

Title:	CHARTER FOR THE AUDIT COMMITTEE	Level 3
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**ECHELON CORPORATION
 CHARTER FOR THE AUDIT COMMITTEE
 OF THE BOARD OF DIRECTORS**

Purpose:

The purpose of the Audit Committee of Echelon Corporation (including its subsidiaries) (“Echelon” or the “Company”) shall be to:

1. Oversee the accounting and financial reporting processes of the Company and the internal and external audits of the financial statements;
2. Assist the Board of Directors (the “Board”) in the 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;
3. Outline to the Board the results of its monitoring and recommendations derived therefrom and improvements made, or to be made, in internal accounting controls;
4. Prepare the report that the rules of the Securities and Exchange Commission (the “SEC”) require to be included in the Company’s annual proxy statement;
5. Appoint independent auditors; and
6. 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 Board attention.

The Audit Committee is entitled to receive from the Company appropriate funding, as determined by the Audit Committee, for payment of (i) compensation to any registered public accounting firm engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the Company; (ii) compensation to any advisers employed by the Audit Committee under item 20 and 21 of the Responsibilities section of this Charter; and (iii) ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

In addition, the Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board of Directors may from time to time prescribe.

Membership:

The Audit Committee will consist of at least three (3) members of the Board. The members of the Audit Committee will be appointed by and will serve at the discretion of the Board of Directors.

Members of the Audit Committee must meet the following criteria (as well as any criteria required by the SEC):

1. Each member will be an independent director as defined in (i) NASDAQ Rule 4200 and (ii) the rules of the SEC.
2. Each member of the Audit Committee shall be financially literate. Financial literacy shall mean the ability to read and understand, in accordance with the NASDAQ National Market Audit Committee requirements, financial statements including Echelon's balance sheet, income statement and cash flow statement.
3. At least one member must also have past employment experience in accounting or related financial management experience. The experience criterion shall include past employment in finance or accounting, requisite professional certification in accounting, or other comparable experience or background which results in the member's financial sophistication, including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities. At least one member must also qualify as an "audit committee financial expert" under Rule 407 of the Sarbanes Oxley Act (Item 401(h)(2) of Regulation S-K).

Responsibilities:

The responsibilities of the Audit Committee shall include:

1. Reviewing on a continuing basis the adequacy of the Company's system of internal controls, including meeting periodically with the Company's management, internal auditors and the independent auditors to review the adequacy of such controls and to review before release the disclosure regarding such system of internal controls required under SEC rules to be contained in the Company's periodic filings and the attestations or reports by the independent auditors relating to such disclosure.
2. Appointing, compensating and overseeing the work of the independent auditors (including resolving disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.
3. Pre-approving audit and 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 necessary and permissible); in this regard, the Audit Committee shall have the sole authority to approve the hiring and firing of the independent auditors, all audit engagement fees and terms and all non-audit engagements, as may be permissible, with the independent auditors.
4. Reviewing and providing guidance with respect to the external audit and the Company's relationship with its independent auditors by (i) reviewing the independent auditors' proposed audit scope, approach and independence; (ii) obtaining on a periodic basis a statement from the independent auditors regarding relationships and services with the Company which may impact independence and presenting this statement to the Board of Directors, and to the extent there are relationships, monitoring and investigating them; (iii) reviewing the independent auditors' peer review conducted every three years; (iv) discussing with the Company's independent auditors the financial statements and audit findings, including any significant adjustments, management judgments and accounting estimates, significant new accounting policies and disagreements with management and any other matters described in SAS No. 61, as may be modified or supplemented; and (v) reviewing reports submitted to the audit committee by the independent auditors in accordance with the applicable SEC requirements.

