

AUDIT COMMITTEE CHARTER WAVE SYSTEMS CORP.

STATEMENT OF PURPOSE

The Audit Committee is appointed by the Board of Directors of the Company (the “Board”) to: (A) assist the Board in monitoring: (1) the integrity of the financial statements of the Company, (2) the compliance by the Company with legal and regulatory requirements, (3) the independent auditor’s qualifications and independence and (4) the performance of the Company’s internal audit function and independent auditor; and (B) prepare the report required by the rules of the Securities and Exchange Commission to be included in the Company’s annual proxy statement.

MEMBERSHIP

There shall be at least three members of the Audit Committee, all of whom shall be independent, as defined by the NASD Marketplace rules. All members of the Audit Committee shall be “financially literate”, as required by the NASD Marketplace rules, and at least one member shall be an “audit committee financial expert” as defined in the rules of the Securities and Exchange Commission. An Audit Committee member may not, other than in his or her capacity as a member of the Audit Committee, the Board, or any other Board committee accept any consulting, advisory, or other compensatory fee from the Company or have any other affiliation with the Company or any of its subsidiaries. An Audit Committee member may not own or control, directly or indirectly, 20% or more of the Company’s voting stock. A member of the Company’s Audit Committee shall not simultaneously serve on the audit committees of more than three public companies unless the Board affirmatively determines that such simultaneous service would not impair the ability of the member to serve effectively on the Company’s Audit Committee.

DUTIES AND RESPONSIBILITIES

The Audit Committee shall:

1. Review and reassess the adequacy of this Charter annually and submit it to the Board for approval.
2. Appoint and oversee the work of the independent auditor, which shall report to the Audit Committee, and meet with the independent auditor prior to the audit to review the planning and staffing of the audit.
3. Pre-approve any auditing services provided by the independent auditor to the Company.

4. Pre-approve any permissible non-audit services, including tax services, provided to the Company by its independent auditor unless such non-audit services satisfy the following three criteria: (i) the aggregate cost of the services provided to the Company constitutes 5% or less of the total payments made to the independent auditor during that fiscal year, (ii) the services provided were not recognized by the Company at the time of engagement as non-audit services, and (iii) the services are promptly brought to the attention of the Audit Committee and are approved by the Audit Committee prior to completion.
5. Determine the compensation to be paid to the independent auditor.
6. Evaluate the performance of the independent auditor and, if so determined by the Audit Committee, replace the independent auditor.
7. Obtain and review, at least annually, a report by the independent auditor describing: (1) the independent auditor's internal quality-control procedures, (2) 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, and any steps taken to deal with any such issues, and (3) all relationships between the independent auditor and the Company. Discuss such reports in regards to the auditor's independence with the auditor, and if so determined by the Audit Committee, take appropriate action to insure the independence of the auditor.
8. Set clear hiring policies for employees or former employees of the independent auditor.
9. Confirm with the independent auditor that the lead partner and reviewing partner are rotated after performing audit services for the Company for five consecutive years.
10. Review (i) major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and major issues as to the adequacy of the Company's internal controls and any special audit steps adopted in light of material control deficiencies; (ii) analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; (iii) the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of the Company; and (iv) earnings press releases (paying particular attention to any use of "pro forma," or "adjusted" non-GAAP, information), as well as financial information and earnings guidance provided to analysts and rating agencies.

11. Review with management and the independent auditor, prior to inclusion in any report filed by the Company with the Securities and Exchange Commission, the Company's audited financial statements and quarterly financial statements, together with the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
12. Meet periodically with management, in person or by telephone, to review the Company's policies with respect to risk assessment and risk management.
13. Review and evaluate any report prepared by the independent auditor for the Audit Committee.
14. Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, as modified or amended, relating to the conduct of the audit.
15. Review with the independent auditor any problems or difficulties the auditor may have encountered and any management letter provided by the auditor and the Company's response to that letter. Such review should include:
 - a. Any restrictions on the scope of activities or access to required information, and
 - b. Any changes required in the planned scope of the audit.
16. Review with the Company's General Counsel legal matters that may have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from regulators or governmental agencies.
17. Conduct an appropriate review of all related party transactions on an ongoing basis and review potential conflict of interest situations where appropriate.
18. Meet at least quarterly with the chief financial officer and the independent auditor in separate executive sessions.
19. Engage independent counsel and other advisors the Audit Committee determines are necessary to carry out its duties and is in the best interest of the Company and the shareholders of the Company.
20. Request any officer or employee of the Company or the Company's outside counsel or independent auditor to attend a meeting of the Audit Committee.
21. Resolve disagreements, if any, between management and the independent auditor.
22. Report to the Board at least annually on the conduct of the audit committee's affairs.
23. Establish procedures for the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, or

auditing matters; and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles. This is the responsibility of management and the independent auditor. Nor is it the duty of the Audit Committee to conduct investigations or to assure compliance with laws and regulations.

ANNUAL PERFORMANCE EVALUATION OF THE AUDIT COMMITTEE

The Audit Committee shall conduct an annual evaluation of its performance and shall establish procedures for such evaluation.