

## **ALDILA, INC.**

### **AUDIT COMMITTEE CHARTER**

The Board of Directors of Aldila, Inc. (including, where appropriate, its direct and indirect subsidiaries, the "Company") has established an Audit Committee (the "Committee") with general responsibility and specific duties as described below.

#### **I. Composition**

The Committee shall consist of not less than three Directors who shall individually and collectively meet the requirements relating to membership on audit committees as set forth in the Securities Exchange Act of 1934 (the "Exchange Act"), the rules and regulations of the Securities and Exchange Commission and the rules governing listing on any securities exchange or market on which the Company's securities are listed or traded (the "Applicable Rules"). In addition, it is the policy of the Company that at least one member of the Committee shall qualify as a "financial expert" as that term is used in Section 407 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley") and as it is defined in the Applicable Rules, and in furtherance of this policy the Company shall use its reasonable best efforts to maintain on the Board a "financial expert" eligible and willing to serve on the Committee at all times. Furthermore, each member of the Committee shall be free from any relationship with the Company or its affiliates (whether or not such relationship would otherwise disqualify such member from serving on the Committee under Applicable Rules) that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee. Committee members and the Chair of the Committee shall be appointed by the Board of Directors.

The only compensation a member of the Committee may receive from the Company for any reason is compensation for service on the Board of Directors and any committees thereof (including the Committee), as set by the Board of Directors in compliance with Applicable Rules.

To the extent it deems necessary or appropriate in the performance of its duties, the Committee shall have direct access, at the expense of the Company, to the independent accounting firm retained by the Company to conduct audits as to its financial statements (the "Independent Accountant"), the Chief Financial Officer of the Company and any other member of the management of the Company ("Management"), and the Company's legal counsel and other outside advisors.

#### **II. Responsibility**

The Committee's responsibility is to assist the Board of Directors in fulfilling its fiduciary responsibilities as to accounting policies and reporting practices of the Company, including providing oversight of the Independent Accountant.

The Committee's primary responsibilities are the following:

1. Retaining, setting the compensation of and monitoring the independence of the Independent Accountant;
2. Overseeing the performance of the Independent Accountant and members of Management involved with finance and accounting functions;
3. Monitoring the integrity of the Company's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance;
4. Overseeing the Company's accounting policies and staff;
5. Providing an avenue of communication among the Independent Accountant, Management, and the Board of Directors; and
6. Reviewing and approving related party transactions.

The Independent Accountant and the members of Management responsible for internal accounting and audit functions report directly to the Committee (in the case of members of Management, in addition to any internal reporting responsibilities they may also have).

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 Company's financial statements are complete and accurate and are presented in accordance with generally accepted accounting principles. These are the responsibility of Management and the Independent Accountant.

Although the Independent Accountant performs its services at the direction of and under the supervision of the Committee, nothing in this Charter should be deemed as restricting the ability of the Board of Directors as a whole or Management, on the one hand, and the Independent Accountant, on the other hand, to communicate directly with each other should either desire to do so.

In fulfilling its responsibilities, the Committee is empowered, to the extent it deems it to be appropriate, (a) to retain persons having special competence to provide the Committee with needed assistance (including lawyers, other accountants or financial experts), whether or not such persons have been otherwise engaged by or on behalf of the Company or the Board of Directors to provide services and (b) to conduct investigations. The cost of any such retention or investigation will be borne by the Company. The Committee is entitled to rely on the advice of, and information received from, Management and outside advisors to the Company, the Board of Directors or the Committee to the same extent as is the Board of Directors. The Committee is not responsible for resolving disagreements between Management and any of the outside advisors to the Company, the Board of Directors or the Committee or among the outside advisors to the Company, the Board of Directors or the Committee, except to the extent that this Charter makes the final determination as to the matter in question the responsibility of the Committee.

### III. **Meetings**

The Committee shall meet at least four times a year (following preparation of, and prior to the public release of, quarterly and annual financial reports), with such additional meetings as circumstances or the need to fulfill its responsibilities under this Charter require.

