



## **CORPORATE GOVERNANCE GUIDELINES**

As adopted by the Board of Directors on October 26, 2017

The corporate governance standards established by the Board of Directors (the “Board”) of Sonoma Pharmaceuticals, Inc. (the “Company”) provide a structure within which directors and management can effectively pursue the Company’s objectives for the benefit of its stockholders. To that end, the Board adopted the following Corporate Governance Guidelines.

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## **I. The Principal Functions of the Board of Directors**

### **To Review and Approve the Company's Strategic Direction and Annual Operating Plan and Monitor the Company's Performance:**

The fundamental role of the directors is to exercise their business judgment to act in what they reasonably believe to be the best interests of the Company and its stockholders. It is the Board's duty to oversee the Chief Executive Officer and other senior management in the competent and ethical operation of the Company, including management's establishment and implementation of appropriate practices and policies with respect to areas of potentially significant risk to the Company.

The Board strives to meet at least once a quarter.

Annually, the Board reviews and, if acceptable, approves yearly goals, operating plans and strategies as required for the Company. On an ongoing basis during the year, the Board monitors the Company's performance.

The Board stays abreast of industry, political, accounting, legal, regulatory and economic trends and developments that the Board believes will directly impact the Company's strategic direction.

### **To Evaluate the Performance of the Chief Executive Officer and Chief Financial Officer:**

Management develops appropriate goals for the next fiscal year, which are then discussed with the entire Board. At fiscal year end, the Compensation Committee shall obtain information from management to evaluate the performance of the Chief Executive Officer in meeting those goals.

### **To Review Management Performance and Compensation:**

The Compensation Committee annually evaluates and approves the compensation plans, policies and programs (including equity compensation) for the Chief Executive Officer, the Chief Financial Officer and the other executive officers (as that term is defined in Rule 16a-1 promulgated under the Securities Exchange Act of 1934, as amended, the "Section 16 Officers") to ensure they are appropriate, competitive and properly reflect the Company's objectives and performance.

### **To Review Management Succession Planning:**

The Board, assisted by the Nominating and Corporate Governance Committee shall select, evaluate the performance of, and make determinations to retain or replace, the Chief Executive Officer. Such evaluations and determinations will be made with (i) a view to the effectiveness and execution of strategies propounded by, and decisions made by, the Chief Executive Officer with respect to the Company's long-term strategic plan and long-term financial returns and (ii) applicable legal and ethical considerations.

The Board shall also, in conjunction with the Chief Executive Officer, evaluate at least annually the performance and potential of the other Section 16 Officers. More generally, the Board, assisted by the Nominating and Corporate Governance Committee, shall participate in the planning for the succession of the other Section 16 Officers.

### **To Advise and Counsel Management:**

Advice and counsel to management occurs both in formal meetings of the Board and Committees of the Board and through informal, individual director's contacts with the Chief Executive Officer and other members of management.

The Board is composed of individuals whose knowledge, background, experience and judgment are valuable to the Company.

The information needed for the Board's decision-making generally will be found within the Company, and members of the Board have full access to management and other employees, as well as to the Company's records, accountings, books and documents. The Board may also seek legal or other expert advice from a source independent of management.

### **To Monitor and Manage Potential Conflicts of Interests of Management, Board Members and Stockholders:**

It is the Board's responsibility to ensure that there is no abuse of corporate assets, unlawful related party transactions or other conflicts of interest.

If a director believes that he or she may have an actual or potential conflict of interest, the director shall promptly inform the Audit Committee. The Audit Committee will take all necessary steps to investigate any reports.

The Board will take appropriate steps to identify the actual or apparent conflicts of interest and ensure that all directors voting on an issue are disinterested with respect to that issue. Each director will recuse himself or herself from any discussion or decision so found to affect his or her personal, business or professional interests.

All members of the Board must inform the Audit Committee of all types of transactions between them (directly or indirectly) and the Company, prior to their conclusion, even if such transactions are in the ordinary course of business. The Audit Committee shall review and approve all related party transactions for which audit committee approval is required by applicable law or the rules of the Nasdaq Stock Market.

Directors must inform the Board of their service on:

- (i) other companies' boards, and
- (ii) advisory committees where the director believes that service on such committee may create an actual, potential or perceived conflict of interest with the Company's interests.

Directors should notify the Chair of the Nominating and Corporate Governance Committee and the Chief Executive Officer prior to accepting an invitation to serve on a public or private company board or an advisory committee as described above to permit the Nominating and Corporate Governance Committee to evaluate the relationship for a potential conflict of interest as necessary. Where the reporting director is a member of the Nominating and Corporate

Governance Committee or the Chief Executive Officer, the matter will be referred to the full Board for evaluation.

**To Evaluate and Approve Significant Company Actions:**

The Board is responsible under the law of the State of Delaware to review and approve significant actions by the Company, including major transactions (such as, but not limited to, material acquisitions or dispositions, material agreements including in- and-out licensing agreements, and financings), declaration of dividends, issuance of securities and appointment of officers of the Company.

The Board, with the assistance of the Audit Committee, shall annually review and, if acceptable, approve a delegation of authority policy that delineates the matters that shall be reserved for Board approval from those matters that may be delegated to management.

