

**BANDAG, INCORPORATED**  
**CHARTER OF THE AUDIT COMMITTEE**  
**OF THE BOARD OF DIRECTORS**  
**(As Amended March 9, 2004)**

**Statement of Purpose**

The Audit Committee of Bandag, Incorporated (“Company”) is appointed by the Board of Directors to assist the Board in its oversight of:

- (1) The integrity of the Company’s financial statements.
- (2) The independent auditors’ qualifications and independence.
- (3) The Company’s compliance with legal and regulatory requirements.
- (4) The performance of the Company’s internal audit function and of the independent auditors.
- (5) Other functions which may, from time to time, be assigned to the Audit Committee by the Board of Directors.

In addition, the Audit Committee shall prepare the report required by the Securities and Exchange Commission (the “Commission”) to be included in the Company’s annual proxy statement.

**Committee Membership and Qualifications**

The Audit Committee shall be composed of at least three members, all of whom shall meet the independence and experience requirements of the New York Stock Exchange, Section 10A(m)(3) of the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules and regulations of the Commission. At least one member of the Audit Committee shall be an audit committee financial expert as defined by the Commission. Audit Committee members shall not simultaneously serve on the audit committees of more than three public companies, including the Company.

**Meetings**

The Audit Committee shall meet at least once each quarter or more frequently as it determines. The Audit Committee shall meet periodically in separate executive sessions with Company management, with the internal auditors (or other personnel responsible for the internal audit function) and with the independent auditors. The Audit Committee may permit, at its

request, any member of Company management or other employee of the Company or the Company's outside counsel or independent auditors or members of any accounting firm performing internal audit functions to attend any meeting of the Audit Committee, or to meet with any member of, or consultants or advisors to, the Audit Committee.

### **Responsibilities and Duties**

The Audit Committee shall have sole authority for the appointment (subject to shareholder ratification) termination, compensation and oversight of the work of the independent auditors (including resolution of disagreements between Company management and the independent auditors regarding financial reporting). The independent auditors are accountable to and shall report directly to the Audit Committee.

The Audit Committee shall preapprove all auditing services and permitted non-audit services, including fees and terms, to be performed by the independent auditors, subject to the de minimis exceptions for non-audit services described in Section 10A(i)(B) of the Exchange Act which must be approved by the Audit Committee prior to the completion of the audit.

The Audit Committee shall have the authority to engage independent legal counsel, accountants and other advisors as it determines necessary or appropriate. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditors for the purpose of rendering or issuing an audit report and to any independent legal counsel or other advisors engaged by the Audit Committee.

The Audit Committee shall make regular reports to the Board covering any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors, or the performance of the internal audit function.

The Audit Committee shall annually review its own performance.

The Audit Committee will undertake the following activities to discharge the five basic responsibilities described above:

### **Integrity of Financial Statements**

- (1) Meet with the independent auditors prior to the annual audit to review the scope, planning and staffing of the audit. Discuss any changes in accounting principles or procedures which may significantly impact the audit and/or the resulting financial statements.
- (2) Meet at least annually with the independent auditors and Company management, both collectively and individually in separate executive sessions, to discuss the annual financial statements (including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations) and the results of the annual audit of the Company's financial statements, including communications required by Statement on Auditing Standards No. 61 "Communications with Audit Committees" and

any other matters required to be communicated to the Audit Committee by the independent auditors under generally accepted auditing standards.