### IV. **Attendance**

All members of the Committee should endeavor to be present, in person or by telephone, at all meetings; however, a majority of the members of the Committee shall constitute a quorum. The Chief Financial Officer of the Company and representatives of the Independent Accountant will normally attend each meeting (with such other members of Management as the Chair of the Committee may request being made available to attend any meeting), although the Chair of the Committee may excuse non-Committee members from all or any portion of a meeting.

### V. **Minutes of Meetings**

Minutes of each meeting shall be prepared and sent to Committee members and to Company Directors who are not members of the Committee and shall be included in the minute books of the Company.

### VI. **Authority and Specific Duties**

The Committee is granted the authority and assigned the responsibility to do the following:

#### A. ***Retention and supervision of Independent Accountant***

1. Appoint, determine the compensation of, and oversee the work of the Independent Accountant. The Committee shall have the sole authority to retain and replace the Independent Accountant, and it shall have the sole authority to approve in advance all audit engagement arrangements, including fees, and any significant non-audit relationships with the Independent Accountant. The Committee shall not permit the retention of the Independent Accountant to perform services prohibited under Applicable Rules. Approval by the Committee of any non-audit services to be provided by the Independent Accountant must be disclosed in the Company's periodic reports filed under the Exchange Act.

2. Ensure the independence of the Independent Accountant in accordance with Applicable Rules and any rules governing the accounting profession and the provision of auditing services. To assist in satisfying this responsibility, the Committee shall obtain annually from the Independent Accountant a written list of all relationships with and professional services provided to the Company and its related entities. The Committee shall review and discuss with the Independent Accountant all significant relationships the Independent Accountant has with the Company that may affect the Independent Accountant's objectivity and independence.

3. Monitor and evaluate the quality of the services provided by the Independent Accountant. To assist in satisfying this responsibility, the Committee shall obtain and review with the Independent Accountant no less frequently than annually a report from the Independent Accountant as to its internal quality control procedures, any material issues raised by the most recent internal quality control review, or peer review, of the Independent Accountant, any material issues raised by any inquiry by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the Independent Accountant. This evaluation will include an evaluation of the individual members of the audit team then assigned to work on the Company's accounting matters. In connection with this evaluation, the Committee shall solicit the views of Management as to the qualifications and performance of the Independent Accountant.

4. Require the Independent Accountant to inform the Committee as to any matters as to which its national office was consulted by the audit team in connection with the audit of the Company's financial statements, and, if deemed appropriate by the Committee, to review any such matter with the Independent Accountant's national office.

5. Ensure that the lead audit partner of the Independent Accountant and the audit partner responsible for reviewing the audit are rotated at least every five years. The Committee may also, regardless of any such rule, request that the Independent Accountant change the lead audit partner or reviewing partner at any time. Determine whether the Company should have a policy of requiring that the Independent Accountant itself be rotated periodically and determine what any such policy should be.

6. Set hiring policies for the employment by the Company of any employee or former employee of the current or any prior Independent Accountant and approve any such employment not in compliance with such policies.

7. Upon the commencement of the operations of the Public Company Accounting Oversight Board established under Section 101 of Sarbanes-Oxley (the "Oversight Board"), provide oversight of compliance by the Company and the Independent Accountant with any requirements imposed by the Oversight Board. The Committee should request and receive assurances from the Independent Accountant that it has complied with Section 10A of the Exchange Act, the rules and policies of the Oversight Board and all other Applicable Rules.

**B. *Supervision of internal accounting policies and procedures***

8. Review with Management and the Independent Accountant the Company's policies and procedures, as appropriate, in order to assess the adequacy of internal accounting and financial reporting controls.

9. Become familiar with the accounting and reporting principles and practices applied by the Company in preparing its financial statements.

