

SPAN-AMERICA MEDICAL SYSTEMS, INC.
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER
Adopted February 11, 2004

I. PURPOSE

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by:

- overseeing the Company's accounting and financial reporting processes and the audits of the Company's financial statements; and
- reviewing the financial reports and other financial information provided by the Company to any governmental body or the public and the Company's systems of internal controls regarding finance, accounting, legal compliance, and ethics.

Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Company's auditing, accounting, and financial reporting policies, procedures, and practices.

The Audit Committee's primary duties and responsibilities are to:

- Serve as an independent and objective party to monitor the Company's financial reporting process, audits of the Company's financial statements, and the Company's internal control system.
- Appoint (subject, if applicable, to ratification by the Company's stockholders) from time to time, evaluate, and, when appropriate, replace the 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 (such firm, the "Outside Auditors"), determine the compensation of the Outside Auditors and the other terms of their engagement, and oversee the work of the Outside Auditors. The Company's Outside Auditors shall report directly to the Audit Committee.

The Audit Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in Section IV of this Charter.

II. COMPOSITION

The Audit Committee shall be comprised of three or more directors as determined by the Board, each of whom shall be independent directors, as defined by Rule 4200(a)(15) of The NASDAQ Stock Market, Inc. Marketplace Rules, Rule 10A(m)(3) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Rule 10A-3(b)(1) promulgated by the Securities and Exchange Commission (the “Commission”) under the Exchange Act. None of the members of the Audit Committee shall be persons who have participated in the preparation of the financial statements of the Company or any of its current subsidiaries at any time during the past three years. Each member of the audit committee shall be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee.

All members of the Committee shall be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement, and cash flow statement. At least one member of the Committee shall have past employment experience in finance or accounting, requisite professional certification in accounting, or any other comparable experience or background that 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. One member of the Committee shall be a person who possesses such qualities and skills as are necessary for him or her to qualify as an audit committee financial expert (as defined in Item 401(h) of Regulation S-K promulgated by the Commission) if such a person is reasonably available to serve on the Committee. However, if such a person is not reasonably available to serve on the Committee, it shall not be required that any member of the Committee be a person who qualifies as an audit committee financial expert.

The members of the Committee shall be elected by the Board at the annual organizational meeting of the Board and shall serve until their successors shall be duly elected and qualified. Unless a Chairperson is elected by the full Board, the members of the Committee may designate a Chairperson by majority vote of the full Committee membership. Vacancies occurring for any reason in the membership of the Audit Committee shall be filled by the Board of Directors.

III. MEETINGS

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Committee should meet at least annually with management and the Outside Auditors in separate executive sessions to discuss any matters that the Committee or any of these groups or individuals believes should be discussed privately.

IV. RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties outlined in Section 1 of this Charter, the Audit Committee shall:

Documents/Reports Review

1. Review, reassess, and update this Charter periodically, as conditions dictate, but at least once each fiscal year.
2. Review the Company's annual financial statements and any financial information submitted to any governmental body or the public.
3. Review any material letters of the Outside Auditors to management and management's responses thereto and all reports by the Outside Auditors to the Committee.
4. Review and discuss with management and the Outside Auditors the Company's financial statements and disclosures made in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" portion of the Company's Quarterly Reports on Form 10-Q (each, a "Form 10-Q") and Annual Reports on Form 10-K (each, a "Form 10-K") prior to their filing.
5. Review and discuss with management and the Outside Auditors any certification, report, or opinion rendered by the Outside Auditors in connection with a Form 10-K or Form 10-Q and the results of the Outside Auditors' review of the Company's financial statements.
6. Review disclosures made to the Committee by the Chief Executive Officer and Chief Financial Officer during their certification process for the Company's Forms 10-K and Forms 10-Q or otherwise about (1) any significant deficiencies or material weaknesses in the design or operation of the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial information; and (2) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal control over financial reporting.
7. Review (a) the conclusions of the Company's Chief Executive Officer and Chief Financial Officer regarding the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) included in the Company's periodic reports filed with the Commission, (b) the report of the Company's management regarding the Company's internal control over financial reporting included in the Company's periodic reports filed with the Commission, (c) the attestation report of the Outside Auditors on management's assessment of internal control

over financial reporting included in the Company's periodic reports filed with Commission, and (d) any change in the Company's internal control over financial reporting included in the Company's periodic reports filed with the Commission.

