stock split or a corporate transaction, any merger, consolidation, separation, including a spin-off, or other distribution of stock or property of the Company, any reorganization (whether or not such reorganization comes within the definition of such term in Section 368 of the Code) or any partial or complete liquidation of the Company, (a Corporate Reorganization), the Committee or the Board shall be required to make such substitution or adjustments in the aggregate number and kind of shares reserved for issuance under this Plan and the maximum limitation on the number of Awards that may be granted to any participant, in the number, kind and option price of shares subject to outstanding stock options and SARs, in the number and kind of shares subject to other outstanding Awards granted under this Plan and/or such other equitable substitution or adjustments to equalize the value and prevent dilution or enlargement of the rights of participants in any form or manner of substitution or adjustment as it, in good faith, may determine, in its sole discretion, to be equitable under the circumstances; *provided, however*, that the number of shares subject to any award shall always be a whole number.

18. Committee's Determination. The Committee's determinations under this Plan including, without limitation, determinations of the employees to receive Awards or grants, the form, amount and timing of such Awards or grants, the terms and provisions of such Awards or grants and the agreements evidencing same, and the establishment of Performance Objectives need not be uniform and may be made by the Committee selectively among individuals who receive, or are eligible to receive, Awards or grants under this Plan whether or not such individuals are similarly situated. The Committee may, with the consent of the Participant, modify any determination it previously made.

19. Leave of Absence or Other Change in Employment Status. The Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under this Plan in respect of any leave of absence taken by a Participant or any other change in employment status, such as a change from full time employment to a consulting relationship (or vice versa), of a Participant relative to any grant or award. Without limiting the generality of the foregoing, the Committee shall be entitled to determine (i) whether or not any such leave of absence or other change in employment status shall constitute a termination of employment within the meaning of this Plan and (ii) the impact, if any, of any such leave of absence or other change in employment status on Awards under this Plan theretofore made to any Participant who takes such leave of absence or otherwise changes his or her employment status. In the case of an Award that is subject to Section 409A of the Code, such determinations shall be made in accordance with the requirements of Section 409A.

20. Reporting and Withholding Taxes. The Committee or its designee shall have the right to (i) determine and report the appropriate amount of income recognized with respect to any Award and (ii) determine the amount of any Federal, state, or local required withholding tax, and (iii) require that any such required withholding tax be satisfied by withholding shares of Common Stock or other amounts which would otherwise be payable under this Plan.

21. Retention Of Shares. If shares of Common Stock are awarded subject to attainment of Performance Objectives, continued service with the Company or other conditions, the shares may be registered in the Participants' names when initially awarded, but possession of certificates for the shares shall be retained by the Secretary of the Company for the benefit of the Participants, or shares may be registered in book entry form only, in both cases subject to the terms of this Plan and the conditions of the particular Awards.

22. Dividends And Voting. Except with respect to options and SARs, the Committee may permit each Participant to receive or accrue dividends and other distributions made with respect to such Awards under such terms and conditions as in its discretion it deems appropriate. Under

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such terms and conditions as in its discretion it deems appropriate, the Committee may permit the Participant to vote or execute proxies with respect to shares awarded to the Participant hereunder. Notwithstanding the preceding to the contrary, all dividends and other distributions shall be made in a manner so as to comply with the provisions of Section 409A of the Code and Treasury regulations and any other related Internal Revenue Service guidance promulgated thereunder and, as applicable, so as to preserve the applicable award's status as being exempt from Section 409A of the Code.

23. Forfeiture Of Awards. Any Awards or parts thereof made under this Plan that are subject to Performance Objectives or other conditions which are not satisfied, shall be forfeited, and any shares of Common Stock issued shall revert to the Treasury of the Company.

24. Continued Employment. Nothing in this Plan or in any agreement entered into pursuant to this Plan shall confer upon any Participant the right to continue in the employment of the Company or affect any right which the Company may have to terminate the employment of such Participant.

25. Change In Control. For purposes of this Plan, a Change in Control shall mean:

(a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act), of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of Common Stock (the Outstanding Company Common Stock) or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); provided, however, that the following acquisitions shall not constitute a Change in Control: (A) any acquisition directly from the Company (other than by exercise of a conversion privilege), (B) any acquisition by the Company or any of its subsidiaries, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any of its subsidiaries or (D) any acquisition by any company with respect to which, following such acquisition, more than 70% of, respectively, the then outstanding shares of common stock of such company and the combined voting power of the then outstanding voting securities of such company entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such acquisition in substantially the same proportions as their ownership, solely in their capacity as shareholders of the Company, immediately prior to such acquisition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

(b) individuals who, as of the Effective Date, constitute the Board (the Incumbent Board), cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of either an actual or threatened election contest (as such terms are used in Rule 14a-11 of Regulation 14A promulgated under the Exchange Act); or

(c) consummation of a reorganization, merger or consolidation, in each case, with respect to which all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such reorganization, merger or consolidation, do not, following such reorganization, merger or consolidation, beneficially own,

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directly or indirectly, solely in their capacity as shareholders of the Company, more than 70% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the company resulting from such reorganization, merger or consolidation in substantially the same proportions as their ownership, immediately prior to such reorganization, merger or consolidation of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be; or

(d) consummation of (A) a complete liquidation or dissolution of the Company or (B) a sale or other disposition of all or substantially all of the assets of the Company, other than to a company, with respect to which following such sale or other disposition, more than 70% of, respectively, the then outstanding shares of common stock of such company and the combined voting power of the then outstanding voting securities of such company to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities, solely in their capacity as shareholders of the Company, who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be.

26. Effect of Change In Control.**(a) Options and Stock Appreciation Rights.**

(i) In the event of a proposed transaction that would constitute a Change in Control in which the Company would not continue as a publicly-traded corporation, the Company shall give written notice thereof to any Participant holding an option or SAR granted hereunder at least 30 days prior to the closing of the transaction that would constitute a Change in Control. The Participant shall have the right within such 30-day period (but only within the period prior to the final date on which such option or SAR would have otherwise expired) to exercise the option or SAR to the extent such Participant was entitled to exercise the option or SAR on the date of the notice; provided, however, that if the Participant is employed by the Company on the date of the notice, then the Participant shall have the right to exercise the option or SAR in full to the extent not previously exercised (with such vesting and exercisability contingent upon the closing of the transaction constituting the Change in Control). To the extent that the option or SAR shall not have been exercised on or prior to the effective date of the transaction constituting the Change in Control (and except as may be provided in such Participant's option or SAR with respect to the surrender of such option or SAR for cash), then such option or SAR shall terminate on such date, unless it is assumed by another corporation within the meaning of Section 424(a) of the Code.

(ii) In the event of a proposed transaction that would constitute a Change in Control in which the Company would continue as a publicly-traded corporation, (A) options and any SAR shall become immediately exercisable upon the earliest to occur of (I) the Change in Control and (II) the time that notice is provided by the Board of the proposed transaction and, (B) notwithstanding any other provisions of this Plan (except for paragraph (c) below) or the terms of any Award, such options and SARs shall remain exercisable for no less than the shorter of (I) two years or (II) the remainder of the full term of the option or SAR.

