

# ESCO TECHNOLOGIES INC. CORPORATE GOVERNANCE GUIDELINES

February 2, 2007

## **BOARD COMPOSITION**

***Size of the Board.*** The Company's Bylaws currently provide that the number of directors shall be not less than three nor greater than ten and shall be determined from time to time by majority vote of the Board. The size of the Board will fluctuate from time to time depending on changing circumstances. The Nominating & 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. In addition, the members shall have varied business and professional backgrounds; be persons of the highest integrity; possess sound business judgment; and possess such other skills and experience as will enable the Board to act in the long-term interests of the shareholders. The Nominating & Corporate Governance Committee of the Board of Directors has been given 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.

***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 & 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 designation by the Board 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 on more than two other public company boards at a time, and directors who are retired from active employment should not serve on more than four such public company boards. Current positions in excess of these limits may be maintained unless the Board determines that doing so would impair the director's service on the Company's Board. Additionally 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, however, make exceptions to this standard as it deems appropriate.

***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.*** It is the policy of the Company that the positions of Chief Executive Officer and Chairman of the Board be held by the same person.

***Lead 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 assigned by the Board, or requested by the CEO.

***Change in Director's Current Position.*** All outside directors shall submit their resignations as a matter of course 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 offer to resign from the Board when their employment with the Company terminates. The Board shall consider the appropriateness of continued service in light of such changes.

## **FUNCTIONS OF THE BOARD**

***Duties and Responsibilities.*** The responsibility of the 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 high 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.

The Board shall have the following specific duties:

- Overseeing the conduct of the Company's business in order to evaluate whether the business is being properly managed;

- Reviewing and, where appropriate, approving the Company's major financial objectives, plans and actions;
- Evaluating material transactions not arising in the ordinary course of business;
- Reviewing and, where appropriate, approving major changes in, and determinations of other major issues in respect of, the appropriate auditing and accounting principles and practices to be used in the preparation of the Company's financial statements; and

Assessing major risk factors relating to the Company and its performance and reviewing measures to address and mitigate such risks.

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 MEETINGS**

***Scheduling.*** The Chairman, in consultation with the lead director, shall determine the scheduling of 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**

***Identification.*** Committees may be established by the Board from time to time to facilitate and assist in the execution of the Board's responsibilities. Committees may be standing or ad hoc. The Company currently has four standing committees: Executive, Audit and Finance, Nominating and Corporate Governance, and Human Resources and Compensation. Each committee has a written charter of responsibilities, duties and authorities, 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 Board's committees. The Nominating and Corporate Governance Committee shall review such recommendations of the Chairman 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 herein while serving on any committee whose members are required to be independent, he or she is required to promptly resign from such committee.

## **BOARD COMPENSATION**

Directors who are employees of the Company do not receive any compensation for service as directors. 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 director compensation.

## **SELECTION OF NEW 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 director nominees for approval by shareholders at the annual meeting or for approval by the Board where vacancies occur between annual meetings of shareholders.

***Orientation and Continuing Education.*** Management shall assist the Board by providing appropriate orientation programs 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 SUCCESSION AND REVIEW**

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. 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.