

# ANAREN, INC.

## Charter of the Audit Committee of the Board of Directors

### I. Audit Committee Purpose

The Audit Committee is appointed by the Board of Directors to assist the Board in fulfilling its oversight responsibilities to the shareholders, potential investors and to the investment community. In carrying out its responsibilities, the Audit Committee will maintain open communication channels among the Board, the Company's independent auditors, the internal auditor, General Counsel and the management of the Company.

In carrying out its function, the Audit Committee will fully adhere to the NASDAQ Listing requirements, the Company's Corporate Governance principles, this Charter, the Sarbanes-Oxley Act of 2002, the SEC's implementing regulations, and all other applicable federal securities laws.

### II. Audit Committee Composition and Meetings

#### A. Composition

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors, free from any relationship that would interfere with the exercise of his or her independent judgment. The Audit Committee Chairman shall be appointed by resolution of a majority of independent directors of the Board. All members of the Committee, at the time of their appointment, shall have a basic understanding of finance and accounting and be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement and cash flow statement. At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background which results in the individual's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. In addition, it is the Company's objective to have at least one member of the Committee be deemed a financial expert as defined by the SEC. Audit Committee members shall meet the applicable Nasdaq Listing requirements and shall fully comply with the requirements of the Sarbanes-Oxley Act of 2002 and the SEC's implementing regulations.

Amended  
August 10, 2004

## B. Meetings

The Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate. At least one of these meetings shall be held on a day different than the regularly scheduled Board meeting. The Audit Committee Chair shall prepare and/or approve an agenda in advance of each meeting. The Committee will meet privately in executive session with management, the independent auditors, and as a committee, as frequently as deemed necessary, to discuss any matters that the Committee or each of these groups believe should be discussed. In addition, the Committee, will communicate with management and the independent auditors quarterly to review the Company's financial statements and significant findings based upon the auditors review procedures. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a Committee meeting or to meet with any members of, or consultants to, the Committee.

## III. Audit Committee Responsibilities and Duties

The Audit Committee's primary duties and responsibilities are to: (i) monitor the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting, and legal compliance; (ii) appoint and monitor the independence and performance of the Company's independent auditors; and (iii) provide an avenue of communication among the independent auditors, management, and the Board of Directors.

### A. Required Reviews With Management

1. Review and reassess the adequacy of this Charter at least annually. Submit the Charter to the Board of Directors for approval and have the document published at least every three (3) years in accordance with SEC regulations.
2. Review the Company's 10-K (which will be provided in advance) in detail with the CEO, the Vice President of Finance, head of internal audit (if applicable), the independent auditors and the Company's general counsel at an extended meeting. The Committee will subsequently review the 10-K with the full board at the August Board meeting.
3. Prior to the release of financial reports (quarterly and annual reports), meet (teleconferencing acceptable) with the audit partner, CEO, Vice President of Finance and General Counsel. This meeting will be generally scheduled no less than three (3) business days prior to public release of financial results.
  - a. Prior to the review meeting, management will provide the Committee with consolidated financial statements for the Company. The Vice President of Finance will also submit in

advance of the meeting a brief written report highlighting any unusual accounting transactions, inordinate reserves or accruals that are included in the financial statements. The Vice President of Finance will also make known to the Committee any potential adverse or other information that could influence the integrity of the current financial statements about to be reported.

- b. Prior to the review meeting the partner in charge of the audit will provide the Committee with a written report summarizing the results of the review procedures and highlighting unusual accounting transactions, if any, adoption of new accounting principles, weaknesses in internal controls noted during the review, the assessment of management's judgments regarding accounting estimates, and any other matter which the independent auditors conclude is material or otherwise elect to bring to the Committee's attention.
  - c. In conjunction with its reviews of the Company's 10-Ks and 10-Qs, the Committee in consultation with the CEO and Vice President of Finance, and the independent auditors, will review the integrity of the Company's internal controls and financial reporting processes.
  - d. Review the process for the CEO and Vice President of Finance quarterly certifications required by the SEC with respect to the financial statements and the Company's disclosure and internal controls, including any material changes or deficiencies in such controls.
  - e. Review quarterly with the CEO and Vice President of Finance the Company's major financial risk exposure and the steps management has taken to monitor and control such exposure, including the Company's risk assessment and risk management policies.
  - f. Discuss quarterly with CEO and Vice President of Finance significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
4. At any time during a quarter, the Vice President of Finance, head of internal audit (if applicable) and outside auditor are required to report to the Committee on a timely basis any significant adverse accounting transaction, internal control problem, financial reporting discrepancy or similar matter which might impact future financial reporting.

