

## **MATERIAL SCIENCES CORPORATION CORPORATE GOVERNANCE GUIDELINES**

The most important corporate objective of Material Sciences Corporation (the “Corporation”) is to conduct business activities so as to enhance the value of the enterprise to the Corporation’s shareowners. In order for the Corporation to reach this objective, the interests of the Corporation’s employees, customers, suppliers, and creditors must also be considered, as well as the interests of the communities in which the Corporation’s operations are conducted and the general public.

The Directors of the Corporation are elected by the shareowners with the responsibility to oversee and direct management to achieve this objective. The Board’s responsibilities require regularly monitoring the effectiveness of management policies and decisions, including execution of corporate strategies, and holding senior management accountable for the pursuit of the corporate objective.

### **Composition of Board of Directors**

*Size of the Board.* The Compensation, Organization and Corporate Governance Committee may make recommendations to the Board concerning the composition of the Board including its size and qualifications for membership.

*Mix of Employee and Independent Directors.* As a matter of policy, the Board will always consist of a majority of “independent” Directors as that term is defined from time to time by the New York Stock Exchange listing standards. The determination that a Director is independent shall be made by the Board following a review of all relevant information and a recommendation by the Compensation, Organization and Corporate Governance Committee. The Corporation will discuss its determination of Director “independence” in its annual proxy statement to the extent required.

*Retirement.* Corporation policy calls for directors to retire at the Corporation’s Annual Meeting of Shareowners immediately following such Director’s 72<sup>nd</sup> birthday, unless extended by the Board.

### **Board Membership Criteria**

The Board seeks a diverse group of candidates who possess the background, skills and expertise to make a significant contribution to the Board, to the Corporation and its shareowners. Accordingly, in the selection of an individual, the Board may consider the following qualities:

#### *Experience:*

- high-level leadership experience in business or administrative activities with public companies ;
- relevant ongoing business, governance or administrative activities;
- specialized expertise in relevant industries;
- breadth of knowledge about issues affecting the Corporation; and
- ability and willingness to contribute special competencies to Board activities.

#### *Personal attributes:*

- unquestioned personal integrity;
- loyalty to the Corporation and concern for its success and welfare, courage to criticize, application of sound business ethics and independent judgment;

- awareness of a directors' vital part in the Corporation's good corporate citizenship and the corporate image;
- time available for meetings and consultation on Corporation matters;
- independence and the absence of conflict of interests;
- wide contacts with business and political leaders; and
- willingness to assume responsibility on behalf of all shareowners to oversee the management of the enterprise.

Qualified candidates for membership on the Board will be considered without regard to race, color, religion, sex, ancestry, national origin or disability. Annually, the Compensation, Organization and Corporate Governance Committee will review the qualifications and backgrounds of the Directors, as well as the overall composition of the Board, and recommend to the full Board the slate of Directors to be recommended for nomination for election at the annual meeting of shareowners. Nominations to the Board may also be submitted to the Compensation, Organization and Corporate Governance Committee by the Corporation's shareowners in accordance with the Corporation's By-Laws and other procedures outlined in the Corporation annual proxy statement.

### **Role of the Board of Directors**

The Board of Directors of the Corporation performs the following principal functions (some of which may be delegated to one or more committees):

- approves a corporate philosophy and mission working in coordination with senior management;
- approves a Code of Business Ethics for Directors, officers and employees;
- selects, appoints, monitors, evaluates and determines compensation for the Chief Executive Officer;
- planning for senior management succession;
- reviews and approves management's strategic and business plans, including developing a depth of knowledge of the business, understanding and questioning the assumptions upon which such plans are based, and reaching an independent judgment as to the probability that the plans can be realized; monitors corporate performance against the strategic and business plans, including overseeing the operating results on a regular basis to evaluate whether the business is being properly managed; and reviews such performance in relation to the performance of peer companies;
- monitors ethical behavior and compliance with laws and regulations, the Corporation's Code of Business Ethics, auditing and accounting principles and the corporation's own governing documents; assesses its own effectiveness in fulfilling these and other Board responsibilities and performs such other functions as are prescribed by law, or assigned to the Board in the Corporation's governing documents;
- oversees the procedures in place to maintain the integrity of the Corporation's financial statements; and
- reviews and provides insight, ideas and an external perspective to enhance the technology basis, differentiation and competitive position for each business including

technology planning, portfolio management, intellectual property development and protection, and business strategies.