Outside Auditors

8. Have the sole authority to appoint and replace the Outside Auditors (subject, if applicable, to shareholder ratification). The Committee shall also be responsible for considering the qualifications, independence, and effectiveness of the Outside Auditors, evaluating their performance, overseeing their work (including resolution of disagreements between management and the Outside Auditors regarding financial reporting) and independence, and approving the compensation to be paid to the Outside Auditors and other terms of their engagement. The Outside Auditors shall report directly to the Committee.
9. Establish and monitor procedures with the aim to ensure that the Outside Auditors do not provide any non-audit services at any time during the audit period that are prohibited pursuant to Section 10A(g) of the Exchange Act.
10. Preapprove all audit and non-audit services (including the fees for and terms thereof) required to be preapproved by the Committee under Section 10A(h) or (i) of the Exchange Act (subject to the de minimis exceptions permitted thereunder). Such approval may be accomplished either by (a) approving the terms of the particular engagement before the engagement, or (b) establishing preapproval policies and procedures to govern such engagement that are detailed about the particular services to be provided, with the Committee to be informed about each such service on a timely basis.
11. Obtain and review at least annually a formal written statement from the Outside Auditors, consistent with Independence Standards Board Standard 1, that (a) delineates all relationships between the Outside Auditors and the Company, and (b) confirms that the Outside Auditors are independent under the Securities Act of 1933, as amended, the Exchange Act, and the rules and regulations promulgated thereunder. The Committee shall evaluate and discuss with the Outside Auditors whether the disclosed relationships or services may impact the objectivity and independence of the Outside Auditors and shall take, or recommend that the full Board take, appropriate action to oversee the independence of the Outside Auditors.
12. Obtain at least annually a certification from the Outside Auditors that the Outside Auditors have not made a report to the Company under Section 10A(b) of the Exchange Act with respect to information detected by the Outside Auditors or information of which the Outside Auditors became aware indicating that an illegal act occurred or may have occurred.

13. Periodically consult with the Outside Auditors, out of the presence of management, about the Company's internal controls, the fullness and accuracy of the Company's financial statements, and the matters required to be discussed by any auditing standard or similar pronouncement, including, without limitation, any difficulties encountered in the course of audit work, any restrictions on the scope of activities or access to requested information, any significant disagreements with management, and any special steps adopted in light of material control deficiencies.
14. Adopt policies for the Company's hiring of employees or former employees of the Outside Auditors who participated in any capacity in the audit of the Company.

Financial Reporting Processes

15. Provide an open avenue of communication among the Outside Auditors, financial and senior management, and the Board of Directors.
16. In consultation with the Outside Auditors and management, review the integrity of the Company's financial reporting processes, both internal and external.
17. Review and discuss reports from the Outside Auditors on: (a) all critical accounting policies and practices to be used by the Company, (b) all alternative treatments of financial information within Generally Accepted Accounting Principles that have been discussed with the Company's management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Outside Auditors, and (c) other material written communications between the Outside Auditors and management of the Company such as any management letter or schedule of unadjusted audit differences.
18. Review and discuss with management and the Outside Auditors significant financial, accounting, and reporting issues, including, without limitation, any significant changes in the Company's selection or application of accounting principles, complex or unusual transactions, off-balance-sheet structures, and recent professional and regulatory pronouncements.
19. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including, without limitation, the Company's risk assessment and risk management policies.
20. Consider and approve, if appropriate, major changes to the Company's auditing and accounting principles and practices as suggested by the Outside Auditors or management.
21. Discuss, in consultation with management and the Outside Auditors, any earnings press releases made by the Company, including the use of any non-GAAP financial measures (as defined by Rule 101 of Regulation G promulgated by the Commission), as well as any financial information and earnings guidance provided to analysts and rating agencies

(discussions are not required, however, in advance of each earnings press release or provision of financial information or earnings guidance, and the discussions may be general with regard to the types of information to be disclosed and the types of presentations to be made).