(b) Other Awards. In the event of a proposed transaction that would constitute a Change in Control, the treatment of awards granted under this Plan other than stock options and SARs shall be governed by the terms of such awards.

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(c) *Committee Discretion to Cancel Awards.* Notwithstanding paragraphs (a) and (b) above, in the event of a proposed transaction that would constitute a Change in Control, the Committee may, in its sole discretion, determine that any or all outstanding Awards granted under the Plan, whether or not exercisable, will be canceled and terminated and that in connection with such cancellation and termination the holder of such Award may receive (i) in the case of any option or SAR, for each share of Common Stock subject to such Award a cash payment equal to the difference, if any, between the consideration received by stockholders of the Company in respect of a share of Common Stock in connection with such transaction and the purchase price per share, if any, under the Award multiplied by the number of shares subject to such Award; provided that if such product is zero (0) or less or to the extent that the Award is not then exercisable (after taking into account the application of paragraphs (a) and (b) above), the Award will be canceled and terminated without payment therefor; (ii) in the case of any Award of restricted stock units or phantom shares, a cash payment equal to the consideration received by stockholders of the Company in respect of a share of Common Stock in connection with such transaction multiplied by the number of shares subject to such Award; and (iii) in the case of any other Award (other than an Award that by its terms specifies its treatment in the event of a Change in Control), an amount reflecting the current fair market value of such Award as determined by the Committee in good faith. In the event of a Change in Control transaction in which the stockholders of the Company do not receive any consideration, the Committee may utilize the fair market value of a share of Common Stock immediately prior to the Change in Control transaction (determined in the manner set forth in Section 14) for purposes of determining the cash payment to be received by a Participant.

27. Compliance With Laws And Regulations. Notwithstanding any other provisions of this Plan, the issuance or delivery of any shares may be postponed for such period as may be required to comply with any applicable requirements of any national securities exchange or any requirements under any other law or regulation applicable to the issuance or delivery of such shares, and the Company shall not be obligated to issue or deliver any such shares if the issuance or delivery thereof shall constitute a violation of any provision of any law or any regulation of any governmental authority, whether foreign or domestic, or any national securities exchange.

28. Amendment. The Board of Directors of the Company may alter or amend this Plan, in whole or in part, from time to time, or terminate this Plan at any time; provided, however, that no such action shall adversely affect any rights or obligations with respect to Awards previously made under this Plan unless the action is taken in order to comply with applicable law, stock exchange rules or accounting rules; and, provided, further, that no amendment which has the effect of increasing the number of shares subject to this Plan (other than in connection with a Corporate Reorganization), materially increasing the benefits accruing to Participants under the Plan or materially modifying the requirements for participation in the Plan shall be made without the approval of the Company's shareholders.

29. 409A Compliance. Notwithstanding any Plan provisions herein to the contrary and, to the extent applicable, the Plan shall be interpreted, construed and administered (including with respect to any amendment, modification or termination of the Plan) in such manner so as to comply with the provisions of Section 409A of the Code and Treasury regulations and any other related Internal Revenue Service guidance promulgated thereunder and, as applicable, so as to preserve an award's status as being exempt from (or satisfying the requirements of) Section 409A of the Code.

30. Governing Law. This Plan shall be governed by and construed in accordance with the laws of the State of New York, without regard to conflicts of laws principles thereof, except as governed or preempted by Federal law.

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31. No Right, Title, or Interest in Company Assets. No Participant shall have any rights as a shareholder solely as a result of any Award except to the extent such rights are granted to the Participant under Section 22 hereof. To the extent any person acquires a right to receive payments from the Company under this Plan, such rights shall be no greater than the rights of an unsecured creditor of the Company.

32. Payments to Specified Employees. Notwithstanding anything to the contrary in this Plan or any agreement relating to an Award, upon the Separation from Service of a Specified Employee (as such terms are defined for purposes of Section 409A of the Code), no payments under this Plan of amounts constituting nonqualified deferred compensation subject to Section 409A shall be paid to such Specified Employee during the 6-month period following such Separation from Service, and such amounts shall instead be paid within the 30-day period commencing with the first day of the seventh month following the month of such Participant's Separation from Service (provided that if such 30-day period begins in one calendar year and ends in the subsequent calendar year, the Participant shall have no right to designate the calendar year of payment).

33. No Acceleration. Except as permitted under Section 409A of the Code, no acceleration of the time or form of payment of any Award shall be permitted.

34. Section 162(m) Compliance. To the extent to which Section 162(m) of the Code is applicable, the Company intends that compensation paid under the Plan to Covered Employees (as such term is defined for purposes of Section 162(m)) will, to the extent practicable, constitute qualified performance-based compensation within the meaning of Section 162(m) and the regulations thereunder, unless otherwise determined by the Committee. Accordingly, Awards granted to Covered Employees (as such term is defined in Section 162(m)(3) of the Code) that are intended to qualify for the performance-based exception under Section 162(m) shall be deemed to include any such additional terms, conditions, limitations, and provisions as are necessary to comply with such exception unless the Committee, in its discretion, determines otherwise.

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APPENDIX C

The following companies are included in the survey data referenced on page 33 of the Proxy Statement.

3C
3M Company
7-Eleven, Inc.
A&P
A.H. Belo
A.O. Smith
A.T. Cross
AAA Mid-Atlantic, Inc.
AAA National Office
AAA Northern California, Nevada & Utah
AAA of Science
Abbott Laboratories
Abbott Management
ABC
Abercrombie & Fitch
Accenture
ACCO Brands Corporation
ACE Limited ACE USA
ACH Food Companies
Acuity Brands Inc.
ADC Telecommunications
ADTRAN, Inc.
Advanced Energy Industries
AEGON
AEI Services LLC
Aerojet-General Corporation
Aeropostale
Aetna, Inc.
AFLAC
AgFirst Farm Credit Bank
Agilent Technologies
AGL Resources Inc.
AgriBank, FCB
Agrium
Agropur, Cooperative
AIPSO
Air Liquide
Air products and Chemicals, Inc.
Aker Solutions ASA
Alberto-Culver Company
Alcatel-Lucent
Alcoa, Inc.
Alcon Laboratories, Inc.

