



## **AUDIT COMMITTEE CHARTER AS OF November 3, 2003**

### **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:

- Appoint the Company's independent auditors.
- Monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, legal, and regulatory compliance as prepared by management and reviewed by the independent auditors.
- Monitor the qualifications, independence, and performance of the Company's independent auditors and internal auditing department.
- Provide an avenue of communication among the independent auditors, management, the internal auditing department, and the Board of Directors.

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 within the Audit Committee's scope of responsibilities.

The Audit Committee shall be directly responsible for appointing, determining funding for, and overseeing the independent auditors in accordance with Section 301 of the Sarbanes-Oxley Act of 2002 (the "Act") and section 10A(m)2 of the Securities Exchange Act of 1934 as amended (the "Exchange Act").

## **II. Audit Committee Composition and Meetings**

Audit Committee members shall meet the requirements of the NASDAQ Stock Market (the "Nasdaq"). The Audit Committee shall be comprised of three or more directors, as determined by the Board, each of whom shall be independent, as such term is defined in the Rules of the Nasdaq, free from any relationship that would interfere with the exercise of his or her independent judgment. In order to maintain independent judgment, Audit Committee members are prohibited from receiving any consulting, advisory, or other compensatory fee from the Company, other than payment for board or committee service, and Audit Committee members are prohibited from owning 20% or more of the Company's voting securities. All members of the Committee shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements at the time of their appointment, and at least one member of the Committee shall have accounting or related financial management expertise within the meaning of Rules of the Nasdaq.

Audit Committee members shall be appointed by the Board. If an audit committee Chair is not designated or 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 auditing 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, or at least its Chair, should communicate with management and the independent auditors no less than quarterly to review the Company's financial statements and significant findings based upon the auditor's limited review procedures. In addition, the Committee Chair or another member of the Committee selected thereby should review the Company's earnings releases with management and the independent auditors prior to their release.

## **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. Have the charter published at least every three years in accordance with SEC regulations.
2. Review the Company's annual audited financial statements and unaudited interim financial statements including disclosures within "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to filing or distribution. Review should include discussion with management and

independent auditors of significant issues regarding accounting principles including critical accounting policies, practices, and judgments (see Item 11).

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, including the effect of the regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements and the steps management has taken to monitor, control, and report such exposures. Review significant findings prepared by the independent auditors and the internal auditing department together with management's responses.
4. Review with management and the independent auditors the Company's quarterly financial results prior to the release of earnings and/or the Company's quarterly financial statements prior to filing or distribution of the Quarterly Report on Form 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 AICPA SAS 99 (see Item 10). The Chair of the Committee may represent the entire Audit Committee for purposes of this review.
5. Review disclosures made by the CEO and the CFO during the Forms 10-K and 10-Q certification process about significant deficiencies in the design or operation of internal controls or any fraud that involves management or other employees who have a significant role in the Company's internal controls.

### **Independent Auditors**

6. The Audit Committee shall be directly responsible for the appointment, compensation, oversight of the work, evaluation, and termination of the independent auditors (subject, if applicable, to shareholder ratification). The independent auditors report directly to the Audit Committee and the Audit Committee will be responsible for the resolution of any disagreements between management and the independent auditor regarding financial reporting. The Audit Committee shall also review the independence of the auditors.
7. All auditing services and all non-audit services, which are not prohibited by law, shall be pre-approved by the Audit Committee pursuant to such processes as are determined to be advisable.

Exception – The pre-approval requirement set forth in the first sentence above, shall not be applicable with respect to the provision of non-audit services, if:

- (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than twenty-five percent of the total amount paid by the Company to its independent auditor during the calendar year in which the non-audit services are provided;

- (ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and
- (iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee to whom authority to grant such approvals has been delegated by the Committee.

Delegation – The Committee may delegate to one or more designated members of the Committee the authority to grant required pre-approvals. The decisions of any member to whom authority is delegated under this paragraph to pre-approve an activity under this subsection shall be presented to the full Committee at its next scheduled meeting.

The pre-approval policies and procedures will be disclosed in the Company's proxy statements and annual reports in the manner directed by the regulations of the SEC or the Rules of the Nasdaq, as applicable.

8. On an annual basis, review and discuss with the independent auditors all significant relationships they have with the Company that could impair the auditors' independence. Consider whether the provision of any non-audit services by the independent auditors is compatible with maintaining the auditor's independence.
9. Review the independent auditors' audit plan including discussions of audit 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 including any audit problems or difficulties and management's response. Discuss certain matters required to be communicated to audit committees in accordance with AICPA SAS 99 and obtain the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1.
11. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting. Prior to releasing the year-end earnings, obtain a report from the independent auditors containing (a) all critical accounting policies used by the Company, (b) alternative accounting treatments that have been discussed with management and the potential ramifications of using those alternatives, and (c) other written communications provided by the independent auditor to management, e.g., a management letter and schedule of unadjusted audit differences.

12. Require independent auditor partner (including both the audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit) rotation for a period of no less than five years after each such partner serves in this capacity for five years.
13. Ensure no former upper level employees of the independent auditor who could influence the independent auditor serve in an accounting role or financial reporting oversight role of the Company, as such terms are defined by the regulation.
14. Inquire of the independent auditors whether any member of the audit engagement team received bonuses or incentive compensation based on the sale of non-audit products or services to the Company, which is prohibited by the Act and the provisions of the Securities and Exchange Act of 1934, as amended (the "Exchange Act") and the regulations promulgated there under.
15. Review the audit engagement team to determine appropriate qualifications as well as to determine whether any members would be disqualified under the independence provisions of the Exchange Act and the regulations promulgated there under, including, but not limited to, Regulation S-X.
16. Ensure that the Company provides the required proxy statement and annual report disclosure of the fees paid to the independent auditors.

#### **Internal Audit Department**

17. Review the annual internal audit plan and recommend any changes.
18. Review the activities, organizational structure, and qualifications of the internal audit department, as needed.
19. The Director of Internal Audit and Compliance reports to the Audit Committee, which is responsible for the appointment, performance, evaluation, termination and re-assignment of this position.
20. Review significant reports prepared by the internal audit department together with management's response and follow-up to these reports.

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

21. Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report must be included in the Company's annual proxy statement. The Audit Committee will also make a specific recommendation, disclosed in the proxy statement, whether or not the

Company's audited financial statements be included in the Company's annual report to shareholders.

22. Establish procedures for the receipt, retention, and treatment of internal and external complaints received by the Company regarding accounting, internal accounting controls, or auditing matters. In establishing such procedures, the Committee must provide for the ability of the Company's employees to submit by confidential, anonymous submission any concerns regarding questionable accounting or auditing matters.
23. Review and approve all related-party transactions (e.g. Company transactions with any director or executive officer of the Company or any Company security holder with more than five percent of the voting securities, including immediate family members or associates or affiliates of any of the above).
24. Perform any other activities consistent with this Charter, the Company's Articles of Incorporation and By-laws, and governing law, as the Committee or the Board deems necessary or appropriate.
25. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
26. Review the process for communicating and compliance with the Company's "Code of Conduct" to all employees as detailed in the employee manual. This "Code" also includes the "Employee Protection Against Retaliation Policy, which details procedures for reporting violations of the Code of Conduct.