

# Corporate Governance Guidelines

## **ROLE OF THE BOARD:**

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 corporation. A director may, in considering the best interests of a corporation, consider the effects of any action on shareholders, employees, suppliers, and customers of the corporation, and communities in which offices or other facilities of the corporation are located, and any other factors the director considers pertinent. The Board is mindful of the corporation's global social and environmental responsibilities and expects management to keep those imperatives in focus in all major decisions. In addition, the Board expects that management will respect the cultures and customs of the international operations and employees of the corporation. The Board believes that day-to-day management of the corporation is the responsibility of management and that the role of the Board is to oversee management's performance of that function and to lead the CEO succession process. In discharging their obligation, directors should be entitled to reasonably rely on the competence and integrity of the corporation's senior executives and its outside advisors and auditors. The Board reviews the annual operating plan and specific goals of the corporation at the start of the fiscal year and reviews financial performance quarterly. The Board expects that long-range strategic issues will be discussed regularly at Board meetings. The Board believes that the long-term success of the corporation depends on maintaining an ethical business environment and expects that management will conduct the operations of the corporation in a manner consistent with the Board's philosophy. The Board believes that the management speaks for the corporation. Individual Board members may, from time to time, meet or otherwise communicate with various constituencies that are involved with the corporation. But it is expected 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 the management.

## **COMPOSITION OF THE BOARD:**

The Board will be composed of between three to fifteen directors. In the absence of Board action, the number of directors defaults to seven. In general, the Board believes its optimum size is in the range of 7 to 9 members. A substantial majority of the Board must be independent directors. The Chief Executive Officer of the corporation will serve as a director. Either the Chief Executive or a non-executive director will serve as Chairman of the Board. If the Chief Executive is the Chairman of the Board, the Board will elect an independent director as Lead Director. No more than two current employees of the corporation may serve on the Board at any time. Nominees for directorship will be selected by the Nominating and Governance Committee in accordance with the policies and principles in its charter.

The invitation to join the Board should be extended by the Board itself, by the Chairman of the Nominating and Governance Committee and by the Chairman of the Board collectively.

**DEFINITION OF INDEPENDENT DIRECTOR:**

The Board of Directors will make an annual affirmative determination of the independent or non-independent status of each director, based on the recommendation of the Nominating and Governance Committee and the criteria of the New York Stock Exchange ("NYSE"), the federal securities laws and the rules and regulations of the Securities and Exchange Commission ("SEC"). A director will not qualify as independent unless he has no material relationship with the corporation apart from his service as a director. The Board will use the following standards to assist in making this determination. An independent director is one who:

Is not an employee of the corporation and has not been an employee of the corporation for at least five years;

Is not an affiliate of the corporation other than in the capacity as a director; and has not been an affiliate of the corporation for at least five years.

Is not an employee or affiliate of the corporation's present auditing firm or an auditing firm retained by the corporation within the past five years and has not been an employee or affiliate of such a firm for at least five years;

Is not an employee of a company on whose board an executive of the corporation presently serves as a director or has served as a director within the past five years and has not been an employee of such a company for at least five years;

Is not an employee of any company which made payments to or received payments from the corporation which exceeded 2% or \$1 million, whichever is greater, of that company's consolidated gross revenues; and has not been an employee of such a company for at least five years;

Is not an employee or director of any company that makes direct material investments or trades in CTS stock or that regularly advises investors concerning CTS stock;

Does not presently receive any direct or material indirect compensation from the corporation other than compensation attributable to the director's service as a member of the Board and its Committees;

Has not received more than \$10,000 per year in direct compensation from the company during the past five years, excluding compensation attributable to the director's service as a member of the Board and its Committees;

Does not have any other relationship with the corporation or any other entity, including charitable and civic organizations that in the opinion of the Board could be considered to effect the director's ability to exercise his independent judgment as a director;

Is not an immediate family member of any individual who would fail to meet the criteria for independence set forth above.

For purposes of determining whether a director has a material relationship with the corporation apart from his service as a director, the Board has determined that the corporation's purchase of regulated electric and gas service from a utility company does not constitute a material relationship.

Additionally, for purposes of determining whether a director has a material relationship with the corporation apart from his service as a director, any transaction that is not required to be disclosed pursuant to Item 404(a) of Regulation S-K shall be deemed categorically immaterial.

