

## **Nxt-ID, Inc.**

### **AUDIT COMMITTEE CHARTER**

#### **Role**

The Audit Committee of the Board of Directors assists the Board of Directors in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and reporting practices of the Company, and such other duties as directed by the Board. The Committee's purpose is to oversee the accounting and financial reporting processes of the Company, the audits of the Company's financial statements, the qualifications of the public accounting firm engaged as the Company's independent auditor to prepare or issue an audit report on the financial statements of the Company as well as the independence of such firm, and the performance of the Company's internal and independent auditors. The Committee's role includes a particular focus on the qualitative aspects of financial reporting to shareholders, the Company's processes to manage business and financial risk, and compliance with significant applicable legal, ethical, and regulatory requirements. The Committee is directly responsible for the appointment, compensation, retention and oversight of the independent auditor.

#### **Membership**

The membership of the Committee shall consist of at least three directors, all of whom shall be determined by the Board to be "independent" under the Nasdaq Marketplace Rules and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934 as amended (the "Exchange Act"); provided that one director, who is not independent under the Nasdaq Marketplace Rules applicable to audit committee members, meets the criteria set forth in Section 10A(m)(3) under the Securities Exchange Act of 1934, as amended, and is not currently an executive officer, employee or family member of an executive officer, may be appointed to the Committee if the Board, under exceptional and limited circumstances, determines that such individual's membership on the Committee is required by the best interests of the Company and its shareholders. If the Company relies on this exemption, it must include some additional disclosure in the proxy statement for the next annual meeting subsequent to such determination. A member appointed under this exception may not serve longer than two years and may not serve as chairperson of the Committee. Each member shall in the judgment of the Board have the ability to read and understand fundamental financial statements. At least one member of the Committee shall in the judgment of the Board be an "audit committee financial expert" as defined by the rules and regulations promulgated by the SEC (the "SEC Rules"), and at least one member (who may also serve as the audit committee financial expert) shall in the judgment of the Board meet the financial sophistication standard required by the Nasdaq Marketplace Rules. The Board appoints the members of the Committee and the chairperson. The Board may remove any member from the Committee at any time with or without cause.

#### **Operations**

The Committee shall meet at least four times a year. Additional meetings may occur as the Committee or its chair deems advisable. The Committee will cause to be kept adequate minutes of all its proceedings, and will report on its actions and activities at the next quarterly meeting of the Board. Committee members will be furnished with copies of the minutes of each meeting and any action taken by unanimous consent. The Committee is governed by the same rules regarding meetings (including meetings by conference telephone or similar communications equipment), action without meetings, notice, waiver of notice, and quorum and voting requirements as are applicable to the Board. The Committee is authorized and empowered to adopt its own rules of procedure not inconsistent with (a) any provision of this Charter, (b) any provision of the Bylaws of the Company, or (c) the laws of the state of Delaware.

## **Communications**

The independent auditor reports directly to the Committee. The Committee is expected to maintain free and open communication with the independent auditor, the internal auditors, and management. This communication will include periodic private executive sessions with each of these parties.

## **Education**

The Company is responsible for providing new members with appropriate orientation briefings and educational opportunities, and the full Committee with educational resources related to accounting principles and procedures, current accounting topics pertinent to the Company and other material as may be requested by the Committee. The Company will assist the Committee in maintaining appropriate financial literacy.

## **Authority**

The Committee will have the resources and authority necessary to discharge its duties and responsibilities. The Committee has sole authority to appoint, retain and terminate independent counsel, outside financial experts or other advisors, as it deems appropriate, including sole authority to approve the firms' fees and other retention terms, and to oversee the work of such independent counsel, outside financial experts or other advisors. The Committee will also maintain the authority to receive and respond to complaints regarding accounting, internal accounting controls, or auditing matters. The Committee will be provided with appropriate funding by the Company, as the Committee determines, for the payment of compensation to the Company's independent auditor and other advisors as it deems appropriate, and ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention. Any communications between the Committee and legal counsel in the course of obtaining legal advice will be considered privileged communications of the Company, and the Committee will take all necessary steps to preserve the privileged nature of those communications.

The Committee may form and delegate authority to subcommittees, composed of one or more of its independent members, and may delegate authority to one or more designated independent members of the Committee.

