

GOODRICH CORP
Form DEF 14A
March 12, 2009

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Goodrich Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
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**2009
Annual Meeting
of Shareholders
and
Proxy Statement**

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Four Coliseum Centre
2730 West Tyvola Road
Charlotte, North Carolina 28217

NOTICE TO SHAREHOLDERS

THE ANNUAL MEETING OF SHAREHOLDERS of Goodrich Corporation, a New York corporation, will be held at Goodrich's headquarters, Four Coliseum Centre, 2730 West Tyvola Road, Charlotte, North Carolina on April 21, 2009, at 10:00 a.m. Eastern Time to:

1. Elect as Directors the eleven nominees named in the attached Proxy Statement to hold office until the next Annual Meeting of Shareholders and until their respective successors are elected and qualified.
2. Ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2009.
3. Vote on a shareholder proposal regarding an amendment to the Restated Certificate of Incorporation for majority election of Directors in uncontested elections.
4. Transact such other business as may properly come before the meeting.

Information with respect to these matters is contained in the Proxy Statement attached to this Notice.

The Board of Directors has fixed March 2, 2009 as the record date for determining shareholders entitled to notice of and to vote at the meeting. Only holders of record at the close of business on that date shall be entitled to notice of and to vote at the meeting or any adjournment thereof.

A proxy for use at the meeting in the form accompanying this Notice is hereby solicited on behalf of the Board of Directors from holders of Common Stock. Shareholders may withdraw their proxies at the meeting should they be present and desire to vote their shares in person, and they may revoke their proxies for any reason at any time prior to the voting thereof.

It is important that every shareholder be represented at the meeting regardless of the number of shares owned. To minimize expense associated with collecting proxies, please execute and return your proxy promptly.

By Order of the Board of Directors

Sally L. Geib
Secretary

Dated March 12, 2009

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to Be Held on April 21, 2009. Our 2009 Notice of Annual Meeting and Proxy Statement and 2008 Annual Report to Shareholders are available at www.goodrich.com/governance.

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GENERAL INFORMATION

The accompanying proxy is solicited on behalf of the Board of Directors of Goodrich Corporation. Our 2009 Annual Meeting of Shareholders will be held at our corporate headquarters, Four Coliseum Centre, 2730 West Tyvola Road, Charlotte, North Carolina at 10:00 a.m. Eastern Time on April 21, 2009.

All shareholders of record of our Common Stock at the close of business on March 2, 2009 are entitled to notice of and to vote at the Annual Meeting. There were 123,839,913 shares outstanding and entitled to vote on such date, and each share is entitled to one vote. There are no cumulative voting rights.

Most shareholders have a choice of voting by proxy over the Internet, by using a toll-free telephone number or by completing a proxy card and mailing it in the postage-paid envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. The Internet and telephone voting facilities for shareholders of record will close at 11:59 p.m. Eastern Time on April 20, 2009.

When you vote by proxy, your shares will be voted according to your instructions. You can revoke your proxy at any time before it is exercised by written notice to our Secretary, timely delivery of a properly executed, later-dated proxy (including an Internet or telephone vote) or voting by ballot at the Annual Meeting. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Annual Meeting.

Proxies for shares of Common Stock will also represent shares held under our Dividend Reinvestment Plan. Proxies will also be considered to be voting instructions to the plan trustees with respect to shares held in accounts under the Goodrich Corporation Employees Savings Plan and Goodrich Corporation Savings Plan for Rohr Employees. We have been advised that voting instructions from plan participants must be received by not later than 11:59 p.m. Eastern Time on April 16, 2009 in order to be included in the final voting instruction tabulation provided to the plan trustees.

We will pay the expense of soliciting these proxies. In addition to using the mails and the Internet, our officers, Directors and employees may solicit proxies personally, by telephone or by facsimile. We will reimburse brokers and others holding shares in their names, or in the names of nominees, for their expenses in sending proxy material to the beneficial owners of such shares and obtaining their proxies. We have retained Laurel Hill Advisory Group, LLC, 2 Robbins Lane, Suite 201, Jericho, NY 11753, to assist us in soliciting proxies from shareholders, including brokers, custodians, nominees and fiduciaries, and will pay that firm fees estimated at \$10,000 for its services, plus the firm's expenses and disbursements.

The approximate date on which we will begin mailing this Proxy Statement, the accompanying proxy and our 2008 Annual Report, including financial statements, to shareholders is March 12, 2009.

As permitted by rules recently adopted by the SEC, we are making this Proxy Statement and our 2008 Annual Report available on our Internet site at www.goodrich.com/governance. If you received a Notice by mail, you will not receive a printed copy of the proxy materials in the mail unless you request to receive these materials. Instead, the Notice instructs you how to access and review all of the important information in the Proxy Statement and 2008 Annual Report. The Notice also instructs you how to submit your vote over the Internet. If you received a Notice by mail and would like to receive a printed copy of our proxy materials, you should follow the instructions for requesting such materials in the Notice.

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If you received a printed copy of the proxy materials, the Company now offers the opportunity to electronically receive future proxy statements and annual reports over the Internet. By using these services, you are not only able to access these materials more quickly than ever before, but you are also helping the Company reduce printing and postage costs associated with their distribution. Online services are available to our registered and beneficial shareholders who have active email accounts and Internet access. Registered shareholders maintain shares in their own names. Beneficial shareholders have shares deposited with a bank or brokerage firm. To view a listing of participating brokerage firms or to enroll in the program, please go to <http://enroll.icsdelivery.com/gr> and click on the appropriate selection. If you have accounts with multiple brokers, you will need to complete the process for each brokerage account. Upon completion of your enrollment, you will receive an email confirming your election to use the online services. Your enrollment in the online program will remain in effect as long as your account remains active or until you cancel it. If you are a current employee with a Company provided e-mail address, you will automatically receive proxy statements and annual reports over the Internet unless you notify the Company of your decision to receive paper copies in the mail.

Our principal executive offices are located at Four Coliseum Centre, 2730 West Tyvola Road, Charlotte, North Carolina 28217.

Unless the context otherwise requires, the terms we, our, us, Goodrich and the Company as used in this Proxy Statement refer to Goodrich Corporation.

VOTE REQUIRED FOR APPROVAL

The presence, in person or by proxy, of the holders of a majority of the shares of Common Stock entitled to vote at the Annual Meeting is necessary to constitute a quorum. Withheld votes, abstentions and broker non-votes are counted as present and entitled to vote for purposes of constituting a quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item and has not received voting instructions from the beneficial owner.