Specifically, the Board of Directors must approve all major actions proposed to be taken by senior management and generally reviews corporate policy regarding authorizations and approvals that commit the Corporation to a course of action. This includes:

- authorization of dividends;
- issuances of Corporation securities other than equity securities approved by the Compensation, Organization and Corporate Governance Committee for key employees;
- repurchases of Corporation securities;
- Corporation borrowing programs;
- extraordinary corporate transactions (such as mergers, acquisitions, liquidations or dispositions, and reorganizations); and
- approval of capital programs (including capital budget plans).

### **Director Compensation**

The compensation of Directors who are not employees of the Corporation shall be determined annually by the Board of Directors acting upon recommendation of the Compensation, Organization and Corporate Governance Committee, which may obtain the advice of such experts as the Committee deems appropriate. Compensation may be paid in the form of cash or equity interests in the Corporation or such other forms as the Board deems appropriate and shall be at levels that are consistent with those in effect for directors of similarly situated businesses. Separate compensation may be provided to members of Committees of the Board and additional compensation may be provided to the chairs of Committees and to any non-executive Chairman of the Board, Directors who are also employees of the Corporation shall not receive any additional compensation for their service as Directors.

### **Share Ownership of Directors**

The Board believes that Directors should be shareowners and have a financial stake in the Corporation. The Compensation, Organization and Corporate Governance Committee approves levels of ownership under the Directors/Officers Ownership Program. It is anticipated that each Director will develop a meaningful ownership position in the Corporation in accordance with the program.

### **Affiliations and Conflicts of Directors**

The Corporation's Code of Business Ethics applies to each Director to the extent relevant. Accordingly, it is the responsibility of each Director to advise the Chairperson of the Board of any affiliation with public or privately held businesses or enterprises that may create a potential conflict of interest, potential embarrassment to the Corporation or possible inconsistency with Corporation policies or values. The Corporation annually solicits information from Directors in order to monitor potential conflicts of interest and Directors are expected to be mindful of their fiduciary obligations to the Corporation.

There is no limit on the number of other board memberships Directors may hold (subject to NYSE listing standards regarding membership on audit committees), but such number is considered when evaluating the candidate for nomination to the Board. A Director should advise the Chairperson of the Board and Chairperson of the Compensation, Organization and Corporate Governance Committee in advance of accepting an invitation to serve on another public company board.

Any Director who experiences a significant change in responsibilities or assignment is expected to review and consult with the entire Board on the potential impact, if any, the change may have on continued Board service and tender their resignation from the Board. The Board will evaluate the matter on a case by case basis.

Individual Board members may, from time to time, meet with or communicate with various constituencies that are involved with the Corporation. It is expected that Board members would do this with the advance knowledge of management and, in most instances, at the request of management.

### **Chairperson of the Board**

The Board will determine from time to time whether the role of the Chief Executive Officer and the Chairperson should be separate. When the Chief Executive Officer holds the position of Chairperson of the Board, the Chairperson of the Compensation, Organization and Corporate Governance Committee will chair the executive sessions of non-employee members of the Board.

### **Term Limits**

The Board does not believe it should establish term limits. While term limits may help ensure that there are fresh ideas and viewpoints available to the Board, they hold the potential disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Corporation and its operations and, therefore, provide an increasing contribution to the Board as a whole. The Compensation, Organization and Corporate Governance Committee will review each Director's continuation on the Board every year.

