

# **EPICOR SOFTWARE CORPORATION**

## **CORPORATE GOVERNANCE GUIDELINES**

### **OVERVIEW – THE ROLE OF THE BOARD OF DIRECTORS:**

It is the paramount duty of the Board of Directors to oversee the CEO and other senior management in the competent and ethical operation of the Company on a day-to-day basis. To satisfy this duty the directors will take a proactive, focused approach to their position, and set standards to ensure that the Company is committed to business success through maintenance of the highest standards of responsibility and ethics.

Directors bring to the Company a wide range of experience, knowledge and judgment, and bring these skills to bear for the Company. These varied skills mean that good governance depends on far more than a "check the box" approach to standards or procedures. The governance structure in the Company is designed to be a working structure for principled actions, effective decision-making and appropriate monitoring of both compliance and performance.

Effective directors maintain an attitude of constructive skepticism and careful review. Our directors know that their job requires them to ask probing questions of management and to take the action necessary to get accurate and honest answers. Our directors also rely on the advice, reports and opinions of management, counsel and our expert advisers. In doing so the board constantly evaluates the qualifications of those it relies upon for information and advice, and also looks to the process used by managers and advisers in reaching their recommendations.

Finally our board prides itself on keeping up to date on best governance practices. We, working together with management and our advisers, look to the knowledge and information of others in the governance debate for additional information on how to manage our affairs. We particularly note the recent efforts by the various exchanges as well as the Securities and Exchange Commission and the Business Roundtable to promote better governance. We intend to continually monitor the way we govern ourselves, including reviewing whether there are alternatives or new ideas which would strengthen our governance structures.

### **DIRECTOR QUALIFICATIONS:**

The board shall have a majority of directors who meet the criteria for independence established by the NASD. The Company will disclose in its annual proxy statement the basis for any board determination that a relationship such as a commercial, industrial, banking, consulting, legal, accounting, charitable or familial relationship is not material for purposes of evaluating the independence of any board member. Alternatively, the Company may adopt and disclose categorical standards to assist it in making independence determinations and may make a general disclosure if a director meets these standards with a specific explanation of any determination of independence for a director who does not meet these standards. The Directors will be nominated by the Nominating and Governance Committee of the board, in accordance with the charter and principles of that committee. The Nominating and Governance Committee is responsible for reviewing with the board, on an annual basis, the appropriate skills

and characteristics required of board members as well as the composition of the board as a whole. This assessment will include members' qualification as independent, as well as consideration of diversity, skills, age and experience in such areas as operations, journalism, finance, marketing, manufacturing and the general needs of the board. The board, together with the Chairman of the Nominating and Governance Committee and the Chairman of the Board, should extend the actual invitation to join the board.

The board currently has 8 members. The board reviews from time to time the appropriateness of its size. The board would consider expanding its size to accommodate outstanding candidates.

The board, through the Nominating and Governance Committee, will have the opportunity to review the appropriateness of the continued service of directors who change their position or responsibility that they held when they were elected to the board.

Each board member must ensure that other existing and anticipated future commitments do not materially interfere with the members' service as director. In any event, no director shall serve on more than 6 public company boards. Directors should advise the Nominating and Governance Committee of any invitations to join the board of any other public company prior to accepting another directorship.

The board believes that term limits are on balance not the best way to maximize the effectiveness of the board. While terms limits would likely introduce fresh perspectives and make new viewpoints available to the board, they may have the countervailing effect of causing the loss of the benefit gained from the contributions of directors who have developed, over time, increasing insight into the Company. As an alternative to term limits the Nominating and Governance Committee will review the appropriateness of each board member's continued service every three years.

## **DIRECTOR RESPONSIBILITIES:**

The fundamental role of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its shareholders. In fulfilling that responsibility the directors should be able to rely on the honesty and integrity of the Company's senior management and expert legal, accounting, financial and other advisors. The directors should have the benefit of directors' and officers' insurance, paid by the Company, to indemnification to the fullest extent allowed under the Company's charter and Delaware law, and to exculpation as provided by Delaware law and the Company's charter.

