

# **AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF INTERPHASE CORPORATION**

Effective December 10, 2007

## **CHARTER**

### **1. Overall purpose and objectives**

The audit committee is appointed by the board of directors to assist the board in discharging its oversight responsibilities. The audit committee will oversee the financial reporting process to ensure the balance, transparency and integrity of published financial information. The audit committee will also review: the effectiveness of the company's internal financial control and risk management system; the independent audit process including appointing and assessing the performance of the external auditor; the company's process for monitoring compliance with laws and regulations affecting financial reporting; and its code of business conduct.

In performing its duties, the committee will maintain effective working relationships with the board of directors, management, and the external auditors. To perform his or her role effectively, each committee member will develop and maintain his or her skills and knowledge, including an understanding of the committee's responsibilities and of the company's business, operations and risks.

### **2. Authority**

The board authorizes the audit committee, within the scope of its responsibilities, to:

- 2.1 Perform activities within the scope of its charter.
- 2.2 Engage independent counsel and other advisers as it deems necessary to carry out its duties.
- 2.3 Ensure the attendance of company officers at meetings as appropriate.
- 2.4 Have unrestricted access to members of management, employees, third parties and relevant information.
- 2.5 Establish procedures for dealing with concerns of employees regarding accounting, internal control or auditing matters.
- 2.6 Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters.
- 2.7 Be directly responsible for the appointment, compensation, retention, and oversight of the work of, the external auditor.
- 2.8 Approve all audit engagement fees and terms as well as reviewing policies for the provision of non-audit services by the external auditors and the framework for pre-approval of such services.
- 2.9 Approve the public release of quarterly and annual financial results.
- 2.10 Approve all "related-party" transactions.

### **3. Organization**

#### **Membership**

- 3.1 The board of directors will select the audit committee members and the chairman of the audit committee.
- 3.2 The audit committee will comprise at least three members and all members shall be independent non-executive directors of the company.
- 3.3 A quorum of any meeting will be two thirds of the members.
- 3.4 Each member shall have skills and experience appropriate to the company's business.
- 3.5 Each member shall be financially literate; at least one member shall be designated as a financial expert.
- 3.6 Members will be appointed for a one year term of office.
- 3.7 The chairman of the audit committee will function as its secretary.

#### **Meetings**

- 3.8 Only committee members are entitled to attend meetings. The audit committee may invite such other persons (e.g., the chief executive officer, chief financial officer, corporate controller, external audit engagement partner) to its meetings, as it deems necessary.
- 3.9 The external auditors should be invited to make presentations to the audit committee as appropriate.
- 3.10 Meetings shall be held not less than five times a year, including once each quarter to review financial results.
- 3.11 Special meetings may be convened as required. The chairman will convene a meeting if requested by the external auditors.
- 3.12 The chairman shall circulate the agenda and supporting documentation to the audit committee members a reasonable period in advance of each meeting. The chairman shall also create an agenda for the ensuing year and circulate it to the committee during the fourth quarter so that a finalized topical agenda is published before the first day of the ensuing year.
- 3.13 The chairman of the committee shall circulate the minutes of meetings to members of the board and members of the committee.
- 3.14 Members of the audit committee should attend every meeting of the committee.
- 3.15 The committee will meet with outside legal counsel at least annually without management present.
- 3.16 The committee will meet with the external auditors at least quarterly without management present.
- 3.17 The committee will meet individually and privately with the chief executive officer, chief financial officer and corporate controller at least annually.

## **4. Roles and responsibilities**

The Audit Committee will:

### **Internal control**

- 4.1 Evaluate whether management is setting the appropriate ‘control culture’ by communicating the importance of internal control and management of risk.
- 4.2 Understand the internal control systems implemented by management for the approval of transactions and the recording and processing of financial data.
- 4.35 Understand the controls and processes implemented by management to ensure that the financial statements derived from the underlying financial systems, comply with relevant standards and requirements, and are subject to appropriate management review.
- 4.4 Evaluate the overall effectiveness of the internal control and risk management frameworks and consider whether recommendations made by the external auditors have been implemented by management.
- 4.5 Consider how management is held to account for the security of computer systems and applications, and the contingency plans for processing financial information in the event of a systems breakdown or to protect against computer fraud or misuse.
- 4.6 Inquire of management and the independent auditors about significant risks or exposures facing the company; assess the steps management has taken or proposes to take to minimize such risks to the company; and periodically review compliance with such steps.
- 4.7 Review with management the company’s anti-fraud program, as well as the annual fraud risk assessment, including the mitigating controls management has put in place to minimize such risks to the company.
- 4.8 Review with management the policies and procedures with respect to officers’ expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the independent auditors. Review a comparison of actual compensation to compensation approved by the compensation committee, including stock based compensation.
- 4.9 Review the company’s code of conduct at least annually to ensure that it is adequate and up-to-date.
- 4.10 Review the procedures for the receipt, retention, and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters that may be submitted by any party internal or external to the organization at least annually. Additionally, at each meeting, review any complaints that might have been received, current status, and resolution if one has been reached.