### **New Director Orientation and Continuing Education**

All new Directors must participate in the Corporation's Orientation Program, which should be conducted within two months of being elected to the Board for the first time. This orientation will include presentations by senior management to familiarize new Directors with the Corporation's strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its Code of Business Ethics, its principal officers, and its internal and independent auditors. In addition, the orientation program will include visits to Corporation headquarters and, to the extent practical, certain of the Corporation's significant facilities. All other Directors are also invited to attend the orientation program.

### **Board Meetings**

*Number of Meetings.* The Board meets at regularly scheduled meetings approximately five times a year. Directors focus on overall strategic objectives and in-depth discussions with management on issues of importance to the Corporation and the industry.

*Location of Meetings.* To provide Directors with first-hand knowledge to make strategic decisions and for their continuing education about the environment in which the Corporation operates and competes, meetings may be held at locations other than the corporate headquarters.

*Board Agenda and Materials.* While the Board believes that a carefully planned agenda is important for effective Board meetings, the agenda is flexible enough to accommodate unexpected developments.

- The items on the agenda are typically determined by the Chairperson in consultation with the Board. Any Director may request that an item be included on the agenda.
- At Board meetings, ample time is scheduled to assure full discussion of important matters. Management presentations are scheduled to permit a substantial portion of Board meeting time to be available for discussion and comments.
- It is critical for Directors to receive information sufficiently in advance of Board meetings so they will have an opportunity to prepare for discussion of the items at the meeting. Generally, Directors can expect to receive summaries/slides of presentations several

business days in advance of a meeting. At each meeting any written materials not available in advance are provided to each Director. Information is provided from a variety of sources, including management reports, a comparison of performance to operating and financial plans, reports on the Corporation's stock performance and operations prepared by third parties, and articles in various business publications. In many cases, significant items requiring Board approval may be reviewed in one or more meetings and voted upon in subsequent meetings, with the intervening time being used for clarification and discussion of relevant issues.

- At least once a year, the Board will conduct a self-evaluation to determine whether the Board and its committees are functioning effectively.

*Executive Sessions.* Executive Sessions are those sessions including the non-employee Directors and should be called by the Chairperson of the Compensation, Organization and Corporate Governance Committee. These meetings should occur at least twice a year. The presiding non-employee Director, for purposes of leading these meetings, will be the Chairperson of the Compensation, Organization and Corporate Committee and such Chairperson's position is disclosed in the Corporation's annual proxy statement.

*Regular Attendance.* Directors are expected to attend Board meetings on a regular basis. The Chairperson designates the guest attendees at any Board meeting who are present for the purpose of making presentations, responding to questions by the Directors, or providing counsel on specific matters within their areas of expertise. Usually, the Chief Financial Officer attends each Board meeting but does not attend Executive Sessions unless specifically requested.

### **Corporate Support and Access to Management**

The Corporate Secretary serves as secretary to the Board and, at the direction of the Chairperson, arranges meetings, suggests meeting agendas and facilitates the materials presented to the Board and its committees. Directors shall have reasonable access to members of management and employees of the Corporation, but such access should be non-disruptive to operations. In addition, the Board may, as necessary and appropriate, consult with independent legal, financial and accounting advisors to assist in their duties to the Corporation and its shareowners.

### **Board Committees**

*Number of Committees.* The Board currently is organized into three committees: Audit Committee and Compensation, Organization and Corporate Governance Committee and Executive Committee. Each committee has its own charter. All of the members of these Committees are independent Directors as defined by the NYSE listing standards and SEC rules, with the exception of the CEO's membership on the Executive Committee. The Board may from time to time, establish or maintain additional committees as necessary or appropriate.

*Audit Committee:* The Audit Committee oversees the Corporation's auditing, accounting, financial reporting and internal control functions, appoints the Corporation's independent accounting firm and approves its services and performs other functions as requested by the Board.

*Compensation, Organization and Corporate Governance Committee:* The Compensation, Organization and Corporate Governance Committee makes recommendations to the Board concerning Directors' compensation and determines senior officers' compensation; reviews succession plans for senior executive officers (other than the Chief Executive Officer) of the Corporation on a periodic basis; considers and recommends to the Board nominees for Chief Executive Officer and nominees for election as Directors, including nominees recommended by shareowners; oversees evaluation of the Board and its committees; develops and recommends corporate governance policies to the Board and oversees implementation; and performs other functions as requested by the Board.

