

# **CREDENCE SYSTEMS CORPORATION**

## **CHARTER FOR THE COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS**

**Approved: October 17, 2002**

### **1. PURPOSE**

The purpose of the Compensation Committee (the “Committee”) is to carry out the following principal functions:

- (i) establish the basic cash, incentive and equity compensation policies governing the Company’s executive officers;
- (ii) review the performance and development of the Company’s executive officers in achieving the corporate goals and personal objectives assigned to them and creating stockholder value;
- (iii) provide the Board of Directors (the “Board”) with recommendations with respect to appropriate cash and equity compensation programs for the non-employee Board; and
- (iv) prepare the annual compensation committee report on the elements of compensation paid to the Company’s chief executive officer and other named executive officers for inclusion in the Company’s proxy statement for each annual stockholders meeting.

The compensation policies established by the Committee shall be designed to assure that the Company’s executive officers are compensated effectively in a manner consistent with the strategy of the Company, competitive practice, the interests of the stockholders and the requirements of the appropriate regulatory bodies.

### **2. COMPOSITION OF THE COMMITTEE**

The Committee will consist of not less than two non-employee members of the Board appointed by the Board. Each of the appointed members shall each satisfy the following criteria:

- (i) each shall be an independent director in accordance with the corporate governance standards of the NASDAQ, including compliance with the requirements set forth in NASDAQ Rule 4200(15);
- (ii) each shall be a “non-employee director” within the meaning of Rule 16b-3 issued by the Securities and Exchange Commission (“SEC”); and

(iii) each shall be an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code, as amended.

Each appointed Committee member will be subject to annual reconfirmation by the Board and may be removed by the Board at any time.

The Chair of the Committee shall be appointed by the Board.

### **3. RESPONSIBILITIES AND DUTIES**

In carrying out its purpose, the Committee will have the following responsibilities and duties:

- Establish an overall compensation philosophy and policy that is designed to reward the Company’s executive officers for performance benefiting the stockholders and is effective in attracting and retaining the executive talent necessary to lead and manage the organization.
- Review and determine annually the individual elements of the total compensation package for the Company’s chief executive officer and other executive officers.
- Review and approve the corporate goals and objectives applicable to the incentive compensation components of the compensation package for the Company’s chief executive officer and other executive officers, evaluate the performance of each such executive officer in light of those goals and objectives, and establish the incentive compensation of each executive officer based on such evaluation, including in the determination of any long-term incentive compensation awards: the Company’s financial performance and relative stockholder return, the value of incentive awards to executive officers at comparable companies, and the awards given the Company’s executive officers in past years.
- Review and approve any employment agreements or other compensatory contracts or arrangements that are to be in effect with the executive officers.
- Approve all special perquisites, special cash payments and other special compensation and benefit arrangements for the Company’s executive officers.
- Recommend to the Board appropriate compensation packages to attract and retain non-employee Board members, including (without limitation) the following elements: annual retainer, meeting fees, committee fees, committee chair fees, equity or stock compensation, benefits and perquisites.
- Grant stock options and other discretionary awards under the Company’s stock option and other equity incentive plans to all other eligible individuals in the Company’s service. The Committee may delegate to one or more officers designated by the Committee the authority to make grants to eligible individuals other than Board members or executive officers, provided that the Committee shall have fixed the exercise price for each such grant (or a formula for

determining such exercise price) and the vesting schedule, approved the form of documentation evidencing each such grant, and determined the appropriate number of shares or the basis for determining such number of shares by position, compensation level or category of personnel. Any officer(s) to whom such authority is delegated shall regularly report to the Committee the grants so made. Any such delegation may be revoked at any time by the Committee.

- Review and assist the Board in the development of succession plans for the Company's executive officers and other appropriate management personnel.
- Oversee and review periodically the operation of all of the Company's employee benefit plans, including (without limitation) the Section 401(k) Plan and the Employee Stock Purchase Plan. Responsibility for day-to-day administration, including the preparation and filing of all government reports and the preparation and delivery of all required employee materials and communications, will be performed by Company personnel.
- Approve separation packages and severance benefits for executive officers, including salary and bonus continuation payments, vesting acceleration and extended post-employment exercise period for outstanding options, COBRA coverage at Company expense and outplacement services.
- Obtain such data or other resources as it deems necessary to perform its duties, including (without limitation) obtaining external consultant reports or published salary surveys, engaging independent compensation consultants and other professionals to assist in the design, formulation, analysis and implementation of compensation programs for the Company's executive officers and other key employees and establishing a working budget with the Company for funding the related expenses.
- Have full access to Company personnel as necessary to carry out its responsibilities.
- Prepare and approve on a timely basis the Committee Report for inclusion in the Company's proxy statement for each annual stockholders meeting, including a discussion of the Committee's compensation policies applicable to the executive officers, the relationship of corporate performance to executive compensation, the factors and criteria governing the chief executive officer's compensation reported for the last completed fiscal year, and the relationship of the quantitative and qualitative aspects of the Company's performance to the chief executive officer's compensation for the last completed fiscal year.
- Evaluate its performance as the compensation committee on an annual basis.
- Perform any other activities consistent with this Charter, the Company's Bylaws and governing law as the Committee or the Board deems necessary or appropriate.
- Review the Committee Charter from time to time and recommend any changes to the Board.

- Report to the Board on the major items covered at each Committee meeting.

Notwithstanding the foregoing, any action of the Committee, other than the grant of stock options or other discretionary awards under the Company's stock option or other equity incentive plans, may be subject to Board review and may be revised, modified or rescinded by the Board.

#### **4. COMMITTEE MEETINGS**

The Committee will meet as often as necessary to carry out its responsibilities. Meetings may be called by the Chair of the Committee and/or by the management of the Company. Minutes of each meeting will be duly filed in the Company records. Reports of meetings of the Committee will be made to the Board at its next regularly scheduled meeting following the Committee meeting, accompanied by any recommendations to the Board approved by the Committee.

A majority of the total number of members of the Committee will constitute a quorum at all Committee meetings. A majority of the members of the Committee constituting a quorum will be empowered to act on behalf of the Committee.

#### **5. COMMITTEE REPORTS**

The Committee will report to the Board, at an appropriate time prior to preparation of the Company's proxy statement for the annual stockholders meeting, concerning executive officer compensation matters and provide the report of the compensation committee for inclusion in the proxy statement.

The Committee will also report to the Board annually the results of an annual review by the committee of its own performance.

The Committee will also provide additional reports to the Board as the Committee may determine to be appropriate in light of its purposes and functions.