



## **CHARTER OF THE AUDIT COMMITTEE**

**Revised March 23, 2006**

### **AUTHORITY AND PURPOSE:**

The Audit Committee of Electroglas, Inc. and its subsidiaries (the “Corporation”) is appointed by the Corporation’s Board of Directors (the “Board”) to oversee the accounting and financial reporting processes of the Corporation and integrated audit of the financial statements and internal controls of the Corporation. The Audit Committee (the “Committee”) shall undertake those specific duties and responsibilities listed below and such other duties as the Board shall from time to time prescribe. All powers of the Committee are subject to the restrictions designated in the Corporation’s Bylaws and applicable law.

The audit committee members are not professional accountants or auditors and their functions are not intended to duplicate or to certify the activities of management and the independent auditor. The audit Committee serves a board level oversight role where it oversees the relationship with the independent auditor, as set forth in this charter, receives information and provides advice, counsel and general direction, as it deems appropriate, to management and the auditors, taking into account the information it receives, discussions with the auditor, and the experience of the Committee’s members in business, financial and accounting matters.

### **STATEMENT OF POLICY:**

The Committee shall oversee the accounting and financial reporting processes of the Corporation and integrated audit of the financial statements and internal controls of the Corporation. In so doing, the Committee shall endeavor to maintain free and open means of communication between the directors, the independent auditors and the financial management of the Corporation. In addition, the Committee shall review the policies and procedures adopted by the Corporation to fulfill its responsibilities regarding the fair and accurate presentation of financial statements in accordance with generally accepted accounting principles and applicable rules and regulations of the Securities and Exchange Commission and the National Association of Securities Dealers (the “NASD”) applicable to Nasdaq listed issuers. The Committee shall have all authority necessary or desirable for it to comply with the Sarbanes-Oxley Act of 2002 and all applicable Securities and Exchange Commission rules and regulations.

### **COMMITTEE STRUCTURE AND MEMBERSHIP:**

The Committee shall be comprised of three or more directors, as determined by the Board. The Committee members shall be designated by the Board and shall serve at the discretion of the Board.

Each member of the Committee shall be an independent director. For purposes hereof, an “independent director” shall be one:

1. who accepts no consulting, advisory or other compensatory fee from the Corporation other than in his or her capacity as a member of the Committee, the Board or any other committee of the Board or is not otherwise an affiliated person of the Corporation, and
2. who is free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment in carrying out the responsibilities of a director.

Each member of the Committee shall be able to read and understand fundamental financial statements in accordance with the rules of the NASD applicable to Nasdaq listed issuers. At least one member shall have past employment experience in finance or accounting, a professional certification in accounting or other comparable experience or background that results in the individual’s possessing the requisite financial sophistication, including a current or past position as a chief executive or financial officer or other senior officer with financial oversight responsibilities.

**POWERS:**

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee’s scope of responsibilities. The Committee shall be empowered to engage independent counsel and other advisers, as it determines necessary to carry out its duties. The fees and expenses of such independent counsel and other advisers engaged by the Committee shall be paid promptly by the Corporation after they have been approved by the Committee. While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Corporation’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Those tasks are the responsibility of management and the independent auditor. The Board and the Committee are in place to represent the Corporation’s stockholders. Accordingly, the independent auditor is ultimately accountable to the Board and the Committee.

**RESPONSIBILITIES:**

In meeting its responsibilities, the Committee is expected to:

1. Review and reassess the adequacy of this Charter annually and its compliance with the Audit Committee requirements established by the Securities and Exchange Commission and the NASD for Nasdaq listed issuers.
2. With respect to the Corporation’s independent auditors:
  - a. The Committee is responsible for the appointment, compensation and oversight of the work of the Corporation’s independent auditors. The Committee shall preapprove all audit and audit-related services and non-audit services provided by the independent auditors to the Corporation, to

the extent required under applicable law and the rules of the NASD applicable to Nasdaq listed issuers. The Committee may delegate to one or more designated Committee members the authority to grant preapprovals required by the foregoing sentence. The decisions of any Committee member to whom authority is delegated hereunder shall be presented to the Committee at each of its scheduled meetings. The independent auditors shall be ultimately accountable to the Board and to the Committee as representatives of the Corporation's stockholders.

