

**KAYDON CORPORATION**  
**AUDIT COMMITTEE CHARTER**

**Purpose**

The primary function of the Committee is to assist the Board of Directors in fulfilling its oversight of the Corporation's:

- Financial reporting processes, financial reports and other financial information;
- Integrity of the Corporation's financial statements;
- Internal and independent audit activities;
- Compliance with legal and regulatory requirements related to this Charter;
- System of internal controls; and
- Qualification and independence of the independent registered public accounting firm (the "independent auditors").

The Committee shall have the authority to retain accountants, independent counsel and other advisors to assist it in carrying out its duties. The Committee shall prepare the audit committee report as required by the SEC to be included in Kaydon's annual proxy statement.

**Composition**

The Committee shall be comprised solely of three or more independent directors as determined by the Board. For purposes of this Charter, an "independent director" is any director who fulfills the NYSE and SEC requirements for an "independent director."

All members of the Committee shall be financially literate, having a working familiarity with basic finance and accounting practices, and at least one member of the Committee shall have accounting or related financial management expertise.

The members of the Committee shall be appointed by the Board of Directors, with management directors abstaining. The Board shall have the authority to remove a Committee member at any time. The Chair shall be appointed by the Board of Directors, with management directors abstaining; if the appointed Chair is not present at any meeting, the members of the Committee may designate a Chair.

**Meetings**

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee shall meet at least quarterly with management, the independent auditors and the internal auditors in separate executive sessions to discuss any matters that the Committee or these groups believe should be discussed privately. The Committee shall maintain minutes of all Committee meetings and submit such minutes to the Board.

## **Responsibilities and Duties**

To fulfill its oversight responsibilities and duties, the Committee shall perform any activities consistent with this Charter, the Corporation's bylaws and governing law, as the Committee or the Board deems necessary or appropriate, and shall:

Review and reassess this Charter at least annually and submit the Charter to the Board of Directors for approval.

Conduct an annual performance evaluation of the Committee and report the results of such review to the Board.

Meet to review and discuss with management and the independent auditors the Corporation's annual and quarterly financial statements, including reviewing the Corporation's specific disclosures under "management's discussion and analysis of financial condition and results of operations" and discussing other matters required to be communicated to the Committee by the independent auditors under the standards of the Public Company Accounting Oversight Board (United States), prior to filing with the Securities and Exchange Commission and prior to the release of earnings.

Review and discuss with management, the independent auditors and the internal audit staff (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in selection or application of accounting principles, (b) the adequacy of, and any significant changes to, accounting controls, and any special audit steps adopted in light of material control deficiencies, (c) analyses prepared by management and/or the independent auditors regarding significant financial reporting issues, accounting judgments, and the effect of alternative GAAP methods on the financial statements, (d) the effect of regulatory and accounting initiatives and off-balance sheet structures on the financial statements, (e) the judgment of both management and the independent auditors about the quality, not just the acceptability of accounting principles and (f) the clarity of the disclosures in the financial statements.

Receive and review a report from the independent auditors, prior to the filing of the Corporation's annual report on Form 10-K, on all critical accounting policies and practices of the Corporation; all material alternative treatments of financial information within GAAP that have been discussed with management, including the ramifications of the use of such alternative treatments and disclosures and the treatment preferred by the independent auditors; and other material written communications between the independent auditors and management.

Regularly review with the independent auditors any audit problems or difficulties encountered during the course of the audit work, including any restrictions on the scope of the independent auditors' activities or access to requested information, and management's response. Review any accounting adjustments that were noted or proposed by the independent auditors but were "passed" (as immaterial or otherwise); any communications between the independent auditors and the independent auditors' national office respecting auditing or accounting issues or internal control-related issues presented by the engagement; and any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditors to the Corporation

that is in addition to their audit report on the effectiveness of internal control over financial reporting.

Discuss the Corporation's earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies.

Discuss with management Kaydon's policies with respect to risk management.

Report and make recommendations to the Board regularly with respect to the Committee's activities and determinations.

Review with management from time to time the Corporation's policies and practices with respect to legal, regulatory and ethical compliance.

Discuss with management the type and presentation of information to be included in earnings press releases, including the use of "pro forma," "adjusted" or non-GAAP information.

