



FSI International, Inc.  
Corporate Governance Guidelines

## 1. Introduction

The Board of Directors has adopted principles of corporate governance that govern the selection of Board candidates; compensation of Board members; rules regarding structure and operation of Committees; and meetings of and agendas for the Board and its Committees.

These practices are reviewed by the Corporate Governance and Nomination Committee periodically. That review includes the evaluation by the Committee of board practices at other well-managed companies and emerging corporate governance issues.

## 2. Primary Functions of the Board of Directors

Each FSI Director and the FSI Board are expected to promote the best interests of the shareholders in terms of corporate governance; fiduciary responsibilities; compliance with applicable laws and regulations; and maintenance of accounting, financial, and other controls. Their primary responsibility is to provide effective guidance of the affairs of the Company for the benefit of its shareholders and other constituencies. This includes overseeing the conduct of the Company's business and, where appropriate, approval of the Company's financial objectives; major corporate plans; and strategies and tactics. In addition, the Board selects the Company's Chief Executive Officer ("CEO"); acts as an advisor and counselor to the CEO and senior management; and evaluates the CEO's performance.

## 3. Access to Management and Outside Advisors

The Directors have complete access to the Company's senior management, including executive officers. As a courtesy, Directors should use judgment to ensure this contact would not be disruptive to the business operations of the Company and any written requests for information should be copied to the CEO. The Board expects that from time to time executives and/or managers will be present at Board meetings to provide additional insight into the items being discussed and to provide the Board the opportunity to evaluate their management skills. The Board and each of its committees shall also have access to the Company's outside counsel and auditors and may retain outside counsel and other advisors and consultants of its choice with respect to any issue relating to any of its activities.

## 4. Attendance at Board and Committee Meetings

a. Non-Directors: The Corporate Secretary will be present at all times during Board and Committee meetings, except where there is a specific reason for him to be excluded. In addition, the Chief Financial Officer shall attend all Audit Committee meetings and the most senior Human Resources executive shall attend all Compensation Committee meetings. In addition, the CEO may invite one or more members of management to be in regular attendance at Board meetings and may include other officers or employees from time to time as appropriate to the circumstances.

b. Directors: Each Director is expected to attend all meetings of the Board and all meetings of Committees on which the Director is a member. The Board recognizes, however, that occasionally meetings may need to be scheduled on short notice when participation of a Director is not possible and that conflicts may arise from time to time to prevent a Director from

attending a regularly scheduled meeting. However, the Board expects that Directors will make every possible effort to keep such absences to a minimum.

## **5. Selection of Agenda**

The Chairman shall be responsible for establishing the agenda for each Board meeting. Any Director may suggest inclusion of additional items on the agenda and it is anticipated that the agenda will be distributed at least one (1) week in advance of the Board meeting. Directors may also raise at any regular Board meeting subjects for discussion that are not on the formal agenda; however, to the extent practicable, the desire for inclusion of such items should be communicated to the Chairman or Corporate Secretary in advance of the meeting. The agenda must allow for holding periodic sessions of the independent directors only.

## **6. Distribution of Board Materials**

In addition to the Board agenda, information that is important to the Board's understanding of the business of the Company and matters to be considered at an upcoming Board meeting shall be distributed to Directors sufficiently in advance of each Board meeting to provide Directors with an adequate opportunity to prepare for discussion at the meeting. Directors also routinely receive monthly financial reports as well as certain press releases, analyst reports, and other information designed to keep them informed of the material aspects of the Company's business performance and prospects.

## **7. Size of the Board**

The Board is divided into three (3) classes elected for three (3) year terms which are to be as equal in size as possible, with the term of one (1) class expiring each year. In accordance with the Articles of Incorporation of the Company, the Board will be composed of no fewer than five (5) and no more than eleven (11) Board members. A majority of the members of the Board must be Independent Directors.

## **8. Retirement Age**

The Corporate Governance and Nomination Committee will not recommend the election of any person to serve as a Director of the Company after such person has passed his or her 75<sup>th</sup> birthday.

## **9. Board Definition of What Constitutes Independence**

"Independent Director" means a person other than an officer or employee of the Company or its subsidiaries or any other individual having a relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. Furthermore, those persons not considered independent under the definition of "Independent director" in the rules of The Nasdaq Stock Market shall not be considered independent under the above definition. The status of each Director as independent under the foregoing definition is to be reviewed annually by the Board's Corporate Governance and Nomination Committee.

