

# WOODWARD GOVERNOR COMPANY

## DIRECTOR GUIDELINES

The Board of Directors (the “Board”) of Woodward Governor Company (the “Company”) has adopted the following Director Guidelines. These Guidelines should be interpreted in the context of all applicable laws and the Company’s Certificate of Incorporation, Bylaws and other corporate governance documents and are intended to serve as a flexible framework within which the Board may conduct its business and not as a set of legally binding obligations. These Guidelines are subject to modification and the Board shall be able, in the exercise of its discretion, to deviate from these Guidelines from time to time, as the Board may deem appropriate or as required by applicable laws and regulations.

### A. Director Independence and Qualification

#### 1. Independence

At least a majority of the directors on the Board will meet the criteria for independence required by the Nasdaq Stock Market and any additional independence criteria established by the Board. This will include an affirmative determination by the Board that the director has no relationship which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. All of the members of the Audit Committee, Compensation Committee and Nominating and Governance Committee will be independent. During the course of the year, directors are expected to inform the Board of any material changes in their circumstances or relationships that may impact their designation by the Board as independent.

#### 2. Board Membership Criteria

The Nominating and Governance Committee is responsible for reviewing with the Board, on a periodic basis, the requisite skills and characteristics that the Board seeks in Board members as well as the composition of the Board as a whole. This review should include an assessment of, among other things, knowledge, experience, diversity, age and skills in areas critical to understanding the Company and its business, as well as integrity, reputation, ability to make independent analytical inquiries and willingness to devote adequate time to Board duties. The Board believes that each director should have a basic understanding of (i) the principal operational and financial objectives and plans and strategies of the Company, (ii) the results of operations and financial condition of the Company, and (iii) the relative standing of the Company in relation to its competitors. Invitations to join the Board shall be extended by the Chairman of the Nominating and Governance Committee and the Chairman of the Board, or a designated representative.

### **3. Change in Professional Responsibilities**

Directors whose professional responsibilities change significantly from those they had when they were elected to the Board or who are involved in other circumstances that may negatively impact the Board or the Company should volunteer to resign from the Board. Such person should not necessarily leave the Board. There should, however, be an opportunity for the Board through the Nominating and Governance Committee to review the continued appropriateness of Board membership under the circumstances.

### **4. Director Time Commitments/Other Directorships**

Each Board member is expected to ensure that other existing and planned future commitments do not materially interfere with the member's service as a director. Directors may serve on the board of directors of other public companies, but shall limit such service to a maximum of (i) four companies for non-employee directors or (ii) one company for employee directors, unless approval for additional board membership is obtained in advance from the Nominating and Governance Committee. Directors should advise the Chairman of the Board and the Chairman of the Nominating and Governance Committee in advance of accepting an invitation to serve on another public company board. No member of the Audit Committee may serve on more than two other public company audit committees without first obtaining the prior approval of the Board.

### **5. Term Limits**

The Board does not believe that term limits for directors are appropriate. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole. In lieu of pre-determined term limits for directors, the Nominating and Governance Committee will evaluate each director's continued service on the Board in connection with each decision whether such director should be re-nominated to the Board and at such other times as may be appropriate in particular circumstances. In connection with each decision regarding re-nominations, each director should be given an opportunity to confirm his or her desire to continue as a member of the Board.

### **6. Retirement Age**

A retirement age of 70 is generally considered appropriate for the Company's directors, but the Board may decide to defer retirement in appropriate circumstances after a director reaches age 70.

### **7. Stock Ownership**

The Board has established Stock Ownership Guidelines for its officers and directors. Within five years of joining the Board, each non-employee director is required to own an amount of shares sufficient to meet the requirements set forth in such Stock Ownership Guidelines.

## **8. Constitution**

The Company's Certificate of Incorporation provides that in connection with their management of the Company, directors are to be guided by the philosophy and concepts of human and industrial association as expressed in the Company's Constitution. Directors are expected to agree in writing that they will be guided by such philosophy and concepts in their service as directors of the Company.

### **B. Selection of Chairman and Chief Executive Officer**

The Board should have flexibility to decide whether it is best for the Company at a given point in time for the roles of the Chief Executive Officer and Chairman of the Board to be separate or combined.