Board members are expected to rigorously prepare for, attend and participate in all board and applicable committee meetings, and to spend the time needed and meet as often as necessary to properly discharge their obligations. Information and data that is important to the board's understanding of the business to be conducted at a board or committee meeting should generally be distributed in writing to the directors prior to the meeting, so that board meeting time may be conserved and discussion time focused on questions that the board has about the materials. Particularly sensitive subject matters may be discussed at the meeting without advance distribution of written materials.

The board does not have a policy on whether or not the roles of Chief Executive Officer and Chairman of the Board should be separate and, if they are to be separate, whether the

Chairman should be selected from the non-employee directors or be an employee. The board believes these issues should be considered as part of the board's broader succession planning process.

The Chairman of the Board will establish the agenda for each board meeting and the Secretary will distribute it in advance to the board. At the beginning of each year the Chairman will, to the extent foreseeable and practicable, set a schedule of agenda items to be discussed during the year. Each board member is free to suggest the inclusion of items on the agenda and to raise at any board meeting subjects that are not on the agenda for that meeting. The board will review the Company's long-term strategic plans and the big-picture challenges faced by the Company in executing on these plans during at least one board meeting per year.

The board's current policy is not to have a regularly scheduled separate meeting time for the non-management directors. Such meetings can be specifically scheduled however if warranted. In the event of such meetings, a Lead Independent Director will be selected by the outside directors and will assume the responsibility of chairing the meetings of outside directors and bear such further responsibilities that the outside directors as a whole might designate from time to time. The identity of the Lead Independent Director, if any, will be disclosed in the annual proxy statement.

## **BOARD COMMITTEES:**

A Nominating and Governance Committee, Audit Committee and Compensation Committee of the board shall exist at all times. All of the members of these committees will meet the criteria for independence established by the NASD. The members of these committees will also meet the other membership criteria specified in the respective charters for these committees. Committee members will be appointed by the board upon recommendation by the Nominating and Governance Committee of the board, in accordance with the charter and principles of that committee. There will, from time to time, be occasions on which the board may want to rotate committee members, but the board does not believe that a formal policy of rotation is mandated.

Each committee shall have its own charter. The charter will set forth the principles, policies, objectives and responsibilities of the committees in addition to the qualifications for committee membership, procedures for committee member nomination and removal, committee organization and functioning and how the committee will communicate with the board. The charters will provide that each committee will meet to review its performance at least once a year.

The Chairman of each committee will, in consultation with the appropriate committee members and members of management, and in accordance with the committee's charter, determine the frequency and length of committee meetings and develop the committee's agenda. At the beginning of the year each committee will establish a schedule of agenda subjects to be discussed during the year (to the extent these can be foreseen). The schedule for each committee will be furnished to the full board.

The board and each committee shall have the authority to obtain advice, reports or opinions from internal and external counsel and expert advisors and shall have the power to hire

independent legal, financial and other advisors as they may deem necessary, without consulting with, or obtaining approval from, any officer of the Company in advance.

The board may, from time to time, form new committees as it deems appropriate.

#### **DIRECTOR ACCESS TO OFFICERS AND EMPLOYEES:**

The board has complete access to all Company officers and employees. Any meetings or contacts that a director desires to initiate may be arranged directly by the director or through the CEO or other Company officer. The directors should use their judgment to ensure that any such contact or communication is not disruptive to the business operations of the Company.

The board welcomes the attendance of senior officers at each board meeting. The board also encourages management to schedule managers to present at board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, or (b) have future potential that management believes should be given exposure to the board.

#### **BOARD COMMUNICATIONS WITH SHAREHOLDERS:**

The lead director shall be designated as the director who receives and responds to written or verbal communications to the Board from the Corporation's shareholders. All other Directors should refer any such Shareholder communications to the lead director. The Corporate Secretary shall forward to the lead director any shareholder communications addressed to the Board of Directors as a body or to all the directors in their entirety, and such other communications as the Corporate Secretary, in his or her reasonable discretion, determines is appropriate. In those instances in which it is necessary for an individual Board member to speak with shareholders, he or she will do so only with the knowledge of, and, absent unusual circumstances, only at the request of, the lead director. The lead director shall communicate any and all such Shareholder communications to the remainder of the Board members and the CEO, as appropriate, on a timely and regular basis, which shall be determined in the lead director's reasonable discretion, based upon the nature, materiality and exigency of the specific communications received.

