

IDENTIFICATION SOLUTIONS Inc.

CORPORATE GOVERNANCE GUIDELINES

The primary responsibility of the Board of Directors of Identification Solutions Inc. (the “Company”) is to provide effective governance over the Company’s affairs for the benefit of the Company’s shareholders, employees, customers and suppliers, and local communities. The Board’s responsibilities include but are not limited to:

- Evaluating the overall performance of the Company and its business.
- Reviewing strategic plans, approving capital spending, and budgets.
- Monitoring risks such as litigation and competitive threats, and evaluating management’s plans for dealing with such risks.
- Evaluating the performance of the Chief Executive Officer.
- Establishing compensation policies for the Chief Executive Officer and other executive officers.
- Reviewing succession plans and development programs for members of management.
- Reviewing corporate policies regarding legal and ethical conduct.
- Evaluating itself in terms of size, independence, and overall effectiveness
- Overseeing various special Committees.
- Adopting new policies and procedures

The following guidelines have been adopted by the Board to assist it in the exercise of its responsibilities. These guidelines are in addition to, and are not intended to change or interpret any law or regulation, including Texas General Corporation Law, the Articles of Incorporation, or the Bylaws of the Company. These guidelines are subject to modification from time to time by the Board of Directors.

BOARD SIZE

The Audit and Corporate Governance Committee monitors the size and composition of the Board on an ongoing basis, and the number of directors may be increased or decreased as circumstances warrant. The current authorized size is nine.

INSIDE / OUTSIDE DIRECTORS

It is the policy of the Board that a significant majority of its members be independent directors. The Board will affirmatively determine that each independent director has no material relationship with the Company (either directly or indirectly as a partner, shareholder or officer of an

organization that has a relationship with the Company) and meets the standards for independence as defined by applicable law and the rules of the NASDAQ Stock Market. The Company will disclose such determinations in its annual proxy statement. The independent directors elect a lead director every three years or more often as necessary. The lead director presides at executive sessions of the independent directors and performs any other duties delegated by the independent directors.

BOARD MEMBERSHIP CRITERIA

The Audit and Corporate Governance Committee is responsible for annually reviewing with the Board the appropriate skills and characteristics needed by the Board. This assessment includes evaluation of skills, relevant business experience and expertise (such as manufacturing, technology, financial, marketing, or international knowledge), diversity, and ability and willingness of board members to devote the necessary time to board service on an ongoing basis. The assessment is done in the context of what the perceived needs of the Board are at that time.

The Audit and Corporate Governance Committee is responsible for nominating candidates for election to the Board of Directors. Candidates nominated for election to the Board of Directors are expected to have high personal and professional ethics, integrity, and an inquiring and independent mind, along with practical wisdom, mature judgment and such other qualifications that are set forth from time to time in the Audit and Corporate Governance Committee charter.

Board members are expected to prepare for, attend, and participate in all Board and applicable committee meetings. Each Board member is expected to ensure that other commitments, such as other board memberships, do not materially interfere with Board service requirements. Board members are prohibited from serving on more than four other public company boards of directors.

ELECTION

All directors are elected every three years by the shareholders.

TERM LIMITS

The Board does not have term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, such limits have the disadvantage of losing the contribution of directors who over time have developed increased insight into the Company and its operations. However, the Audit and Corporate Governance Committee will consider various criteria, including a director's contributions to the Board, in determining whether or not to recommend a director for reelection. The Board has no retirement policy.

DIRECTOR COMPENSATION

The Executive Compensation Committee will periodically review director compensation in comparison to companies that are similarly situated to ensure that such compensation is reasonable and competitive. The Executive Compensation Committee will consider that directors' independence may be jeopardized if director compensation and perquisites exceed customary levels or if the Company provides direct or indirect compensation to organizations with which a director is

affiliated. Any changes in director compensation are made only after a review by the Executive Compensation Committee with the Board and approval by the Board.

AFFILIATIONS OF DIRECTORS

Each director is required to advise the Corporate Secretary of any affiliation with public or privately held commercial enterprises and to call to the attention of the Board any such affiliation that may create a potential conflict of interest with the Company. Each director shall submit a written letter of resignation to the Chairman of the Board upon any change of employment or consulting relationship, and the Board of Directors shall decide whether to accept such resignation.

OPERATION OF BOARD MEETINGS

The Chairman of the Board sets the agenda for Board meetings, with the understanding that certain items pertinent to the monitoring functions of the Board be brought to the Board periodically for review, discussion, and decision. For example, progress against the annual corporate revenue and expense plan is reviewed by the Board each meeting, as well as annually when the plan is determined. Agenda items that fall within the scope of responsibilities of a Board committee are reviewed first in detail with that committee, and then reported to the full Board in summary by the Chair of that committee. Any member of the Board may request that an item be included on the agenda.

Board agendas and minutes of the previous meeting are provided to Board members sufficiently in advance of Board meetings to allow the directors to prepare for discussion of the items at the meeting.

At the invitation of the Board, members of senior management may attend Board meetings.

EXECUTIVE SESSIONS

The independent directors hold an executive session without management or inside directors present at each Board meeting. The lead independent director presides at each executive session.

COMMITTEES

The Board of Directors has standing Audit and Corporate Governance, and Compensation Committees, each of which consists exclusively of independent directors, as defined by applicable law and the rules of the NASDAQ Stock Market. The Board of Directors also has a Compensation Committee that oversees the compensation for all non-executive officer employees of the Company.

The chair of each committee determines the frequency, length, and agenda of meetings for the applicable committee. An agenda and minutes from the previous meeting are provided sufficiently in advance of the meeting to allow the members to prepare for discussion at the meeting.

Each committee has a charter that sets forth the purposes, duties, and responsibilities of the committee as well as qualifications for committee membership, and operations and committee

reporting to the Board. Each committee will review its charter at least annually, and, if appropriate, an updated and/or revised charter will be recommended to the Board by the committee.

The Board has the flexibility to form a new committee or to disband an existing one, as it deems appropriate and as permitted by listing and statutory requirements.

BOARD ADVISORS

The Board and each committee have the power to hire independent legal, financial, or other advisors, as they deem necessary or appropriate, without consulting or obtaining the approval of any officer of the Company. However, the chair of the Board or applicable committee will advise management when any such advisor has been retained and will inform management of the cost of any such services.

SUCCESSION PLANNING

The Chief Executive Officer of the Company is responsible for developing and maintaining a process for advising the Board on planning for a potential successor Chief Executive Officer, as well as successors for other key senior leadership positions in the Company. The Chief Executive Officer reviews this plan with the full Board at least annually.

ASSESSING THE BOARD'S PERFORMANCE

The Audit and Corporate Governance Committee is responsible for conducting an annual assessment of the Board, the Board committees, and individual directors. This evaluation process shall be discussed with the full Board.

DIRECTOR EDUCATION

Directors are required to attend formal educational programs that will update them on issues and latest regulations with which they must be familiar. The Company reimburses them for the cost of such education but does not compensate them specifically for the time required to attend such classes.

PERIODIC REVIEW OF THIS STATEMENT

The Audit and Corporate Governance Committee will review these Corporate Governance Guidelines at least annually.