### **C. Board Compensation and Performance Evaluation**

#### **1. Director Compensation**

The Nominating and Governance Committee will conduct a periodic review of director compensation. Changes in director compensation, if any, should come at the suggestion of the Nominating and Governance Committee, but with full discussion and concurrence by the Board. The Nominating and Governance Committee and Board will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels, if the Company makes substantial charitable contributions to organizations with which a director is affiliated, or if 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. Independent directors should receive no additional remuneration, in the form of consulting fees or other special benefits, beyond that provided for service on the Board. Directors who are employees of the Company shall receive no additional remuneration for serving as a Company director. The Company will not make any personal loans or extensions of credit to directors.

#### **2. Periodic Performance Evaluation**

The Board will conduct a periodic self-evaluation to determine whether it and its committees are functioning effectively. The Nominating and Governance Committee will oversee the conduct of the periodic performance evaluation of the Board. The results of the Board performance evaluation will be discussed by the Board.

### **D. Board Role and Responsibilities**

#### **1. Basic Responsibilities**

The basic responsibility of the directors is to exercise their business judgment to act in what they reasonably believe to be in the best interests of the Company and its stockholders and to perform their duties of care and loyalty. In discharging that obligation, directors should be entitled to rely on the honesty and integrity of the Company's senior executives and its outside advisors and auditors. The specific duties

and responsibilities of the Board will include, among other things, overseeing the management of the business and affairs of the Company; selecting and recommending to stockholders appropriate candidates for election to the Board; reviewing and, where appropriate, approving the business plans, major strategies and financial objectives of the Company; evaluating Board processes and performance and the overall effectiveness of the Board; evaluating the performance of the Company and of senior management; requiring, approving and overseeing the implementation of the Company's succession plans; reviewing compliance with applicable laws and regulations and adopting policies of corporate conduct to assure compliance with applicable laws and regulations and to assure maintenance of necessary accounting, financial and other controls; and showing, through its actions, its awareness that the Company's long-term success depends upon its strong relationship with its customers, suppliers and the communities in which it operates.

## **2. Preparation and Attendance at Meetings**

Directors are expected to attend regularly scheduled Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to discharge properly their responsibilities. The minimum expectation is that each director will be in attendance for 75% of the scheduled Board meetings and meetings of Committees on which the director serves. Information and data that are important to a director's understanding of the business to be conducted at a Board or committee meeting generally should be distributed in writing to the directors before the meeting, and directors should review these materials in advance of the meeting. Directors are also expected to attend annual meetings of the Company's stockholders in person, absent a valid reason.

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

Each new director must participate in the Company's orientation program, which should be conducted within six months after a director is first elected to the Board. This orientation will include familiarizing new directors with the Company's business, management and operating structure, strategic plans, its significant financial, accounting and risk management issues, its compliance programs, its codes of ethics, its principal officers, and its internal and independent auditors. In addition, the orientation program will include a visit to the corporate headquarters of the Company to meet with senior management, including the general counsel regarding his or her legal duties as a director, and, to the extent practicable, certain of the Company's other significant facilities, to understand better the Company's business and culture. All other directors are also invited to attend the orientation program. In addition, each director is expected to maintain the necessary level of expertise to perform his or her responsibilities as a director, including participating in continuing education programs as deemed advisable by the Nominating and Governance Committee. The fees for such programs and other reasonable expenses, including travel, should be reimbursed by the Company.

#### **4. Engagement of Independent Advisors**

The Board and each committee have the power to hire independent legal, financial or other advisors, as they deem necessary, without consulting or obtaining the approval of any officer of the Company in advance.

#### **E. Board Meetings**

##### **1. Meetings**

The Board will meet at least four times per year and will hold additional meetings when needed to address issues of special concern or urgency. Directors will be given as much advance notice of meeting dates as reasonably practicable.

##### **2. Agenda/Minutes**

At the beginning of each year the Chairman of the Board will establish a schedule of agenda subjects to be discussed during the year (to the degree this can be foreseen). The Chairman will establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of items on the agenda. Each Board member is free to raise at any Board meeting subjects that are not on the agenda for that meeting. The Board will review and discuss the Company's strategic issues at each regular meeting. One Board meeting each year will have a significant portion dedicated to an in-depth review of the Company's long-term strategic plans and the principal issues that the Company will face in the future. All meetings of the Board shall be held pursuant to the Bylaws of the Company with regard to notice and waiver thereof, and written minutes of each meeting, in the form approved by the Board, shall be duly filed in the Company records.