## **Related Party Transactions**

Pursuant to Nasdaq Listing Rule 5630, the Committee shall review and approve policies and procedures regarding any transaction between the Company and its officers, directors, affiliates of officers and directors, or other related parties (a "Related Party Transaction") for which disclosure in the Company's filings with the SEC is required pursuant to Item 404 of Regulation S-K. The Committee shall consider the facts and circumstances regarding such transactions, including, but not limited to, amounts involved, the relationship of the related person (and those persons identified in the instructions to Item 404(a) of Regulation S-K) with the Company, and terms that would be available in a similar transaction with an unaffiliated third-party. The Audit Committee shall also consider its fiduciary duties, the Company's obligations under applicable securities laws (including disclosure obligations and director independence rules), and any other applicable law in evaluating a Related Party Transaction. The Audit Committee shall then report its determination regarding such transactions to the full Board of Directors at its next regularly scheduled meeting.

## **Responsibilities**

The Committee's specific responsibilities in carrying out its oversight role are delineated below. The responsibilities will be updated annually to reflect changes in regulatory requirements, authoritative guidance, evolving oversight practices, and the results of the Company's annual review of the Audit Committee Charter.

The Committee relies on the expertise and knowledge of management, the internal auditors and the independent auditor in carrying out its oversight responsibilities. Management of the Company is responsible for determining the Company's financial statements are complete, accurate and in accordance with generally accepted accounting principles. The independent auditor is responsible for auditing the Company's financial statements. It is not the duty of the Committee to plan or conduct audits, to determine that the financial statements are complete and accurate and in accordance with generally accepted accounting principles, to conduct investigations, or to assure compliance with laws and regulations or the Company's standards of business conduct, codes of ethics, internal policies, procedures and controls.

1. The agenda for Committee meetings will be prepared in consultation between the Committee chair (with input from the Committee members), Finance management, and the independent auditor.
2. The Committee will review and update the Audit Committee Charter and Responsibilities Calendar annually.
3. The Committee will complete an annual evaluation of the Committee's performance.
4. The Committee will provide a report in the annual proxy that includes the Committee's review and discussion of matters with management and the independent auditor.
5. The Company will include a copy of the Committee charter as an appendix to the proxy statement at least once every three years.
6. The Committee will appoint or replace the independent auditor and determine the terms on which the independent auditor is engaged for the ensuing fiscal year and, at least annually, evaluate the independent auditor's qualifications, performance, and independence, including that of the lead partner. The evaluation will include obtaining a written report from the independent auditor describing: the firm's internal quality control procedures and any material issues raised by the most recent internal quality control review, or peer review, of the firm or by any inquiry or investigation by governmental or professional authorities within the past five years, concerning an independent audit or audits carried out by the firm, and on any steps taken to deal with those issues; and all relationships between the independent auditor and the Company.

7. The Committee will resolve any disagreements between management and the independent auditor about financial reporting.
8. The Committee will establish and oversee a policy designating permissible services that the independent auditor may perform for the Company, providing that the Committee must pre-approve all auditing services and non-audit services (other than “prohibited non-audit services”) to be provided to the Company by its independent auditor. The Committee may delegate authority to one or more independent members to grant pre-approvals of audit and permitted non-audit services; provided that any such pre-approvals shall be presented to the full Committee at its next scheduled meetings.

The following shall be “prohibited non-audit services”: (i) bookkeeping or other services related to the accounting records or financial statements of the Company; (ii) financial information systems design and implementations; (iii) appraisal or valuation services, providing fairness opinions or preparing contribution-in-kind reports; (iv) actuarial services; (v) internal audit outsourcing services; (vi) management functions or human resources; (vii) broker or dealer, investment adviser or investment banking services; (viii) legal services and expert services unrelated to the audit; and (ix) any other service that the Public Company Accounting Oversight Board (the “PCAOB”) prohibits through regulation.

Notwithstanding the foregoing, pre-approval is not necessary for minor non-audit services if: (i) the aggregate amount of all such non-audit services provided to the Company constitutes not more than five percent of the total amount of revenues paid by the Company to its registered public accounting firm during the fiscal year in which the non-audit services are provided; (ii) such services were not recognized by the Company at the time of the engagement to be non-audit services; and (iii) such services are promptly brought to the attention of the Committee and approved prior to the completion of the audit by the Committee or by one or more members of the Committee who are members of the Board to whom authority to grant such approvals has been delegated by the Committee.