Alexander & Baldwin
Allegheny Energy, Inc.
Allergan, Inc.
ALLETE, Inc.
Alliance Data Systems
Alliance Pipeline, Inc.
Alliant Energy
Alliant Techsystems
Allianz
Allina Health System

Allured Business Media
Altria Group, Inc.
Alyeska Pipeline Service Company
Amazon.com
AMB Property Corporation
Ameren Corporation
American Academy of Pediatrics
American Arbitration Association
American Axle & Manufacturing, Inc.
American Chemical Society
American Crystal Sugar
American Electric Power
American Enterprise Group Inc.
American Express
American Family Insurance
American Greetings
American Heart Association
American Home Mortgage Servicing, Inc.
American International Group, Inc.
American Mathematical Society
American Standard
American Tower
American United Life
American University
American Water Works
Americold
AmeriPride Services Inc.
Ameriprise Financial
AmerisourceBergen Corporation
Ameritas Life Insurance Corporation
Ameritrade
Ameron
AMETEK
Amgen, Inc.
Amica Mutual Insurance Company
Amos Press Inc.
AMR Corporation
AMSTED Industries Incorporated
AmTrust Bank, A Division of New York Community Bank
Amway

Anadarko Petroleum
Analog Devices
Andersen Corporation
Angiotech Pharmaceuticals Inc.
Anheuser-Busch InBev
Ann Taylor, Inc.
AOL
APL Ltd.
Apogee Enterprises, Inc.
Apollo Group
Appleton Papers
Applied Materials

APS Healthcare
ARAMARK
Aramco Services Company
Arch Coal, Inc.
Archer Daniels Midland
Archstone
Arctic Cat
Areva
Argonaut Group
Argonne National Laboratory
ARINC Inc.
Arizona Public Service
Arkansas Electric Cooperative Corporation
Armstrong World Industries, Inc.
Arrow Electronics
ArvinMeritor, Inc.
Asante Health System
Ash Grove Cement Company
Ashland, Inc.
Associated Banc-Corp
Assurant, Inc.
Astoria Financial
AstraZeneca
Astron Solutions
Asurion
AT&T
ATC Management
ATI Allegheny Ludlum
Atmos Energy
Atria Senior Living Group
Aurora Healthcare
Auto Club Group
Automatic Data Processing, Inc.
AutoZone, Inc.
Avanade Inc.
Avant Energy, Inc.
Avery Dennison Corporation
Avis Budget Group

Avista Corporation
Aviva USA
AXA Equitable
AXA Group
Axis Insurance Company
B&W Technical Services Y-12
Bacardi U.S.A., Inc.
Baker Tilly Virchow Krause, LLP
Ball Corporation
Ball State University
Bank of America
Bank of Hawaii
Bank of the West
Banner Health
Baptist Health South Florida
Baptist Health System, Inc.

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Barnes Group Inc.
Barquin International
Barrick Gold of North America
Battelle
Bausch & Lomb, Inc.
Baxter International Inc.
Bayer AG
Bayer AG US
Bayer CropScience
Bayer MaterialScience
Baylor College of Medicine
Baystate Health System
BB&T
BBVA
BD
Beazer Homes USA, Inc.
Bechtel Corporation
Bechtel Plant Machinery, Inc.
Beckman Coulter, Inc.
Belk, Inc.
Belo
Belron U.S.
Bemis Co., Inc.
Berkshire Health Systems
Best Buy
BG US Services
Big Lots, Inc.
Bill & Melinda Gates Foundation
Biogen Idec
BJC HealthCare
BJ's Wholesale Club
Black & Veatch Corporation
Black Hills Power and Light
Blockbuster Inc.
BloodCenter of Wisconsin, Inc.
Blue Cross & Blue Shield of Rhode Island
Blue Cross and Blue Shield of Alabama
Blue Cross and Blue Shield of Massachusetts
Blue Cross and Blue Shield of North Carolina
Blue Cross Blue Shield of Florida
Blue Cross Blue Shield of Minnesota
Blue Cross of Idaho Health Service, Inc.
Blue Shield of California
Bluebonnet Credit Union
BlueCross BlueShield of Florida
BlueCross BlueShield of Kansas City
BlueCross BlueShield of Michigan
BlueCross BlueShield of North Dakota
Blyth

BMW of North America, LLC
Board of Governors of the Federal Reserve System
Bob Evans Farms, Inc.
Boehringer Ingelheim

Boise Cascade LLC
Boise Inc.
BOK Financial
Bonfils Blood Center
BorgWarner Inc.
Boston College
Boston Scientific
Bovis Lend Lease
Bovis Lend Lease Charlotte
Boy Scouts of America
BP
BP Exploration North America
Bradford Schools Inc.
Brady Corporation
Branch Banking & Trust Company
Bravo Health, Inc.
BreitBurn Energy Partners L.P.
Bremer Financial
Bridgepoint Education, Inc.
Bright House Networks
Bristol-Myers Squibb Company
Broadcom Corporation
Bronson Healthcare Group, Inc.
Brookdale Senior Living, Inc.
Brookhaven National Laboratory
Brotherhood Mutual Insurance Company
Broward Health
Brown Shoe Company, Inc.
Brown University
Brown-Forman Corporation
BRP US, Inc.
Bryan Cave LLP
Buffets, Inc.
Build-A-Bear Workshop
Burlington Electric Department
Burlington Northern Santa Fe Corporation
Bush Brothers & Company
Butler University
Butzel Long
C.H. Robinson Worldwide
C.R. Bard, Inc.
CA
Cablevision Systems
Cabot Microelectronics Corporation
CACI International, Inc.
Cadbury

Calgon Carbon
California Casualty Management Company
California Independent System Operator
California Institute of Technology
Callaway Golf Company
CalOptima
Calpine Corporation
Cameron International

Campbell Soup Company
Canadian Pacific US
Canon USA, Inc.
Capella Education Company
Capgemini
Capital One Financial
Capitol Broadcasting WRAL
Cardinal Health
Career Education Corporation
CareFusion
Cargill, Incorporated
CaridianBCT
Carlson Companies
Carnegie Mellon University
Carnival
Carpenter Technology Corporation
Case New Holland
Cash America International
Casino Arizona
Catalent Pharma Solutions
Caterpillar Inc.
Catholic Charities Health and Human Services
Catholic Health Initiatives
Catholic Healthcare West
Catholic Knights
CDM, Inc.
Cedar Rapids TV
Celgard, LLC
Celgene
Cemex, Inc. US
Centene Corporation
CenterPoint Energy
Centra Health, Inc.
Central Arizona Project
Central California Alliance for Health
Central Texas Electric Co-op
CenturyLink
Cephalon
Ceridian Corporation
CEVA Logistics Americas
CF Industries, Inc.
CGGVeritas

CGI Technologies and Solutions, Inc.
CH Energy Group
CH2M Hill
Charles River Laboratories
Checkpoint Systems Inc.
Chelan County Public Utility District
Chemtura
Chevron
Chevron Global Power
Chevron Phillips Chemical
Chicago Bridge and Iron Company
Chicago Transit Authority
Chico's FAS, Inc.
Children's Hospital & Regional Medical Center, Seattle