#### **QUALIFICATION OF MEMBERS:**

The Nominating and Governance Committee is responsible for reviewing with the Board, on an annual basis, the requisite skills and characteristics of new 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, age, skills, and experience in the context of the needs of the Board. The Nominating and Governance Committee will oversee the director selection process with input from the CEO and will recommend director candidates to the full Board for approval.

#### **BOARD PARTICIPATION AND PROFESSIONALISM:**

Directors are expected to attend Board meetings and meetings of committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities. Directors are expected to prepare in advance for Committee and Board meetings by reading Board materials and by giving due consideration to matters that will come before the Board or Committee. Directors are expected to actively contribute to Board and Committee meetings.

#### **RETIREMENT AGE AND TERM LIMITS:**

A director will submit an offer of resignation to be effective at the next annual meeting after the date on which he/she reaches the age of 75. The Nominating and Governance Committee will review each director's continuation on the Board annually. This will allow each director the opportunity to confirm his or her desire to continue as a member of the Board. The Nominating and Governance Committee may recommend that an exception to this policy should be made to allow a director to serve for additional term(s) upon approval of the full Board.

## **BOARD AND COMMITTEE PERFORMANCE REVIEWS:**

The Board and its various committees will, at least annually, conduct a self-evaluation to determine whether it and its committees are functioning effectively. The evaluations should include the individual director contributions as well as Board and Committee's contribution as a whole and specific areas in which improvements could be made.

## **CEO PERFORMANCE EVALUATION:**

The non-employee directors will annually review and evaluate the performance of the CEO in accordance with a written process and based upon objective criteria. Such criteria shall include performance of the business and accomplishment of objectives previously established in consultation with the CEO.

The results of the review and evaluation are to be communicated to the Compensation Committee and are to be used in considering the compensation of the CEO.

## **COMMITTEES OF THE BOARD:**

The current standing Board committees are the Nominating and Governance, Audit, Technology and Transactions, and Compensation Committees. In addition to the standing committees, the Board may establish, from time to time, such ad hoc committees as may be desirable for specific purposes. The Board will have at all times an Audit Committee, a Compensation Committee and a Nominating and Governance Committee. All of the members of these committees will be independent directors under the criteria described in these guidelines within the periods mandated by the SEC. Each committee will have written charters to govern and guide its duties and responsibilities. The charters will also provide that each committee will annually evaluate its performance. The Chairman 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. The Board and each committee have the power to hire independent legal, financial or other advisors, as they may deem necessary, without consulting or obtaining the approval of any officer of the corporation in advance. The Board may establish other committees as circumstances warrant. The Nominating and Governance Committee will recommend appointments to committees and committee chair positions, which will be determined by the full Board. It is the sense of the Board that consideration should be given to rotating committee members periodically, but the Board does not feel that rotation should be mandated as a policy.

## **REMOVAL AND RESIGNATION FROM THE BOARD:**

Directors are expected to offer to resign from the Board when they change employment or the major responsibilities they held when they joined the Board. Such directors should not necessarily leave the Board, but this policy will provide an opportunity for the Board to review the appropriateness of their continued service.

Any nominee for director in an uncontested election as to whom a majority of the shares of the corporation that are outstanding and entitled to vote in such election are designated to be "withheld" from or are voted "against" his or her election shall immediately tender his or her resignation, and the Board will decide, through a process managed by the Nominating and Governance Committee and excluding the nominee in question, whether to accept the resignation at its next regularly scheduled Board meeting. The Board shall evaluate the best interests of the corporation and its shareholders and may consider any factors it deems relevant in deciding whether to accept a director's resignation.

#### **OTHER SERVICE:**

The Board believes that directors should limit the number of boards on which they serve to the extent necessary to give proper attention to each board's responsibility. In the event that a director wishes to join the board of another company, it is expected that he will advise the Chairman of the Board. The Chairman will then consult with the Nominating and Governance Committee regarding whether any potential conflict of interest might arise with such new commitment and whether the new commitment will allow the director to continue to fulfill his obligations to the corporation.

#### **MEETINGS OF INDEPENDENT DIRECTORS:**

The independent directors will meet in separate session at the conclusion of each Board meeting. Topics to be considered in independent director sessions shall include, but not be limited to:

- Discussing the CEO evaluation;

- Discussing management succession issues;

- Assessing the scope, content and frequency of information provided to the Board by management and recommending improvements; and

- Developing recommendations for future Board agendas.

