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## Audit Committee Charter



CHARTER FOR THE AUDIT COMMITTEE OF THE  
BOARD OF DIRECTORS OF NANOMETRICS INCORPORATED  
(as approved by the Audit Committee on January 11, 2007 and ratified by the Board of Directors on March 7, 2007)

**CHARTER FOR THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS OF  
NANOMETRICS INCORPORATED**

(as approved by the Audit Committee January 11, 2007 and ratified by the Board of Directors on March 7, 2007)

**PURPOSE**

The purpose of the Audit Committee (the "Committee") of the Board of Directors (the "Board") of Nanometrics Incorporated (the "Company") shall be to

- Oversee the Company's accounting practices, system of internal controls, audit processes, and financial reporting processes;
- Assist the Board in oversight and monitoring of (i) the integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications, independence and performance, and (iv) the Company's internal accounting and financial controls;
- Prepare the Audit Committee report that the rules of the Securities and Exchange Commission (the "SEC") require to be included in the Company's annual proxy statement;
- Provide the Company's Board with the results of its monitoring and recommendations derived therefrom; and
- Provide to the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the attention of the Board.

The Committee has the authority to undertake the specific duties and responsibilities listed below and will have the authority to undertake such other specific duties as the Board from time to time prescribes.

**MEMBERSHIP**

The members of the Committee will be nominated by, will be appointed by, and will serve at the discretion of, the Board. The Committee will consist of at least three (3) members of the Board, although the Board may determine the exact number and may at any time remove or replace a member of the Committee in its sole discretion. Committee members must also meet the following criteria (in each case to the extent that such requirements are effective from time to time):

1. Each member will be an independent director in accordance with the rules of the NASDAQ Global Market ("NASDAQ") and the rules of the SEC;
2. Each member will be able to read and understand fundamental financial statements, in accordance with the rules of NASDAQ;
3. At least one member will 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 accordance with the rules of NASDAQ; and

4. No member of the Committee shall have participated in the preparation of the financial statements of the Company in the past three (3) years.

The Board shall designate one member of the Committee as the Committee's Chairperson.

Committee members shall not serve on the audit committee of more than three (3) publicly traded companies unless the Board determines in advance that such simultaneous service does not impair the member's ability to effectively serve on the Committee of the Company and makes any required disclosure in the Company's annual proxy statement.

## **RESPONSIBILITIES AND AUTHORITY**

The responsibilities and authority of the Committee shall include:

### **Processes, Controls and Risk Management**

1. Reviewing periodically the Company's financial reporting processes and disclosure controls and processes, including consulting with the Company's management and independent auditors regarding such disclosure and processes;
2. Reviewing periodically the adequacy and effectiveness of the Company's internal control policies and procedures, including the responsibilities, budget and staffing of the Company's internal audit function, based on consultation with the Company's management and independent auditors;
3. Reviewing the reports prepared by management, and attested to by the Company's independent auditors, assessing the adequacy and effectiveness of the Company's internal controls and procedures, prior to the inclusion of such reports in the Company's periodic filings as required under the rules of the SEC;
4. Discussing guidelines and policies governing the process by which management and other persons responsible for risk management assess and manage the Company's exposure to risk, as well as the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, based on consultation with the Company's management and independent auditors;

### **Independent Auditors**

5. Appointing, approving the compensation of and overseeing the work of the Company's independent auditors; in this regard, the Committee shall have the sole authority to approve the hiring and firing of the independent auditors and the independent auditors shall report directly to the Committee;
6. Pre-approving audit and permissible non-audit services provided to the Company by the independent auditors (or subsequently approving non-audit services in those circumstances where a subsequent approval is permissible);

7. Discussing with the Company's independent auditors the independent auditors' annual audit plan, including the scope of audit activities and all critical accounting policies and practices to be used, and any other matters required to be discussed by Statement on Accounting Standard No. 61, as it may be modified or supplemented;
8. Directing the Company's independent auditors to take such other actions as may be necessary to comply with applicable law and listing requirements;
9. Obtaining and reviewing at least annually a report by the Company's independent auditors describing:
  - a. The independent auditors' internal quality-control procedures;
  - b. Any material issues raised by the most recent internal quality-control review, peer review, or annual Public Company Accounting Oversight Board report of the independent auditors, or by any inquiry or investigation by any governmental or professional authority, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues; and
  - c. A formal written statement delineating all relationships between the auditor and the Company, consistent with Independent Standards Board Standard No. 1, as it may be modified or supplemented, and reviewing and discussing with the auditors any disclosed relationships or services that may impact the objectivity and independence of the auditors; in this regard, the Committee shall recommend that the Board take appropriate action, if necessary, to ensure the independence of the auditors;
10. Reviewing periodically with management, the Company's independent auditors and the internal auditors (or other persons responsible for the Company's internal audit function):
  - a. The results of the annual audit of the Company, including any significant findings, comments or recommendations of the independent auditors and internal auditors (or other persons responsible for the Company's internal audit function) together with management's responses thereto;
  - b. Any significant changes in the Company's accounting principles or the methods of applying the Company's accounting principles; and
  - c. The independent auditor's peer review conducted every three years;
11. Reviewing and resolving periodically with the independent auditors any problems or difficulties encountered by the independent auditors in the course of any audit work, including management's response thereto, any restrictions on the scope of the independent auditor's activities or on access to requested information, and any significant disagreements with management;