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Children s Hospital and Health System
Children s Hospitals and Clinics of Minnesota
Children s Medical Center of Dallas
Children s National Medical Center
Chipotle Mexican Grill, Inc.
Chiquita Brands International, Inc.
Choice Hotels International
Christian Appalachian Project
Chrysler Financial Services Americas, LLC
CHS Inc.
Church & Dwight Co., Inc.
CIGNA Corporation
Cimarex Energy
Cincinnati Children s Hospital Medical Center
Cintas
Cisco Systems
CIT Group, Inc.
Citi Citi North America, Operations & Technology
City and County of Denver
City National Bank
City of Austin
City of Charlotte
City of Garland
City of Overland Park, Kansas
City of Richmond
City Utilities of Springfield, Missouri
Clarian Health Partners, Inc.
Cleco
Cleveland Clinic
Cliffs Natural Resources Inc.
CME Group Inc.
CMS Energy Corporation
CNA Financial Corporation
COACH
Cobank
Coinstar, Inc.
Colgate-Palmolive Company
College of American Pathologists
Colorado Springs Utilities
Columbia Sportswear
Columbia St. Mary s
Columbus McKinnon Corporation
Comair, Inc.
Comcast Corporation
Comerica
Commerce Bancshares, Inc.
Commerce Insurance
Community Blood Center/Community Tissue Services
Community Medical Center

Compass Bank
Compensation Resources Group
Compensation Works
ConAgra Foods, Inc.

Connell Limited Partnership
ConocoPhillips
Conseco
Consolidated Edison
Constellation Energy Group, Inc.
Consumers Energy
Consumers Union
Continental Automotive Systems
ConvaTec
Convergys Corporation
Con-way Inc.
Cooper Industries, Inc.
Copa Airlines
Corinthian Colleges, Inc.
Corn Products International Inc
Corning
Corporate Office Properties Trust
Country Financial
County of Los Angeles
Covad Communications
Covance, Inc.
Covanta Holding Corporation
Covenant Health
Coventry Health Care, Inc.
Covidien
Cox Enterprises, Inc.
Cozen O Connor
CPS Energy
Cracker Barrel Old Country Store, Inc.
Cranston Print Works Company
Credit Acceptance Corporation
Crestline Hotels & Resorts
Cross Country Automotive Services
Crosstex Energy Services
Crowe Horwath LLP
Crown Castle
Crozer-Keystone Health System Crozer-Chester Medical Center
Crump Group
CSC Consulting
CSR
CSX Corporation
Cummins, Inc.
Cummins-Allison Corp.
CUNA Mutual
Curtiss-Wright Corporation
CVS Caremark

Cytec Industries
Daiichi Sankyo, Inc.
Dairy Management, Inc.
Dal-Tile International, Inc.
Dana Corporation
Danbury Health Systems
Dannon
Darden Restaurants, Inc.
Data Recognition
Davidson Hotel Company
Day & Zimmermann

Daymar Colleges Group, LLC
DCP Midstream, LLC
Dean Foods Company
Deere & Company
Del Monte Foods Company
Dell
Deloitte Services LP
Delta Air Lines Inc.
Delta Dental of California
Delta Dental of Michigan, Ohio, and Indiana
Deluxe Corporation
Denny's
Denso International America, Inc.
Denso Manufacturing Tennessee, Inc.
Dentsply
Denver Health & Hospital Authority
Des Moines Water Works
Destination Hotels & Resorts
Det Norske Veritas US
Detroit Medical Center
Development Dimensions International
Devon Energy Corporation
DeVry, Inc.
Dex One
Diageo North America, Inc.
Diebold, Incorporated
Dionex Corporation
Direct Energy
DIRECTV, Inc.
Disney Publishing Worldwide
Diversey, Inc.
Dockwise USA
Dole Food Company, Inc.
Dollar General Corporation
Dollar Thrifty Automotive Group
Dominion Resources, Inc.
Domtar Corporation
Donaldson Company, Inc.
Dorsey & Whitney LLP

Dover Downs, Inc.
Dow Chemical
Dow Corning
Dow Jones
DPL
Drexel University
Drummond Company, Inc.
Drury Hotels
DST Systems, Inc.
DTE Energy Company
Duke Energy Corporation
Duke University Comprehensive Cancer Center
Dunkin Brands, Inc
DuPont
Duquesne Light Holdings, Inc.
Dynergy Inc.

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DynMcDermott Petroleum Operations
E. & J. Gallo Winery
E. I. du Pont de Nemours and Company
E.ON U.S.
E.W. Scripps
Eastman Chemical Company
Eaton Corporation
Ecolab Inc.
Eddie Bauer LLC
Edison International
Edison Mission Energy
Education Management Corporation
Edward Jones
Edwards Lifesciences LLC
Effective Compensation, Inc.
Eisai
El Paso Corporation
Electric Power Research Institute
Eli Lilly
Elkay Manufacturing
Elster American Meter Company
EMC
EMCOR Group, Inc.
Emdeon Corporation
Emergency Medical Services
Emerson Electric Co.
EMI Music
Emory University
Employers Mutual Casualty Company
Enbridge Energy
EnCana Oil & Gas (USA) Inc.
Energen
Energy Future Holdings Corporation
Energy Northwest
Energy Services
Empower Management Corp.
ENSCO International Incorporated
Ensign-Bickford Industries, Inc.
Entegra Power Group, LLC
Entegra Power Services, LLC
EOG Resources, Inc.
EPCO
Ephraim McDowell Health
Epler Company
Epson America, Inc.
Equifax
Equity Office Properties
ERCOT
Erie Insurance Group

Ernst & Young
ESCO Technologies Inc.
ESL Federal Credit Union
ESPN
Essilor of America
Estee Lauder Companies, Inc.
Esurance, Inc.
Evening Post Publishing KOAA

EverBank
Evergreen Packaging
Evergreen Shipping Agency (America) Corporation
Evonik Degussa
EWI
Excellus BlueCross BlueShield
EXCO Resources, Inc.
Exel, a DPWN Company
Exelon
Express Scripts, Inc.
Exterran
ExxonMobil
Fair Isaac
Fairchild Controls
Fairmont Raffles Hotels International
Fanuc Robotics North America, Inc.
Farmers Insurance Group
FBL Financial Group, Inc.
FCCI Services Inc.
Federal Home Loan Bank of Cincinnati
Federal Home Loan Bank of Indianapolis
Federal Home Loan Bank of San Francisco
Federal Reserve Bank of Atlanta
Federal Reserve Bank of Boston
Federal Reserve Bank of Chicago
Federal Reserve Bank of Cleveland
Federal Reserve Bank of Dallas
Federal Reserve Bank of Kansas City
Federal Reserve Bank of Minneapolis
Federal Reserve Bank of Philadelphia
Federal Reserve Bank of San Francisco
Federal Reserve Bank of St. Louis
Federal Reserve Information Technology
Federal-Mogul Corporation
Federated Investors
FedEx Corporation
FEI Company
Fender Musical Instruments
Fermi National Accelerator Laboratory
Ferrellgas
Fidelity Investments
Fidelity National Information Services

