

Energy Conversion Devices, Inc. Corporate Governance Principles

I. **Purpose**

These Corporate Governance Principles, adopted by the Board of Directors of Energy Conversion Devices, Inc. (the “Company” or “ECD”), together with the charters of the Audit Committee, Finance Committee, Compensation Committee and Corporate Governance and Nominating Committee of the Board, provide the framework for the governance of ECD. The Board will review these principles and other aspects of ECD governance annually or more often, as the Board deems necessary or appropriate.

II. **Board of Directors Structure and Operations/Board Compensation**

Selection Process and Board Size

The Board of Directors of the Company is elected by and responsible to the shareholders. The Company’s business is conducted by its employees, managers and officers, under the direction of the chief executive officer (CEO) and the oversight of the Board, to enhance the long-term value of the company for its shareholders. The Board of Directors monitors the performance of the CEO and senior management to assure that the long-term interests of the shareholders are being served.

The Board determines the number of directors on the Board, provided that there are at least three and not more than 10 directors as provided by the bylaws of the Company.

All Board members are elected annually by the Company’s shareholders, except as noted below with respect to vacancies. Each year at the Company’s annual meeting, the Board recommends a slate of directors for election by shareholders. The Board’s recommendations are based on its determination (based upon the recommendation, advice and information supplied by the Corporate Governance and Nominating Committee) as to the suitability of each individual, and the slate as a whole, to serve as directors of the Company, taking into account the criteria discussed below.

The Board may fill vacancies in existing or new director positions. Such directors elected by the Board serve only until the next election of directors unless elected by the shareholders to a further term at that time.

Qualifications

Directors shall possess the highest personal and professional ethical standards, integrity and values, and be committed to representing the long-term interests of the Company and its shareholders. Directors must have the ability to provide wise, informed and thoughtful counsel to top management on a range of issues and make significant contributions to the Company’s success.

The Corporate Governance and Nominating Committee works with the Board on an annual basis to determine the appropriate characteristics, skills and experience for the Board as a whole and its individual members. In evaluating the suitability of individual

Board members, the Board takes into account many factors, including general understanding of finance, marketing, and other disciplines relevant to the success of a publicly traded company; understanding of ECD's business on a technical level; and educational and professional background. The Board evaluates each individual in the context of the Board as a whole, with the objective of recommending a group that can best perpetuate the success of the business and present shareholder interest through the exercise of sound judgment, using its diversity of experience. In determining whether to recommend a director for re-election, the Corporate Governance and Nominating Committee also considers the director's past attendance at meetings and participation in and contributions to the activities of the Board. Directors must be willing to devote sufficient time to carrying out their duties and responsibilities effectively, and should be committed to serve on the board for an extended period of time.

Because of the value the Board places on having directors who are knowledgeable about the Company and its operations, the Board does not believe that arbitrary term limits on directors' service are appropriate.

Independence of Directors

A majority of the directors will be independent directors under the Nasdaq Stock Market rules or any other applicable regulatory requirements, as such requirements may change from time to time. The Board of Directors recognizes, however, that directors who do not meet the NASDAQ independence standards have historically made, and can be expected to continue to make, valuable contributions to the Board and to the Company by reason of their experience, judgment, intelligence and wisdom.

For a director to be considered independent, the Board must determine that a director does not have any direct or indirect material relationship with ECD. The Board has established guidelines to assist it in determining director independence, which conform to the independence requirements in the NASDAQ listing requirements. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination. A director will not be independent if:

- the director is employed by the Company;
- the director receives any direct compensation from the Company other than director and committee fees;
- an immediate family member receives compensation from the Company in excess of \$100,000 during any period of 12 consecutive months within the three years preceding the determination of independence;
- the director is, or has a family member who is, a current partner of the Company's outside auditor, or was a partner or employee of the Company's outside auditor who worked on the Company's audit at any time during any of the past three years;

- an ECD executive officer serves on the compensation committee of the board of directors of a company which employs the ECD director or an immediate family member as an executive officer;
- the director, at the time of the independence determination, serves as an executive officer, director or trustee of any organization (including any business entity or any nonprofit organization) that makes or made payments to, or receives or received payments from, the Company for property or services in the current or any of the past three fiscal years in an amount which exceeds the greater of \$200,000 or 5% of the recipient's consolidated gross revenues for that year.

Board Committees

The Board may establish committees to assist it in discharging its responsibilities. Directors are expected to serve on one or more committees and where feasible, to rotate such service among the various committees as members and chairpersons on a periodic basis. The Board of Directors, acting on the recommendations of the Corporate Governance and Nominating Committee, will determine the appropriate period of service for committee members and chairpersons.

Currently, the Board has established four standing Committees: (i) Audit, (ii) Finance, (iii) Compensation and (iv) Corporate Governance and Nominating. The current charters of these committees are published on ECD's website at www.energyconversiondevices.com and will be mailed to shareholders on written request.

Audit, Compensation and Corporate Governance and Nominating Committee members must meet the Nasdaq standards for independence. The Audit Committee members, additionally, must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. The Audit Committee will have at least one member who meets the definition of "audit committee financial expert" as promulgated by the Securities and Exchange Commission. The role of the audit committee financial expert will be that of assisting the Audit Committee in overseeing the audit process, not auditing the Company.

Audit Committee members will inform the Chairperson of the Committee and the Company's Chief Executive Officer prior to or upon accepting an audit committee appointment of another board of directors.