The presiding director for the meetings of the independent directors, meeting in separate session, will be the Lead Director.

#### **MEETING FREQUENCY AND ATTENDANCE:**

The number of regularly scheduled meetings per year for the Board of Directors and its committees shall, at a minimum, be as follows:

- Board of Directors – four (4)

- Audit Committee - six (6)

- Nominating and Governance Committee - two (2)

- Technology and Transactions Committee - three (3)

- Compensation Committee - three (3)

Additional meetings are scheduled on as-needed basis throughout the year. Members are expected to attend Board and committee meetings in person unless the meeting is scheduled as a telephone meeting.

## **MEETING AGENDA AND MATERIALS:**

The Chairman of the Board will determine the agenda for Board meetings with input from the full Board. Directors are encouraged to suggest agenda items and the Chairman will periodically solicit suggestions from directors. Agendas and materials related to agenda items will be provided to directors sufficiently in advance of meetings to allow directors to prepare for discussion of those items. 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 the corporation's long-term strategic plans and the principal issues that the corporation will face in the future during at least one Board meeting each year.

## **COMPENSATION OF DIRECTORS:**

The form and amount of director compensation will be recommended to the Board by the Compensation Committee in accordance with the policies and principles set forth in its charter. The Compensation Committee should regularly review director compensation and make recommendations to the Board regarding any appropriate modifications. Director compensation should support the corporation's goal of attracting and retaining the most qualified persons to the Board. Director compensation should include stock based components to align the interests of the directors with those of the stockholders of the corporation. Directors who are current employees of the corporation do not receive any additional compensation for their services as directors.

## **MANAGEMENT DEVELOPMENT AND SUCCESSION PLANNING:**

The Chief Executive Officer will report annually to the Board on management development and succession planning. The Nominating and Governance Committee should make an annual report to the Board on Board and CEO succession planning. The entire Board, or a specially formed committee thereof, will work with the Nominating and Governance Committee to nominate and evaluate potential successors to the CEO. The CEO should at all times make available his recommendations and evaluations of potential successors, along with a review of any development plans recommended for such individuals.

## **STOCK OWNERSHIP:**

It is the intention of the corporation that the interests of the members of the Board and executives be aligned with those of the shareholders. Therefore, stock ownership in the corporation is encouraged through stock ownership guidelines adopted by the Board. Equity awards by the corporation to the directors and executives shall be included in determining compliance with the stock ownership guidelines. Upon the request of a director or executive, the Compensation Committee may consider a waiver of the guidelines in view of the personal circumstances of the director or executive.

## **CONFLICTS OF INTEREST:**

Any situation that might be construed as disqualifying a director as "independent" should be brought to the attention of the Nominating and Governance Committee which shall make a recommendation to the Board regarding the director's continued service on Board Committees and his nomination for election to the Board at the next stockholder meeting.

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

Directors will have full and free access to officers and employees of the corporation. 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 corporation and will, to the extent not inappropriate, copy the CEO on any written communications between a director and an officer or employee of the corporation.

The Board encourages periodic attendance at Board meetings by senior officers of the corporation as well as by high potential/high performance employees with which management wishes to familiarize the directors.

## **DIRECTOR ORIENTATION AND CONTINUING EDUCATION:**

All new directors must participate in the corporation's Orientation Program. 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 Ethics, its principal officers, and its internal and independent auditors. All other directors are also invited to attend the Orientation Program.

All directors are encouraged to participate in director continuing education programs they deem appropriate. The corporation will reimburse a director in accordance with standard practices for attendance at up to two (2) programs in any eighteen (18) month period. Management will periodically apprise the directors of continuing education programs that become known to it. Additionally, management will monitor significant corporate governance initiatives and will periodically present to the directors those topics which merit updated or refresher education/information as appropriate. Not less frequently than annually, the Nominating and Governance Committee and the Board will receive a presentation regarding developments in corporate governance since the last such presentation.

## **ANNUAL REVIEW OF GUIDELINES:**

The Nominating and Governance Committee shall review these guidelines on at least an annual basis and report to the Board with any recommendations it may have in connection therewith.

The foregoing guidelines will be posted on the corporation's web site and paper copies will be made available to interested parties upon request. The corporation's Annual Report to shareholders will include a statement to this effect.