- b. Review the independence of the independent auditors, so that such independence is in compliance with all applicable law and the rules of the NASD, including a review of the services provided by the independent auditors, and the related fees. The Committee shall request that the independent auditors, at least annually, provide a formal written statement delineating all relationships between the independent auditors and the Corporation consistent with the rules of the NASD applicable to Nasdaq listed issuers and request information from the independent auditors and management to determine the presence or absence of a conflict of interest. The Committee shall actively engage the auditors in a dialogue with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors. The Committee shall take, or recommend that the full Board take, appropriate action to oversee the independence of the auditors and to oversee compliance with the requirements of the Securities and Exchange Commission for disclosure of independent auditor's services and audit committee members and activities.
3. Review on a continuing basis the activities, organizational structure and qualifications of the Corporation's internal audit function. This includes the review and oversight of management's internal controls and compliance with Sarbanes Oxley Section 404 requirements.
4. Review and discuss with management, before release, the audited financial statements and the Management's Discussion and Analysis proposed to be included in the Corporation's Annual Report in Form 10-K. Make a recommendation to the Board whether or not the audited financial statements should be included in the Corporation's Annual Report on Form 10-K.
5. Review the unaudited financial results prior to the Corporation's earnings release. Review and discuss with management, before release, the unaudited financial statements and the Management's Discussion and Analysis proposed to be included in the Corporation's Quarterly Report on Form 10-Q.
6. In consultation with the independent auditors, the internal audit department, if any, and management, consider and review at the completion of the annual examinations and such other times as the Committee may deem appropriate:

- a. The Corporation's annual financial statements and related notes.
  - b. The independent auditors' integrated audit of the financial statements and internal controls and their report thereon.
  - c. The independent auditors' reports regarding critical accounting policies, alternative treatments of financial information and other material written communications between the independent auditors and management.
  - d. Any deficiency in, or suggested improvement to, the procedures or practices employed by the Corporation as reported by the independent auditors in their annual management letter.
7. If the Committee determines that it is appropriate, with such assistance from the independent auditors, internal audit department, if any, and/or management, as the Committee shall request, the Committee shall consider and review the following:
- a. Any significant changes required in the independent auditors' audit plan.
  - b. Any difficulties or disputes with management encountered during the course of the audit.
  - c. The adequacy of the Corporation's system of internal financial controls.
  - d. The effect or potential effect of any regulatory regime, accounting initiatives or off-balance sheet structures on the Corporation's financial statements.
  - e. Any correspondence with regulators or governmental agencies and any employee complaints or published reports that raise material issues regarding the Corporation's financial statements or accounting policies.
  - f. Other matters related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards.
8. Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as modified or supplemented.
9. Obtain from the independent auditor assurance that it has complied with Section 10A of the Securities Exchange Act of 1934.
10. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by the Corporation's employees of concerns regarding questionable accounting or auditing matters.

11. Prepare a report in the Corporation's proxy statement in accordance with SEC requirements.
12. Review management's monitoring of compliance with the Corporation's Standards of Business Conduct and with the Foreign Corrupt Practices Act;
13. Review, in conjunction with counsel, any legal matters that could have a significant impact on the Corporation's financial statements;
14. Provide oversight and review of the Corporation's asset management policies, including an annual review of the Corporation's investment policies and performance for cash and short-term investments;
15. If necessary, institute special investigations and, if appropriate, hiring special counsel or experts to assist; and
16. Review related party transactions for potential conflicts of interest.

In addition to the above responsibilities, the Audit Committee will undertake such other duties as the Board of Directors delegates to it, and will report, at least annually, to the Board regarding the Committee's examinations and recommendations.

#### **MEETINGS:**

The Audit Committee will meet at least four times each year. The Audit Committee may establish its own schedule which it will provide to the Board of Directors in advance.

The Audit Committee may meet separately, as required, with the Chief Executive Officer or the Chief Financial Officer of the Corporation to review the financial affairs of the Corporation. The Audit Committee will meet with the independent auditors of the Corporation, at such times, as it deems appropriate, to review the independent auditor's examination and management report.

#### **MINUTES:**

The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.