The Committee chairpersons report on the matters considered at each of their meetings to the full Board of Directors following each Committee meeting.

Director Orientation

The Company shall provide an orientation for new directors, and shall periodically provide materials or briefing for all directors on subjects that would assist them in

discharging their duties. Each new director shall, within six months of election to Board, spend a day at corporate headquarters for personal briefings by senior management on the Company's strategic plans, its financial statements, and its key policies and practices, and visit to key facilities.

Compensation of Board

The Company believes that compensation for non-employee directors should be competitive and should encourage increased ownership of the Company's stock through the payment of a portion of director compensation in company stock. The Compensation Committee will periodically review the level and form of non-employee director compensation, including how such compensation compared to director compensation of companies of comparable size, industry and complexity. Changes to the director compensation will be proposed to the full Board for consideration.

Board Objectives

The Board and its Committees will establish annual performance goals and objectives and evaluate once a year their performance in light of these goals and objectives.

Self-Evaluation by the Board

The Corporate Governance and Nominating Committee will sponsor an annual self-assessment of the Board's performance as well as the performance of each Committee of the Board, the results of which will be discussed with the full Board and each Committee. The assessment will include a review of any areas in which the Board or management believes the Board can make a better contribution to the Company. The Corporate Governance and Nominating Committee will also utilize the results of this self-evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates for election to the Board and making recommendations to the Board with respect to assignments of Board members to various committees.

Access to Senior Management

Non-employee directors shall have full and complete access to the senior managers of the Company. Each director has the responsibility to inform the CEO of the nature of communications with management and to provide copies of any written communication to the CEO.

The Board encourages management to bring managers into Board meetings who (i) can provide additional insight into the items being discussed because of personal involvement in these areas and/or (ii) represent managers with future potential that management believes should be given exposure to the Board.

Access to Independent Advisors

The Board and its Committees shall have the right at any time to retain independent outside auditors and financial, legal or other advisors, and the Company shall provide appropriate funding, as determined by the Board or any Committee, to compensate such independent outside auditors or advisors, as well as to cover the ordinary administrative expenses incurred by the Board and its Committees in carrying out their duties.

III. Meetings

The Board of Directors ordinarily has seven scheduled meetings a year. Directors are expected to attend all scheduled Board and Committee meetings and the annual meeting of stockholders.

A director who is unable to attend a Board or Committee meeting is expected to notify the Corporate Secretary who will advise the Chairperson of the Board and/or the Chairperson of the relevant Committee. If a director cannot attend a Board meeting due to an inability to be at the site of that meeting but is otherwise able to participate, it may be possible for the director to participate by telephone if advance arrangements are made. Proxy rules require the Company to identify in the Proxy those directors who did not attend 75% of the scheduled Board meetings and any meetings of Committees on which the director serves.

The Chairperson of the Board and CEO (if the Chairperson is not the CEO) will establish the agenda for each Board meeting. Each director is free to suggest the inclusion of item(s) on the agenda.

Advance Distribution of Materials

All information relevant to the Board's understanding of matters to be discussed at an upcoming Board meeting should be distributed in writing or electronically to all members in advance whenever feasible and appropriate. In preparing this information, management should ensure that the materials distributed are as concise as possible, yet give directors sufficient information to make informed decisions. The Board acknowledges that certain items to be discussed at Board meetings are of an extremely sensitive nature and that the distribution of materials on these matters prior to the Board meetings may not be appropriate.

Executive Sessions of Independent Directors

The independent directors of the Board will meet for a period of time at each regularly scheduled Board meeting without management present. The Chairman of the Board will preside at such meetings and will be responsible for providing appropriate feedback to the CEO.

IV. Responsibilities and Duties

CEO/Management Oversight and Compensation

In addition to the Board's general oversight of the CEO and senior management, the Board also is responsible for:

- selecting, evaluating and compensating the CEO and overseeing CEO succession planning;
- providing counsel and oversight on the selection, evaluation, development and compensation of the officers and senior management of the Company;
- reviewing, monitoring, and, where appropriate, approving fundamental financial and business strategies and major Company actions;
- assessing major risks facing the Company, and reviewing options for their mitigation;
- ensuring processes are in place for maintaining the integrity and reputation of the Company -- the integrity of the financial statements, the integrity of compliance with law and ethics and the integrity of relationships with other Company stakeholders.

The Board does not require the separation of the offices of the Chairman of the Board and the Chief Executive Officer. As provided by the bylaws of the Company, the Board shall annually elect, by the affirmative vote of a majority of the directors then in office, the Chairman of the Board, and may fill any vacancy in the position at such time and in such manner as the board of directors may determine.

Conflicts of Interest and Concern Reporting

The Board expects the directors of ECD, as well as officers and employees, to act ethically at all times and to acknowledge their adherence to the policies comprising ECD's code of conduct set forth in the Company's *Code of Business Conduct*. If an actual or potential conflict of interest arises for a director, the director shall promptly inform the Chairman. If a significant conflict arises and cannot be resolved, the director should resign. All directors will recuse themselves from any discussion or decision affecting their personal, business or professional interests. The Board shall resolve any conflict of interest question involving the Chairman, or a Board member, and the Board or a designated committee thereof comprised of independent directors shall resolve any conflict of interest question involving any other officer of the Company.