5. Review with the CEO and Vice President of Finance all Company earnings releases prior to their release to the public, as well as the substance of any presentations provided to analysts and rating agencies.
  - a. Prior to any presentations to analysts or rating agencies which constitute a shift in Company strategy or outlook, the CEO or the Vice President of Finance shall review the substance of the changes with the Committee, or the full Board.
  - b. The CEO or Vice President of Finance shall subsequently review with the Committee, or the full Board, a summary of major presentations that have been given to analysts or rating agencies that do not constitute a shift in strategy or outlook.

B. Interaction With Independent Auditors

The Audit Committee shall:

1. Have the sole authority to annually approve the engagement of the Company's independent auditors (including the fees and terms thereof) to audit the Company's consolidated financial statements, review the auditors performance, and, if necessary discharge the auditors when circumstances warrant. The independent auditors are directly accountable to the Audit Committee.
2. Preapprove all permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditors, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act, provided any such exempt services are approved by the Audit Committee prior to the completion of the audit.
  - a. Non-auditing services which were not anticipated by management at the time of initial engagement, or recognized at such time to be non-auditing services; provided that the aggregate amount to be paid by the Company for all such non-auditing services does not constitute more than 5% of the total amount paid by the Company to its auditing firm during the fiscal year in which these services are provided, may be promptly brought to the attention of the Committee by management for approval, so long as approval is obtained prior to the completion of the audit. In these circumstances, the Chairman of the Committee may act on behalf of the entire Committee.
  - b. The Audit Committee may form and delegate authority to subcommittees consisting of one or more members when

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

- c. If non-auditing services during any fiscal year exceed the 5% threshold noted above, all such services must be pre-approved, prior to engaging those services, as follows: non-audit services which will not exceed \$25,000 for the year of the audit may be approved solely by the Chairman, however amounts greater than \$25,000 will require approval by the full Committee.
3. Ensure that the independent auditors submit to the Audit Committee, at least annually, a formal written statement delineating all relationships between the independent auditors and the Company and engage 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 take appropriate action in response to the independent auditor's report to satisfy itself of the independent auditor's independence.
4. Review with the independent auditors their annual audit assurance plan. Ensure the rotation of the lead (or coordinating) audit partner responsible for reviewing the audit as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.
5. Prior to releasing the Company's year-end earnings, review and discuss the results of the audit with the independent auditors, the CEO and the Vice President of Finance.
6. Review and discuss quarterly reports from the independent auditors. Consider the independent auditors' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting.
7. Meet at least semi-annually with independent auditors outside of management's presence to discuss reports and any other internal control issues.
8. Annually, the Committee will meet with the Company's independent auditors and the responsible person in charge of internal controls to review the Company's internal control procedures and will assess the effectiveness of the Company's control structure and procedures for financial reporting and control of the Company's assets. The independent auditors will prepare a statement for the Company's annual report that it has attested to and reported on management's evaluation of the Company's internal controls and procedures for financial reporting.

- a. The internal controls and procedures of the Company for financial reporting are to ensure that the Company has processes designed to provide reasonable assurance that (1) the Company's transactions are properly authorized, (2) the Company's assets are safeguarded against unauthorized or improper use, (3) the Company's transactions are properly recorded and reported to help ensure that the preparation of the financial statements are in conformity with GAAP, and (4) the Company's internal disclosure procedures are operating effectively. The term "internal controls" means controls that pertain to the preparation of financial statements for external purposes that are fairly presented in conformity with GAAP as addressed by the Codification Statement on Auditing Standards Section 319 or any superseding definition or other literature that is issued or adopted by the SEC's Public Company Accounting Oversight Board.
  - b. The Committee, in conjunction with its quarterly reviews with the Company's independent auditors, will review any issues involving the effectiveness of the design and operation of the Company's internal disclosure controls and procedures identified by the auditors, with an objective of evaluating whether the controls and procedures are effective regarding the timely identification of material information required to be included in the Company's periodic SEC filings correcting any deficiencies.
  - c. Review disclosures made to the Audit Committee by the Company's CEO and Vice President of Finance during the certification process in connection with the Form 10-K and Form 10-Q filings regarding any significant deficiencies in the design or operation of internal control or material weaknesses therein or any fraud involving management or other employees who have a significant role in the Company's internal controls.
9. Review and obtain at least annually a formal written report from the independent auditors delineating (i) the auditing firm's internal quality-control procedures, and (ii) any material issues raised within the preceding five (5) years by the auditing firm's internal quality-control reviews, by peer reviews of the firm, or by any governmental or other inquiry or investigation relating to any audit conducted by the firm.