## **SEC Reports and Other Disclosure**

12. Reviewing with:

- a. Management and the Company's independent auditors, before release, the audited financial statements and unaudited interim financial statements as well as any other financial press releases; and
  - b. Management, before release, the Company's earnings announcements or financial releases and Management's Discussion and Analysis (MD&A) in the Company's annual report on Form 10-K and quarterly reports on Form 10-Q;
13. Directing the Company's independent auditors to review, before filing with the SEC, the Company's interim financial statements included in quarterly reports on Form 10-Q, using professional standards and procedures for conducting such reviews;
  14. Overseeing compliance with the disclosure requirements of the SEC, including disclosure of information regarding auditors' services and audit committee members, member qualifications and activities;

**Other Responsibilities and Authority**

15. Establishing 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 the Company of concerns regarding questionable accounting or auditing matters;
16. Reviewing and approving in advance any proposed transactions involving potential conflicts of interest, including, all related party transactions in accordance with the rules of NASDAQ;
17. Reviewing, approving and monitoring the Company's code of ethics for senior financial officers;
18. Establishing and reviewing the hiring policies regarding employment of employees, or former employees, of the Company's independent auditors;
19. Reviewing annually the Committee's own charter, structure, processes and membership requirements;
20. Reviewing and discussing, in conjunction with legal counsel, such other legal matters as may be appropriate in connection with the Audit Committee's functions hereunder;
21. Reviewing the Company's compliance with Company plans and policies as the same may be implemented from time to time;
22. Providing an Audit Committee report in the Company's proxy statement in accordance with the rules and regulations of the SEC; and
23. Performing such other duties as may be requested by the Board.

## **INVESTIGATIONS, STUDIES AND OUTSIDE ADVISORS**

The Committee may conduct or authorize investigations into or studies of matters within the Committee's scope of responsibility with full access to all books, records, facilities and personnel of the Company.

As appropriate, the Committee will obtain advice and assistance from outside legal, accounting or other advisors at the Company's expense.

## **MEETINGS**

The Committee will establish its own schedule and will meet at least one (1) time each fiscal quarter.

The Committee may meet separately with members of the Company's management, internal auditors (or other persons responsible for the Company's internal audit function) and the Company's independent auditors at such times as the Committee deems appropriate.

The Committee may request that any directors, officers or employees of the Company, or other persons whose advice and counsel are sought by the Committee, attend any meeting of the Committee to provide such pertinent information as the Committee requests.

The Committee will review its performance at least annually and may be subject to additional review by the Board or any committee appointed by the Board with the specific purpose thereto.

## **MINUTES**

The Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

## **REPORTS**

The Committee shall prepare all reports required to be included in the Company's filings with the SEC, pursuant to and in accordance with applicable rules of the SEC.

The Committee also shall report regularly to the full Board, including with respect to any issues that arise with respect to the quality or integrity of the Company's financial statements, the effectiveness of the Company's internal controls or disclosure controls, the performance and independence of the Company's independent auditors, or any other issue that the Committee believes should be brought to the attention of the full Board. Such reports may be made orally or in writing.

## **COMPENSATION**

Members of the Committee shall receive such fees, if any, for their service as Committee members as may be determined by the Board. Such fees may include retainers or per meeting fees and shall be paid in such form of consideration as is determined by the Board.

Members of the Committee may not receive any compensation from the Company except the fees that they receive for service as a member of the Board or any committee thereof.

## **DELEGATION OF AUTHORITY**

The Committee may, to the extent permitted under applicable law, the rules of NASDAQ and the SEC, and the Company's Certificate of Incorporation and Bylaws, delegate to one or more designated members of the Committee the authority to pre-approve audit and permissible non-audit services, provided that such preapproval decision is presented to the full Committee at a scheduled meeting.

## **LIMITATION OF THE AUDIT COMMITTEE**

The Committee's function is one of oversight, and thus the Committee does not serve to relieve the Company's management of its responsibility to prepare accurate and fairly presented financial statements in accordance with generally accepted accounting principles. Although the Committee is directly responsible for the appointment, compensation, retention and oversight of the independent accountants, the Committee's function does not relieve the independent accountants of their responsibilities relating to the audit or review of the Company's financial statements. It is not the duty of the Committee to conduct investigations, or to assure compliance with regulations, laws or the Company's business practices or code of ethics. These are the responsibilities of management or the independent auditors.