**To Ensure the Integrity of Financial Information:**

The Audit Committee ensures the integrity of the Company's accounting and financial reporting systems, including the audit of the Company's annual financial statements by the independent auditors, and that appropriate systems of control are in place. The Audit Committee reports to the Board on a regular basis and the Board, upon the recommendation of the Audit Committee, takes such actions as are necessary to ensure the integrity of the Company's accounting and financial reporting systems and that appropriate controls are in place.

**To Monitor the Effectiveness of the Governance Practices Under Which the Board Operates and Make Changes as Needed:**

The Nominating and Corporate Governance Committee shall periodically review and evaluate the effectiveness of the governance practices under which the Board operates and make changes to such practices as needed.

**To Abide by, Review and, if Appropriate, Modify the Charters of the Board Committees:**

The Board is responsible, either through its Committees, or as guided by its Committees, for those matters which are set forth in the respective charters of the Audit, Compensation, Nominating and Corporate Governance Committees and any other committee the Board may establish from time to time, or as otherwise set forth in the applicable laws of the State of Delaware, the applicable federal laws of the United States and the applicable law or the rules of the Nasdaq Stock Market. The Board shall review and, if appropriate or required, modify the charters of all of the Board Committees.

## **II. Board Structure and Composition**

### **Number and Qualifications of Board Members:**

The Board shall consist of not less than five nor more than nine members, and the number of directors that shall constitute the Board shall be fixed from time to time by resolution adopted by a majority of the entire Board. The Nominating and Corporate Governance Committee may evaluate and make recommendations to the Board regarding the composition and size of the Board.

The Board may consider expanding its size to accommodate outstanding candidates.

The Board shall have a majority of directors who meet the criteria for independence established by applicable law, including the Sarbanes-Oxley Act of 2002 and the rules and regulations of the Securities and Exchange Commission, and the Nasdaq Stock Market.

A director need not be a stockholder to qualify as a director, but shall be encouraged to hold stock in the Company by virtue of its policies with respect to stock ownership by directors.

Including service on the Board of Directors of the Company, no director shall serve on the board of directors (or any similar governing body) of more than five public companies.

Directors are expected to comply with the policies and procedures of the Company with respect to business conduct, ethics, confidential information and ownership of, and trading in, the Company's securities.

Nothing stated herein shall be deemed to limit the duties of directors under applicable law.

The Nominating and Corporate Governance Committee will annually review and evaluate the Board's and its Committee's functioning and effectiveness.

### **Selection and Evaluation of Board Candidates:**

The Board, through action by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, has the sole power to fill vacancies and newly created directorships. The Nominating and Corporate Governance Committee is responsible for developing, and recommending to the Board, criteria for the selection of new directors, for identifying individuals qualified to become directors, and for recommending to the Board director nominees for the next annual meeting of stockholders.

Candidates for director shall be selected on the basis of their business experiences, expertise and skills, with a view to supplementing the business experience, expertise and skills of management and adding further substance and insight into board discussions and oversight of management.

Also in connection with such recommendation, the Nominating and Corporate Governance Committee will specifically consider each then current director's continued service on the Board and whether each such director should be recommended for re-nomination to the Board. Each then-current director will be given an opportunity to confirm his or her desire to continue as a member of the Board.

### **Orientation of New Directors:**

Under the direction of the Chief Financial Officer, new directors should participate in an orientation process that includes presentations and materials regarding the Company's business and operations and meetings with key personnel.

### **Directors Continued Education:**

The Board believes that ongoing education is important for maintaining a current and effective Board. Accordingly, the Board encourages directors to participate in ongoing education and consider, from time to time, more formal director education programs as may be necessary to provide the Board member with the appropriate knowledge and expertise, taking into account the Board member's prior and ongoing experience serving on other boards of directors.

### **Selection of Chair and Chief Executive Officer:**

The Board's policy is that the roles of the Lead Independent Director and Chief Executive Officer should be separate.

### **Term:**

The Company's Restated Certificate of Incorporation, as amended, provides that the Company's directors shall be divided into three classes, with the classes of directors serving for staggered three-year terms.

Each director shall hold office until the next annual election at which the term of the class to which such director has been elected expires and until such director's successor is duly elected and qualified or until such director's earlier resignation, removal from office, death or incapacity.

The Board does not believe it should establish term limits, because directors who have developed increasing insight into the Company and its operations over time provide an increasing contribution to the Board as a whole.

### **III. Board Operations and Meetings**

The Board strives to meet four times per year, but may meet more often if necessary.

The items on the agenda are typically recommended by the Chief Executive Officer and reviewed and discussed and revised as warranted by the Lead Independent Director in consultation with the Board and management. Any director may request that an item be included on the agenda.

Members of the Board should receive information and Board materials one week in advance of meetings of the Board so they will have an opportunity to prepare for discussion of the items at the meeting. Information may include summaries, financial statements, budgets, reports and other materials prepared by management and/or third parties.

At meetings of the Board, ample time is scheduled to assure full discussion of important matters. Management presentations are scheduled to permit sufficient Board meeting time to be available for discussion and comments.