**C. Procedures For The Receipt, Retention And Treatment Of Complaints Received By The Company Including Complaints Received Confidentially And/Or Anonymously From Company Employees, Regarding Questionable Accounting, Internal Accounting Controls, Or Auditing Matters.**

1. The Company will establish through an independent third party, an anonymous hotline for receiving complaints regarding accounting, internal

auditing controls or other auditing matters. The toll free number to contact the independent hotline number will be published on the Company's website and generally disseminated to all Company employees. Calls to this hotline will be treated in strict confidence and can be made anonymously by Company employees. The Company will also establish and publish on its website special mail and e-mail addresses and an internal toll free telephone number for receiving complaints regarding accounting, internal controls, auditing or any other alleged Code of Conduct violation.

2. All complaints received by the Company will be promptly reported, with any available documentation, to the Chairman of the Audit Committee. Copies of any written complaint, or a summary of an oral complaint, will be promptly made available to all Committee members. The Committee Chairman will ensure that the complaint has been properly documented, and if appropriate, will meet with the complainant to fully understand and document the nature of the complaint. The Committee Chairman will then arrange for a meeting of the Committee (in person or via telephonic conference) following his receipt of the complaint.
3. The Committee will review the merits of the complaint, determine whether a formal investigation is appropriate, and whether independent legal and/or other advisors are to be engaged.
4. Following the meeting of the Committee, the Chairman will report to the CEO and Vice President of Finance, the Committee's conclusions, including any recommended actions required by either the Company or the Committee to further investigate the complaint. Copies of the Committee's initial report will be provided to the Board of Directors.
5. Upon completion of any investigation, the Committee after appropriate consultation with the Company's General Counsel and any independent advisors retained, will make a determination as to the merits of the complaint and whether a potential securities law violation has occurred and whether any disclosure obligation exists. The Committee will submit a final report to the CEO, Vice President of Finance, General Counsel, head of internal audit (if applicable), independent audit partner and the Board of Directors. Such report will describe the outcome of the investigation and any recommendations, if necessary, to rectify any meritorious complaint.
6. The Committee shall communicate in writing to the complainant (if known) its findings and any corrective measures, if any, implemented by the Company.
7. To the extent practical, all complaints shall be treated confidentially by the Audit Committee.

8. The Committee, or its designee, shall record and preserve minutes of its complete investigation. The complaint, and any related reports, will be maintained by the Audit Committee.
9. The Committee may employ independent legal and accounting advisors to assist in its investigation. All professional fees incurred will be approved by the Committee and subsequently remitted to the Company for payment.

D. Legal Compliance

1. On at least an annual basis, review with the Company's General Counsel, any legal compliance matters, including corporate securities trading policies, and NASDAQ Listing requirements that could have a significant impact on the organization's financial statements, the Company's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.
2. The Audit Committee shall have the authority to retain independent legal, accounting and other advisors as the Committee may deem appropriate to assist the Committee in carrying out its function under this Charter. The Committee shall have sole authority to approve fees and retention terms for any independent advisors retained.

E. Other Audit Committee Responsibilities

1. Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report should be included in the Company's annual proxy statement.
2. Maintain minutes of meetings and periodically report to the Board of Directors on significant results of the foregoing activities.
3. Annually review the Disclosure Committee Charter.
4. Perform any other activities consistent with this Charter, the Company's by-laws, and governing law, as the Committee or the Board deems necessary or appropriate.

F. Provide Oversight of the Company's Internal Audit Function

1. Review the appointment and/or replacement of the head of internal auditing function.
2. Review any significant report to management prepared by the internal auditing function and management's responses.



3. Discuss with the independent auditors and management the internal audit function's responsibilities, budget and staffing and any recommended changes in the plan scope of the internal audit.
4. Review the internal controls and procedures of the Company. Ensure that the independent auditors attest to and report on the effectiveness of the Company's internal controls and procedures and that such report is included in the annual report.

G. Other Responsibilities and Duties

1. Establish, review, and update periodically the Company's Code of Ethics and Business Conduct and ensure that management has established a system to enforce this Code.
2. Periodically perform self-assessment of audit committee performance.
3. Review financial and accounting personnel succession planning within the Company.
4. Annually review the policies and procedures as well as audit results associated with directors' and officers' expense accounts and perquisites.
5. Semi-annually review with the General Counsel the policies against any form of related party transactions and potential conflicts of interest, as well as to review compliance with advance reporting requirements relating to officer or director security transactions.

IV. DISCLOSURE OF CHARTER

This Charter will be made available on the Company's website at [www.anaren.com](http://www.anaren.com).