

**PROPHASE LABS, INC.**  
**AUDIT COMMITTEE CHARTER**

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**December 2002**

**Organization**

This charter governs the operations of the Audit Committee of ProPhase Labs, Inc. (the "Company"). The Audit Committee shall review and reassess the charter at least annually and obtain the approval of the charter from the Board of Directors. The Audit Committee shall be appointed by the Board of Directors and shall be comprised entirely of directors who are independent as defined by applicable Nasdaq rules and regulations. In general, members of the Audit Committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from management and the Company. All Audit Committee members shall be financially literate, or shall become financially literate at the time of their appointment to the Audit Committee, and at least one member shall have accounting or related financial management expertise.

**Statement of Policy**

The Audit Committee shall provide assistance to the Board of Directors in fulfilling its oversight responsibility to the stockholders, potential stockholders, the investment community and others relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the annual independent audit of the Company's financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Audit Committee to maintain free and open communication between the Audit Committee, independent auditors and management of the Company in discharging its oversight role. The Audit Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain and determine funding for outside counsel or other experts for this purpose.

**Responsibilities and Processes**

The primary responsibility of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board and report the results of its activities to the Board. Management is responsible for preparing the Company's financial statements and the independent auditors are responsible for auditing those financial statements. The Audit Committee in carrying out its responsibilities believes its policies and procedures should remain flexible in order to best react to changing conditions and circumstances. The Audit Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

The following shall be the principal recurring responsibilities of the Audit Committee. The responsibilities are set forth as a guide with the understanding that the Audit Committee may supplement them as appropriate including any changes required by them to carry out its duties, including those required by changes in the policies of the Nasdaq National Market.

The responsibilities of the Audit Committee shall include:

1. Directly overseeing and compensating the independent auditors.
2. Reviewing this charter on an annual basis and updating it as conditions dictate.
3. Providing oversight and monitoring of Company management and the independent auditors and their activities with respect to the Company's financial reporting process.
4. Selecting, on an annual basis, the Company's independent auditors, subject to stockholder approval.
5. Under its ultimate authority, evaluating and, where appropriate, replacing the independent auditors.
6. Discussing with the independent auditors the overall scope and plans for their audit, including their approach and independence, and discussing with the Company's accounting department the adequacy of staffing.

7. Discussing with management the Company's accounting department and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk, and legal and ethical compliance programs.
8. Reviewing the performance of the independent auditors with the understanding of both management and the independent auditors that the independent auditors are ultimately accountable to the Board and the Audit Committee as representatives of the Company's stockholders.
9. Requesting from the independent auditors a formal written statement delineating all relationships between the auditor and the Company, consistent with Independent Standards Board Standard No. 1, and engaging in a dialogue with the auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditors.
10. Reviewing the interim financial statements with management and the independent auditors prior to the filing of the Company's Quarterly Report on Form 10-Q.
11. Discussing with the Company's independent auditors the matters required to be discussed by Statement on Accounting Standard No. 61, as it may be modified or supplemented.
12. Reviewing with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K, including their judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments and the clarity of the disclosures in the financial statements.
13. Providing a report in the Company's proxy statement in accordance with the requirements of Item 306 of Regulation S-K and Item 7(d)(3) of Schedule 14A.
14. Discussing the results of the quarterly review and any other matters required to be communicated to the Audit Committee by the independent auditors under generally accepted auditing standards.
15. Discussing the results of the annual audit and any other matters required to be communicated to the Audit Committee by the independent auditors under generally accepted auditing standards.
16. Reviewing the Audit Committee's own structure, processes and membership requirements.
17. Establishing procedures for the receipt, retention and treatment, on a confidential basis, of complaints (from employees and others) regarding the Company's accounting, internal accounting controls and accounting matters.
18. Having the authority to approve, in advance, all non-audit services to be provided to the Company by the independent auditors.
19. Having the authority to consult with, retain and determine funding for legal, accounting and other experts in connection with the performance of its duties and responsibilities.
20. Performing such other duties as may be requested by the Board of Directors or as the Audit Committee shall deem appropriate.
21. Reviewing and approving related party transactions.

## **Meetings**

The Audit Committee will meet once each fiscal year, or more frequently as circumstances dictate, in order to completely discharge its responsibilities as outlined in this charter. The Audit Committee may establish its own agenda, which it will provide to the Board of Directors in advance.

The Audit Committee will meet separately with the independent auditors as well as members of the Company's management, and legal counsel as it deems appropriate in order to review the financial controls of the Company.

### **Minutes**

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

### **Reports**

Apart from the report prepared pursuant to Item 306 of Regulation S-K and Item 7(d)(3) of Schedule 14A, the Audit Committee will summarize its examinations and recommendations to the Board from time to time as may be appropriate, consistent with the Audit Committee's charter.