If you are a beneficial shareholder and your broker holds your shares in its name, the rules of the New York Stock Exchange permit your broker to vote your shares on the election of Directors and the ratification of the appointment of our independent registered public accounting firm, even if the broker does not receive voting instructions from you. However, under the rules of the New York Stock Exchange, your broker cannot vote your shares on the shareholder proposal if you do not timely provide instructions for voting your shares.

The eleven nominees for Director receiving a plurality of the votes cast at the Annual Meeting in person or by proxy shall be elected. This means that the Director nominee with the most votes for a particular slot is elected for that slot. Only votes for affect the outcome.

Our Guidelines on Governance set forth our procedures if a Director nominee is elected, but receives a majority of withheld votes. In an uncontested election, any nominee for Director who receives a greater number of withheld votes than votes for such election is required to tender his or her resignation following certification of the shareholder vote. The Committee on Governance is required to make recommendations to the Board with respect to any such letter of resignation. The Board is required to take action with respect to this recommendation and to publicly disclose the decision and the rationale for the decision.

Ratification of the appointment of our independent registered public accounting firm and the vote on the shareholder proposal will be decided by a majority of the votes cast for or against each proposal at the Annual Meeting. Abstentions and, if applicable, broker non-votes are not counted as votes for or against these proposals.

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PROPOSALS TO SHAREHOLDERS

1. ELECTION OF DIRECTORS

One of the purposes of the Annual Meeting is the election of eleven Directors to hold office until the next annual meeting of shareholders in 2010 and until their respective successors are elected and qualified. The eleven nominees for election as a Director are named on the following pages. All of them are now Directors whose terms expire at the 2009 Annual Meeting.

All nominees have indicated that they are willing to serve as Directors if elected. If any nominee should be unable or unwilling to serve, the proxies will be voted for the election of such person as may be designated by our Board of Directors to replace such nominee.

The Board recommends that you vote FOR the election of these nominees for Director.

NOMINEES FOR ELECTION

DIANE C. CREEL, age 60 Director since December 22, 1997.

Retired Chairman, Chief Executive Officer and President, Ecovation, Inc., a wastewater management systems company that was acquired by Ecolab in February 2008. Ms. Creel has a B.A. and M.A. from the University of South Carolina. Ms. Creel was Chairman, Chief Executive Officer and President of Ecovation, Inc. from May 2003 to September 2008. Prior to joining Ecovation, Ms. Creel served as Chief Executive Officer and President of Earth Tech from January 1993 to May 2003, Chief Operating Officer from 1987 to 1993 and Vice President from 1984 to 1987. Ms. Creel was director of business development and communications for CH2M Hill from 1978 to 1984, manager of communications for Caudill Rowlett Scot, Houston, Texas from 1976 to 1978, and director of public relations for LBC&W, Architects-Engineers-Planners, Columbia, South Carolina from 1971 to 1976. Ms. Creel currently serves on the board of directors of Allegheny Technologies.

GEORGE A. DAVIDSON, JR., age 70 Director since April 15, 1991.

Retired Chairman, Dominion Resources, Inc., a natural gas and electric power holding company. Mr. Davidson is a graduate of the University of Pittsburgh with a degree in petroleum engineering. Effective January 2000, Dominion Resources and Consolidated Natural Gas Company merged. He has been associated with Consolidated Natural Gas since 1966. He became Vice Chairman of Consolidated Natural Gas in October 1985 and served in that position until January 1987, when he assumed the additional responsibility of Chief Operating Officer. In May 1987 Mr. Davidson became Chairman and Chief Executive Officer and served in that capacity until becoming Chairman of Dominion Resources, Inc. in January 2000. He retired from that position in August 2000. Mr. Davidson is a director of Dominion Resources, Inc. and PNC Financial Services Group, Inc. Mr. Davidson is Past Chairman of the Board of The Pittsburgh Cultural Trust, Chairman Emeritus of the Pittsburgh Civic Light Opera Board and Past Chairman of the American Gas Association. Mr. Davidson is a trustee of the University of Pittsburgh, chairs the Board of Visitors of the Katz Graduate

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School of Business and is Vice Chair of the Board of Visitors of the School of Engineering, and serves on the board of the Sewickley Valley Hospital Foundation and the Carnegie Museum of Natural History.

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HARRIS E. DELOACH, JR., age 64 Director since April 17, 2001.

Chairman, President and Chief Executive Officer, Sonoco Products Company, a worldwide, vertically integrated packaging company. Mr. DeLoach holds a bachelor of arts degree in business administration and a juris doctor degree from the University of South Carolina. Mr. DeLoach was named President and Chief Executive Officer of Sonoco Products Company in July 2000 and Chairman in April 2005. Previously, he was Senior Executive Vice President and Chief Operating Officer from 1999 to 2000, Executive Vice President from 1996 to 1999 and Group Vice President from 1993 to 1996. He joined Sonoco in 1985. Mr. DeLoach is a director of Sonoco Products Company and Progress Energy Corporation. He also serves on the Board of Directors of the Palmetto Institute, member of the University of South Carolina Business Partnership Foundation, member of the Board of Directors of the South Carolina Governor's School for Science and Mathematics Foundation, and Past Chairman of the South Carolina Chamber of Commerce.

JAMES W. GRIFFITH, age 55 Director since July 15, 2002.

President and Chief Executive Officer, The Timken Company, a global leader in friction management and power transmission products and services. Mr. Griffith earned his B.S. in industrial engineering and his M.B.A. from Stanford University. He joined The Timken Company in 1984. From 1984 to 1999 he held a wide range of positions in several areas of the company, including international operations and strategic management. He was elected President and Chief Operating Officer in 1999 and President and Chief Executive Officer in July 2002. Mr. Griffith is a director of The Timken Company, is on the Executive Committee and Board of Directors of the National Association of Manufacturers, is on the Board of Directors of MAGNet, serves as the President for the World Bearing Association, and is a member of the Board of Trustees of Mount Union College.

WILLIAM R. HOLLAND, age 70 Director since July 12, 1999.

