

# **Electro Scientific Industries, Inc.**

## **Corporate Governance Guidelines – Restated**

**As Amended May 15, 2014**

### **I. Director Selection and Qualifications**

**A. Selection of Board Members.** The Corporate Governance and Nominating Committee will recommend nominees for directorship to the Board of Directors. The invitation to join the Board of Directors should be extended on behalf of the Board by the Chairman of the Corporate Governance and Nominating Committee.

**B. Qualifications of Directors.** The Corporate Governance and Nominating Committee is responsible for assessing on an annual basis the requisite skills and characteristics of Board members and the composition of the Board as a whole. This assessment will include the determination of independence as well as consideration of skills experience and other criteria in the context of the needs of the Company. The Board supports gender and ethnic diversity on the Board. The criteria for directors include the following:

1. Directors should be of the highest ethical character.
2. Directors should have reputations that enhance the image and reputation of the Company.
3. Directors should be highly accomplished and leaders in their respective fields.
4. Directors should have relevant expertise and experience, and be able to offer advice and guidance to the Company's management.
5. Directors should demonstrate sound business judgment.
6. Directors should work with management collaboratively and constructively.
7. Directors should devote the time required to properly discharge their responsibilities as directors.

A director who is determined not to satisfy the qualifications set forth above will not be re-nominated for an additional term.

Any nominee for director in an uncontested election who receives a greater number of votes "withheld" from his or her election than votes "for" such election shall tender his or her resignation for consideration by the Corporate Governance and Nominating Committee. The Corporate Governance and Nominating Committee shall recommend to the Board of Directors the action to be taken with respect to the resignation. The Board of Directors will publicly disclose its decision within 90 days of the certification of the election results.

**C. Director Independence.** Not less than two thirds of the members of the Board of Directors shall meet the criteria for independence as defined below. The determination of independence shall be made annually by the Board of Directors. When determining director independence, both direct and indirect relationships will be considered. To be “independent” a director must meet the standards for independence under applicable laws, rules and regulations, including the listing standards of NASDAQ.

**D. Process for Selecting, Evaluating and Nominating New Director Candidates.** The Corporate Governance and Nominating Committee will identify and evaluate candidates for Director as follows:

1. The Committee will identify the need to add a new Board Member based upon its assessment of the composition of the Board or to fill a vacancy.
2. The Committee initiates director searches, working with staff support, input from Board members and others, as necessary, and hiring a search firm if the Committee determines it desirable to do so.
3. The Committee will consider director candidate suggestions from many sources, including shareholders. Shareholder suggestions should be submitted to Electro Scientific Industries, Inc., 13900 NW Science Park Drive, Portland Oregon 97229, Attention: Chairman of the Corporate Governance and Nominating Committee. The Committee does not intend to alter the manner in which it evaluates candidates based upon whether the candidate was suggested by a shareholder. The Committee will provide a response to every submission of a candidate suggestion.
4. Candidates who satisfy the criteria and otherwise qualify for Board membership will be submitted to the Committee for consideration. The Committee will determine whether candidates should be considered further and, if so, in what manner. The Committee may initiate contacts directly or through a search firm.
5. The Committee will determine in its discretion whether to recommend a candidate to the Board for consideration as a Director nominee.

**E. Term Limits.** The Board does not limit the number of terms for which an individual may serve as a director. Directors who have served on the Board for a period of time provide valuable insights into the operations and business of the Company based upon their experience and understanding of the Company’s history, policies and business objectives.

**F. Retirement Policy.** Directors will retire from the Board upon the expiration of the term after reaching the age of 70; provided that, a director may be nominated for one additional term with the approval of two-thirds of the other directors.

**G. Classified Board.** The Board is divided into three classes with one class elected each year for a three-year term. The Board believes that the classified board promotes continuity and experience and orderly succession of Board members, which contribute to long-term shareholder value.

**H. Employee Director Resignation.** When an employee director resigns or otherwise leaves or changes his or her position with the Company, the employee director should tender his or her resignation from the Board.

**I. Non-employee Directors Who Change Job Responsibility; Retirement.** The Board does not believe non-employee directors who retire or change their principal occupation or business association should necessarily leave the Board; however, there should be an opportunity for the Board, through the Corporate Governance and Nominating Committee, to review the continued appropriateness of Board membership under these circumstances.

**J. Limitations on Public Company Board Membership.** Directors will not be directors of more than four public companies (including the Company). The CEO of the Company will not be a director of more than two public companies (including the Company).

## **II. Board Operations and Responsibilities**

**A. Chairman of the Board/Lead Director.** It is the practice of the Board to select a Chairman who qualifies as an “independent” director as defined above. If at any time the Chairman fails to meet the qualifications of independence, the Board will designate a Lead Director who qualifies as an independent director.

**B. Scheduling of Full Board Meetings.** Board meetings will be scheduled in advance, ordinarily at least once every quarter. Special meetings will be held as necessary. The meetings are usually held at the Company’s principal executive office but may also be held elsewhere.

**C. Executive Sessions.** At least twice each year in conjunction with regularly scheduled Board meetings, the independent directors will meet in an executive session at which employee directors are not present.

**D. Agenda for Board Meetings.** The Chairman of the Board, in cooperation with the CEO will establish the agenda for each Board meeting. Every Board member may suggest matters for the agenda.