Fifth Third Bancorp
Fireman's Fund Insurance Company
First American Corporation
First Data Corporation
First Financial Bank
First Horizon National
First Insurance Company of Hawaii, Ltd.
First National Bank Alaska
First National Bank in Howell
First Solar

First-Citizens Bank & Trust Company
FirstEnergy Corporation
Fiserv
Fisher Communications
FlashPoint
Fletcher Allen Health Care
Florida Municipal Power Agency
Flowserve Corporation
Fluor Corporation
Foley & Lardner LLP
Follett Corporation
Ford Motor Company
Forest City Enterprises
Forest Laboratories, Inc.
Foresters
Fortune Brands, Inc.
Forum Communications WDAY
Foster Wheeler Corporation
Four Seasons Hotel and Resorts Limited
Fox Networks Group
FPL Group
Fragrances
Franciscan Skemp Healthcare
Franklin Resources
Franklin Templeton Investments
Freddie Mac
Freedom Communications
Freeman Companies
Freeport-McMoRan Copper & Gold
Friday Services Inc.
Froedtert & Community Health Froedtert Memorial Lutheran Hospital
Future US
G&K Services, Inc.
GAF Materials
Gannett
Gardner Denver
GATX Corporation
Gavilon
GDF SUEZ Energy North America
GEICO

GenCorp Inc.
Genentech
General Atomics
General Dynamics Corporation
General Dynamics Information Technology
General Electric
General Growth Properties, Inc.
General Mills, Inc.
General Motors Corporation
General Nutrition, Inc.
Genuine Parts Co.
Genworth Financial
Genzyme Corporation
Georgia Gulf Corporation

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Georgia System Operations Corporation
Gerdau Ameristeel
Getty Images
Giant Eagle, Inc.
Giant Food Stores, LLC
Gilead Sciences
Girl Scouts of the USA
Glatfelter
GlaxoSmithKline pic
Glens Falls Hospital
Global Crossing Ltd.
Global Industries
Global Payments Inc.
GMAC Financial Services
Google
Gorton s
Graco
Graham Packaging Company
Grange Mutual Casualty Company
Granite Construction
Graphic Packaging Corporation
Great American Insurance Company
Great River Energy
Great-West Life Annuity
Green Tree Servicing
Greif
Greyhound Lines, Inc.
Grinnell Mutual Reinsurance Company
Group Health Cooperative
GROWMARK, Inc.
Gruma
Grupo Ferrovial
GSM Association
GTECH
Guideposts
Guilford
Gulfstream Aerospace
Gundersen Lutheran
GWF Power Systems
GXS
H&R Block
H. B. Fuller Company
H. Belo
H. J. Heinz Company
H.E.R.E.I.U. Welfare Pension Fund
Hackensack University Medical Center
Halliburton Company
Hallmark Cards, Inc.
Hamburg Sud North America, Inc.

Hamilton Lane Advisors, LLC
Hancock Holding Company
Hanesbrands, Inc.
Hannaford Bros. Co.
Harland Clarke
Harley-Davidson, Inc.
Harleysville Insurance

Harris Bank
Harris County Hospital District
Harris Enterprises
Harris Interactive Inc.
Harris Teeter, Inc.
Harry Winston
Hartford Financial Services
Harvard University
Harvard Vanguard Medical Associates
Hasbro, Inc.
HAVI Global Solutions
Hawaiian Electric Company
HBO
HBO Latin America Production Services
HCA Healthcare
HD Supply, Inc.
Health Care Service Corporation
Health Net
HealthCare Partners Medical Group
HealthNow New York, Inc.
HealthPartners
HealthSpring, Inc.
Healthways, Inc.
HearUSA, Inc.
Heidrick & Struggles International, Inc.
Helmerich & Payne, Inc.
Helzberg's Diamond Shops, Inc.
Hendrickson
Henkel Corporation
Henkel of America, Inc.
Henry Ford Health System
Herman Miller, Inc.
Hershey Entertainment & Resorts Company
Hertz
Hess
Hewitt Associates
Hewlett-Packard Company
Hexion Specialty Chemicals, Inc.
HickoryTech Corporation
High Company LLC
Highgate Holdings
Highmark
Highmark Blue Cross Blue Shield

Hilcorp Energy Company
Hilti, Inc. (North America)
Hilton Hotels Corporation
Hilton Worldwide
Hitachi Data Systems
HNI
HNTB Companies
Hoag Hospital
Hoffmann-La Roche
Holly Corporation
Home Shopping Network
Honeywell International Inc.

Horizon Blue Cross Blue Shield of New Jersey
Hormel Foods Corporation
Hospira
Hostess Brands, Inc.
Hot Topic, Inc.
Houghton Mifflin Company
Hovnanian Enterprises, Inc.
Howard Hughes Medical Institute
HR Access
HSBC Holdings
HSBC-North America
HSN, Inc.
Hubbard Broadcasting
Hughes Network Systems, Inc.
Humana, Inc.
Hunt Consolidated
Huntington Bancshares Incorporated
Huntsman
Husky Injection Molding Systems
Hutchinson Technology
Hyatt Hotels Corporation
Hy-Vee, Inc.
Iberdrola Renewables Inc.
IBM
ICBC
IDACORP
Idaho Power Company
IDEXX Laboratories
IHS Group
IKON Office Solutions
Illinois Municipal Retirement Fund
Imaging Healthcare Specialists
IMS Health Inc.
Indeck Energy Services, Inc.
Independence Blue Cross
Indiana Blood Center
Indiana Farm Bureau Insurance
Indiana University Bloomington

Infragistics
ING
Ingersoll-Rand Company Limited
Ingram Content Group
Ingram Micro, Inc.
Inova Health System
Institute for Defense Analyses
Integrys Energy Group
Intel
Intercontinental Hotels
InterContinental Hotels Group Americas
Intermountain Health Care, Inc.
International Data
International Electric Supply Corporation
International Flavors & Fragrances
International Imaging Materials, Inc.
International Paper Company

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International Power America Inc.
International Specialty Products Inc
Interstate Hotels & Resorts
Invacare Corporation
Invensys Controls
Invesco Ltd.
Investment Company Institute
ION Geophysical
Iron Mountain, Inc.
Irvine Company
Irving Oil Commercial G.P.
ISM Education Loans, Inc.
ISO New England
iSoft
ISP
Isuzu North America Corporation
ITC DeltaCom, Inc.
Itochu International, Inc. North America
ITT Corporation
ITT Educational Services, Inc.
ITT Systems Division
J. Crew
J. Paul Getty Trust
J.C. Penney Company
J.D. Power and Associates
J.E. Mittler & Company
J.M. Huber Corporation
J.R. Simplot Company
Jabil Circuit
Jack in the Box, Inc.
Jackson Hewitt Tax Service, Inc.
Jacobs Engineering
Jacobs Technology, Inc.
Jeppesen Sanderson, Inc.
JM Family Enterprises
Jockey International, Inc.
John Hancock
John Wiley & Sons, Inc.
Johns Manville
Johnson & Johnson
Johnson Controls, Inc.
Johnson Financial Group
Jones Lang LaSalle
Jostens, Inc.
Journal Broadcast Group
Joy Global Inc.
JPMorgan Chase Asset Management
Kaiser Foundation Health Plan
Kaiser Permanente