Retired Chairman, United Dominion Industries Limited, a diversified manufacturing company that was acquired by SPX Corporation in May 2001. Mr. Holland has bachelor of arts and juris doctor degrees from the University of Denver. He joined United Dominion in 1973 as Vice President and General Counsel. He held various executive positions with United Dominion, including Chief Executive Officer from 1986 to 2000 and Chairman from 1987 to 2001. Mr. Holland is Chairman and a director of EnPro Industries, Inc. and a director of Lance Inc. He is a director of Crowder Construction Company, ERC, Inc., the Carolinas Healthcare System Foundation, Charlotte, North Carolina, a corporate member of the Jupiter, Florida Medical Center and a member of the Advisory Board of the Walker School of Business, Appalachian State University, Boone, North Carolina. He was named as an Outstanding Director in 2008 by the Outstanding Directors Institute.

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JOHN P. JUMPER, age 64 Director since December 5, 2005.

Retired Chief of Staff, United States Air Force. General Jumper retired from the United States Air Force in 2005 after a distinguished 39-year military career. In his last position as Chief of Staff he served as the senior military officer in the Air Force leading more than 700,000 military, civilian, Air National Guard and Air Force Reserve men and women. In that position he administered annual budgets in excess of \$100 billion. As Chief of Staff, he was a member of the Joint Chiefs of Staff providing military advice to the Secretary of Defense, the National Security Council and the President. From 2000-2001 General Jumper served as Commander, Air Combat Command. During the 1999 war in Kosovo and Serbia he commanded U.S. Air Forces in Europe and Allied Air Forces Central Europe. In earlier assignments he served on the Joint Staff and as Senior Military Assistant to Secretary of Defense Dick Cheney and Secretary Les Aspin. He also commanded an F-16 fighter squadron and two fighter wings, accumulating more than 5,000 flying hours, including more than 1,400 combat hours in Vietnam and Iraq. General Jumper holds a degree in electrical engineering from the Virginia Military Institute and an M.B.A from Golden Gate University in San Francisco. He currently serves on the boards of SAIC, Inc., Jacobs Engineering Group, Inc., TechTeam Global, Inc. and Somanetics Corporation, as well as on the non-profit boards of The Marshall Foundation, the Air Force Village Charitable Foundation, and The American Air Museum in Britain.

MARSHALL O. LARSEN, age 60 Director since April 16, 2002.

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

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LLOYD W. NEWTON, age 66 Director since December 11, 2006.
General, United States Air Force (Ret.) and Retired Executive Vice President, Pratt & Whitney Military Engines, a leading manufacturer of engines for military aircraft. General Newton retired from the United States Air Force in August 2000 after a distinguished 34-year career. He culminated his Air Force career as a four-star General and was Commander, Air Education and Training Command. His command consisted of 13 bases, 43,000 active duty personnel and 14,000 civilians. In April 2005 he was appointed by the President to serve as a commissioner on the Defense 2005 Base Realignment and Closure Commission. General Newton joined Pratt & Whitney Military Engines in September 2000 as Vice President where he was responsible for all aspects of business development, customer requirements, support and services. He retired from Pratt & Whitney in March 2006 as Executive Vice President. General Newton received a Bachelor of Science degree in Aviation Education from Tennessee State University in 1966. In 1985, he received a Master of Arts degree in Public Administration from George Washington University. He currently serves on the Board of Directors of Sonoco Products Company and Torchmark Corporation, as well as on the non-profit Boards of the National Air and Space Museum, the National Museum of the U.S. Air Force and the Air Force Association.

DOUGLAS E. OLESEN, age 70 Director since October 1, 1996.
Retired President and Chief Executive Officer, Battelle Memorial Institute, a worldwide technology organization, working for government and industry. Dr. Olesen earned his B.S., M.S. and Ph.D. degrees in civil engineering at the University of Washington. In 1963 Dr. Olesen joined Boeing Aircraft Company as a Research Engineer and assisted in developing and testing closed life-support systems for long-term space missions. He joined Battelle Memorial Institute, Northwest Labs, in Richland, Washington in 1967 and served in a series of management positions. Dr. Olesen was named Vice President and Director of the Northwest Division in 1979. In 1984 he became Executive Vice President and Chief Operating Officer of the Battelle Memorial Institute in Columbus, Ohio. In 1987 he was elected President and Chief Executive Officer and in October 2001 he retired.

ALFRED M. RANKIN, JR., age 67 Director since April 18, 1988.
Chairman, President and Chief Executive Officer, NACCO Industries, Inc., an operating holding company with interests in the mining and marketing of lignite, manufacturing and marketing of forklift trucks, and the manufacturing and marketing of small household electric appliances. Mr. Rankin holds a bachelor of arts degree in economics from Yale University, and a juris doctor degree from the Yale Law School. He joined NACCO Industries in April 1989 as President and Chief Operating Officer and became President and Chief Executive Officer in May 1991. He assumed the additional title of Chairman in May 1994. Previously, Mr. Rankin served in a number of management positions with Eaton Corporation, with the most recent being Vice Chairman and Chief Operating Officer from April 1986 to April 1989. He is a director of NACCO Industries, Inc., NMHG Holding Co. and The Vanguard Group. He is a director and deputy Chairman of the Federal Reserve Bank of Cleveland and a trustee and president of the Cleveland Museum of Art. He is a trustee of The Greater Cleveland Partnership, the Musical Arts Association and University Hospitals of Cleveland.

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A. THOMAS YOUNG, age 70 Director since April 17, 1995.

Retired Executive Vice President, Lockheed Martin Corporation, an aerospace and defense company. Mr. Young is a graduate of the University of Virginia with bachelor degrees in aeronautical engineering and mechanical engineering, and of the Massachusetts Institute of Technology with a master's degree in management. Mr. Young was with the National Aeronautics and Space Administration from 1961 to 1982, serving in a number of management positions including Mission Director of the Project Viking Mars landing program and Director of the Goddard Space Flight Center. In 1982 he joined Martin Marietta as Vice President of Aerospace Research and Engineering, and later became Senior Vice President and President of Martin Marietta Electronics & Missiles Group and Executive Vice President. He became President and Chief Operating Officer in January 1990, Executive Vice President of Lockheed Martin Corporation in March 1995 and retired in July of that year. Mr. Young is a director of SAIC, Inc. Mr. Young is also a Fellow of the American Astronautical Society, the American Institute of Aeronautics and Astronautics and the Royal Aeronautical Society and a member of the National Academy of Engineering. He was named as an Outstanding Director in 2005 by the Outstanding Directors Institute.

OTHER NOMINEES

Under our By-Laws, nominations of persons for election to the Board of Directors may be made at an annual meeting of shareholders by any shareholder who was a shareholder of record at the time of giving the notice described below, who is entitled to vote at such meeting and who complies with the notice procedures set forth in the By-Laws.