22. Resolve any disagreement among management and the Outside Auditors in connection with financial reporting.

Process Improvement

23. Establish regular and separate systems of reporting to the Audit Committee by each of management and the Outside Auditors regarding any significant judgments made in management's preparation of the financial statements and the view of each as to the appropriateness of such judgments.
24. Following completion of the annual audit, review separately with management and the Outside Auditors any material matters that came to the attention of the Committee in connection with the audit.
25. Review with the Outside Auditors and management the extent to which any changes or improvements in financial or accounting practices, as previously approved by the Audit Committee, have been implemented.

Ethical and Legal Compliance

26. Establish, review, and update periodically a Code of Conduct applicable to the Company's directors, officers, and employees (the "Code").
27. Review management's monitoring of the Company's compliance with the Code.
28. Periodically consult with management to confirm that the Company has a review system in place that ensures that the Company's financial statements, reports, and other financial information disseminated to any governmental body or the public satisfy legal requirements.
29. Review and have sole authority to approve all related party transactions (as defined in Item 404(a) of Regulation S-K promulgated by the Commission and applicable NASDAQ listing requirements) and review disclosures of related party transactions made in filings with the Commission.
30. Establish 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.

31. Review with the Company's counsel legal compliance matters with respect to the Company's securities trading policies, any legal matter that is reasonably likely to have a material impact on the Company's financial statements, any matter reported to the Committee pursuant to the Standards of Professional Conduct for Attorneys Appearing and Practicing Before the Commission in the Representation of an Issuer promulgated by the Commission, and any other legal matter deemed by the Committee to be relevant to the performance of its responsibilities.
32. Cause to be prepared and review, prior to filing with the Commission, the Committee's report and the descriptions and disclosures regarding the Committee, its members, policies, and activities, each as required by the rules of the Commission to be included in the Company's filings with the Commission.
33. Perform any other activities consistent with this Charter, the Company's Bylaws, and governing law as the Committee or the Board deems necessary or appropriate.

Board Reports/Documentation

34. Report regularly to the full Board of Directors with respect to any issues raised by the foregoing and provide such recommendations as the Committee deems appropriate.
35. Maintain minutes or other records of meetings and activities of the Committee.

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Although the Committee has the responsibilities and powers set forth in this Charter, 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 and accurate and are in accordance with Generally Accepted Accounting Principles and applicable rules and regulations. These are the responsibilities of the Company's management and, to the extent provided by applicable accounting and auditing standards, the Outside Auditors.

In discharging its duties, the Committee is empowered to investigate any matter within the scope of its responsibilities.

The Committee shall have the authority, without seeking Board approval, to obtain such data, engage such professionals and advisors, and use such other internal and external resources as it determines are necessary to fulfill its responsibilities and duties. Such authority shall include, without limitation, the authority to consult with the Company's management and corporate staff, incur administrative expenses, obtain external reports and other materials, and engage outside advisors, including independent counsel, as it determines necessary to carry out its duties. The Committee shall have sole authority to approve fees and other terms of

engagement for any advisors retained by the Committee. The Company must provide for appropriate funding, as determined by the Committee, for the payment of compensation to the Outside Auditors, compensation to any advisors employed by the Committee pursuant to this paragraph, and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties.

The Committee is hereby vested with all responsibilities and authority required by Rule 10A-3 under the Exchange Act. Where legally permissible, the Committee shall have the authority to delegate such of its responsibilities as the Committee may deem necessary or appropriate in its sole discretion.