10. Review the quality and adequacy of the Company's financial accounting personnel, including receiving reports from the Independent Accountant as to its views and

recommendations regarding the financial accounting personnel. Make recommendations to the Board of Directors as to any changes or additions to the Company's financial accounting personnel that the Committee deems appropriate.

11. Receive, investigate and, if appropriate, respond to complaints regarding the Company's accounting practices, internal accounting controls, and auditing matters. The Committee will maintain procedures for employees and others to submit such complaints on a confidential and/or anonymous basis, which it will disseminate to all employees of the Company and make available to employees of the Independent Accountant and others with knowledge of the Company's accounting practices, internal accounting controls, and auditing matters and will maintain procedures for retaining copies of any such complaints.

C. *Review of Company's financial statements and audit process*

12. Review with the Independent Accountant and approve, prior to the annual audit, the scope and general extent of the Independent Accountant's audit examinations. In connection with this review, the Committee will discuss with the Independent Accountant the factors to be considered by the Independent Accountant in determining the scope of the audit, including major risk factors. The Committee will seek confirmation that the examination will be in accordance with generally accepted auditing standards.

13. Review with Management and the Independent Accountant, upon completion of the annual audit, financial results for the year prior to their release to the public. Specifically, the Committee will discuss with the Independent Accountant the matters required to be discussed by the Statement on Auditing Standards No. 61 relating to the conduct of the year-end audit.

The review with the Independent Accountant will include a meeting without any member of Management or other advisor to the Company present, in which the Committee will discuss, among other things, any difficulties the Independent Accountant experienced in the audit, any limitations that were placed on the scope or nature of its audit procedures, its views as to the adequacy of internal controls and the quality of the Company's Management responsible for accounting functions, any issues raised by the audit not resolved to the satisfaction of the Independent Accountant. The Committee will also invite the Independent Accountant to raise any other issues relevant to the duties of the Committee that have not otherwise been raised.

The Committee will request copies of all material written correspondence between the Independent Accountant and Management relating to the Company's financial statements and the performance by the Independent Accountant of its services, audit or otherwise.

14. Review with Management and the Independent Accountant, upon completion of quarterly financial statements, financial results for the quarter prior to their release to the public.

15. Approve any significant change in the Company's accounting policies (whether or not required by changes in generally accepted accounting principles), any significant restatement of previously publicly disclosed financial statements, or any significant write-off of assets by the Company. The Committee will review any such changes, restatements or write-offs proposed or

suggested by the Independent Accountant but rejected by Management.

16. Review and discuss with Management and, to the extent desirable, the Independent Accountant and legal advisors to the Company proposed financial disclosure by the Company in Forms 10-K, 10-Q and (to the extent practicable given filing deadlines) 8-K, in Schedules 14A and 14C, in any registration statement under the Securities Act of 1933, in any press release or otherwise in advance of filing or public disclosure. Without limiting the scope of this review, it shall include a review of the proposed disclosure in Management's Discussion and Analysis of Financial Condition and Results of Operations. The Committee will recommend whether the audited financial statements should be included in the Company's Form 10-K.

17. In furtherance of its other duties and responsibilities under Applicable Rules and this Charter, inform itself regularly through meetings and discussions with the Independent Accountant and Management as to the following issues related to the Company's financial statements:

- Critical accounting policies, practices and estimates (including significant reserves and accruals), and, in the case of estimates, the basis for the estimates and the ramifications of alternative reasonably likely results;
- Any changes in accounting policies or principles that have been contemplated or adopted or that are expected to be required or considered in future periods;
- Any alternative treatments of financial information within generally accepted accounting principles discussed between the Independent Accountant and Management and the ramifications of the adoption of the alternative treatments;
- Any significant litigation or other loss contingency that could have a significant impact on the Company's financial condition or results of operation;
- Any significant items in any open years that have been, or could be expected to be, raised by the Internal Revenue Service or any other taxing authority; the adequacy of tax accruals;
- Any legal, regulatory or accounting initiative that could have an impact on the Company's results or financial condition;
- The Company's guidelines, policies, practices and historical experience with respect to risk assessment and risk management;
- The nature of any material correcting adjustments identified by the Independent Accountant;
- Any off-balance sheet financing structures employed by the Company; and
- Any use of "pro forma," "adjusted" or other non-generally accepted accounting principles financial information in connection with the Company's reported financial statements (including in summary form in press releases).