For a nomination to be properly brought before an annual meeting of shareholders, the shareholder must have given timely notice thereof in writing to our Secretary. To be timely, the shareholder's notice must have been sent to, and received by, our Secretary at our principal executive offices generally not less than 90 nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. For the 2010 Annual Meeting, such notice must be received between December 22, 2009 and January 21, 2010. Each such notice must include among other things:

the name, age, and principal occupation or employment of each proposed nominee and a brief description of any arrangement or understanding between the nominee and others relating to why he or she was selected as a nominee, in addition to any other information required by the SEC's proxy regulations;

the proposed nominee's written consent to serve as a director if elected;

the name and address of the shareholder proposing the nominee as well as any other shareholders believed to be supporting such nominee;

the number of shares of each class of Goodrich stock owned by such shareholders; and

a description of all ownership interests in the shares identified, including derivative securities, hedged positions and other economic and voting interests.

No person nominated by a shareholder at the Annual Meeting is eligible for election as a director unless nominated in accordance with the procedures contained in the By-Laws. See Appendix A for the full text of the relevant section of the By-Laws. Because no notice of nomination was provided in accordance with these procedures with respect to the Annual Meeting to be held on April 21, 2009, the only nominees for election as directors at that meeting are the

eleven nominees listed above.

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The Audit Review Committee of our Board of Directors has appointed the firm of Ernst & Young LLP, subject to ratification by the shareholders at the Annual Meeting, to serve as our independent registered public accounting firm for the year 2009. Should Ernst & Young LLP be unable to perform these services for any reason, the Audit Review Committee will appoint another independent registered public accounting firm to perform these services.

Representatives of the firm of Ernst & Young LLP, our independent registered public accounting firm for the most recently completed fiscal year, are expected to be present at the Annual Meeting. They will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions from shareholders.

Fees to Independent Registered Public Accounting Firm for 2008 and 2007

The following is a summary of the fees billed to us by Ernst & Young LLP for professional services rendered for 2008 and 2007:

	2008	2007
	(In millions)	
Audit Fees	\$ 7.65	\$ 6.74
Audit-Related Fees	0.27	0.56
Tax Fees	0.00	0.00
All Other Fees	0.01	0.01
Total Fees	\$ 7.93	\$ 7.31

Audit Fees. Audit fees consist of fees billed by Ernst & Young LLP for professional services rendered for the audit of our financial statements, the review of financial statements included in our Quarterly Reports on Form 10-Q and services that are normally provided by them in connection with statutory and regulatory filings or engagements for those years. Audit fees also include the audit of the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002. The increase in audit fees for 2008 was primarily related to services rendered in connection with the engine controls joint venture with Rolls-Royce Group plc.

Audit-Related Fees. Audit-related fees consist of fees billed by Ernst & Young LLP for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and are not reported under *Audit Fees* above. Audit-related fees included fees for employee benefit plan audits, acquisition/divestiture assistance, accounting consultation and audits of a joint venture.

Tax Fees. There were no tax fees billed by Ernst & Young LLP for 2008 and 2007.

All Other Fees. All other fees consist of fees related to products and services provided by Ernst & Young LLP, other than those reported above under *Audit Fees*, *Audit-Related Fees* and *Tax Fees*. For 2008 and 2007, all other fees represents fees billed by Ernst & Young LLP for miscellaneous services.

None of the services represented by the fees set forth in the above table were provided in accordance with the *de minimis* exception to Audit Review Committee approval that appears in Rule 2-01(c)(7)(i)(C) of Regulation S-X.

Audit Review Committee Pre-Approval Policy

The Audit Review Committee of our Board of Directors must review and pre-approve all audit and non-audit services performed by our independent registered public accounting firm. In conducting such reviews, the Audit Review Committee will determine whether the provision

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of non-audit services would impair the firm's independence. The term of any pre-approval is 12 months from the date of pre-approval, unless the Audit Review Committee specifically provides for a different period.

Requests or applications to provide services that require pre-approval by the Audit Review Committee are submitted by both the independent registered public accounting firm and management and must include a joint statement as to whether, in their view, the request or application is consistent with the SEC's rules on auditor independence. Detailed back-up documentation must be provided in connection with each request or application.

The Audit Review Committee may delegate pre-approval authority to one or more of its members. The member or members to whom such authority is delegated must report any pre-approval decisions to the Audit Review Committee at its next scheduled meeting. The Audit Review Committee does not delegate to management its responsibilities to pre-approve services performed by the independent registered public accounting firm.

The full text of the Audit Review Committee pre-approval policy is available on the corporate governance page of our Internet site at www.goodrich.com/governance.

Vote Required

Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year 2009 will be decided by a majority of the votes cast for or against the proposal at the Annual Meeting. **The Board of Directors recommends that you vote FOR ratifying this appointment.**

3. SHAREHOLDER PROPOSAL REGARDING AN AMENDMENT TO THE RESTATED CERTIFICATE OF INCORPORATION FOR MAJORITY ELECTION OF DIRECTORS IN UNCONTESTED ELECTIONS

The United Brotherhood of Carpenters Pension Fund, 101 Constitution Avenue, N.W., Washington, D.C. 20001, an owner of 2,023 shares of Goodrich Common Stock, has advised the Company that it intends to present the following proposal and supporting statement at the 2009 Annual Meeting. In accordance with applicable proxy regulations, the proposal and supporting statement, that are presented as received by the Company and for which the Company and our Board of Directors accept no responsibility, are set forth below.

Resolved: That the shareholders of Goodrich Corporation (Company) hereby request that the Board of Directors initiate the appropriate process to amend the Company's certificate of incorporation to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders, with a plurality vote standard retained for contested director elections, this is, when the number of director nominees exceeds the number of board seats.

Supporting Statement: In order to provide shareholders a meaningful role in director elections, our Company's director election vote standard should be changed to a majority vote standard. A majority vote standard would require that a nominee receive a majority of the votes cast in order to be elected. The standard is particularly well-suited for the vast majority of director elections in which only board nominated candidates are on the ballot. We believe that a majority vote standard in board elections would establish a challenging vote standard for board nominees and improve the performance of individual directors and entire boards. Our Company presently uses a plurality vote standard in all director elections. Under the plurality vote standard, a nominee for the board can be elected with as little as a single affirmative vote, even if a substantial majority of the votes cast are withheld from the nominee.