Kaiser Permanente Northern California Region
Kaiser Permanente Northwest Region
Kalmbach Publishing
Kaman Corporation
Kaman Industrial Technologies
Kamehameha Schools

Kao Brands
Katun Corporation
KBR, Inc.
Kellogg Company
Kelsey-Seybold Clinic
Kemper Auto and Home Group
Kendle International
Key Partners Inc.
KeyCorp
Keystone Foods, LLC
KH Consulting Group
Kimberly-Clark
Kimpton Hotels & Resorts
Kinder Morgan, Inc.
Kindred Healthcare, Inc.
King Pharmaceuticals, Inc
Kinross Gold
Kisco Senior Living, LLC
KLA-Tencor
Knowledge Learning Corporation
Knowles Electronics
Knoxville Utilities Board
Koch Industries
Kohler Company
Kohl's
Kone, Inc. (USK) US
KPMG LLP
Kraft Foods, Inc.
Krispy Kreme Doughnuts, Inc.
Kyocera America, Inc.
L.L.Bean, Inc.
L-3 Communications Corporation
Laboratory Corporation of America
Lafarge North America
Lance
Land O'Lakes, Inc.
Lanxess
Laureate Education, Inc.
Lawrence Berkeley National Laboratory
Lear Corporation
Legacy Health System
Leggett and Platt
Lehigh Hanson NAM
Lennox International Inc.

Leprino Foods Company
LES
Level 3 Communications
Levi Strauss & Co.
LexisNexis Group
LF USA
Liberty Mutual Group
Life Technologies
Limited
Limited Brands, Inc.
Lincoln Electric System
Lincoln Financial
Linet Americas, Inc.

Lockheed Martin Corporation
Loews Corporation
LOMA
Lord Corporation
L Oreal USA, Inc.
Loretto
Lorillard Inc.
Los Angeles Community College District
Lower Colorado River Authority
LPL Financial
LQ Management LLC
Lubrizol Corporation
Luck Stone Corporation
Luxottica Retail US
Lyondell Chemical
Lyric Opera of Chicago
M&T Bank Corporation
MacDonald, Dettwiler and Associates Ltd. US
MAG Industrial Automation Systems
Magellan Midstream Holdings, LP
Magna Seating
Main Street America Group
Mandarin Oriental Hotel Group
Maple Leaf Foods Inc.
Marathon Oil Company
Marine Spill Response Corporation
Markel Corporation
Marriott International, Inc.
Mars North America
Mars, Incorporated
Marsh & McLennan
Marshall & Ilsley Corporation
Marshfield Clinic
Martin Marietta Materials, Inc.
Mary Free Bed Rehabilitation Hospital
Mary Kay, Inc.
Mary Washington Hospital

Masco Corporation
Massachusetts Mutual
MassMutual Life Insurance Company
MasterCard
Mattel, Inc.
Matthews International
Mayo Foundation Mayo Clinic, Rochester
McClatchy
McCormick & Company, Inc.
McDermott International, Inc.
McDonald's Corporation
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MDU Resources Group, Inc.
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Memorial Health System, Inc.
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Mercury Insurance Group
Mercy Health System of Southeastern Pennsylvania
Mercy Iowa City
Meredith
MetLife
MetroPCS Communications, Inc.
MFS Investment Management
MGIC Investment Corp.
Michael Baker Corporation
Microsoft
Midwest Independent Transmission
Midwest Research Institute
Milacron, Inc.
Millennium Inorganic Chemicals
MillerCoors LLC
Millipore
Milton Hershey School
Mine Safety Appliances
Mirant Corporation
Mitsui & Co. (USA), Inc.
Mizuno USA
Modern Woodmen of America
Mohawk Industries
Molex
Molson Coors Brewing Company
Molycorp Minerals
MoneyGram International, Inc.
Monsanto Company
Montefiore Medical Center
Moody's
Morgan Murphy Stations WISC
Mosaic
Motion Picture Industry Pension & Health Plans (MPIPHP)
Motor Coach Industries International, Inc.
Motorists Insurance Group
Motorola
MSC Industrial Direct
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Musculoskeletal Transplant Foundation
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MWH Global
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Nash-Finch
Nation
National Association of Home Builders
National Center for Atmospheric Research
National Church Residences
National Futures Association
National Geographic Society
National Interstate Insurance Company
National Renewable Energy Laboratory
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National Security Technologies, LLC
National Starch Polymers Group
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Nautilus, Inc.
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Navigant Consulting, Inc.
Navistar International Corporation
Navy Exchange Service Command (NEXCOM)
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Naylor
NBC Universal
NBTY, Inc.
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NCH Corporation
NCMIC Group, Inc.
Nebraska Furniture Mart
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Nelnet, Inc.
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Nestlé USA, Inc.
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NeuStar, Inc.
New Jersey Transit
New York Independent System Operator
New York Life Insurance Company
New York Power Authority
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Orbital Sciences
Orlando Utilities Commission
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Owens Corning
Owens-Illinois, Inc.
Oxford Industries, Inc.
Oyster Pond Associates
PACCAR
PACCESS, LLC
Pacific Gas & Electric Company
Pacific Life
Pacific Northwest National Laboratory
Packaging Corporation of America
Pactiv Corporation
Paddock Publications
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PG&E Corporation
Pharmaceutical Product Development, Inc.
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PHH Arval
Philip Morris International
Phillips-Van Heusen Corporation
Phoenix Children's Hospital
Phoenix Companies
Physiotherapy Associates
Piedmont Natural Gas Company, Inc.
Pier 1 Imports, Inc.
Pinnacle Health System
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PJM Interconnection
Plains Exploration & Production Company
PlainsCapital Corporation
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PMA Capital Corporation
PNC Financial Services
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Population Council
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Port of Portland
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Portland Cement Association
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PPG Industries, Inc.
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Ralcorp Holdings, Inc.
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Rappahannock Westminster-Canterbury, Inc.
Raymond James Financial
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Realogy
Recreational Equipment, Inc.
Redcats USA
Reddy Ice
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Reed Business
Regency Centers
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Reinsurance Group of America Inc.
Rensselaer Polytechnic Institute
Republic National Distributing Company
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Revlon
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Reynolds Packaging
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RGA Reinsurance Group
Rhodia, Inc.
Rich Products Corporation
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Rio Tinto plc US
Riviana Foods, Inc.
Robert Half International
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SAIC, Inc.
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San Antonio Water System
Sandia National Laboratories
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Sanofi-Aventis
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Santee Cooper
Sara Lee Corporation
Sarkes Tarzian KTVN
Sarkes Tarzian WRCB
SAS Institute
Saturday Evening Post
Saudi Arabian Oil
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Sava Senior Care, LLC
Savannah River Nuclear Solutions
Savannah River Remediation
Save the Children Federation, Inc.
SCA Americas
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Schneider Electric North America
Schneider National, Inc.
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Sensata Technologies
Sensient Technologies
Sentry Insurance
Serco NA
SES Engineering
Seton Family of Hospitals
Severn Trent Services
Sharp Electronics Corporation
Shearman & Sterling LLP
Shell Oil
Sherwin-Williams
Shire Pharmaceuticals
Sidley Austin, LLP
Siemens
Siemens AG US
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Simpson Investment Company
Simpson Manufacturing
Sinclair Broadcast Group
Sirius XM Radio
Sisters of Mercy Health System
Skype
SLM Corporation
Smith & Nephew
SMSC Gaming Enterprises
Smurfit-Stone Container Corporation
Snap-on
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Society of Manufacturing Engineers
Sodexo USA
Sodexo, Inc.
Solix, Inc.
Solo Cup Company
Solutia Inc.
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Sonoco Products Company
Sony Corporation
SourceMedia
Southern California Edison
Southern Company Services
Southern Maryland Electric Cooperative