### **Financial reporting**

- 4.11 Gain an understanding of the current areas of greatest financial risk and how these are being managed.
- 4.12 Review with management and the independent auditor significant accounting and reporting issues, including the effect of any regulatory and accounting initiatives, as well as off-balance-sheet structures, if any, and understand their impact on financial reports.
- 4.13 Oversee the periodic financial reporting process implemented by management and review the interim financial statements, annual financial statements and preliminary announcements

prior to their release.

- 4.14 Review management's process for ensuring that information contained in analyst briefings and press announcements is consistent with published financial information, balanced and transparent (particularly regarding GAAP vs non-GAAP data).
- 4.15 Inquire of the chief executive officer and chief financial officer regarding the "quality of earnings" of the company from a subjective as well as an objective standpoint.
- 4.16 Meet with management and the external auditors to review the financial statements, the key accounting policies and judgements, and the results of the audit.
- 4.17 Ensure that significant adjustments, unadjusted differences, disagreements with management and critical accounting policies and practices are discussed with the external auditor.
- 4.18 Review the other sections of the annual report before its release and consider whether the information is understandable and consistent with members' knowledge about the company and its operations and lacks bias.

### **Compliance with laws and regulations**

- 4.19 Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any fraudulent acts or noncompliance.
- 4.20 Obtain regular updates from management and company's legal counsel regarding compliance matters that may have a material impact on the company's financial statements or compliance policies.
- 4.21 Be satisfied that all regulatory compliance matters, related to the business of the company, have been considered in the preparation of the financial statements.
- 4.22 Review the findings of any examinations by regulatory agencies.

### **Working with auditors**

#### **External audit**

- 4.23 Review the professional qualification of the auditors (including background and experience of partner and auditing personnel).
- 4.24 Consider the independence of the external auditor and any potential conflicts of interest.
- 4.25 Review on an annual basis the performance of the external auditors and make recommendations to the board for the appointment, reappointment or termination of the appointment of the external auditors.
- 4.26 Review the external auditors' proposed audit scope and approach for the current year in the light of the company's present circumstances and changes in regulatory and other requirements.
- 4.27 Discuss with the external auditor any audit problems encountered in the normal course of audit work, including any restriction on audit scope or access to information.
- 4.28 Ensure that significant findings and recommendations made by the external auditors and management's proposed response are received, discussed and appropriately acted on.
- 4.29 Discuss with the external auditor the appropriateness of the accounting policies applied in the

company's financial reports and whether they are considered as aggressive, balanced or conservative.

- 4.30 Meet separately with the external auditors to discuss any matters that the committee or auditors believe should be discussed privately. Ensure the auditors have access to the chairman of the audit committee when required.
- 4.31 Review policies for the provision of non-audit services by the external auditor and the framework for pre-approval of non-audit services.
- 4.32 Consider, with management, the rationale for employing audit firms other than the principal independent auditors.
- 4.33 Ensure the company has appropriate policies regarding the hiring of audit firm personnel for senior positions after they have left the audit firm.
- 4.34 Review all material written communications between the independent auditors and management, such as any management letter or schedule of unadjusted differences.

### **Reporting responsibilities**

- 4.35 Regularly update the board about committee activities and make appropriate recommendations.
- 4.36 Ensure the board is aware of matters that may significantly impact the financial condition or affairs of the business.
- 4.37 Oversee the preparation of an annual report of the committee as required by the rules of the SEC and the annual affirmation required by the appropriate listing exchange, if necessary. Include in the annual proxy statement for the company a report of the committee in accordance with the proxy rules promulgated by the SEC.

### **Evaluating performance**

- 4.38 Evaluate the committee's own performance, both of individual members and collectively, on a regular basis.
- 4.39 Assess the achievement of the duties specified in the charter and report the findings to the board.

### **Review of the committee charter**

- 4.40 Review the audit committee charter annually, reassess the adequacy of the charter considering changes that are necessary as a result of new laws or regulations and recommend any proposed changes to the board of directors.
- 4.41 Ensure that the charter is approved or reapproved by the board.

### **Other**

- 4.42 The committee will perform such other functions as assigned by law, the company's charter or bylaws, or the board of directors.