In response to strong shareholder support for a majority vote standard in director elections, a strong majority of the nation's leading companies, including Intel, General Electric, Motorola,

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Hewlett-Packard, Morgan Stanley, Wal-Mart, Home Depot, Gannett, Marathon Oil and Safeway have adopted a majority vote standard in company bylaws or certificates of incorporation. Additionally, these companies have adopted director resignation policies in their bylaws or corporate governance policies to address post-election issues related to the status of director nominees that fail to win election. However, our Company has responded only partially to the call for change, simply adopting a post-election director resignation policy that sets procedures for addressing the status of director nominees that receive more withhold votes than for votes. The plurality vote standard remains in place.

We believe that a post-election director resignation policy without a majority vote standard in Company bylaws or certificate of incorporation is an inadequate reform. The critical first step in establishing a meaningful majority vote policy is the adoption of the majority vote standard. With a majority vote standard in place, the Board can then consider action on developing post-election procedures to address the status of directors that fail to win election. A majority vote standard combined with a post-election director resignation policy would establish a meaningful right for shareholders to elect directors, and reserve for the Board an important post-election role in determining the continued status of an unelected director. We feel that this combination of the majority vote standard with a post-election policy represents a true majority vote standard.

Board of Directors Statement in Opposition to Proposal

We oppose this proposal because:

we already have a majority voting policy that substantially addresses the concerns raised in this proposal; and

the proposal, if adopted, would cause post-election uncertainty where one or more directors do not obtain a majority vote and could jeopardize the Company's ability to comply with regulatory requirements. Therefore, your Board of Directors recommends a **vote against** the proposal.

This proposal requests that we adopt a voting standard for director elections that differs from the plurality voting standard, which is the current default standard under New York law. Under the plurality voting standard, the nominees for director receiving the most affirmative votes are elected.

We Adopted a Majority Voting Policy Two Years Ago

After much deliberation and careful consideration, the Company's Committee on Governance adopted a majority voting policy to address the concerns relating to director candidates who do not receive a majority of the votes cast in an uncontested election. Our policy, adopted in 2006, is part of our Guidelines on Governance and is posted on our corporate governance page (www.goodrich.com/governance). Our policy provides that, in an uncontested election, any director nominee not receiving the vote of at least a majority of the votes cast at any meeting must promptly tender his or her resignation to the Board. Following the resignation tender:

The Committee on Governance will make a recommendation to the Board on whether to accept the tendered resignation or take some other action;

The Board must act on the tendered resignation and publicly disclose its decision within 90 days of the date of certification of the election results; and

The director who tendered the resignation will not participate in the recommendation of the Committee on Governance or the decision of the Board.

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The Board adopted this majority voting policy instead of the inflexible version contained in the proposal because we believe it strikes the appropriate balance between ensuring that shareholders have a meaningful role in electing directors and preserving the ability of the Board to exercise independent judgment and to consider all relevant factors in accepting the resignation of a director.

The Proposal Causes Uncertainty and Could Jeopardize Compliance with NYSE Requirements

Incorporation of the proposed majority voting standard into the Company's Restated Certificate of Incorporation, as requested by this shareholder proposal, introduces uncertainty that does not exist under the Company's current majority voting policy. Under New York law, an incumbent director who is not re-elected holds over and continues to serve with the same voting rights and powers until his or her successor is elected and qualified. Thus, even if the proposal were adopted, we could not force an incumbent director who failed to receive a majority vote to leave the Board until his or her successor is elected at a subsequent shareholder meeting.

By contrast, under our current majority voting policy, a director must promptly tender a resignation, which the Board must act upon and publicly disclose within 90 days of the certification of the vote results. This procedure provides the Board with the ability to accept or reject the tendered resignation and ensures that the Board continues to function properly, even during a period of transition.

In addition, as a company listed on the New York Stock Exchange, we must comply with listing standards that include requirements for maintaining independent directors and directors with particular qualifications or expertise. These requirements are considered by the Board when recommending nominees to our shareholders. The failure to elect a particular nominee by voting as proposed by the shareholder, especially in an uncontested election, may impair our ability to continue to comply with those listing standards, which would negatively impact our shareholders.

Proven Record of Strong Corporate Governance under Current Standard

Our Board of Directors has a long track record of strong and effective corporate governance and integrity. Our shareholders have consistently elected directors, under the current voting standard, who are highly qualified and who have the appropriate experience for service on the Board. In addition, the Board maintains a Committee on Governance that is composed entirely of independent directors, and all of the members of the Board, other than the Chairman, who also serves as CEO, are independent as defined by the New York Stock Exchange. The Committee on Governance applies a rigorous set of criteria in identifying director nominees. According to its March 18, 2008 ratings, Institutional Shareholder Services ranked the Company ahead of 97.2% of the companies in the Capital Goods group, as measured by the ISS Corporate Governance Quotient. We believe that our governance and our current voting standard have proven to be very effective and that the adoption of a strict majority voting standard is particularly unwarranted under these circumstances.

For these reasons, the Board of Directors unanimously recommends a vote AGAINST the shareholder proposal.

4. OTHER MATTERS

Our Board of Directors knows of no other matters that may properly be presented to the Annual Meeting. If any other matters do properly come before the Annual Meeting, however, the persons appointed in the accompanying proxy intend to vote the shares represented by such proxy in accordance with their best judgment.

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GOVERNANCE OF THE COMPANY

Pursuant to the New York Business Corporation Law and our By-Laws, our business is managed under the direction of our Board of Directors. Members of the Board are kept informed of our business through discussions with the Chairman, President and Chief Executive Officer and other officers, through visits to our significant facilities, by reviewing materials provided to them and by participating in meetings of the Board and its committees. In addition, to promote open discussion among our non-management directors, those Directors meet in regularly scheduled executive sessions without management participation. These sessions are presided over by the Chair of our Committee on Governance.

Corporate Governance

Our Board of Directors has a long-standing commitment to sound and effective corporate governance practices. In 1995 the Board adopted its Guidelines on Governance, which address a number of important governance issues including director independence, qualifications for Board membership, mandatory retirement, majority voting in the uncontested election of Directors, Board self-assessment and succession planning. In addition, the Board has for many years had in place formal charters setting forth the powers and responsibilities of each of its standing committees.

Obtaining Copies of Governance Documents

We maintain a corporate governance page (www.goodrich.com/governance) on our Internet site that includes key information about our corporate governance initiatives, including our Guidelines on Governance, the charters for our standing committees and our Business Code of Conduct. Copies of the Guidelines on Governance, the charters for our standing committees and our Business Code of Conduct can also be obtained by writing to: Secretary, Goodrich Corporation, 2730 W. Tyvola Road, Charlotte, North Carolina 28217.