Establish procedures for the (a) the receipt, retention and treatment of complaints received by Kaydon regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of Kaydon of concerns regarding questionable accounting or auditing matters.

### **Independent Auditors**

Directly appoint, retain, determine compensation for, and oversee the work of the independent auditors engaged to prepare or issue an audit report or other audit, review or attest services. The independent auditors shall report directly to the Committee and the Committee shall be responsible for the resolution of disagreements between management and the independent auditors regarding financial reporting. Selection of the independent auditors shall occur at least annually and selection criteria will include but is not limited to, evaluation of their services, and compensation for audit and non-audit services. Appropriate funding for compensation to any accounting firm engaged to render or issue an audit report or perform other audit, review or attest services, as well as the administrative expenses of the Committee, shall be provided by the Corporation.

In connection with the annual audit, review with management and the independent auditors the proposed scope of the audit plan and fees, including the areas of business to be examined, the adequacy and quality of the personnel to be assigned to the audit and other factors that may affect the time line of such audit. Discuss with the independent auditors their opinion and recommendations. Review with the independent auditors any audit problems or difficulties and management's response.

The Committee shall pre-approve all audit services and non-audit services (including fees and terms thereof) to be performed for the Corporation by the independent auditors, other than de-minimis non-audit services as defined under SEC rules.

Obtain and review annually a formal written statement from the independent auditors delineating (a) the independent auditors' internal quality-control procedures, (b) any material

issues raised by the most recent 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 and any steps taken to deal with such issues and, (c) all relationships between the independent auditors and the Corporation consistent with Independence Standards Board Standard No. 1. The Committee shall discuss with the independent auditors all relationships or services disclosed in the statement that may impact their objectivity and independence and recommend appropriate action to satisfy itself of the independent auditors' independence.

Receive and discuss any reports or communications submitted to the Committee by the independent auditors required by or referred to in SAS 61.

Establish clear hiring policies for employees or former employees of the independent auditor.

Determine that the independent auditors has a process in place to address the rotation of the lead audit partner and other audit partners serving the account as required under SEC rules.

### **Internal Audit Function**

Review the activities, organizational structure, and qualifications of the internal auditing department and ensure that the internal auditors have direct access to the Committee and Committee Chair.

Review on a continuing basis the adequacy of internal controls, including meeting periodically with management and the independent auditors to review the adequacy of such controls and to review before release the disclosure regarding such system of internal controls required under SEC rules to be contained in the Corporation's periodic filings and the attestations or reports by the independent auditors relating to such disclosure.

Review with the independent auditors, internal auditors and management, the adequacy of internal controls (including information systems and security and management's process for assessing the effectiveness of internal control over financial reporting) and related significant findings and recommendations of the independent auditors and internal auditors, together with management's responses.

Discuss with the independent auditors the characterization of deficiencies in internal control over financial reporting and any differences between management's assessment of the deficiencies and the independent auditors. Discuss with management its remediation plan to address internal control deficiencies. Determine that the disclosures describing any identified material weaknesses and management's remediation plans are clear and complete.

Discuss with management its process for performing its required quarterly certifications under Section 302 of the Sarbanes-Oxley Act.

Discuss with management, the internal auditors, and the independent registered public accountants any (1) changes in internal control over financial reporting that have materially affected or are reasonably likely to materially affect the Corporation's internal control over

financial reporting that are required to be disclosed and (2) any other changes in internal control over financial reporting that were considered for disclosure in the Corporation's periodic filings with the SEC.

Review summaries of reports to management prepared by the internal auditors and management's responses.

### **Other Advisers**

The Committee has the authority to retain independent outside advisers including consultants, accountants and legal counsel as needed in carrying out its duties whose expenses shall be borne by the Corporation.

### **Limitation on Audit Committee's Role**

While the Committee has the responsibilities and powers set forth in this Charter, management of the Corporation is responsible for the preparation, presentation and integrity of the Corporation's financial statements. Management and the internal auditors are responsible for maintaining appropriate accounting and financial reporting principles, policies, internal controls and procedures designed to assure compliance with accounting standards and applicable laws and regulations. The independent auditors are responsible for planning and carrying out proper audits and reviews of the Corporation's interim and year-end financial statements. Consequently, it is not the responsibility of the Committee to plan or conduct audits or to determine that the Corporation's financial statements are complete, accurate or in compliance with generally accepted accounting principles.