##### **3. Executive Sessions**

The independent directors will meet in executive session at least quarterly, without the Company's management. A lead director will be chosen by the independent directors to preside at these meetings and to be identified in the Company's annual proxy statement.

#### **F. Board Committees**

##### **1. Executive, Audit, Compensation and Nominating and Governance Committees**

The Board will have at all times an Executive Committee, an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. With the exception of the Executive Committee, the members of these committees will be independent directors under the criteria established by the Nasdaq Stock Market, any other exchange on which the Company's securities are traded, and any other applicable rules and regulations. Committee members will be appointed by the Board upon recommendation of the Nominating and Governance Committee with consideration of the desires of individual directors. Consideration should be given to rotating committee

members periodically, but the Board does not believe that rotation should be mandated as a policy. Each committee will have its own written charter. The charters will set forth the purposes, goals and responsibilities of the committees as well as qualifications for committee membership, procedures for committee member appointment and removal, committee structure and operations and committee reporting to the Board. The charters will also provide that each committee will periodically evaluate its performance.

## **2. Other Committees**

The Board may, from time to time, establish or maintain additional committees as necessary or appropriate.

## **3. Meetings, Agenda and Reports**

The chairman of each committee, in consultation with the other committee members, will determine the frequency and length of the committee meetings consistent with any requirements set forth in the committee's charter. The chairman of each committee, in consultation with the appropriate members of the committee and management, will develop the agenda subjects to be discussed during the year (to the degree these can be foreseen) and the agenda for each meeting. All meetings of each committee shall be held pursuant to the Bylaws of the Company with respect to notice and waiver thereof, and written minutes of each meeting, in the form approved by the relevant committee, shall be duly filed in the Company records. The meeting schedule for each committee will be furnished to all directors. A report regarding each committee meeting will be provided to the full Board, as appropriate. On request, a director will be given copies of the minutes of any committee meeting.

## **G. CEO Evaluation and Succession**

### **1. Evaluation of CEO**

The Compensation Committee will conduct an annual review of the CEO's performance and report to the Board on its evaluation. The Board shall review the report, including discussing it outside the presence of management, in order to ensure that the CEO is providing the necessary leadership for the Company in the long- and short-term. The review shall be timed to allow the outcomes from such process to serve as the basis for the recommendation of the Compensation Committee on compensation for the CEO.

### **2. Succession Planning**

The Nominating and Governance Committee should periodically review the Company's succession plans and report on them to the Board. The Nominating and Governance Committee, with the assistance and input of the full Board, shall also identify potential successors to the CEO position, although this does not mean that it must at all times have selected a particular individual as the designated successor CEO. The CEO shall 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.

## **H. Other Matters**

### **1. Board Size**

The Board believes that a size of eight to twelve directors is currently appropriate.

### **2. Indemnification and Limitation of Liability**

The directors shall be entitled to have the Company purchase directors' and officers' liability insurance on their behalf, as well as to the benefits of: (i) indemnification to the fullest extent permitted by law and the Company's Certificate of Incorporation, Bylaws and any indemnification agreements; and (ii) limitation on liability to the Company as provided by state law and the Company's Certificate of Incorporation.

### **3. Director Access to Management**

Directors should have full and free access to officers and other employees of the Company. Any meetings or contacts that a director wishes to initiate may be arranged through the CEO or the Secretary or directly by the director. The directors will use their judgment to ensure that any such contact is not disruptive to the business operations of the Company and will, to the extent not inappropriate, keep the CEO informed of communications between a director and an officer or other associate of the Company. The Board welcomes regular attendance at each Board meeting of senior officers of the Company. If the CEO wishes to have additional Company personnel attendees on a regular basis, this suggestion should be brought to the Board for approval.

### **4. Board Interaction with Company Constituencies and the Public**

The Board believes that the management speaks for the Company. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company. It is expected, however, that Board members would do this with the knowledge of the management and, absent unusual circumstances or as contemplated by the committee charters, only at the request of management. Generally, directors should refer investors, market professionals and the media to the CEO or another individual designated by the Company.