## **10. Board Compensation**

The Compensation Committee shall periodically receive reports on the status of the Company's Director compensation practices in relation to the other companies of comparable size and within the industry. The Company firmly believes in a mix of both cash and stock-based compensation for outside directors. Any changes in Director compensation should come upon the recommendation of the Compensation Committee but with full discussion and concurrence by the Board of Directors.

## **11. Chairman and Lead Independent Director**

The Board will annually elect a Chairman, who may either be an independent or management director. At any time when the Chairman is not an independent director, one of the independent directors shall be designated by the Board as the lead independent director to chair executive sessions of the independent directors, set Board agendas with the Chairman, and perform such other functions as the Bylaws provide or as the Board may specify from time to time.

## **12. Change in Job Responsibilities**

A non-employee Director must submit a written offer to resign from the Board upon a material change in his or her principal job responsibilities. A director who is also an employee must submit a written offer to resign from the Board upon termination of his or her active service as an employee of the Company. The Corporate Governance and Nomination Committee will evaluate the continued appropriateness of Board membership under the changed circumstances and make a recommendation to the full Board as to whether or not the offer to resign should be accepted.

## **13. Service on Other Boards**

Directors should insure that the number of public company boards on which they serve does not detract from their ability to devote sufficient time to effectively carry out their duties and responsibilities on the Company's Board. Any director should advise the Chairman and the Chairman of the Corporate Governance and Nomination Committee before accepting any invitation to serve on another public company board.

## **14. Executive Sessions of Independent Directors**

Executive sessions of the independent directors without management present will be included as part of each regularly scheduled Board meeting. The Chairman, if independent, or the Lead Independent Director will preside at such meetings. The independent directors may meet without management present at such other times as determined by the independent Chairman or the Lead Independent Director.

## **15. Ethics and Conflicts of Interest**

The Board expects all Directors, officers and employees to act ethically at all times and to comply with the Company's Code of Ethics and Business Conduct, including any additional Company compliance policies referred to therein. If an actual or potential conflict of interest arises for a Director, the Director will promptly inform the Chief Executive Officer and the Chairman or the Lead Independent Director. If a significant conflict exists and cannot be resolved, the Director should resign. All Directors will recuse themselves from any discussion or decision affecting their business or personal interests.

## **16. Stockholder Communications to Board**

Stockholders who wish to communicate with the Board may do so by writing to the Board or a particular Director in care of the Secretary of the Company. All communications will initially be received and processed by the Secretary, who will then refer the communication to the appropriate Board member (either the director named in the communication, the Chairman of the Committee having authority over the matter raised in the communication, or the Chairman of the Board in all other cases). The director to whom a communication is referred will determine, in consultation with Company counsel, whether a copy or summary of the communication will be provided to the other Directors. The Board will respond to communications if and as appropriate. The Company will disclose this process on its corporate website.

## **17. Review, Amendment and Waiver**

These Guidelines will be reviewed periodically by the Corporate Governance and Nomination Committee, which will recommend for adoption by the Board any amendments or modifications it deems necessary or desirable. That Committee will also oversee the implementation of the Guidelines, and in so doing is authorized to interpret the Guidelines and to recommend to the Board the temporary waiver of any requirement of the Guidelines when, in the judgment of the Committee, such a waiver is in the best interests of the Company and its stockholders and is not inconsistent with any law, regulation or stock exchange rule applicable to the Company.

## **18. Board Committees**

a. A substantial amount of the analysis and work of the Board is done by standing Board Committees. Directors are expected to participate actively in the meetings of each Committee to which the Director is appointed.

The Board has established the following standing Committees:

(1) Audit Committee: The Committee's functions include: responsibility for the appointment and retention of the independent auditors for the Company; establishing and reviewing the activities of the independent auditors; reviewing recommendations of the independent auditors and the responses of management to such recommendations; and reviewing and discussing with the independent auditors and the Company's management the Company's financial reporting, public disclosures, loss exposures and internal controls. In addition, the Committee reviews and recommends debt and equity financings; and reviews and approves the annual financial and capital plans.

(2) Compensation Committee: The Committee's functions include: approving and reporting to the Board the executive compensation plans and the compensation (including incentive awards) of certain executives; and reviewing and approving the Company's incentive plans. The Committee also grants, approves and reports to the Board concerning employee stock options, and administers the Company's Stock Option and Stock Purchase Plans. The Committee will also make recommendations to the Board for new or material changes to existing employee benefit plans.

