1. PURPOSE

The primary function of the Audit Committee (the “Audit Committee”) of Span-America Medical Systems, Inc. (the “Company”) is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities by:

- Overseeing the Company’s accounting and financial reporting processes and the audits of the Company’s financial statements;

- Reviewing the financial reports and other financial information provided by the Company to any governmental body or the public and monitoring the Company's systems of internal controls regarding finance, accounting, legal compliance, and ethics; and

- Taking such independent action as hereinafter provided as necessary to investigate any matter within the scope of its responsibilities.

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. In carrying out its oversight responsibilities, the Audit Committee is not providing any expert or special assurance as to the Company’s financial statements or any certification as to the work of the auditor.
This Charter is a component of the governance policies of the Board and should be interpreted in the context of applicable laws and regulations and the listing requirements of any securities exchange(s) on which its securities may be traded, but this Charter is not intended to establish by its own terms any legally binding obligations.

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 5605(a)(2) of The NASDAQ Stock Market LLC NASDAQ Listing Rules; Section 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 Audit Committee.

All members of the Audit 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 Audit 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 Audit 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 407(d) of Regulation S-K promulgated by the Commission).

Any reference to any law, rule, regulation, standard of other authority in this charter shall include any and all future amendments thereto and any successors thereto or replacements thereof.

No member of the Audit Committee shall serve on the audit committee of more than two other public companies unless the Board has affirmatively determined that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee.

The members of the Audit 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 Audit Committee may designate a Chairperson by majority vote of the full Audit Committee.
membership. Vacancies occurring for any reason in the membership of the Audit Committee shall be promptly filled by the Board.

III. MEETINGS

The Audit Committee shall meet at least four times annually, or more frequently as circumstances dictate. As part of its job to foster open communication, the Audit Committee should meet at least quarterly with management and the Outside Auditors in separate executive sessions to discuss any matters that the Audit Committee or any of these groups or individuals believes should be discussed privately. The Chairperson of the Audit Committee shall have the authority to convene meetings, set agendas for meetings and determine the informational needs of the Audit Committee except to the extent otherwise provided by resolution of the Board or the Audit Committee as a whole. The Audit Committee shall report on its activities at each regularly scheduled meeting of the Board and be prepared to report on such activities at any special meeting of the Board.

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 and reassess this Charter at least annually, and update this Charter periodically, as conditions dictate.

2. Review the Company's quarterly and annual financial statements and any financial information submitted to any governmental body or the public prior to release or submission.

3. Review any material letters and recommendations of the Outside Auditors to management and management’s responses thereto (including periodic review of the Company’s response to previous letters and recommendations) and all reports by the Outside Auditors to the Audit 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”) and the Company’s proxy statement for its annual meeting of shareholders and for any special meeting of shareholders, in each case, prior to its 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 or audit of the Company’s financial
statements.

6. Review disclosures made to the Audit 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, if any is required or provided, 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 stockholder ratification). The Audit 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 Audit 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 Audit 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

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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 Audit 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 and Rule 3536 of the Public Company Accounting Oversight Board (“PCAOB”), 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, the rules and regulations promulgated thereunder, and PCAOB Rule 3520. The Audit 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 from the Outside Auditors any 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 and obtain at least annually a certification from the Outside Auditors as to whether or not any such report has been made.

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, at least annually, the matters required to be discussed by Auditing Standard No. 16, as it may be amended, modified or supplemented, and any other 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.

15. Appoint, evaluate, compensate, oversee the work of, and if appropriate terminate the appointment of any registered public accounting firm other than the Outside Auditors for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, each of which firms shall report to the Audit Committee.

Financial Reporting Processes

16. Provide an open avenue of communication among the Outside Auditors, financial and senior management, and the Board.
17. In consultation with the Outside Auditors and management, review the integrity of the Company's financial reporting processes, both internal and external.

18. 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 report to the Audit Committee or internal control letter or schedule of unadjusted audit differences. Such review and discussion shall include a review of the status of the Company’s response to any previous written communications or recommendations from the Outside Auditors.

19. 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.

20. 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.

21. 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.

22. Review in advance, and if any Committee member deems necessary, discuss 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.

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

**Process Improvement**

24. 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.
25. Following completion of the annual audit, review separately with management and the Outside Auditors any material matters that came to the attention of the Audit Committee in connection with the audit.

26. 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**

27. 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.

28. 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.

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. 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 Audit 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 Audit Committee to be relevant to the performance of its responsibilities.

31. Cause to be prepared and review, prior to filing with the Commission, the Audit Committee’s report and the descriptions and disclosures regarding the Audit 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.

32. Perform any other activities consistent with this Charter, the Company's Bylaws, and governing law as the Audit Committee or the Board deems necessary or appropriate.

**Board Reports/Documentation**
33. Prepare for inclusion in the Company’s proxy statement a report that complies with the rules of the Commission to be included in the Company’s proxy statement for each meeting of the stockholders.

34. Report regularly to the full Board of Directors with respect to any issues raised by the foregoing and provide such recommendations as the Audit Committee deems appropriate.

35. Maintain minutes or other records of meetings and activities of the Audit Committee.

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Although 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 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 Audit Committee is empowered to investigate any matter within the scope of its responsibilities.

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

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