Purpose
The Audit Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) of Proto Labs, Inc. (the “Company”) to assist the Board in overseeing:

- management’s processes for ensuring the quality and integrity of the Company’s financial statements and other financial information provided by the Company to any governmental body or to the public;
- the Company’s accounting and financial reporting processes;
- the qualifications, independence and performance of the Company’s independent auditor and the Company’s internal audit function;
- resolution of any disagreements between management and the auditors regarding financial reporting;
- the Company’s investment and cash management policies; and
- management’s processes for ensuring compliance by the Company with legal, ethical and regulatory requirements as set forth in policies established by the Board.

The Committee also prepares the disclosure required by the rules of the SEC to be included in the Company’s annual proxy statement. Consistent with these functions, the Committee should encourage continuous improvement of, and should foster adherence to, the company’s policies, procedures, and practices at all levels.

Membership
The Committee shall consist of three or more directors, each of whom is able to read and understand fundamental financial statements. The members of the Committee shall be appointed by, and may be replaced by, the Board on the recommendation of the Nominating and Governance Committee. Each member of the Committee shall meet the independence and experience requirements of the New York Stock Exchange (as may be modified or supplemented), federal securities laws, the rules and regulations of the Securities and Exchange Commission (“SEC”), and any other applicable laws and regulations (subject in each case to any permitted phase-in of such requirements following the Company’s IPO). At least one member of the Committee shall be an “audit committee financial expert” as defined by the SEC.

Authority
The Committee shall have the authority and responsibility to appoint and retain or replace the independent auditor, to determine the independent auditor’s compensation and terms of engagement, and to oversee the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Committee.

The Committee shall have the authority and responsibility to adopt, amend and oversee management’s administration of the Company’s investment and cash management policies.
The Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide appropriate funding, as determined by the Committee, for payment of compensation to the independent auditor and to any advisors employed by the Committee, and for the payment of ordinary administrative expenses of the Committee that are necessary and appropriate in carrying out its duties. The Committee is empowered to investigate any matter brought to its attention.

The Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, except for non-audit services that qualify for any de minimus exception under federal securities laws. The Committee may form and delegate authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services, so long as decisions of such subcommittee to grant pre-approvals are presented to the full Committee at its next scheduled meeting.

Meetings and Communications
The Committee shall meet at least quarterly, or more frequently as circumstances dictate. A majority of the members shall constitute a quorum. The chairperson of the Committee shall be appointed by the Board. The Committee is to maintain free and open communications with the independent auditor, financial and senior management and the Company’s internal audit function. This communication shall include separate executive sessions, at least annually, with management, the independent auditor, and the internal audit function. The Committee shall make regular reports to the full Board, and shall provide the required report in the Company’s annual proxy statement. Each regularly scheduled meeting will conclude with an executive session of the Committee absent members of management.

Responsibilities
To fulfill its oversight role, the Committee will, to the extent it deems necessary or appropriate:

Financial Statement and Disclosure Matters

1. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures made in Management’s Discussion and Analysis of Financial Condition and Results of Operations, and recommend to the Board whether the audited financial statements should be included in the Company’s Form 10-K.

2. Review and discuss with management and the independent auditor the Company’s quarterly financial statements prior to their release and the filing of the Form 10-Q, including disclosures made in Management’s Discussion and Analysis, and the results of the independent auditor’s review of the quarterly financial statements.

3. Review other relevant reports or financial information submitted by the Company to any governmental body or the public, including management certifications as required by the Sarbanes-Oxley Act of 2002 and relevant reports rendered by the independent auditor.

4. Discuss with management and the independent auditor 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.
5. At least annually, review with management and the internal audit function the effectiveness of the Company’s disclosure controls and procedures.

6. Review and discuss with management, the independent auditor and the internal audit function any major issues as to the adequacy of the Company’s internal controls, any actions to be taken in light of significant or material control deficiencies, the adequacy of disclosures about changes in internal control over financial reporting, and the presence of a records retention/destruction policy.

7. Review and discuss with management, the independent auditors and the internal audit function the Company’s report regarding internal control over financial reporting, if required, and the related attestation report prepared by the independent auditor prior to the filing of the Company’s Form 10-K.

8. Review and discuss reports received, at least annually, from the independent auditors on:
   (a) All critical accounting policies and practices used.
   (b) All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
   (c) Material written communications between the independent auditor and management, including any management letter or schedule of unadjusted differences.
   (d) Any other material matters.

9. Discuss with management the types of information and types of presentations to be made in the Company’s earnings releases, and provided to analysts and rating agencies, such as the circumstances under which pro forma or non-GAAP information or earnings guidance would be included and review and pre-approve all press releases and public filings that contain Company financial information.

10. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives, changes in generally accepted accounting principles, and off-balance sheet structures, if any, on the Company’s financial statements.

11. Discuss with management its responsibility to communicate the importance of internal controls and ensure that all employees and contractors who are involved in the system of internal controls possess an understanding of their roles and responsibilities, including that employees and contractors may freely and without fear of reprisals, address issues relating to internal control, accounting, financial statement disclosure matters or violations of federal or state laws to the Committee in the event that they believe these issues have not been adequately addressed by management.

Oversight of the Company’s Relationship with the Independent Auditor

1. Discuss with the independent auditor the matters required to be discussed by Auditing Standards adopted by the Public Company Accounting Oversight Board relating to the conduct of the audit, including any difficulties encountered in the course of the audit work and management’s response, any restrictions on the scope
of activities or access to requested information, and any significant disagreements with management.

2. Obtain and review a written report from the independent auditor at least annually regarding
   (a) the independent auditor’s internal quality control procedures,
   (b) any material issues raised by the most recent internal quality control review, or peer review, of the independent auditor, 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 independent auditor,
   (c) any steps taken to deal with any such issues,
   (d) all relationships between the independent auditor and the Company, consistent with PCAOB Rule 3526, and
   (e) independence of the independent auditor.

Evaluate the qualifications, performance and independence of the independent auditor. The Committee shall present its conclusions with respect to the independent auditor to the Board.

3. Review and pre-approve both audit and nonaudit services to be provided by the independent auditor. The authority to grant preapprovals may be delegated to one or more designated members of the Committee, whose decisions will be presented to the full Committee at its next regularly scheduled meeting.

4. Establish policies for the Company’s hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.

5. Require the independent auditor to review and discuss with the Committee issues on which the Company’s audit team consulted with the national office of the independent auditor.

6. Meet with the independent auditor in a timely manner to discuss the scope, planning and staffing of the audit.

7. Review and evaluate the lead partner of the independent auditor and take such steps as may be required by law with respect to the identification and regular rotation of the audit partners serving on the Company’s audit engagement team. Consider whether it is appropriate to adopt a policy of rotating the independent auditing firm.

Risk Management; Oversight of the Company’s Internal Audit Function

1. Discuss with management the Company’s major financial risk exposures and the steps management has taken to monitor and control the exposures.

2. Review the process for establishing the annual internal audit plan. Annually, the Committee will review and approve the audit plan for the coming year and any subsequent changes thereto.

3. Review the significant reports to management prepared by the internal audit function and management’s responses.
4. Annually discuss with the internal audit function, independent auditor and management the responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

Oversight Over Compliance and Controls

1. Review periodically with management, the internal audit function and the independent auditor the design and operating effectiveness of the Company’s internal controls and any significant findings together with management’s response. Review quarterly the disclosures made by the Company’s CEO and CFO during their certification process for the Company’s periodic reports about any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting and any fraud involving management or other employees who have a significant role in the Company’s internal controls.

2. Obtain from the independent auditor assurance that it has not detected or become aware of any illegal acts involving the Company.

3. Periodically review the Code of Conduct applicable to Company directors, officers and employees, review any reports from management, the member(s) of management responsible for the internal audit function and the independent auditor regarding compliance by the Company and its affiliates with applicable legal requirements and such codes and policy, advise the Board regarding such compliance and recommend to the Board any changes to such code and policy.

4. Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, including the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

5. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any published reports which raise material issues regarding the Company’s financial statements or accounting policies.

6. Discuss with management any legal or regulatory matters that may have a material impact on the financial statements or the Company’s compliance policies.

7. Review, evaluate and approve or ratify as appropriate related party transactions between the Company and its officers, directors, any nominee for director, any shareholder owning a greater than five percent of any class of voting stock, or immediate family members of any of the foregoing.

Oversight of Investment and Cash Management Policies

1. Establish an investment and cash management policy for the Company’s cash and investment assets.

2. Review and approve modifications of the Company’s investment and cash management policies.

3. Oversee management’s administration of these policies, including the appointment of investment consultants, advisors, custodians and managers of the Company’s cash and investment assets.

4. Serve as or appoint the members of the investment committee for the administration of an investment or cash management policy.
Other Matters

1. Review and approve the report of the Committee required by the rules of the SEC to be included in the Company’s annual proxy statement.

2. Periodically review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.

3. Annually evaluate the performance of the Committee.

Limitation of Committee’s Role

The Committee relies on the expertise and knowledge of management, the internal audit function, the independent auditor and legal counsel in carrying out its oversight responsibilities. It is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements and disclosures are complete, accurate and in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of the independent auditor and management. Management is also responsible for establishing and maintaining an appropriate system of (i) internal controls and procedures for financial reporting, and (ii) disclosure controls and procedures, in accordance with applicable law.