

Smith International, Inc.

Audit Committee Charter

(As Amended July 20, 2005)

The primary responsibility for the Company's financial reporting and internal operating controls is vested in senior management as overseen by the Board of Directors ("Board"). The Audit Committee ("Committee") is a standing committee appointed by the Board to assist it in overseeing (1) the integrity of the financial statements of the Company, (2) the compliance by the Company with legal and regulatory requirements, (3) the independent auditor's qualifications and independence and (4) the performance of the Company's internal audit function and independent auditors.

The Committee relies on the expertise and knowledge of management, the internal auditors, and the independent auditor in carrying out its oversight responsibilities. Management of the company is responsible for determining the Company's financial statements are complete, accurate, and in accordance with generally accepted accounting principles. The independent auditor is responsible for auditing the Company's financial statements. It is not the duty of the Committee to plan or conduct audits, to determine that the financial statements are complete and accurate and are in accordance with generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Company's internal policies, procedures, and controls.

The Committee shall be composed of such number of independent directors as shall be determined, from time to time, by the Board, but shall consist of no fewer than three members. Each member of the Committee shall meet the independence and experience requirements of the New York Stock Exchange, Section 10A(m)(3) of the Securities and Exchange Act of 1934 (the "Act") and the rules and regulations of the Securities and Exchange Commission (the "Commission"). At least one member of the Committee shall be an "audit committee financial expert" as defined by the Commission. Unless approved by the Board, Committee members shall not simultaneously serve on the audit committee of more than two other public companies.

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 the full Committee at its next scheduled meeting.

The Committee will meet at least quarterly and at such other times as it determines. The Board shall designate one member of the Committee as its Chair. The Chair shall set the agenda for each meeting. A majority of the members present at any meeting will constitute a quorum and may act on behalf of the Committee. Members of

the Committee may participate in a meeting of the Committee by means of conference call or similar communication system by means of which all persons participating in the meeting can hear each other. In lieu of a meeting, the Committee may act by a written unanimous consent signed by all the members of the Committee.

The Committee shall have unrestricted access to Company personnel and documents and will be given the resources necessary to discharge its responsibilities. The Committee shall meet periodically with management, the internal auditors and the independent auditor in separate executive sessions. The Committee shall have the authority to retain independent legal, accounting or other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside legal counsel or independent auditor to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The members of the Committee, including its Chair, shall be appointed by the Board on the recommendation of the Nominating and Corporate Governance Committee. Committee members may be replaced by the Board.

The Committee shall make regular reports to the Board.

The Committee shall prepare a report as required by the Commission to be included in the Company's annual proxy statement.

The Committee shall review and assess the adequacy of this Charter annually and recommend any proposed changes to the Board for approval. The Committee shall annually review the Committee's own performance.

The Committee shall have authority to obtain from the Company, and shall receive appropriate funding, as determined by the Committee, from the Company, for the payment or compensation to the independent auditor and to outside legal, accounting and other advisors employed by it and administrative expenses incurred by it.

The Committee shall have the following duties and responsibilities, which may be changed from time to time by the Board:

I. FINANCIAL REPORTING

To accomplish its responsibilities to the Board in the area of financial reporting, the Committee will:

1. Oversee the independent audit coverage, including

(i) Recommend annually to the Board the appointment of the independent auditor, which firm will be ultimately accountable to the Board and the Committee, and shall report directly to the Committee. The Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the independent auditor, including resolution of any disagreement

between management and the independent auditor regarding financial reporting, for the purpose of preparing or issuing an audit report or related work.

(ii) Meet with the independent auditor prior to the audit to review the changes in audit procedures, planned scope and staffing of the audit and the estimated fees.

(iii) Review and discuss with management and the independent auditor (a) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies, (b) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements, (c) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company, and (d) the type and presentation of information to be including in earnings press releases (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information).

(iv) Discuss with management generally the types of information to be provided and the types of presentation to be made in providing financial information and earnings guidance to analysts and rating agencies.

(v) Review and preapprove all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by the independent auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit.

(vi) Approve the fees to be paid to the independent auditor.

2. Review the financial statements, including

(i) Review and discuss with management and the independent auditor the annual audited financial statements, including discussions made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's annual report on Form 10-K.

(ii) Review and discuss with management and the independent auditor the Company's quarterly financial statements, including discussions made in management's discussion and analysis, prior to the filing of the Company's quarterly report on Form 10-Q.

- (iii) Review and discuss other financial reports requiring approval by the Board before submission to the Securities and Exchange Commission or other government agencies.
- 3. Inquire about the existence and substance of any significant accounting accruals, reserves or estimates made by management that had or may have a material impact on the financial statements.
- 4. Review and discuss reports from the independent auditors on:
 - (i) All critical accounting policies and practices to be used.
 - (ii) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the independent auditor.
 - (iii) Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.
- 5. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any audit problems or difficulties encountered in the course of the audit work and management's response, including any restrictions on the scope of activities or access to requested information and any significant disagreements with management.
- 6. Obtain from management a notification of issues and responses prior to seeking a second opinion from another independent public accountant.
- 7. Review disclosures made by the Company's CEO and CFO in connection with their certification process for Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
- 8. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality control review, (b) any material issues raised by the most recent internal quality control review, or peer review, of the firm, 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, (c) any steps taken to deal with any such issues and (d) all relationships between the independent auditor and the Company. The Committee shall present its conclusions with respect to the independent auditor to the Board.
- 9. Obtain periodically a formal written statement from the independent auditor delineating all relationships between the independent auditor and the Company. The Committee shall actively engage in dialogue with the independent auditor with

respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditor. The Committee shall evaluate the qualifications, performance and independence of the independent auditor, including considering whether the independent auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The Committee shall present its conclusions with respect to the independent auditor to the Board and shall recommend that the Board take appropriate action in response to the independent auditor's report to satisfy itself of the independent auditor's independence.

10. Evaluate the lead partner of the independent auditor team.

11. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law.

12. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.

13. Discuss with the independent auditor any communications with its national office concerning auditing or accounting issues presented by the engagement.

II. CORPORATE GOVERNANCE

The responsibility of the Committee to the Board in the area of corporate governance is to review whether the Company is in reasonable compliance with pertinent laws and regulations and is maintaining effective controls with respect to the assets and the books and records of the Company. To accomplish this, the Committee will:

1. Review corporate policies relating to compliance with laws and regulations, ethics, conflict of interest and the investigation of misconduct or fraud. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

2. Advise the Board with respect to the Company's compliance, and that of its subsidiaries and foreign affiliate entities, with applicable legal requirements and the Company's corporate policies and with respect to the Company's policies and procedures regarding compliance.

3. Discuss with management and the independent auditor correspondence with regulators or governmental agencies and published reports which raise material issues regarding the Company's financial statements or accounting policies.

4. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies.

5. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.

6. Discuss with the Company's General Counsel:

(i) Any questionable or possible illegal activities or payments reported to the Committee.

(ii) Any legal matters that may have a material impact on the financial statements of the Company.

(iii) The Company's compliance policies.

(iv) Any material reports or inquiries received from regulators or governmental agencies.

III. INTERNAL CONTROL

It is incumbent on the Committee to fulfill its oversight responsibilities to the Board without unnecessary or inappropriate intervention with the prerogatives of corporate management. Nevertheless, to carry out its responsibility, the Committee should:

1. Review the appointment and replacement of the Director of Internal Audit.

2. Discuss with the independent auditor and management the internal audit department responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

3. Review the work and performance of the Company's internal audit function including the results of significant audits and management's response. Determine from the internal auditors whether there is a need for any significant change in the Company's system of internal controls.