- (3) Review and discuss with Company management and the independent auditors the Company's quarterly interim and annual financial statements prior to their public release. Review and discuss with Company management and the independent auditors the Company's quarterly report on Form 10-Q, and the Company's disclosure under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and the report of the independent auditors on their review of the Company's quarterly interim financial statements prior to filing the Form 10-Q with the Commission.
- (4) Discuss with Company management and the independent auditors significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any actions taken to correct material internal control deficiencies.
- (5) Discuss with Company management the Company's earnings press releases, as well as financial information provided to analysts and rating agencies. The Audit Committee need not discuss in advance each earnings press release. Such discussion may be done generally (*i.e.*, discussion of the types of information to be disclosed and the type of presentation to be made).
- (6) Discuss with Company management the Company's policies with respect to risk assessment and risk management, the Company's major financial risk exposures and the steps Company management has taken to monitor and control such exposures.
- (7) Regularly review with the independent auditors any difficulties the independent auditors encountered in the course of the audit work, including any restrictions on the scope of the independent auditors' activities or on access to requested information, or any significant disagreements with Company management.
- (8) Discuss with Company management and the independent auditors the effect of legal and accounting developments, as well as off-balance sheet structures, if any, on the Company's financial statements.
- (9) Review and discuss reports from the independent auditors on:
  - a. All critical accounting policies and practices to be used.
  - b. All alternative treatments of financial information within generally accepted accounting principles that have been discussed with Company management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors.

- c. Other material written communications between the independent auditors and Company management, such as any management letter or schedule of unadjusted differences.

### **Oversight of the Company's Relationship with the Independent Auditors**

- (1) Review and evaluate the lead partner of the independent auditors' team.
- (2) Obtain and review a report from the independent auditors at least annually regarding (a) the independent auditors' internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the independent auditors, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditors and the Company. Evaluate the qualifications, performance and independence of the independent auditors, taking into account the opinions of Company management and internal auditors (or other personnel responsible for the internal audit function). The Audit Committee shall present its conclusions with respect to the independent auditors to the Board.
- (3) Assure the rotation of the lead (or coordinating) audit partner (having primary responsibility for the audit) and other partners on the audit engagement team as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
- (4) Approve policies for the Company's hiring of employees or former employees of the independent auditors who participated in any capacity in the audit of the Company.
- (5) Discuss with the independent auditors any communications between the audit team and the national office of the independent auditors respecting auditing or accounting issues presented during the audit.

### **Compliance with Legal and Regulatory Requirements**

- (1) Annually review and reassess the charter of the Audit Committee and recommend its approval (with any proposed changes) by the Board of Directors.
- (2) Recommend to the Board of Directors, if appropriate, that the audited financial statements be included in the Company's Annual Report on Form 10-K.
- (3) Discuss with Company management and the independent auditors any correspondence from regulators or governmental agencies which raises material issues concerning the Company's financial statements or accounting policies.
- (4) Establish "whistle-blower" procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal controls, or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

- (5) Annually review the report from Company management regarding compliance with the Foreign Corrupt Practices Act.
- (6) Review legal and regulatory matters brought to its attention that may have a material impact on the Company's financial statements.

#### **Oversight of the Company's Internal Audit Function**

- (1) Review the appointment and replacement of the senior internal auditing executive.
- (2) Approve the engagement (including terms and fees) of non-Company entities which provide internal auditing services.
- (3) Review the responsibilities of the internal audit staff (and any non-Company entity providing internal auditing services), budget and staffing of the internal audit.
- (4) Review reports, or summaries thereof, to Company management prepared by the internal audit staff (including any non-Company entity providing internal audit services) regarding internal controls and the internal audit and Company management's responses thereto.

#### **Carrying Out Other Functions Assigned by the Board of Directors**

- (1) Annually obtain a report from the independent auditors regarding the status of annual audits of employee benefit plans and significant matters noted as a result of such audits. Discuss as appropriate with Company management and the independent auditors.
- (2) Annually review the report from Company management regarding compliance with the Company's Global Ethics Policy.

#### **Effect of Charter**

While the Audit Committee has the specific responsibilities set forth in this charter, it is not the duty of the Audit Committee to conduct audits or investigations, or determine that the Company's financial statements are accurate and in compliance with generally accepted accounting practices. Also, it is not the duty of the Audit Committee to assure compliance with laws and regulations or the Company's Global Ethics Policy. Preparation of complete and accurate financial statements in accordance with generally accepted accounting principles and assuring compliance with applicable laws and regulations and the Company's Global Ethics Policy are the responsibilities of Company management. It is the responsibility of the independent auditors to express an opinion on the financial statements based on their audits.