Southern Union Company
Southwest Gas Corporation
Southwest Generation Operating Company LLC
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Spectra Energy
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Speedway SuperAmerica, LLC
Spirit AeroSystems
Sprint Nextel
SPS Technologies, LLC
SPX
SRA International
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St. Francis Health System

St. John Health
St. Jude Children's Research Hospital
St. Luke's Episcopal Health System
St. Luke's Health System
St. Vincent Health
St. Vincent Hospital
Stamford Hospital
StanCorp Financial Group
Stanford University
Stanford University Medical Center
Stantec Inc.
Starboard Cruise Services, Inc.
Starbucks Coffee Company
StarTek
Starwood Hotels & Resorts Worldwide, Inc
State Auto Insurance Company
State Farm Insurance
State of North Carolina
State Street
Steelcase Inc.
Stericycle, Inc.
Sterling Bancshares
Sterling Commerce, Inc.
STG, Inc.
Stop & Shop
STP Nuclear Operating
Strayer Education, Inc.
Stryker Corporation
Subaru of America, Inc.
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Sun Life Financial (US)
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Sunoco, Inc.
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Swedish Match North America
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TDS Telecommunications Corporation
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Teleflex Incorporated
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Tellabs
Tellus Operating Group, LLC
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Tenet Healthcare Corporation
Tennant Company
Tennessee Valley Authority
Teradata
Terex Corporation
Terra-Gen Operating Company
Tesoro
Texas Children's Hospital
Texas Mutual Insurance Company
Texas Petrochemicals
Textron Inc.
TGS-NOPEC Geophysical Company
The Aerospace Corporation
The Allstate Corporation
The AmeriHealth Mercy Family of Companies
The Bank of New York Mellon
The Bar Plan
The Beacon Mutual Insurance Company
The Boeing Company
The Bon-Ton Stores, Inc.
The Brink's Company
The Bureau of National Affairs, Inc.
The Capital Group Companies
The Children's Medical Center of Dayton
The Children's Mercy Hospital
The Clorox Company
The Coca-Cola Company
The Gap, Inc.
The Golden 1 Credit Union
The Goodyear Tire & Rubber Company
The Guardian Life Insurance Company of America

The Hanover Insurance Group, Inc.
The Hershey Company
The Hillman Company

The Hong Kong and Shanghai Hotels, Limited
The J.M. Smucker Company
The Johns Hopkins Hospital
The Johns Hopkins University
The Johns Hopkins University Applied Physics Laboratory
The Keane Organization
The Kroger Company
The McGraw-Hill Companies
The Medical University of South Carolina Hospital Authority
The Metropolitan Museum of Art
The Midland Company
The MITRE Corporation
The National Academies
The Nebraska Medical Center
The New York Public Library
The Nielsen Company
The Ohio State University
The Options Clearing Corporation
The Pampered Chef
The Pantry, Inc.
The Pennsylvania State University Penn State Hershey Medical Center
The Professional Golfers Association of America
The Regence Group
The Schwan Food Company
The Service Master Company
The Sherwin-Williams Company
The Timken Company
The Toro Company
The Travelers Companies, Inc.
The Trizetto Group
The University of Arizona
The University of Chicago Medical Center
The University of Texas M. D. Anderson Cancer Center
The Valspar Corporation
The Walt Disney Company
The Walt Disney Company Walt Disney Parks & Resorts, LLC
The Washington Hospital
The Williams Companies, Inc.
The Yankee Candle Company, Inc.
Thermo Fisher Scientific, Inc.
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Think Federal Credit Union
Thomas & Betts Corporation
Thomas Publishing
Thompson Hine LLP
Thomson Reuters
Thrivent Financial for Lutherans

TIAA-CREF
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Time Warner Cable

Time Warner, Inc.
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Toray Composites, Inc.
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Toro
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Toshiba America Information Systems, Inc.
Total Reward Solutions
Total System Services
TotalBank
Tower Automotive, Inc.
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TravelCenters of America
Travelers
Travis County
Trinity Industries
Tronox
True Value Company
Truman Medical Centers
Trust Company of America
Trustmark Companies
TRW Automotive
T-Systems
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Tufts University
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Tupperware Corporation
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Turner Broadcasting System, Inc.
tw telecom inc.
Twin Cities Public Television TPT
Tyco Electronics Corporation
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Tyson Foods Incorporated
U.S. Bancorp
U.S. Foodservice
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University of California Irvine (UCI) Medical Center
University of California San Francisco Medical Center
University of Dayton
University of Houston
University of Michigan
University of Michigan Health System
University of New Mexico
University of Notre Dame
University of Pennsylvania
University of Pittsburgh Medical Center
University of Rochester Health System
University of Texas M.D. Anderson Cancer Center
University of Wisconsin Hospital and Clinics
UNUM Group
UPM-Kymmene, Inc.
URS Corporation Energy & Construction
US Airways
US Federal Credit Union
US Oncology, Inc.
USAA
USANA Health Sciences
USG Corporation
USGA
Utah State University Research Foundation
Valero Energy Corporation
Valmont Industries, Inc.
Vanderbilt University Vanderbilt University Medical Center
Varian Medical Systems, Inc.
Vectren Corporation
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Verisk Analytics, Inc.
Verizon Communications Inc.
Vermeer Manufacturing Company
Vertex Pharmaceuticals
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Viceroy Hotel Group
Viking Pump, Inc.
Village Farms
Vinson & Elkins, LLP
Virginia Commonwealth University Health System (VCUHS)
Virtua Health
Visa, Inc.
Vision Service Plan
Visiting Nurse Service of New York
Vistar
Visteon Corporation
Volvo Group North America
Vonage Holdings Corporation
Vulcan Materials Company
VWR International
VyStar Credit Union
W. L. Gore & Associates, Inc.
W. R. Grace & Co.
W.K. Kellogg Foundation
W.W. Grainger, Inc.
Waddell & Reed
Walgreen Company
Warnaco
Warner Bros. Entertainment Inc.
Washington Post
Waste Management
Waters Corporation
Watson Pharmaceuticals
Watts Water Technologies
Wayne Savings Community Bank
Webster Bank
Webster Financial Corporation
Wegmans Food Markets, Inc.
Weil, Gotshal & Manges, LLP
Weill Cornell Medical College
Wellcare Health Plans
Wellhead Electric Company, Inc
Wellington Management Company
Wellmark BlueCross BlueShield
WellPoint, Inc.
Wells Dairy, Inc.
Wells Fargo