*Executive Committee.* The Executive Committee is charged with supporting the Board of Directors in performance of their duties and responsibilities with respect to corporate strategy and CEO mentoring, oversight and development.

*Committee Assignments and Rotation.* The Compensation, Organization and Corporate Governance Committee, after considering to the extent practicable the desires of Board members, recommends committee assignments to the full Board for approval. In order to ensure that Directors are exposed to all facets of the Corporation's business and board functions, committee members are rotated, but such rotation is not mandated as there may be reasons to maintain an individual Director's committee membership for longer or shorter periods.

*Committee Agendas.* The Chairperson of each committee, in consultation with the committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The Chairperson of each committee, in consultation with the appropriate members of the committee and management, will 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 degree these can be foreseen). The schedule for each committee will be furnished to all Directors.

*Frequency of Committee Meetings.* Each committee meets periodically as determined by its Chairperson. Each committee provides a report to the Board at the next board meeting following the committee meeting.

*Committee Materials In Advance of Committee Meetings.* Materials are provided in advance of committee meetings in the same manner as applicable for board meetings.

## **Evaluations and Other Matters**

*Assessing the Board and Committee Performance.* The Board of Directors will conduct an annual self-evaluation to determine whether it and its committees are functioning effectively. The Compensation, Organization and Corporate Governance Committee will receive comments from all Directors and report annually to the Board with an assessment of the Board's performance. This will be discussed with the full Board during the Board meeting in December of each year. The assessment will focus on the Board's contribution to the Corporation and specifically focus on areas in which the Board or management believes that the Board could improve.

*Formal Evaluation of the Chief Executive Officer.* The Compensation, Organization and Corporate Governance Committee develops the methodology for evaluation of the Chief Executive Officer by the full Board and coordinates the evaluation, reporting the results to the full Board. The Board communicates its views to the Chief Executive Officer through the Chairperson of the Compensation, Organization and Corporate Governance Committee. The evaluation of the Chief Executive Officer is based upon a combination of objective and subjective criteria which are disclosed to the extent required each year in the Corporation's annual proxy statement.

*Succession Planning.* The Chief Executive Officer shall confer periodically with the Compensation, Organization and Corporate Governance Committee on succession plans for senior management including that of the CEO position itself. The Chief Executive Officer and the Compensation, Organization and Corporate Governance Committee also reports periodically to the Board on succession planning for senior management.

*Management Development.* The Chief Executive Officer reports on an annual basis to the Compensation, Organization and Corporate Governance Committee on management development activities.

*Securities Laws.* Each Director is required to timely submit a Directors and Officers Questionnaire that will be distributed by the Corporation in preparation for the annual proxy statement filed with the SEC and distributed to shareowners. This questionnaire may also be circulated before the Corporation files any registration statement with the SEC. Each Director is expected to comply with the Corporation's Insider Trading Guidelines. It is a violation of Corporation policy to engage in any securities transaction involving Corporation securities without providing advance notice to the Corporate Secretary. To comply

with the accelerated deadlines to file Section 16 reports, each Director will be requested to sign a power of attorney authorizing the Corporation to prepare, sign and submit these reports on their behalf.

*Attendance Policy at Annual Meetings.* All Directors properly nominated for election at the Corporation's annual meeting are expected to attend the annual meeting of shareowners.

*Board Interaction with Institutional Investors, the Press, Customers, Etc.* The Board looks to management to speak for the Corporation but recognizes that individual Directors may sometimes communicate with third parties on matters affecting the Corporation. Before doing so, to the extent feasible, Directors are encouraged to consult with management.

The Board of Directors believes that corporate governance is an evolving process and periodically reviews and updates these guidelines on the recommendation of the Compensation, Organization and Corporate Governance Committee. For the most recent guidelines, please see the Corporation's website at [www.matsci.com](http://www.matsci.com).