9. The Committee will review the responsibilities, functions and performance of the Company's internal audit department.
10. The Committee will ensure receipt from the independent auditor of a formal written statement delineating all relationships between the auditor and the company, consistent with Independence Standards Board Standard No. 1, and actively engage in a dialogue with the auditor about any disclosed relationships or services that may impact the objectivity and independence of the auditor, and take appropriate action to oversee the independence of the independent auditor.
11. The Committee will advise the Board as to whether the Committee consists of three or more members, all of whom are financially literate, including at least one member who has financial sophistication and is a financial expert.
12. The Committee will inquire of the Finance management, and the independent auditor, about significant risks or exposures; review the Company's policies for risk assessment and risk management; and assess the steps management has taken to control such risk to the Company.
13. The Committee will review with the independent auditor and Finance management the audit scope and plan and coordinate audit efforts to ensure completeness of coverage, reduction of redundant efforts, effective use of audit resources, and the use of independent public accountants other than the appointed auditors of the Company.

- 14.** The Committee will consider and review with Finance management and the independent auditor:
  - a.** The Company's annual assessment of the effectiveness of its internal controls and the independent auditor's attestation; and
  - b.** The adequacy of the Company's internal controls including computerized information system controls and security; and
  - c.** Any related significant findings and recommendations of the independent auditor and internal audit together with management's responses; and
  - d.** The adequacy of disclosures about changes in internal control over financial reporting.
- 15.** The Committee will review with Finance management any significant changes to GAAP and/or MAP policies or standards.
- 16.** The Committee will review with Finance management and the independent auditor at the completion of the annual audit:
  - a.** The Company's annual financial statements and related footnotes; and
  - b.** The independent auditor's audit of the financial statement and its report thereon; and
  - c.** Any significant changes required in the independent auditor's audit plan; and
  - d.** Any serious difficulties or disputes with management encountered during the course of audit and management's response; and
  - e.** Other matters related to the conduct of the audit which are to be communicated to the Committee under generally accepted auditing standards.
- 17.** The Committee will review with Finance management and the independent auditor, at least annually, the Company's critical accounting policies.
- 18.** The Committee will consider and review with Finance management:
  - a.** Significant findings during the year and management's responses; and
  - b.** Any difficulties encountered in the course of their audits, including any restrictions on the scope of their work or access to required information; and
  - c.** Any changes required in planned scope of their audit plan.
- 19.** The Committee will participate in a telephonic meeting among Finance management and the independent auditor before each earnings release to discuss the earnings release, financial information and earnings guidance.
- 20.** The Committee will review and discuss with Finance management and the independent auditor the Company's quarterly financial statements.
- 21.** The Committee will review the periodic reports of the Company with Finance management and the independent auditor prior to filing of the reports with the SEC, including the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations".
- 22.** In connection with each periodic report of the Company, the Committee will review:
  - a.** Management's disclosure to the Committee and the independent auditor under Section 302 of the Sarbanes-Oxley Act, including identified changes in internal control over financial reporting; and
  - b.** The contents of the Chief Executive Officer and the Chief Financial Officer certificates to be filed under Section 302 and 906 of the Sarbanes-Oxley Act.

23. The Committee will monitor the appropriate standards adopted as a code of conduct for the Company.
24. The Committee will review with the applicable officer of the Company legal and regulatory matters that may have a material impact on the financial statements, related Company compliance policies, and programs and reports received from regulators.
25. The Committee will develop, review and oversee procedures for (i) receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls and auditing matters, and (ii) the confidential, anonymous submission of employee concerns regarding accounting or auditing matters. The procedures established pursuant to this paragraph should also be made available for use by persons making reports under the Company's Code of Conduct or Whistleblower Policy.
26. The Committee will meet with the independent auditor in executive session to discuss any matters the Committee or the independent auditor believes should be discussed privately with the Audit Committee.
27. The Committee will meet with Finance management in executive sessions to discuss any matters the Committee or Finance management believes should be discussed privately with the Audit Committee.
28. The Committee will set clear hiring policies for the Company's hiring of employees or former employees of the independent auditor who were engaged in the Company's account, and ensure the policies comply with any regulations applicable to the Company.

The Committee will ensure that these policies, as enforced, prohibit any independent auditor from providing audit services to the Company if the CEO, controller, CFO, chief accounting officer or any person serving in an equivalent capacity for the Company was employed by the independent auditor and participated in any capacity in the audit of the Company during the one-year period preceding the date of the initiation of the audit.

29. The Committee will discuss with the independent auditor the matters required to be discussed by the applicable auditing standards adopted by the PCAOB and approved by the SEC from time to time.
30. The Committee will inform each independent auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or related services for the Company, that such firm must report directly to the Committee.
31. The Committee will evaluate the rotation of the audit partners on the audit engagement team of the independent auditors as required by law.
32. The Committee will obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.