#### **BOARD COMMUNICATIONS WITH EXTERNAL ENTITIES:**

The Board believes that management speaks for the Company. The Chief Executive Officer is responsible for all Company communications, including with the media, shareholders (prospective and current), the financial community, or any other external entities pertaining to the affairs of the Corporation. Directors shall refer any inquiries from any such entities to the CEO for handling. The CEO may designate a Company employee, officer, director or other representative as a Company Spokesperson with respect to a particular topic or type of business or on a particular occasion. In those instances in which it is necessary for an individual Board member to speak with outside constituencies, he or she will do so only with the knowledge of, and, absent unusual circumstances, only at the request of, the Chief Executive Officer. The CEO shall pass on to the Board any and all such communications which the Board members should reasonably be made aware or required to act upon on a timely and regular basis, which basis shall be determined in the CEO's reasonable discretion, based upon the nature, materiality and exigency of the specific communications received.

## **DIRECTOR COMPENSATION:**

The form and amount of director compensation will be determined by the board in accordance with such policies, principles and criteria as it shall adopt. It is appropriate for the staff of the Company to report from time to time to the board on the status of board compensation in relation to other comparable U.S. companies. The board will conduct an annual review of director compensation.

## **CEO EVALUATION:**

The Board, including through its respective Committees will conduct an annual review of the CEO's performance and compensation, including in accordance with the charter and principles of those committees. The board will review the committee's reports to ensure that the current CEO is providing the best leadership for the Company, from a short, intermediate and long-term perspective.

## **BOARD EVALUATION:**

The Nominating and Governance Committee will oversee the annual board evaluation process in accordance with the charter and principles of that committee. As part of this process directors will conduct a self-evaluation to review the progress and effectiveness of the board and its committees, and will submit its comments to the Nominating and Governance Committee. The Nominating and Governance Committee will then report back to the board, and the full board will consider and discuss the committee's report.

## **MANAGEMENT SUCCESSION:**

The Nominating and Governance Committee should conduct an annual review on succession planning, in accordance with the charter and principles of that committee. The committee should report its recommendation to the board. The entire board, along with the committee, will nominate and evaluate potential successors to the CEO.

## **STOCK OWNERSHIP GUIDELINES**

Because the Board believes that Directors as well as the Company's CEO and Section 16 officers' interests should be closely aligned with those of the Company, each of the Company's directors, CEO and Section 16 officers should be a stockholder of Company shares with a market value (\$) equal to the following minimum requirements calculated upon the individual's qualification:

1. Directors (non-employee): 3 times Annual Cash Retainer.
2. CEO: 5 times Annual Salary.
3. Executive Officers: 1 time Annual Salary.

Directors, CEO and Executive Officers have three (3) years from qualification to achieve such guideline levels.

## **DIRECTOR ORIENTATION AND CONTINUING EDUCATION**

### **Director Orientation**

The Company's management, as directed by the Board, shall conduct an orientation program for new directors. The agenda for the orientation shall be determined by the Chairman of the Board, with input from the Nominating and Corporate Governance Committee and the Chief Executive Officer. The orientation program may include presentations by management to familiarize new directors with the Company's strategic and financial plans, any risk management issues, its legal responsibilities and compliance programs, its principal officers, and its internal and independent auditors. In addition, the orientation program may include a review of the Company's expectations of its directors in terms of time and effort and a review of the applicable Corporate Policies such as the Company Corporate Governance Guidelines.

### **Continuing Education**

The Company encourages directors to participate in continuing education opportunities on the Company's organization, business units, strategic plan, significant financial, accounting and risk-management issues, governance policies. Company management will provide regular updates and presentations on such matters as well as any new legal and compliance issues as warranted by developments in the law or by best practices. The Company also encourages each director to participate in external continuing director education programs, including programs accredited by organizations such as ISS, as necessary to enable the director to better perform his or her duties and to recognize and deal appropriately with issues that arise. The Company shall reimburse a Director's reasonable expenses related to attending such external continuing director education. Director's attending such outside educational seminars shall be expected to report back to the Board and/or committees as appropriate with a summary of the contents of the seminar attended and to impart as much practical knowledge gained as is reasonable.