Business Code of Conduct

In 2003 our Board of Directors adopted our revised Business Code of Conduct, which sets forth the fundamental legal and ethical principles for conducting all aspects of our business. The code applies to all Directors, officers and employees of our company and its subsidiaries, as well as to agents and representatives doing business on our behalf. Our Business Code of Conduct, together with specific policies and procedures, outlines the behavior expected of such individuals in carrying out their daily activities within appropriate ethical and legal standards.

Board of Directors

Our Board of Directors held seven meetings in 2008. All Directors attended 75% or more of the aggregate of the number of Board of Director meetings and meetings of the committees of the Board on which they served.

We typically schedule a Board of Directors meeting in conjunction with our annual meeting of shareholders and expect that our Directors will attend absent a valid reason, such as a schedule conflict. Ten Directors attended our 2008 annual meeting of shareholders.

Director Independence; Audit Committee Financial Expert

Our Board of Directors has determined that each of our Directors other than Mr. Larsen, and each of the members of our Audit Review Committee, Committee on Governance and Compensation Committee, has no material relationship

with Goodrich (other than in the individual's position as a Director) and is an independent director under the New York Stock

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Exchange director independence standards and the director independence standards set forth in our Guidelines on Governance (which reflect exactly the New York Stock Exchange standards).

The Board has also determined that each of the members of our Audit Review Committee is independent for purposes of Section 10A(m)(3) of the Securities Exchange Act of 1934, and that all members of the Audit Review Committee, Messrs. DeLoach, Jumper, Olesen, Rankin and Young, are audit committee financial experts as that term is defined in Item 407 of Regulation S-K of the SEC.

The Board based these determinations primarily on a review of the responses of our Directors to questions regarding education, employment and compensation history, affiliations and family and other relationships and on discussions with the Directors. In making its independence determinations, the Board considered the transactions described below under Policy on Related Party Transactions and for the reasons stated below determined that none of those relationships was material.

Policy on Related Party Transactions

In 2006, our Board of Directors adopted a written policy with respect to related party transactions. The policy requires that all transactions between the Company and a related party, which includes all executive officers and Directors and their immediate family members, that exceed \$120,000 and in which the related party has a direct or indirect material interest, be approved or ratified by the Audit Review Committee or by the disinterested members of our full Board of Directors. The policy also applies to entities: (1) owned or controlled by a Director, executive officer or their immediate family members; and (2) of which a Director, executive officer or their immediate family member serves as a senior officer or director.

For 2008, the Audit Review Committee considered and ratified transactions between the Company and The Timken Company. Director Griffith is President and Chief Executive Officer of Timken. Timken's direct sales to the Company during 2008 were approximately \$2 million, consisting primarily of bearing products that the Company used in various applications.

In reaching its decision, the Audit Review Committee took into consideration the following factors: Director Griffith received no unique personal benefit from such transactions; the transactions were negotiated at arm's length between the companies with no involvement from Director Griffith; the total amount of sales between the companies is small in comparison to the total revenues of either company; and the amount of such sales is significantly below the levels that would preclude a finding of independence under New York Stock Exchange standards or our Guidelines on Governance.

Compensation Committee Interlocks and Insider Participation

In making its independence determinations with respect to Director Griffith, who serves as Chair of the Compensation Committee, the Board considered the transactions described above under Policy on Related Party Transactions and for the reasons stated above determined that the relationship was not material.

Board Committees

Our Board of Directors has established five standing committees: the Executive Committee, the Audit Review Committee, the Compensation Committee, the Committee on Governance and the Financial Policy Committee.

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The following table shows the current committee membership and the number of meetings each committee held in 2008.

	Executive Committee	Audit Review Committee	Compensation Committee	Committee on Governance	Financial Policy Committee
Diane C. Creel			X		X
George A. Davidson, Jr.			X		X
Harris E. DeLoach, Jr.	X	Chair		X	
James W. Griffith			Chair	X	
William R. Holland				X	Chair
John P. Jumper		X			X
Marshall O. Larsen	Chair				
Lloyd W. Newton			X		X
Douglas E. Olesen		X			X
Alfred M. Rankin, Jr.	X	X		Chair	
A. Thomas Young		X	X		
Number of Meetings in 2008	0	8	3	4	4

The following is a brief description of the duties of each committee. A more complete description of each committee's functions is contained in its charter, a current copy of which is available on the corporate governance page of our Internet site www.goodrich.com/governance.

Executive Committee. The Executive Committee acts on behalf of our Board of Directors between regularly scheduled Board meetings. Our Guidelines on Governance state that it is the view of the Board that the Executive Committee will meet only when formal action is necessary and it is not feasible to convene a special meeting, in person or by telephone, of the full Board.

57 President and General Manager, Interlink Electronics K.K.

Michael W. Ambrose

44 Sr. Vice President, Technology & Product Development

E. Michael Thoben, III has served as Interlink's president, chief executive officer and chairman of

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the board of directors since 1994. From 1990 to 1994, he served as Interlink's president and a director. Prior to joining Interlink in 1990, Mr. Thoben was employed by Polaroid Corporation for 11 years, as the manager of one of Polaroid's seven strategic business units on a worldwide basis. Mr. Thoben holds a B.S. degree from St. Xavier University and has taken graduate management courses at the Harvard Business School and The Wharton School of Business.

Paul D. Meyer has served as Interlink's chief financial officer since December 1996. From 1994 to 1996, he served as vice president finance, and from 1989 to 1994 he served as controller. From May 1988 to December 1989, Mr. Meyer served as controller for Dix-See Sales Company. From September 1985 to May 1988, he served as corporate accounting manager for Bell Industries. Mr. Meyer was employed at Price Waterhouse from 1983 to 1985. Mr. Meyer is a Certified Public Accountant and holds a B.A. degree in economics from the University of California, Los Angeles.

Tamio Mori has served as the president and general manager of Interlink Electronics, K.K., Interlink's 80% owned Japanese subsidiary, since 1993. Prior to joining Interlink in 1993, Mr. Mori served in increasingly senior positions for 22 years with Mitsubishi Petrochemical Corporation, most recently as Assistant General Manager of New Business Development. Mr. Mori has a M.S. in Chemical Engineering and a B.S. in Organic Chemistry from Waseda University.

