

## **ESCO TECHNOLOGIES INC. CORPORATE GOVERNANCE GUIDELINES**

### **FUNCTIONS OF THE BOARD**

***Duties and Responsibilities.*** The responsibility of the Company's Board of Directors (Board) is to supervise and direct the management of the Company in the interest and for the benefit of the Company's shareholders. The Board shall at all times represent the interests of the Company's shareholders and exhibit the highest standards of integrity, commitment and independence of thought and judgment. Each director shall dedicate sufficient time, energy and attention to ensure the diligent performance of his or her duties.

Among the Board's core responsibilities are to:

- Oversee the conduct of the Company's business in order to evaluate whether the business is being properly managed;
- Review and, where appropriate, approve the Company's major strategic and financial plans and goals, and evaluate results compared to those plans and goals;
- Oversee the processes, plans and controls adopted by management to identify, assess and manage major risks relating to the Company and its performance.
- Review and approve significant indebtedness, significant capital allocations including dividends and stock repurchase plans, and significant transactions not arising in the ordinary course of business;
- Review management's determinations of major issues in respect of the auditing and accounting principles and practices used in the preparation of the Company's financial statements; review and approve the Company's financial controls and reporting systems; and review and approve the Company's financial statements and financial reporting;
- Select individuals for election to the Board and evaluate the performance of the Board and Board committees; and
- Select, evaluate and compensate the Chief Executive Officer and monitor the same decisions with respect to other executive officers; approve and evaluate compensation plans for senior management

The Board has delegated to the Chief Executive Officer, working with the other senior executive officers of the Company and its affiliates, the authority and responsibility for the general and active management of the business and affairs of the Company, subject only to the control of the Board.

***Access to Management and Outside Experts.*** Directors shall have reasonable direct access to senior management in their discretion. The Board or a Board committee may seek legal or other expert advice from a source independent of management.

***Board Evaluation.*** The Nominating and Corporate Governance Committee shall solicit and review comments from all directors regarding the Board's performance and shall following the

end of each fiscal year provide to and discuss with the full Board its assessment of the Board's performance.

## **BOARD COMPOSITION**

***Size of the Board.*** The Company's Bylaws currently provide that the number of directors shall be determined from time to time by majority vote of the Board but shall not be less than three nor more than ten. The size of the Board may be changed from time to time as the Board may deem advisable in the interests of the Company. The Nominating and Corporate Governance Committee will make recommendations to the Board as appropriate regarding increasing or decreasing the size of the Board.

***Membership Criteria.*** Each member of the Board shall meet all legal, regulatory and exchange requirements; shall be a person of the highest integrity; shall possess sound business judgment; shall have a demonstrated ability to interact effectively with associates and peers; and shall possess such other skills and experience as will enable the Board to act in the long-term interests of the shareholders. The overall composition of the Board shall be chosen to reflect a variety of business and professional backgrounds. The Nominating and Corporate Governance Committee of the Board has the responsibility to recommend to the Board nominees for election or appointment to the Board. In this connection, the Committee may establish and utilize such other specific membership criteria not inconsistent with these Guidelines as it, from time to time, deems appropriate. The Board shall meet the standards of independence from the Company and its management set forth under "Director Independence" below.

***Stock Ownership.*** Each director is expected to own a substantial amount of stock of the Company during his or her service on the Board, in accordance with the stock ownership requirements established from time to time by the Board.

***Director Independence.*** A majority of the members of the Board shall be independent from the Company and its management. For a director to be deemed independent, the Board shall affirmatively determine that the director has no material relationship with the Company or its affiliates or any member of the senior management of the Company or his or her affiliates. In addition, the director must meet the independence standards of the New York Stock Exchange. To assist the Board in its determination of director independence, the Nominating and Corporate Governance Committee shall undertake an annual review of the independence of all non-employee directors and report its findings to the Board. Directors have an affirmative obligation to inform the Board of any material changes in their circumstances or relationships that may impact their determination as "independent."

***Multiple Board Memberships.*** The Board believes that directors must be prepared to dedicate sufficient time to carrying out their duties and responsibilities effectively. Directors who are full-time employees of other companies should not serve concurrently on more than two other public company boards, and directors who are retired from active employment should not serve on more than three other public company boards. Positions in excess of these limits held by a newly elected director may be maintained unless the Board determines that doing so would impair the director's service for the Company. Further, any director serving as a member of the Audit and Finance Committee shall not serve on more than two other Audit and Finance Committees. The Board may make exceptions to these limitations as it deems advisable in the interests of the Company.

**Term Limits.** The Board is committed to its members' having new and different perspectives to offer. The Board does not believe, however, that term limits are necessarily appropriate to accomplish this purpose because they hold the disadvantage of preventing the contribution of directors who over time have developed increasing insight into the Company and its operations.

**Board Leadership.** The Chairman of the Board is generally responsible for the leadership of the Board, while the Chief Executive Officer is generally responsible for the management and operations of the Company. The Board has the flexibility to determine whether these positions are held by one individual or by two different individuals.