Wells Real Estate Funds
Wendy's/Arby's Group, Inc.
Wenger Corporation
West Valley Environmental Services, LLC
Westar Energy
Westat
Western Digital
Westfield Group

Westinghouse Electric Company
Westwood College
Weyerhaeuser Company
WGL Holdings Inc
Wheaton Franciscan Healthcare
Whirlpool Corporation
Whole Foods Market
William Marsh Rice University
Williams Scotsman, Inc.
Williams-Sonoma, Inc.
Wilmer Cutler Pickering Hale & Dorr
Wilmington Trust
Windstream Corporation
Wipfli LLP
Wipro Technologies
Wisconsin Energy
Wm. Wrigley Jr. Company
Wolters Kluwer NA
Woman s Life Insurance Society
World Kitchen
Worthington Industries
Wray Edwin KTBS
Wright Express Corporation
WW Grainger, Inc.
Wyndham Worldwide Corporation
Xcel Energy Inc.
Xerox Corporation
Yahoo!
Yamaha Corporation of America
Yankee Publishing
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**GOODRICH CORPORATION
FOUR COLISEUM CENTRE
2730 WEST TYVOLA ROAD
CHARLOTTE, NC 28217**

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE PROXY MATERIALS

If you would like to reduce the costs incurred by Goodrich Corporation in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access proxy materials electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to Goodrich Corporation, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS
BELOW IN BLUE OR BLACK INK
AS FOLLOWS:

M30389-P06449-Z54757

KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

**GOODRICH
CORPORATION**

For All Withhold All For All Except

To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.

**The Board of Directors
recommends that you
vote FOR all of the
following:**

**Vote on Directors
ELECTION OF
1. DIRECTORS**

o o o

- 01) Carolyn Corvi
- 02) Diane C. Creel
- 03) Harris E. DeLoach, Jr.
- 04) James W. Griffith
- 05) William R. Holland
- 06) John P. Jumper
- 07) Marshall O. Larsen
- 08) Lloyd W. Newton
- 09) Alfred M. Rankin, Jr.

Vote on Proposals

The Board of Directors recommends you vote FOR the following proposals:

	For	Against	Abstain
2. Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2011.
3. Approve the Goodrich Corporation 2011 Equity Compensation Plan.
4. Adopt a resolution approving, on an advisory basis, the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K in the proxy statement.

The Board of Directors recommends you vote for EVERY THREE YEARS on the following proposal:

	Every 3 Years	Every 2 Years	Every 1 Years	Abstain
5. Select, on an advisory basis, the frequency of future shareholder advisory votes to approve the compensation of our named executive officers.

NOTE: Such other business as may properly come before the meeting or any adjournment thereof.

For address changes and/or comments, please check this box and write them on the back where indicated.

THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED HEREIN. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR THE ELECTION OF ALL DIRECTORS, AND FOR PROPOSALS 2, 3, AND 4 AND EVERY THREE YEARS FOR PROPOSAL 5.

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Please sign exactly as your name(s) appear(s) hereon. When signing as attorney, executor, administrator, or other fiduciary, please give full title as such. Joint owners should each sign personally. All holders must sign. If a corporation or partnership, please sign in full corporate or partnership name by authorized officer.

Signature [PLEASE SIGN WITHIN
BOX] Date

Signature (Joint Date
Owners)

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March 10, 2011

To Our Shareholders:

The Annual Meeting of Shareholders will be held at Goodrich's headquarters, Four Coliseum Centre, 2730 West Tyvola Road, Charlotte, North Carolina on Tuesday, April 19, 2011, at 10:00 a.m.

If you have chosen to view our proxy statements and annual reports over the Internet instead of receiving paper copies in the mail, you can access our proxy statement and 2010 annual report at www.goodrich.com/proxymaterials or you can access the materials and vote at www.proxyvote.com.

The proxy statement contains information regarding the meeting, the nominees for election to the Board of Directors, the proposal to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2011, the proposal to approve the Goodrich Corporation 2011 Equity Compensation Plan, the proposal to adopt a resolution approving, on an advisory basis, the compensation paid to the Company's named executive officers, as disclosed pursuant to Item 402 of Regulation S-K in the proxy statement, and the proposal to select, on an advisory basis, the frequency of future shareholder advisory votes to approve the compensation of our named executive officers. The voting results from the Annual Meeting of Shareholders will be posted on our website, www.goodrich.com/shareholdersmeeting, on April 20.

It is important that these shares be represented at this meeting. Even if you plan to attend, we encourage you to promptly vote these shares by one of the methods listed on the reverse side of this proxy card.

Sincerely,

Marshall O. Larsen

Chairman, President and

Chief Executive Officer

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice and Proxy Statement and Annual Report are available at www.goodrich.com/proxymaterials.

You may also access the materials and vote at www.proxyvote.com.

M30390-P06449-Z54757

GOODRICH CORPORATION

PROXY

This Proxy is Solicited on Behalf of the Board of Directors

The undersigned hereby authorizes Marshall O. Larsen and Frank A. DiPiero, or either of them, with full power of substitution, to represent the undersigned and to vote all common stock of GOODRICH CORPORATION which the undersigned would be entitled to vote at the Annual Meeting of Shareholders of the Company to be held on April 19, 2011, and at any adjournment thereof, as indicated, and in their discretion upon other matters as may properly come before the meeting.

You are encouraged to specify your choice by marking the appropriate boxes. SEE REVERSE SIDE, but you need not mark any boxes if you wish to vote in accordance with the Board of Directors' recommendations. The Proxies cannot vote these shares unless you sign and return this card. The Board of Directors recommends a vote FOR the election of all directors in Proposal 1, FOR Proposals 2, 3, and 4 and for Every Three Years on Proposal 5.

This card also constitutes your voting instructions for any and all shares held of record by BNY Mellon Shareowner Services for this account in the Company's Dividend Reinvestment Plan, and will be considered to be voting instructions to the plan trustee with respect to shares held in accounts under the Goodrich Corporation Employees Savings Plan.

Address Changes/Comments:

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

(Continued, and to be signed and dated, on reverse side.)