Michael W. Ambrose has served as Interlink's vice president engineering since June 1999. Between March 1998 and June 1999, he was director of engineering. From August 1995 to February 1998, Mr. Ambrose served as the director of marketing of Communication Intelligence Corp., a computer software company specializing in software for mobile computing, e-signatures and computer security. Prior to August 1995, he was employed by Logitech Inc., a computer peripherals company, as the general manager of its Gazelle Business Unit and as vice president of product marketing for Gazelle Graphic Systems. Mr. Ambrose holds a B.S. degree in electrical engineering from Washington State University.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock trades on the Nasdaq National Market under the symbol LINK. The following table sets forth the high and low closing prices for the common stock as reported on the Nasdaq National Market for the quarters indicated. These prices do not include retail markups, markdowns or commissions.

	<u>Low</u>	<u>High</u>
<i>Year ended December 31, 2002</i>		
First Quarter	\$ 2.75	\$ 6.20
Second Quarter	4.00	7.06
Third Quarter	2.50	4.55
Fourth Quarter	2.65	4.70
<i>Year ended December 31, 2003</i>		
First Quarter	\$ 2.50	\$ 3.85
Second Quarter	2.78	6.15
Third Quarter	4.89	8.14

Fourth Quarter

5.41

8.40

On March 4, 2004, the closing price of the common stock on the Nasdaq National Market was \$10.34. As of March 4, 2004 there were approximately 1,500 stockholders of record of our common stock.

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We believe the number of beneficial owners is substantially greater than the number of record holders because a large portion of Interlink's outstanding common stock is held of record in broker street names for the benefit of individual investors. As of March 4, 2004 there were 11,276,038 shares outstanding.

We have never declared or paid cash dividends on our common stock. Payment of any cash dividends will depend on the results of our operations, our financial condition and our capital expenditure plans, as well as other factors our board of directors may consider relevant. We presently intend to retain any earnings for use in our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The selected financial data presented below was derived from the consolidated financial statements of the Company and should be read in conjunction with the financial statements, the notes thereto and the other financial information included therein.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per-share data)				
Statement of Operations Data:					
Revenues	\$ 28,106	\$ 33,870	\$ 25,265	\$ 25,043	\$ 31,042
Cost of revenues	17,640	19,453	16,454	17,127	18,362
Gross profit	10,466	14,417	8,811	7,916	12,680
Operating expenses:					
Product development and research	2,225	3,222	3,518	3,337	3,418
Selling, general and administrative	5,799	7,612	8,278	7,456	8,172
Total operating expenses	8,024	10,834	11,796	10,793	11,590
Operating income (loss)	2,442	3,583	(2,985)	(2,877)	1,090
Other income (expense):					
Minority interest	(31)	(25)	(12)	68	
Interest income (expense), net	35	94	174	(132)	(44)
Cost of cancelled equity offering		(769)			
Other	(86)	(49)	45	(22)	48
Total other income (expense)	(82)	(749)	207	(86)	4
Income (loss) before provision for income tax expense (benefit)	2,360	2,834	(2,778)	(2,963)	1,094
Provision for income tax expense (benefit) ⁽²⁾	252	(274)	(764)	1,301	28
Net income (loss)	\$ 2,108	\$ 3,108	\$ (2,014)	\$ (4,264)	\$ 1,066
Earnings (loss) per share basic ⁽¹⁾⁽²⁾	\$ 0.26	\$ 0.35	\$ (0.21)	\$ (0.44)	\$ 0.10
Earnings (loss) per share diluted ⁽¹⁾⁽²⁾	\$ 0.21	\$ 0.28	\$ (0.21)	\$ (0.44)	\$ 0.09
Weighted average shares basic ⁽¹⁾	8,016	8,892	9,645	9,766	10,339
Weighted average shares diluted ⁽¹⁾	10,014	11,130	9,645	9,766	11,362
	December 31,				
	1999	2000	2001	2002	2003
	(in thousands)				
Balance Sheet Data:					
Working capital	\$ 17,644	\$ 22,528	\$ 19,333	\$ 16,247	\$ 20,019
Total assets	24,707	31,774	26,641	21,766	25,582

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Short term debt	518	2,079	1,923	933	706
Long term debt	1,424	2,598	1,855	1,401	1,010
Stockholders equity	18,247	22,433	20,305	16,133	20,516

- (1) As adjusted for the three-for-two stock split effected as a stock dividend to stockholders of record on March 20, 2000.
- (2) Adjustments to provisions for income tax expense during these periods have fluctuated due to the deferred tax asset valuation allowance. This has affected the comparability of net income (loss) and earnings per share amounts.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We develop, manufacture, market and sell intuitive interface devices and components for a variety of business and home applications. We generate revenues from the sale of our hardware products, such as FSR sensors, FSR-based subassemblies and complete advanced input device products. To a lesser extent, we derive revenue from the sale of software combined with our hardware. Depending on the application, this software may be internally developed or purchased from software partners.

We record our revenue in four different market segments: business communications (wireless intuitive input device products addressing the presentation market); home entertainment (wireless intuitive input device and sensor products addressing the advanced TV viewing and home video game markets); e-transactions (input devices for the electronic signature markets); specialty components (custom FSR-based sensors, subassemblies and complete products for a variety of vertical markets). We have addressed our specialty components market since our inception in 1985. Our other three markets have evolved out of our specialty components market. We have addressed our business communications market as a separate market since 1994, our e-transactions market since 1999 and our home entertainment market since 2000. The relative revenue and gross profit contributions of each of these segments is provided below in *Results of Operations-Business Segment Overview*.

Cost of revenues includes material, assembly, labor in the U.S. and contract labor in China, manufacturing overhead at our U.S. facility and our China logistics center, software licensing and quality assurance costs.