**E. Attendance at Meetings.** Directors are expected to attend shareholders meetings, Board meetings and meetings of committees on which they serve and to devote the time required to discharge properly their responsibilities as directors.

**F. Contacting a Board Member.** Shareholders may contact any Director, including the Chairman, by writing to them c/o the Corporate Secretary, Electro Scientific Industries, 13900 NW Science Park Drive, Portland Oregon 97229.

**G. Advisors.** The Board and each committee have the power and authority to hire independent legal, financial or other advisors as they deem necessary or desirable.

**H. Director Access to Officers and Employees.** Directors have full access to officers and employees of the Company. Directors will use their judgment to ensure that any such contact is not disruptive to business operation of the Company and will, to the extent not inappropriate, inform the CEO of any such communication. The Board encourages the presentation at meetings by officers and employees who can provide additional insight into matters being discussed or who have potential that the CEO believes should be given exposure to the Board. The Board encourages management to arrange presentations at Board meetings by the Company's officers and employees and provide other reports that will enhance the flow of meaningful financial and business information to the Board. The CEO, in consultation with the Chairman of the Board, will determine which officers and employees will attend meetings of the Board or its committees.

**I. Board Compensation.** The form and amount of director compensation will be determined by the Board upon the recommendation of the Compensation Committee in accordance with the policies and principles in its charter and consistent with rules promulgated by NASDAQ, including without limitation those relating to director independence and to compensation of Audit Committee members.

The Compensation Committee will review director compensation annually, as required by its charter, and recommend any changes in the form and amount of director compensation or director compensation principles to the Board when the committee determines a change is advisable. The Board is aware that questions as to director independence may be raised if, for example, (i) directors' fees and perquisites exceed what is customary, (ii) the Company makes substantial charitable contributions with which a director is affiliated, or (iii) the Company enters into consulting contracts with (or provides other indirect forms of compensation to) a director or an organization with which the director is affiliated.

### **III. Board Committees**

**A. Committees; Qualifications.** The Board will have at all times an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. All members of the Audit Committee, Compensation Committee and Corporate Governance and Nominating Committee shall meet the qualifications of independent director set forth above. All members of the Audit Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement, and meet such other standard required by applicable law (including SEC and Nasdaq rules). At least one member of the Audit Committee shall be an "audit committee financial expert" as defined by SEC and Nasdaq rules. The Board may also establish or maintain other committees that it deems necessary or desirable.

**B. Committee Charters.** Each committee will have a charter that sets forth the purpose, duties and responsibilities of the committee.

**C. Meetings; Agenda.** The Chairman of each committee, in consultation with the Chairman of the Board, committee members and appropriate management, will determine the agenda and frequency for committee meetings, consistent with any requirements set forth in Committee Charters.

**D. Appointment to Committees.** Committee Members and Chairs will be appointed on an annual basis by the Board upon the recommendation of the Corporate Governance and Nominating Committee.

#### **IV. Director Orientation and Continuing Education**

Every new Director will participate in the Company's Orientation Program and all Directors are encouraged to keep current with corporate governance issues through continuing education or other activities. The orientation will familiarize new Directors with the Company's strategic plans, its significant facilities, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Practices, its principal officers, and its internal and independent auditors.

#### **V. CEO Evaluation and Management Succession**

**A. CEO Evaluation.** The Compensation Committee will conduct an annual review of the CEO's performance, as set forth in its charter. The Board of Directors will review the Compensation Committee's evaluation in order to ensure that the CEO is providing the best leadership for the Company in the long- and short-term.

**B. Management Succession.** The Compensation Committee will periodically report to the Board on succession planning and management development. The Board will work with the Compensation Committee to identify and evaluate potential successors to the CEO. The CEO should at all times make available his or her recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals. The Compensation Committee periodically reviews the leadership development programs of the Company.

#### **VI. Annual Performance Evaluations**

In addition to the self-evaluations to be performed by each of the Audit Committee, the Compensation Committee and the Corporate Governance Committee and Nominating Committee, the Board of Directors will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Corporate Governance and Nominating Committee will oversee the evaluation process and will report annually to the Board with an assessment of the Board's performance. The assessment will focus on the Board's contribution to the Company and specifically focus on areas in which the Board or management believes that the Board could improve.

## **VII. Management Responsibilities**

**A. Financial Reporting, Legal Compliance and Ethical Conduct.** The Board's governance and oversight functions do not relieve the Company's executive management of the primary responsibility for preparing financial statements which accurately and fairly present the Company's financial results and condition. Executive management shall maintain systems, procedures and a corporate culture that promote compliance with legal and regulatory requirements and the ethical conduct of the Company's business.

**B. Corporate Communications.** The Board believes that executive management has the primary responsibility to communicate with investors, the press, employees and other constituencies that are involved with the Company, and to set policies for those communications.

## **VIII. Miscellaneous**

These guidelines, along with the Company's Articles of Incorporation and Bylaws and the charters of the Board committees, are the framework for the governance of the Company and are intended to assist the Board in the exercise of its responsibilities. These guidelines will be reviewed periodically and may be revised by the Board from time to time. These guidelines are in addition to and are not intended to change or interpret any federal or state law.

Approved: May 15, 2014.