

# **CARAUSTAR INDUSTRIES, INC.**

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

### **CHARTER**

#### **I. PURPOSE**

The primary function of the Audit Committee (the “Committee”) is to assist the Board of Directors of Caraustar Industries, Inc., (the “Corporation”) in overseeing (a) the Corporation’s accounting and financial reporting processes generally, (b) the audits of the Corporation’s financial statements, (c) the Corporation’s systems of internal controls regarding finance and accounting, (d) the Corporation’s compliance with legal and regulatory requirements, (e) the independent auditor’s qualifications and independence and (f) the performance of the Corporation’s internal audit function and independent auditors.

While the Committee has the responsibilities and authority set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. That is the responsibility of management and the independent accountants.

The independent accountants are ultimately accountable to the Committee, which has the ultimate authority and responsibility to select, evaluate and, where appropriate, replace the independent accountants (or to nominate the independent accountants to be proposed for shareholder approval in the proxy statement). The Committee has direct responsibility for the compensation and oversight of the work of the independent accountants (including resolution of disagreements between management and the independent accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent accountants shall report directly to the Committee.

The Corporation shall provide appropriate funding, as determined by the Committee, for payment of compensation to the independent accountants for all audit and other services approved by the Committee or pursuant to its policies and to discharge any of the Committee’s powers or responsibilities.

#### **II. COMPOSITION**

The Committee shall be comprised of three or more directors as appointed by the Board, upon the recommendation of the Nominating and Corporate Governance Committee, each of whom will meet the independence and expertise requirements established by applicable regulations and NASDAQ rules, as determined by the Board.

Unless a Chairman of the Committee is appointed by the Board, the members of the Committee may designate a Chairman by majority vote of the full Committee membership.

### III. MEETINGS

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee may ask members of management or others to attend any meeting and provide information or advice as needed. As part of its responsibility to foster open communication, the Committee should meet periodically with management, the internal auditors and the independent accountants in separate executive sessions to discuss any matters that the Committee or either of these groups believes should be discussed privately.

### IV. ACTIVITIES

To fulfill its responsibilities and duties the Committee shall:

#### Review of Documents and Reports; Audit Committee Report

1. Review this Charter at least annually and recommend its revision by the Board, as conditions require.
2. Review the Corporation's annual financial statements, along with Management's Discussion and Analysis of Financial Condition and Results of Operations in the Form 10-K, and any accompanying certification, report, opinion, or review by the independent accountants.
3. Review with management and the independent accountants prior to the release of earnings the Corporation's quarterly financial statements and, prior to the filing of the Form 10-Q, review Management's Discussion and Analysis of Financial Condition and Results of Operations.
4. Review and discuss with management and the independent auditor, as appropriate, earnings press releases, and financial information and earnings guidance provided by the Corporation to analysts and rating agencies.
5. Have the authority to retain special legal, accounting or other consultants to advise the Committee, and otherwise to seek information or advice in any manner it deems appropriate.
6. Inquire of management, the internal auditors and the independent accountants about policies with respect to risk assessment and management, significant risks or exposures and assess the steps management has taken to minimize such risks to the Corporation.
7. Provide a report or any other disclosures required of the Committee to be included in each proxy statement of the Company. Such report shall include the name of each Committee member and shall:
  - a. State whether the Committee has reviewed and discussed the audited financial statements with management;
  - b. Represent that the Committee has discussed the conduct of the audit with the independent auditors;

c. Represent that the Committee has received the written disclosures and the letter from the independent accountants required by Standard No. 1 of the Independence Standards Board;

d. State whether, based on a review of the audited financial statements and discussions with the independent accountants, the Committee recommended that the financial statements be included in the annual report for filing with the Securities and Exchange Commission; and

e. Include any other disclosures deemed necessary or advisable by the Committee.

#### Internal Auditors

8. Consider, in connection with the independent accountants and the internal auditors the audit scope and plan of the internal auditors.

9. Consider and review with management and the internal auditors:

a. Significant findings during the year and management's responses thereto.

b. Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information.

c. Any changes required in the planned scope of their audit plan.

d. The internal audit department budget and staffing.

#### Independent Accountants

10. Select the independent accountants, considering independence and effectiveness, and approve the scope of the proposed audit for each fiscal year and the fees and other compensation to be paid to the independent accountants therefor.

11. Review and periodically discuss with the accountants all significant relationships the accountants have with the Corporation and others that may affect the accountants' independence.

12. Review the performance of the independent accountants, and make a change with respect to the independent accountants if and when circumstances warrant.

13. Periodically consult with the independent accountants out of the presence of management about internal controls and the Corporation's financial statements.

14. Preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Corporation by its independent accountants, subject to such exceptions for non-audit services as permitted by applicable laws and regulations. The Committee may form and delegate authority to subcommittees consisting of one or more

members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to full Committee as its next scheduled meeting.

15. Obtain and review a report from the independent auditors at least annually describing (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 firm, and any steps taken to deal with any such issues; and (c) all relationships between the independent auditor and the Corporation.

16. Evaluate the qualifications, performance and independence of the independent accountants, including considering whether the provision of permitted non-audit services is compatible with maintaining the accountant's independence, and taking into account the opinions of management and internal auditors.

17. Consider and set policies for the hiring of employees or former employees of the independent auditors.

#### Financial Reporting Processes

18. In consultation the independent accountants, review the integrity and adequacy of the Corporation's financial reporting processes, both internal and external.

19. Discuss with the independent accountants their judgments about the quality and appropriateness of the Corporation's accounting principles as applied in its financial reporting.

20. Review and discuss quarterly reports from the independent accountants 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 the management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent accountants; and (c) other material written communications between the independent accountants and management, such as any management letter or schedule of unadjusted differences.

21. Consider and review with the independent accountants any significant findings and recommendations of those accountants, together with management's responses thereto.

22. Consider, and approve if appropriate, any major changes to the Corporation's auditing and accounting principles and practices suggested by the independent accountants or management.

### Process Improvement

23. Facilitate the reporting to the Committee by both management and the independent accountants of any significant judgments made in management's preparation of the financial statements and the view of both management and the accountants as to appropriateness of such judgments.

24. After completion of the annual audit, review separately with both management and the independent accountants any significant difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information.

25. Review and resolve any significant disagreement among management and the independent accountants in connection with the preparation of the financial statements.

26. Review with the independent accountants and management the extent to which any changes or improvements in financial or accounting practices that have been approved by the Committee have been implemented.

### Miscellaneous

27. Establish procedures for the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

28. Report Committee activities to the Board of Directors and make such recommendations to the Board of Directors as the Committee deems appropriate.

29. Receive reports regarding, and review, any "related party transactions," as defined by applicable NASDAQ rules and determine whether to ratify or approve such transactions.

30. Approve any letter to be included in the Corporation's annual report or proxy statement that describes the Committee's composition and responsibilities and how they were discharged.

31. Conduct and present to the Board an annual evaluation of the Committee's performance.

32. Perform any other activities consistent with this Charter, the Corporation's bylaws and governing law that the Committee or the Board may deem necessary or appropriate.

**Revised: February 18, 2004**