Table of Contents**Historical Financial Performance**

The following chart shows revenues, gross profits and earnings by quarter since 1998:

Unaudited revenues, gross profit, net income (loss) and diluted earnings (loss) per share are shown in the following table for each of the following quarters (in thousands except for per share data):

	Quarter Ended (unaudited)							
	March 31,	June 30,	Sept. 30,	Dec. 31,	March 31,	June 30,	Sept. 30,	Dec. 31,
	2002	2002	2002	2002	2003	2003	2003	2003
Revenues	\$ 5,409	\$ 6,027	\$ 6,629	\$ 6,978	\$ 7,002	\$ 7,476	\$ 7,848	\$ 8,716
Gross Profit	\$ 2,267	\$ 2,474	\$ 2,701	\$ 474	\$ 2,930	\$ 3,126	\$ 3,285	\$ 3,339
Net Income (loss)	\$ (399)	\$ (333)	\$ 40	\$ (3,572)	\$ 240	\$ 181	\$ 238	\$ 407
Earnings (loss) per share - basic	(.04)	(.03)		(.37)	.02	.02	.02	.02
Earnings (loss) per share - diluted	(.04)	(.03)		(.37)	.02	.02	.02	.03

Our revenues grew steadily from 1998 through the fourth quarter of 2000 principally as a result of increased sales of sensors and sensor components to the OEM computer industry and, after 1994, to sales to our business communications market. In 2001, primarily as a result of the downturn in the global economy, and in particular in the levels of business experienced by our OEM customers, our quarterly revenues declined materially. Since the beginning of 2002, our revenues have resumed a steady rate of growth due to a general improvement in the global economic climate and a broadening in the market for business presentation devices and the introduction of comparable products for consumer use. Other significant contributing factors have been sales of components for use in Microsoft's Xbox game controller and increases, particularly in 2003, in sales in our e-transactions market.

Gross profits have generally trended with revenues except in the second quarter of 2001 and the fourth quarter of 2002. In both of those quarters we recorded material write-offs of obsolete inventory. In both instances, the write-offs resulted from a material reduction in our internal forecasts for future

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customer demand based on downward adjustments in forecast information received from our customers as well as negative industry and worldwide economic forecasts received from outside sources. In 2001, 80% of the \$2 million write-off related to raw material, work-in-process and finished goods for OEM remote controls purchased or produced in anticipation of U.S. OEM Business Communications customer orders and the balance (20% of the \$2 million write-off) related to inventory maintained in anticipation of Specialty Components customers. In 2002, the \$2.3 million write-off related to raw material, work-in-process and finished goods for OEM remote controls purchased or produced in anticipation of Japanese OEM Business Communications orders. Approximately 50% of these written-off inventories have been destroyed or sold for nominal amounts to salvage brokers and the remainder is maintained in our warehouses at a zero book value. Earnings have shown more quarter-to-quarter fluctuations than revenues but generally trended upward as revenues increased from 1998 through 2000. We began to experience quarterly losses in the second quarter of 2001, which continued, except for a break-even third quarter of 2002, through the end of 2002. In 2003, earnings resumed and generally trended upward during the year. In the second quarter of 2001 and the fourth quarter of 2002, we experienced significantly larger losses than in other loss quarters. In both cases, the unusual amount of the loss was attributable principally to write-offs of obsolete inventory. Beginning in the third quarter of 2001, we were able to limit losses despite a continuing decline in revenues by implementing an austerity program that included reductions in employee levels and strict cost controls. In implementing this program, we eliminated much of our sales and marketing efforts in our home entertainment segment and thus have a limited ability to influence near term increases in that segment.

Prior to 1999, operations was a net user of cash that we funded through existing cash balances, private placements of equity and, to a lesser extent, bank and lease financing. In 1999, operations was a net provider of cash, generating \$2.9 million. In 2000, 2001 and 2002, operations was essentially cash flow break-even to marginally positive. Operations again consumed significant cash in the first three quarters of 2003 to fund the working capital requirements of our growth in the branded business communications market but improved slightly in the fourth quarter.

We believe that we have emerged from a difficult period for our industry with a history of recent losses but with a technology and product portfolio and a market and customer base that positions us well for growth that we expect to continue and, perhaps, to accelerate. However, as the 2001-2002 period clearly demonstrated, we are vulnerable to the effects of macroeconomic trends that may cause our expectations to be wrong. The reader should keep in mind that past performance is not necessarily indicative of future results.

Current Opportunities and Challenges

A considerable portion of our effort is directed at emerging markets, such as our e-transactions market where our success depends on our ability accurately to forecast the nature, amount and timing of market requirements in an environment in which historical precedent is limited or non-existent. We rely on information generated by our internal staff and industry partners and on independent market studies for forecasts of market demand in our focus areas but these studies are themselves based on limited empirical data. An inaccurate forecast of market demand in any of our core market areas would impact our short-term performance and could impact our competitive position and, therefore, our long-term performance.

Our quarterly results are often affected by volatility in orders for a particular product. For example, sales of sensors for the Microsoft Xbox constitute a significant source of revenue but are substantially dependent on Xbox sales that we cannot control or accurately forecast. Similarly, sales to large institutions of our e-transactions products typically come in relatively large orders that can be one-time events or can occur at widely-dispersed intervals.

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Other factors that could cause our estimates to be wrong or could result in trends that are not apparent from our financial statements are described under Risk Factors contained elsewhere in this Annual Report.

Management faces the constant challenge of balancing its investment in new technology, product development and marketing initiatives against the objective of steady earnings growth. A decision to make a significant investment in a new technology, product or marketing effort may have a short-to-medium term negative impact on earnings even if the investment proves to be justified. Because we intend to pursue a growth strategy, it is probable that we will make investments in new business opportunities that will increase operating costs, decrease margins and negatively impact earnings until the investment produces significant revenue growth.

We expect to use cash in the future to support growth through the purchase of new technologies or businesses and through internal technology, product and market development efforts. We expect to generate cash from existing operations and, depending on actual cash requirements, may seek to obtain cash from commercial borrowing and/or additional sales of securities.

Table of Contents**Results of Operations*****Business Segment Overview***

Revenue and gross profit by market segment are shown in the following table:

<u>Market Segment</u>	<u>2001</u>		<u>2002</u>		<u>2003</u>	
	<u>Percent of</u>		<u>Percent of</u>		<u>Percent of</u>	
	<u>\$000 s</u>	<u>Total Sales</u>	<u>\$000 s</u>	<u>Total Sales</u>	<u>\$000 s</u>	<u>Total Sales</u>
Business Communications:						
-Revenue	\$ 16,253	64%	\$ 16,002	64%	\$ 19,842	64%
-Gross Profit	4,961		3,597		6,483	
-Gross Profit % of Segment Revenue	31%		22%		33%	
Home Entertainment:						
-Revenue	\$ 1,964	8%	\$ 2,478	10%	\$ 2,405	8%
-Gross Profit	982		1,080		1,111	
-Gross Profit % of Segment Revenue	50%		44%		46%	
E-Transactions:						
-Revenue	\$ 963	4%	\$ 1,731	7%	\$ 4,165	13%
-Gross Profit	482		866		2,111	
-Gross Profit % of Segment Revenue	50%		50%		50%	