

# **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

## **I. AUDIT COMMITTEE PURPOSE**

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities. The Audit Committee's primary duties and responsibilities are to:

- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance.
- Monitor the independence and performance of the Company's independent auditors and internal audit department.
- Provide an avenue of communication among the independent auditors, management, the internal audit department, and the Board of Directors.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is the responsibility of management, not the Audit Committee, to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principals and applicable rules and regulations.

The Audit Committee has the authority to conduct any investigation appropriate to fulfilling its responsibilities, and it has direct access to the independent auditors as well as anyone in the organization. The Audit Committee has the ability to retain at the Company's expense, special legal, accounting, or other consultants or experts it deems necessary in the performance of its duties.

## **II. AUDIT COMMITTEE COMPOSITION AND MEETINGS**

Audit Committee members shall meet the requirements of companies listed on NASDAQ. The Audit Committee shall be comprised of three or more directors, including emeritus directors, as determined by the Board, each of whom shall be independent directors, free from any relationship that would interfere with the exercise of his or her independent judgment. Directors' fees, including Board Committee fees, are the only compensation an Audit Committee member may receive from the Company. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, and at least one member of the Committee shall have accounting or related financial management expertise. One member of the Audit Committee shall qualify as an "audit committee financial expert," as defined by the SEC under Section 407 of the Sarbanes-Oxley Act.

Audit Committee members shall be appointed by the Board. If an audit committee Chair is not present, the members of the Committee may designate a Chair by majority vote of the Committee membership.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Audit Committee Chair shall approve an agenda in advance of each meeting. The Committee should meet privately in executive session at least annually with management, the director of the internal audit department, the independent auditors and as a committee to discuss any matters that the Committee or each of these groups believe should be discussed. In addition, the Committee should communicate with management and the independent auditors quarterly to review any significant findings noted during the auditors' limited review procedures.

## **III. AUDIT COMMITTEE RESPONSIBILITIES AND DUTIES**

### **Review Procedures**

1. Review and reassess the adequacy of this Charter at least annually. Submit the charter to the Board of Directors for approval and have the document published at least every three years in accordance with SEC regulations.

2. Review the Company's annual audited financial statements prior to filing of the 10-K or distribution of the annual report. This should be done as soon as possible after receipt of the independent auditor's opinion and the proposed footnotes. Review should include discussion with management and independent auditors of significant issues regarding accounting principles, practices and judgments.
3. In consultation with the management, the independent auditors and the internal auditors, consider the integrity of the Company's financial reporting processes and controls. Discuss significant financial risk exposures and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal audit department together with management's responses, including the status of previous recommendations.
4. Review with the independent auditors the results of the quarterly financial statement reviews prior to release of earnings and/or filing of the 10-Q. Discuss any significant changes to the Company's accounting principles and any items required to be communicated by the independent auditors in accordance with SAS 61. The Chair of the Committee may represent the entire Audit Committee for purposes of this review.
5. Review and approve all related party transactions as required by the NASDAQ Conflict of Interest Rule 4350(h).

#### **Independent Auditors**

6. The independent auditors are ultimately accountable to the Audit Committee and the Board of Directors. The Audit Committee is directly responsible for the oversight of the independent auditor and has sole authority for their appointment, compensation, or termination. The Audit Committee shall review the independence and performance of the auditors and annually recommend to the Board of Directors the appointment of the independent auditors or approve any discharge of auditors when circumstances warrant.
7. The Committee shall approve in advance all audit fees and terms and all non-audit services provided by the independent auditor. Audit Committee Chairman, Barry Banker or Audit Committee member and Chairman of the Board, Frank Sower have been authorized by the Audit Committee to approve additional funds on behalf of the Audit Committee if the independent auditors need to perform additional work which had not been previously approved.
8. On an annual basis, the Committee should review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditor's independence. Independent auditors are required to provide a report which discloses all relationships with the Company that the auditor believes may impact independence and objectivity.
9. Review the independent auditors' audit plan and engagement letter. Discuss scope, staffing, locations, reliance upon management and internal audit, and general audit approach.
10. Prior to releasing the year-end earnings, discuss the results of the audit with the independent auditors. This may be accomplished through a telephone conversation with the Audit Committee or the Chair as its representative. Also discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 61. These SAS 61 requirements may be communicated by independent auditors orally or in writing and may take place before or after the financial statements are issued. Items include: auditor's responsibility under GAAS, significant accounting policies, management judgments and accounting estimates, significant audit adjustments, other information in documents containing audited financial statements, disagreements with management, consultation with other accountants by management, major issues discussed with management prior to retention, and any difficulties encountered in performing the audit.
11. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.

12. Resolve any disagreements between management and the independent auditors regarding financial reporting.

#### **Internal Audit Department and Legal Compliance**

13. Review the budget, plan, changes in plan activities, organizational structure, and qualifications of the internal audit department as needed. The internal audit department shall be responsible to senior management, but have a direct reporting responsibility to the Board of Directors through the Audit Committee.
14. Review the appointment, performance and replacement of the senior internal audit executive.
15. Review reports prepared by the internal audit department together with management's response and follow-up to these reports.
16. On at least an annual basis, review with the Company's corporate counsel, any legal matters that could have significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

#### **Other Audit Committee Responsibilities**

17. Annually prepare a report to shareholders as required by the Securities and Exchange Commission. This report should be included in the Company's annual proxy statement. The report should note whether the Audit Committee has: (1) reviewed and discussed the audited financial statements with management; (2) discussed with the auditors the matters required by SAS 61; and (3) received and discussed with the auditors the required report noting auditor independence. The report to shareholders should also state whether the Committee recommends to include the audited financial statements in the annual report.
18. Act as the final arbiter between management and internal audit should disagreements arise.
19. Establish, review and update periodically a Code of Ethics for Chief Executive Officers and Senior Financial Officers.
20. Establish a process to handle complaints about auditing, accounting, and internal controls, and receive anonymous complaints by employees. Results of this process should be reviewed on an annual basis.
21. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities. The Director of Internal Audit will also present an Internal Audit Update directly to the Board of Directors on a quarterly basis.
22. Perform any other activities consistent with this Charter, the Company's By-laws and governing law, as the Committee or the Board deems necessary or appropriate.