Members of the Board are expected to prepare for, and participate in, all meetings of the Board and applicable meetings of committees of the Board. Each member of the Board is expected to ensure that other commitments do not materially interfere with the member's service as director. To facilitate participation, directors may attend in person, via telephone conference or via video-conference.

The Board's policy is to have a separate meeting time for the independent directors.

The proceedings and deliberations of the Board and its committees are confidential. Each director shall maintain the confidentiality of information received in connection with his or her service as a director.

#### **IV. Board Interaction with Third Parties**

##### **Board Access to Management:**

After providing notice to the Company's Chief Executive Officer, members of the Board shall have complete access to the Company's management and employees. Furthermore, the Board encourages management to, from time to time, bring managers into meetings of the Board who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) are managers with future potential that the senior management believes should be given exposure to the Board.

##### **Board Interaction with Other Parties:**

The Board believes management speaks for the Company.

Individual members of the Board may, from time to time, meet or otherwise communicate with various constituencies that are involved with the Company, but it is expected that members of the Board would do this with the knowledge of the Lead Independent Director, and Chief Executive Officer and in most instances, at the request of senior management.

#### **V. Committees**

The Board has the following three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee.

Members of the Audit, Compensation and Nominating and Corporate Governance Committees are appointed by the Board.

Each of the Audit, Compensation and Nominating and Corporate Governance Committees has its own charter. Such charters set forth the policies and responsibilities of the respective committees in addition to the qualifications for membership on such committees. The members of these committees will meet all membership criteria specified in the respective charters of such committees. All of the members of the Audit, Compensation and Nominating and Corporate Governance Committees will also meet the criteria for independence established by applicable law, including the rules and regulations of the Securities and Exchange Commission and the Nasdaq Stock Market.

The Chair of each committee of the Board will, in consultation with appropriate Committee members and members of management, and in accordance with the Committee's charter, determine the frequency and length of Committee meetings and develop the Committee's agenda.

The Board and each Committee of the Board shall have the authority to obtain advice, reports or opinions from internal and external counsel and expert advisers and shall have the power to hire independent legal, financial and other advisers as they may deem necessary, without consulting with, or obtaining approval from, management of the Company in advance.

The Board may, from time to time, form new committees as it deems appropriate.

## **VI. Director Compensation**

The compensation of the non-employee directors is set forth in a separate plan and approved by the Board. The Compensation Committee will annually review in consultation with management and outside consultants, as necessary, and recommend to the Board for its approval the compensation for members of the Board in accordance with the Compensation Committee's charter.

Directors shall be compensated in a manner and at a level sufficient to encourage exceptionally well qualified candidates to accept service on the Board and to retain existing directors.

## **VII. Management's Responsibilities**

Management is responsible for operating the Company with the objective of achieving the Company's operating and strategic plans and building value for stockholders on a long-term basis. In executing those responsibilities, management is expected to act in accordance with the policies and standards established by the Board (including these principles), as well as in accordance with applicable law and for the purpose of maintaining the value of the trademarks and business reputation of the Company's subsidiaries. Specifically, the Chief Executive Officer and the other Section 16 Officers are responsible for:

- (i) producing, under the oversight of the Board and the Audit Committee, financial statements for the Company and its consolidated subsidiaries that fairly present the financial condition, results of operation, cash flows and related risks in accordance with generally accepted accounting principles, for making timely and complete disclosure to investors in accordance with applicable laws, and for keeping the Board and the appropriate committees of the Board informed on a timely basis as to all matters of significance;
- (ii) developing and presenting the strategic plan, proposing amendments to the plan as conditions and opportunities dictate and implementing the plan as approved by the Board;
- (iii) developing and presenting the annual operating plan and budget and for implementing that plan as approved by the Board;



- (iv) identifying, assessing and managing risks that may arise in the Company's operations and ensuring that the Board is appropriately aware of any such material risks;
- (v) creating an organizational structure appropriate to the achievement of the strategic and operating plans of the Company and recruiting, selecting and developing the necessary managerial talent to execute on such plans;
- (vi) creating a working environment conducive to integrity, business ethics and compliance with applicable laws and the requirements of the Company's policies;
- (vii) developing, implementing and monitoring an effective system of internal controls and procedures to provide reasonable assurance that: the Company's transactions are properly authorized, the Company's assets are safeguarded against unauthorized or improper use and the Corporation's transactions are properly recorded and reported; such internal controls and procedures also shall be designed to permit preparation of financial statements for the Company and its consolidated subsidiaries in conformity with generally accepted accounting principles and any other legally required criteria applicable to such statements; and
- (viii) establishing, maintaining and evaluating the Company's disclosure controls and procedures
  - a. the term "disclosure controls and procedures" means controls and other procedures of the Company that are designed to ensure that information required to be disclosed by the Company in the reports filed or submitted by it under the Act is recorded, processed, summarized and reported within the time periods specified SEC's rules and forms; and
  - b. disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports or submits under the Act is accumulated and communicated to the Company's management, including its principal executive and financial officers, as appropriate to allow for timely decisions regarding required disclosure.