5. Reviewing and discussing with management and the independent auditors the annual audited financial statements and quarterly unaudited financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," prior to filing the Company's Annual Report on Form 10-K and Quarterly Reports on Form 10-Q, respectively, with the SEC.
6. 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.
7. Conducting a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditors.
8. Reviewing before release the unaudited quarterly operating results in the Company's quarterly earnings release.
9. Overseeing compliance with the requirements of the SEC for disclosure of auditor's services and audit committee members, member qualifications and activities.
10. Overseeing the internal auditors by reviewing and approving the overall scope and plans for their audits; reviewing any significant reports prepared by the internal auditing department as well as management's responses; approve the hiring, compensation and dismissal of the Director of Internal Audit; and ensuring that the Director of Internal Audit and those reporting to the Director of Internal Audit on internal audit matters have access to the Company's records as necessary to permit the function to operate effectively.
11. Reviewing, approving and monitoring the Company's code of ethics for its senior financial officers.
12. Reviewing management's monitoring of compliance with the Company's standards of business conduct and with the Foreign Corrupt Practices Act.
13. Reviewing, in conjunction with counsel, any legal matters that could have a significant impact on the Company's financial statements.
14. Providing oversight and review at least annually of the Company's risk management policies, including its investment policies.
15. Reviewing on an annual basis the Company's "critical" accounting policies, as presented in the "Management's Discussion and Analysis" section of the Company's Report on Form 10-K and its "significant" accounting policies, per its Notes to Financial Statements in the Report on Form 10K.
16. Reviewing the Company's compliance with employee benefit plans.
17. Confirming that the hire of any current or former employee of the independent auditors complies with applicable law.
18. Overseeing and reviewing the Company's policies regarding information technology and management information systems.
19. Conferring with the senior management of the Company regarding any internal control deficiencies over financial reporting and disclosure controls.

20. If necessary, instituting special investigations with full access to all books, records, facilities and personnel of the Company.
21. As appropriate, obtaining advice and assistance from outside legal, accounting or other advisors.
22. Reviewing and approving in advance any proposed related party transactions.
23. Reviewing and reassessing this Charter's adequacy at least annually in accordance with applicable NASDAQ regulations. Submitting this Charter or any recommendations of proposed changes to the Board for approval in accordance with applicable SEC regulations. Also, reviewing its structure, processes and membership requirements, as needed.
24. Providing a report in the Company's proxy statement in accordance with the rules and regulations of the SEC.
25. Establishing procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

In addition to the above responsibilities, the Audit Committee will undertake such other duties as the Board delegates to it, and will report, at least annually, to the Board regarding the Committee's examinations and recommendations.

Meetings:

The Audit Committee will meet at least four times each year. The Audit Committee may establish its own schedule, which it will provide to the Board of Directors in advance.

The Audit Committee will meet separately with the Chief Executive Officer and separately with the Chief Financial Officer of Echelon at such times as are appropriate to review the financial affairs of Echelon. The Audit Committee will meet with the independent auditors of Echelon at such times as it deems appropriate, to review the independent auditor's examination and management report and to fulfill the Audit Committee's responsibilities under this Charter. In addition, the Audit Committee will meet with the internal auditors of Echelon at such times as it deems appropriate to discuss any matters that the Audit Committee or the internal auditors believe are appropriate for discussion.

Reports:

In addition to preparing the report in the Company's proxy statement in accordance with the rules and regulations of the SEC, the Audit Committee will record its summaries of recommendations to the Board in written form consistent with the Charter, which recommendations will be incorporated as a part of the minutes of the Board of Directors meeting at which those recommendations are presented.

Minutes:

The Audit Committee will maintain written minutes of its meetings, which minutes, as well as any actions by unanimous written consent, will be filed with the minutes of the meetings of the Board of Directors.



Compensation:

Members of the Audit Committee shall receive such fees, if any, for their service as Audit Committee members as may be determined by the Board of Directors or Nominating and Corporate Governance Committee in its sole discretion. Such fees may include retainers or per meeting fees. Fees may be paid in such form of consideration as is determined by the Board of Directors or Nominating and Corporate Governance Committee.

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

Delegation of Authority:

The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decision is presented to the full Audit Committee at its scheduled meetings.