(3) Corporate Governance and Nomination Committee: The Committee's functions include: evaluating and recommending qualified individuals to the Board; reviewing the qualifications of individuals for election or reelection as members of the Board; and

reviewing the charters and membership of the Board's Committees and Board membership guidelines. The Committee will consider persons whom shareholders recommend as candidates for election as Company directors. Any shareholder wishing to make such a recommendation should submit it to the Secretary of the Company. It also oversees matters of corporate governance including Board performance and these corporate governance guidelines.

Each standing Committee should have a board-approved written charter detailing its duties.

The Board may also establish other Committees from time to time to deal with specific issues.

b. Composition of Committees: It is the policy of the Board that only Independent Directors serve on the Audit, Compensation and Corporate Governance and Nomination Committees. In addition, the composition of the Committees will be reviewed annually to ensure that each of its members meet the criteria set forth in applicable SEC, listing exchange, and IRS rules and regulations.

c. Assignment of Committee Members: The Corporate Governance and Nomination Committee recommends to the Board for its approval the membership of the various Committees and their Chairman. In making its recommendations to the Board, the Committee takes into consideration the continuity; subject matter expertise; tenure; experience of the individual Board members; and such other matters as deemed appropriate.

d. Frequency and Length of Committee Meetings: The Chair of each Committee, in consultation with its members and appropriate officers, determines the frequency and length of the meetings of the Committee. In addition, the Chairman of a Committee may call a special meeting of a Committee at any time. Executive sessions of the respective Committees will be held as each Committee deems necessary and as may be specified in a Committee's charter.

e. Committee Agendas/Reports to the Board: In coordination with the Chairman of each Committee, appropriate members of management and staff will prepare draft agendas and related background information for each Committee meeting which, to the extent desired by the relevant Committee Chairman, will be reviewed and approved by such Chairman in advance of distribution to the other Committee members. Any background materials, together with such agenda, should be distributed to Committee members and Corporate Secretary in advance of the meeting for their review and discussion. In addition, each Committee member is free to suggest items for inclusion on the agenda and to raise at any Committee meeting subjects that are not on the agenda for that meeting.

Reports on the items considered at each Committee meeting are to be furnished to the full Board at its next meeting. In addition, all Directors are to be furnished copies of each Committee's minutes.

## **19. Frequency of Board Meetings**

The Board has four (4) regularly scheduled meetings per year and special meetings are called as necessary. Typically meetings are to be held over the course of a day; however, long-term strategic and business plans will be reviewed annually at one of the Board's regularly scheduled meetings at a meeting held over a two-day period.

## **20. Location of Meetings**

To provide Directors first-hand knowledge to make strategic decisions and for the continuing education about the environment in which the Company operates and competes, meetings are occasionally held at locations other than those at or near the corporate headquarters.

## **21. Board Membership Criteria and Selection of New Director Candidates**

The Corporate Governance and Nomination Committee is responsible for reviewing and recommending to the Board candidates for election as members of the Board. Consideration of potential candidates is based upon the assessment of the individual's background, skills, and abilities and such characteristics that qualify the individual to fulfill the needs of the Board at that time. The Board has delegated to the Corporate Governance and Nomination Committee responsibility for developing a screening process involved in identifying and selecting Director candidates for recommendation to the Board. The Board, however, has the final responsibility of approving the individual's selection or nomination. (See Exhibit A)

## **22. Evaluation of the Board and Committees**

The Corporate Governance and Nomination Committee is responsible for conducting an assessment of the conduct of the Board, as well as reviewing with the Board the results of these assessments, at least on an annual basis. The Committee is also responsible for assessing the effectiveness of the processes used by the Board. In preparing these assessments, the Committee develops and circulates to each Director a questionnaire through which each Director can provide input. Each Committee will be responsible for conducting a self-evaluation annually and reporting the results to the Board.

## **23. Related Party Transactions**

The Company's Audit Committee will be responsible for reviewing all related party transactions, which are transactions, arrangements or relationships in which the Company is a participant and in which a related party has a direct or indirect interest. A related party is one who can exercise control or significant influence over the Company, or a member of that person's immediate family, with the result that either the related party or the Company may be prevented from pursuing its own separate interest.