18. To the extent required by Applicable Rules, resolve any dispute between the Independent Accountant and Management as to the appropriate accounting treatment of any item or type or group of items.

19. Cause the issuance of a press release announcing any going concern qualification in any audit opinion issued by the Independent Accountant.

20. Review Management's internal control report prior to its inclusion in the Company's Form 10-K.

**D. *Related Party Transactions***

21. Review all proposed transactions between the Company and (1) any of its directors and officers, (2) any immediate family member of any of its directors and officers, (3) any entity that is an affiliate of any of its directors, officers or their immediate family members, (4) any other affiliate of the Company that is not a subsidiary of the Company. Review any other transaction that is deemed to be a "related party transaction" under Applicable Rules or that may not be entered into without audit committee approval under Applicable Rules. For purposes of this Charter, the terms "director," "officer," "immediate family member" and "affiliate" include all persons covered by such terms as defined under Applicable Rules, and "subsidiary" means any entity as to which the Company has the right or ability to elect at least one-half of the members of the board of directors or comparable governing body or the right to receive at least one-half of the assets available for distribution to equity holders upon liquidation. Transactions covered by this paragraph will not include any compensation paid to directors and officers approved by the Board of Directors Compensation Committee or paid in the ordinary course under Company plans or policies applicable to all employees or the reimbursement under the Company's standard reimbursement policies of expenses occurred by directors and officers in the ordinary course of the performance of their duties. The transactions covered by this paragraph are referred to in this Charter as "related party transactions."

22. In conducting its review of a proposed related party transaction, the Committee will seek information regarding the terms of the proposed transaction, the ability of the Company to enter into a comparable transaction on the same or better terms, the rationale for pursuing the related party transaction, and the extent to which the terms of the transaction were determined at arms' length or were subject to influence by a related party. After this review, the Committee may approve the transaction; the Company will not pursue any related party transaction not approved by the Committee.

23. Not less than annually, review the performance under and results of any related party transactions previously approved by it.

24. Review and approve any contributions to not-for-profit organizations on which any of its directors and officers or any immediate family member of any of its directors and officers serve as directors or executive officers or that are being made at the request of any of the Company's directors, officers or any immediate family member of any director or officer, whether or not, in the case of its directors, such contribution would disqualify the director from being deemed "independent" for any purpose.

**E. *Other***

25. Report Committee actions to the Board of Directors with such recommendations as the Committee may deem appropriate.

26. Prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company's annual proxy statement.

27. Meet with the Independent Accountant, the Company's Chief Financial Officer or other members of Management in separate executive sessions, if desirable, to discuss any matters that the Committee or these other persons believe should be discussed privately with the Committee.

28. Review with the Independent Accountant any problems or difficulties the Independent Accountant may have encountered, including those identified in any management letter, and the appropriateness of the Company's response to such problems or difficulties.

29. Perform such other functions as may be required by Applicable Rules or any other law, the Company's Certificate of Incorporation or the Company's Bylaws or as may be assigned to the Committee, with its concurrence, by the Board.

30. Review this Charter annually and make recommendations to the Board of Directors as to any appropriate updates.

31. In performing any of the duties outlined above, take such actions and perform such other investigations and analyses as the Committee deems appropriate, whether or not the actions, investigations and analyses are specifically authorized or required by this Charter.

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A copy of this Charter will be attached as an appendix to the Company's proxy statement for the first annual meeting of its stockholders following its adoption or any subsequent material amendment thereof and at least once every three years (or as often as may be required under Applicable Rules) thereafter and will be included in its then current form on the Company's website.

As adopted by the Board of Directors of the Company  
December 31, 2002