**Lead Director.** Whenever the Chairman of the Board is not an independent director, the Board shall appoint a Lead Director from the Company's independent directors. The Lead Director shall be responsible for:

- Chairing the meetings of independent directors;
- Providing the Chairman with input relating to the content of the agendas for Board meetings;
- Advising the Chairman of the quality, quantity and timeliness of the flow of information from Company management that is necessary for the independent directors to effectively and responsibly perform their duties; while Company management is responsible for the preparation of materials for the Board, the Lead Director may specifically request the inclusion of certain material;
- Acting as principal liaison between the independent directors and the Chairman on sensitive issues;
- Performing such other duties as may be assigned by the Board or agreed upon with the Chairman.

**Change in Director's Position.** All outside directors shall offer to tender their resignations from the Board upon retirement, a change in employer or other significant changes in their professional roles or responsibilities that might reasonably be seen to affect their ability to serve. Employee directors shall tender their resignations from the Board when their employment with the Company terminates. The Board shall consider the appropriateness of continued service in light of such changes.

## **BOARD MEETINGS**

**Scheduling.** The Chairman, in consultation with the lead director, shall schedule the meetings of the Board. The Board believes that four regular meetings at appropriate intervals are in general desirable. In addition to regular meetings, special meetings may be called upon appropriate notice at any time to address specific needs of the Company. The Board expects directors to make themselves available to attend regular, special and committee meetings on a consistent basis.

**Agenda.** The Chairman shall establish the agenda for each Board meeting. The lead director shall provide input to the Chairman concerning topics to be included on the agenda. Additionally, each director is also encouraged to suggest the inclusion of items on the agenda or request the presence of / or a report by any member of the Company's senior management.

***Board Materials.*** It is management's responsibility to provide to the Board such information and data regarding board meeting agenda items as will enable the individual directors to make informed decisions regarding those items. Such information and data shall be in writing, and provided in sufficient time to enable the directors to prepare for meetings. This material shall be as brief as possible while still providing the desired information, and shall include highlights and summaries whenever appropriate.

***Sessions of Independent Directors.*** The independent directors shall meet in scheduled sessions, without the participation of members of the Company's management, in conjunction with each meeting of the Board and shall meet at such other times as deemed necessary by the lead director. The Board will not take formal actions at such sessions, although the participating directors may make recommendations for consideration by the full Board. The lead director shall brief the Chairman on issues addressed during the independent director sessions.

## **BOARD COMMITTEES**

***Establishment.*** The Board may establish standing or ad hoc Committees from time to time to facilitate and assist in the execution of the Board's responsibilities. The Company currently has four standing committees: Executive, Audit and Finance, Nominating and Corporate Governance, and Human Resources and Compensation. Each committee shall maintain a written charter setting forth its authority, responsibilities and duties, which shall periodically be reviewed by the committee or the Board.

***Appointment of Members.*** The Chairman of the Board, after consideration of the experience and expertise of individual directors, shall recommend to the Nominating and Corporate Governance Committee the assignment of directors to the various committees. The Nominating and Corporate Governance Committee shall review the Chairman's recommendations along with its own independent assessment of the individual directors' qualifications and provide recommendations to the Board.

***Independence.*** The Nominating and Corporate Governance, Audit and Finance, and Human Resources and Compensation Committees shall be composed entirely of independent directors. If any director ceases to be independent under the standards set forth above while serving on any committee whose members are required to be independent, he or she shall promptly resign from such committee.

## **BOARD COMPENSATION**

The Company believes that compensation for non-employee directors should be competitive with that paid to directors of other corporations of similar size and profile and should encourage ownership of Company stock through the payment of a portion of director compensation in Company securities. The Human Resources and Compensation Committee is responsible for establishing the compensation of non-employee directors. Directors who are employees of the Company shall not receive any compensation for service as directors.

## **SELECTION AND ELECTION OF DIRECTORS**

***Nominations.*** The Board is responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of shareholders. The Nominating and Corporate Governance Committee is responsible for identifying individuals

qualified to become Board members and recommending to the Board the nominees for election at the annual meeting of shareholders or for election by the Board if a vacancy occurs between annual meetings.

***Elections of Directors.*** A nominee for election by the Company's shareholders, whether or not an incumbent director, shall be elected only upon receiving the affirmative vote of a majority of the shares represented at the meeting and entitled to vote on the matter. An incumbent director who fails to obtain such a majority vote shall promptly offer his or her resignation to the Chairman, and the remaining directors shall meet to consider whether it is in the best interests of the Company to accept the resignation or to permit the incumbent to remain on the Board for such period of time as the Board may determine or until a successor is elected and qualified.

***Orientation and Continuing Education.*** Management shall assist the Board by providing appropriate orientation programs and materials for new directors, which shall be designed both to familiarize new directors with the full scope of the Company's businesses and key challenges and to assist new directors in developing and maintaining skills necessary or appropriate for the performance of their responsibilities. The Board and management shall similarly work together to develop and implement appropriate continuing education programs for current directors.

#### **MANAGEMENT PERFORMANCE REVIEWS**

The Human Resources and Compensation Committee shall conduct an annual performance evaluation of the Company's executive officers in connection with the determination of their compensation.

#### **MANAGEMENT SUCCESSION**

The Board shall, after a review of any recommendations of the Human Resources and Compensation Committee, approve and maintain a succession plan for the Chief Executive Officer and other executive officers.