

# Audit Committee Charter

## I. INTRODUCTION

### PURPOSE

The Audit Committee is appointed by the Board of Directors for the primary purposes of:

- Performing Board of Directors' oversight responsibilities as they relate to the Company's accounting policies and internal controls, financial reporting practices and legal and regulatory compliance, including, among other things:
  - the integrity of the Company's financial statements;
  - the Company's compliance with legal and regulatory requirements;
  - review of the independent auditors' qualifications and independence; and
  - the performance of the Company's internal audit function and the Company's independent auditors;
- Maintaining, through regularly scheduled meetings, a line of communication between the Board of Directors and the Company's financial management, internal auditors and independent auditors, and
- Preparing the report to be included in the Company's annual proxy statement, as required by the Securities and Exchange Commission's ("SEC") rules.

### COMPOSITION AND QUALIFICATIONS

The Audit Committee shall be appointed by the Board of Directors and shall be comprised of three or more Directors (as determined from time to time by the Board), each of whom shall meet the independence and other qualification requirements of the Sarbanes-Oxley Act of 2002 (the "Act"), the New York Stock Exchange, Inc. and all other applicable laws and regulations. Each member of the Audit Committee shall be financially literate and at least one member of the Audit Committee shall have accounting or related financial management expertise, as each such qualification is interpreted by the Board of Directors in its business judgment.

### RESPONSIBILITIES

The Audit Committee will:

1. Review and discuss the annual audited financial statements and the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" with management and the independent auditors. In connection with such review, the Audit Committee will:
  - Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61 (as may be modified or supplemented) relating to the conduct of the audit;
  - Review significant changes in accounting or auditing policies;
  - Review with the independent auditors any problems or difficulties encountered in the course of their audit, including any change in the scope of the planned audit work and any restrictions placed on the scope of such work and management's response to such problems or difficulties;

- Review with the independent auditors, management and senior personnel responsible for the internal auditing function the adequacy of the Company's internal controls, and any significant findings and recommendations with respect to such controls;
  - Review reports required to be submitted by the independent auditor concerning: (a) all critical accounting policies and practices used; (b) all alternative treatments of financial information within generally accepted accounting principles ("GAAP") that have been discussed with management, the ramifications of such alternatives, and the accounting treatment preferred by the independent auditors; and (c) any other material written communications with management;
  - Review (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; and (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 analysis of the effects of alternative GAAP methods on the financial statements and the effects of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company; and
  - Discuss policies and procedures concerning earnings press releases and review the type and presentation of information to be included in earnings press releases (paying particularly attention to any use of any "non-GAAP financial measures" (as defined in SEC rules) or any other "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies.
2. Review and discuss the quarterly financial statements and the Company's disclosures provided in periodic quarterly reports including "Management's Discussion and Analysis of Financial Condition and Results of Operations" with Management, senior personnel responsible for the internal auditing function and the independent auditor.
  3. Oversee the external audit coverage. The Company's independent auditors are ultimately accountable to the Audit Committee, which has the direct authority and responsibility to appoint, retain, compensate, terminate, select, evaluate and, where appropriate, replace the independent auditors. In connection with its oversight of the external audit coverage, the Audit Committee will:
    - Have authority to appoint and replace (subject to stockholder approval or ratification, if deemed advisable by the Board of Directors) the independent auditors;
    - Have authority to approve the engagement letter and the fees to be paid to the independent auditors;
    - Pre-approve all audit and non-audit services to be performed by the independent auditors and the related fees for such services (subject to the inadvertent de minimus exceptions set forth in the Act and the SEC rules);
    - Obtain confirmation and assurance as to the independent auditors' independence, including ensuring that they submit on a periodic basis (not less than annually) to the Audit Committee a formal written statement delineating all relationships between the independent auditors and the Company. The Audit Committee is responsible for actively engaging in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors and for taking appropriate action in response to the independent auditors' report to satisfy itself of their independence;
    - At least annually, obtain and review a report by the independent auditors describing: the firm's internal quality-control procedures; 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, and any steps taken to deal with any such issues; and to assess the independent auditors' independence, all relationships between the independent auditors and the Company;
    - Meet with the independent auditors prior to the annual audit to discuss planning and staffing of the audit;
    - Review and evaluate the performance of the independent auditors, as the basis for a decision to reappoint or replace the independent auditors;
    - Set clear hiring policies for employees or former employees of the independent auditors, including but not limited to, as required by all applicable laws and listing rules; and
    - Assure regular rotation of the lead audit partner, as required by the Act, and consider whether rotation of the independent auditor is required to ensure independence.

4. Oversee internal audit coverage. In connection with its oversight responsibilities, the Audit Committee will:
  - Review the appointment or replacement of senior personnel responsible for the internal auditing function;
  - Review, in consultation with management, the independent auditors and senior personnel responsible for the internal auditing function, the plan and scope of internal audit activities;
  - Review internal audit activities, budget and staffing; and
  - Review significant reports to management regarding internal auditing and management's responses to such reports.
5. Review with the independent auditors and the senior personnel responsible for the internal auditing function the adequacy of the Company's internal controls, and any significant findings and recommendations with respect to such controls.
6. Resolve any differences in financial reporting between management and the independent auditors.
7. Establish procedures for (i) receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (ii) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
8. Discuss policies and guidelines to govern the process by which risk assessment and risk management is undertaken.
9. Meet periodically with management to review and assess the Company's major financial risk exposures and the manner in which such risks are being monitored and controlled.
10. Meet periodically (not less than annually) in separate executive session with each of management (including the chief financial officer), senior personnel responsible for the internal auditing function, and the independent auditors.
11. As appropriate, obtain advice and assistance from outside legal, accounting or other advisers.
12. Report regularly to the Board of Directors with respect to Audit Committee activities.
13. Prepare the report of the Audit Committee required by the rules of the SEC to be included in the proxy statement for each annual meeting.
14. Review and reassess annually the adequacy of this Audit Committee Charter and recommend any proposed changes to the Board of Directors.

## **PROCEDURES**

### **Action.**

A majority of the members of the entire Audit Committee shall constitute a quorum. The Audit Committee shall act on the affirmative vote a majority of members present at a meeting at which a quorum is present. Without a meeting, the Audit Committee may act by unanimous written consent of all members. However, the Audit Committee may delegate to one or more of its members the authority to grant pre-approvals of audit and permitted non-audit services, provided the decision is reported to the full Audit Committee at its next scheduled meeting.

### **Fees.**

The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation: (a) to outside legal accounting or other advisors employed by the Audit Committee; and (b) for ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

### **Limitations.**

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with GAAP. This is the responsibility of management and the independent auditors.

As adopted by the Board of Directors on February 17, 2004

Copyright 2006 Tootsie Roll Industries, Inc. All rights reserved.