## **24. Director Orientation**

It is the belief of the Board that an orientation program for new Directors should be conducted and which includes background information about the Company's business information; general information about the Board and Committees; and a review of a Director's duties and responsibilities under Minnesota law. Some of these materials are to be included in a Director's handbook and others will be included in meetings with key executives, preceding or promptly following the election of a new Director to the Board. The Corporate Governance and Nomination Committee is primarily responsible for developing such orientation program.

### Director Nomination Process and Selection Criteria

The policy of the Corporate Governance and Nomination Committee (the "Governance Committee") is to consider properly submitted shareholder nominations for candidates for membership on our board of directors as described below. In evaluating such nominations, the Governance Committee seeks to achieve a balance of knowledge, experience and capability.

The Governance Committee will select nominees for directors pursuant to the following process:

- the identification of director candidates by the Governance Committee based upon suggestions from current directors and senior management and recommendations by shareholders;
- a review of the candidates' qualifications by the Governance Committee to determine which candidates best meet the board's required and desired criteria;
- interviews of interested candidates, among those who best meet the desired criteria, by the chairman of the Governance Committee or the entire Governance Committee;
- a report to the board by the Governance Committee on the selection process; and
- formal nomination by the Governance Committee for inclusion in the slate of directors for the annual meeting of shareholders or appointment by the board to fill a vacancy during the intervals between shareholder meetings.

The Governance Committee will reassess the qualifications of a director, including the director's past contributions to the board and the director's attendance and contributions at board and committee meetings, prior to recommending a director for reelection to another term.

The Governance Committee will consider candidates recommended by shareholders provided shareholders follow the procedures set forth below in submitting recommendations. Shareholders who wish to recommend candidates for consideration by the Committee must do so by submitting a written recommendation to:

Corporate Secretary  
FSI International, Inc.  
3455 Lyman Boulevard  
Chaska Minnesota 55318-3052 USA

Recommendations must be sent by certified or registered mail and received by our Corporate Secretary by September 1 of each year, for consideration at the next Annual Meeting of Shareholders. Recommendations must include the following:

- shareholder's name, number of shares owned, length of period held, and proof of ownership.
- name, address, phone number and age of the candidate.
- a resume describing, among other things, the candidate's educational background, occupation, employment history, and material outside commitments (e.g., memberships on other boards and committees, charitable foundations, etc.).
- a supporting statement which describes the candidate's reasons for seeking election to the board and documents his or her ability to satisfy the director qualifications.
- the candidate's consent to a background investigation.
- the candidate's written consent to stand for election if nominated by the board and to serve if elected by the shareholders.

- any other information that will assist the Governance Committee in evaluating the candidate.

The Corporate Secretary will promptly forward these materials to the Governance Committee Chairman and the Chairman of the board. The Corporate Secretary will also maintain copies of these materials for two years after receipt for future reference by the Committee when filling board positions.

The Governance Committee may contact recommended candidates to request additional information necessary for its evaluation or for disclosure under applicable rules of the Securities and Exchange Commission.

Alternatively, shareholders may directly nominate a person for election to our board by complying with the procedures set forth in our By-laws, any applicable rules and regulations of the Securities and Exchange Commission and any applicable laws.

Candidates for director nominees are reviewed in the context of the current composition of the board, our operating requirements and the long-term interests of our shareholders.

The Governance Committee will consider, at a minimum, the following factors in recommending to our board potential new board members, or the continued service of existing members in addition to other factors it deems appropriate based on the current needs and desires of the board:

- demonstrated character and integrity; an inquiring mind; experience at a strategy/policy setting level; sufficient time to devote to the affairs of the company; high-level managerial experience;
- whether the member/potential member is subject to a disqualifying factor, such as relationships with competitors, customers, suppliers, contractors, counselors or consultants, or recent previous employment with the company;
- the member's or potential member's independence;
- whether an existing member has reached retirement age or a term limit;
- whether the member/potential member assists in achieving a mix of board members that represents a diversity of background and experience, including with respect to age, gender, international background, race and specialized industry experience;
- whether the member/potential member, by virtue of particular experience, technical expertise, or specialized skills, will add specific value as a board member; and
- any factors related to the ability and willingness of a new member to serve, or an existing member to continue his/her service.

In addition to the above factors, our board has also adopted certain board guidelines which provide that the Governance Committee will not recommend the election of any person to serve as a Director of the Company after such person has passed his or her 75<sup>th</sup> birthday.