

I-FLOW CORPORATION
AUDIT COMMITTEE CHARTER

Mission Statement

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of I-Flow Corporation (the "Company") oversees the accounting and financial reporting processes of the Company and the audits of the financial statements of the Company. In addition, the Committee assists the Board in its oversight of the Company's compliance with legal and regulatory requirements.

Membership

The Board shall appoint the members of the Committee, including its chairperson. At all times:

- the Committee shall be comprised of at least three directors who are "independent," as determined by the Board, within the meaning of Nasdaq Marketplace Rule 4350(d)(2) and Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended;
- each member of the Committee, at the time of his or her appointment, must be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement; and
- at least one member of the Committee shall have had past employment experience in finance or accounting, requisite professional certification in accounting, or some other comparable experience or background (including being or having been a chief executive officer, chief financial officer or other senior officer with financial oversight responsibilities) that results in such member being financially sophisticated.

Communications

The outside auditor engaged by the Committee shall report directly to the Committee. The Committee is expected to maintain free and open communication with the outside auditor, the internal auditors, and the management of the Company. To this end, the Committee shall periodically meet separately with each of the foregoing parties. The Committee shall regularly report the activities of the Committee to the full Board and convey such recommendations to the Board as the Committee may deem appropriate.

Authority

By order of the Board, the Committee has full authority and unrestricted access to the resources, information and personnel of the Company which the Committee, in its discretion, determines is necessary or appropriate to achieve its mission. Without limiting the foregoing:

- the Committee, without further approval of the Board, has the authority to engage, consult with, and determine funding for independent counsel, accountants and other advisors as it determines necessary or appropriate to assist the Committee to carry out its duties;
- the Company shall provide the Committee with all funding that the Committee deems necessary or appropriate to enable the Committee to carry out its duties, including without limitation funding for the payment of compensation to any (i) outside auditor engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attestation services for the Company, (ii) advisors employed by the Committee, and (iii) ordinary

administrative expenses of the Committee that are necessary or appropriate in carrying out its duties; and

- the Committee has the authority to conduct or authorize investigations into any matters within the Committee's scope of responsibilities.

Responsibilities

To create an internal control best practices environment and to fulfill its duties, the Committee shall:

- be directly and solely responsible for the appointment, compensation, retention and oversight of the outside auditor;
- adopt policies regarding Committee pre-approval of audit and permitted non-audit services to be rendered by the Company's outside auditor;
- pre-approve all audit and permissible non-audit services to be rendered by the Company's outside auditor in accordance with the Committee's policies;
- prepare and issue annually a report of the Committee to be included in the Company's proxy statement in conformity with the applicable rules of the SEC;
- establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters, including procedures for the confidential anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters;
- review Company earnings press releases (the chairperson of the Committee may represent the entire Committee for purposes of this review) and financial information and earnings guidance, if any, provided to analysts and rating agencies;
- review and discuss with management and the outside auditor the Company's annual audited and quarterly financial statements, including:
 - (a) analyses prepared by management and/or the outside auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements;
 - (b) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," including the development, selection and reporting of accounting policies and practices that may be regarded as critical; and
 - (c) significant issues regarding the Company's accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting policies, practices, or financial statement presentations.
 - (d) In addition, the Committee shall receive any other reports, including those required by the SEC rules implementing Section 204 of the Sarbanes-Oxley Act, from the outside auditor;

- review and approve all related party transactions;
- review changes in accounting and financial reporting rules that could have a material impact on the Company's financial reports;
- periodically review with the CEO and CFO:
 - (a) how they are meeting their obligations under the certification requirements of Sections 302 and 906 under the Sarbanes-Oxley Act and discuss the most recent evaluation of the Company's disclosure controls and procedures;
 - (b) any significant deficiencies or material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Company's ability to record, process, summarize, and report financial data;
 - (c) how management proposes to correct any weaknesses identified by management or the outside auditor in accounting procedures and internal controls that may have a material impact on the Company's financial reports, financial position or assets;
 - (d) 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;
 - (e) any changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting;
- obtain and review, at least annually, a report by the outside auditor describing (i) the audit firm's internal quality control procedures and (ii) any material issues raised by the most recent internal quality control review or peer review of the auditor, or by any investigation by governmental or professional authorities within the last five years, regarding any independent audit carried out by the firm, and any steps taken to address these issues;
- consider, at least annually, the independence of the outside auditor, including whether the auditor's performance of permissible non-audit services is compatible with the auditor's independence; on an annual basis, obtain a formal written statement from the outside auditor delineating all relationships between the auditor and the Company consistent with Independence Standards Board Standard No. 1; review and discuss with the outside auditor any disclosed relationships or services that may impact the objectivity and independence of the auditor; and take, or recommend that the Board take, action to oversee the independence of the outside auditor;
- (i) review and discuss with management and the outside auditor the scope and results of the annual audit and recommendations of the outside auditor, including a discussion of the auditor's judgment as to the quality of the Company's accounting principles and (ii) following the completion of each annual audit, review separately with the outside auditor and management any difficulties encountered in the course of the audit (including any restrictions on the scope of the auditor's activities or on access to information, and any significant disagreements with management) and management's response;

- review and evaluate the effectiveness of the Company's processes for assessing significant risk exposures and measures that management has taken to address such risks and discuss the adequacy of such processes and measures with management;
- receive presentations from management personnel on key functional activities of the Company, including, as necessary, information technology, taxes, treasury, environmental and legal matters, and contingent liabilities;
- establish policies for the hiring of employees and former employees of the outside auditing firm;
- review the Company's code of ethics and its ability to monitor compliance with such code;
- review the Company's compliance programs with respect to applicable laws and regulations;
- review and approve the Company's policy for the investment of its cash assets;
- conduct an annual review by category of expenditures of officers' expense accounts, perquisites and the use of other corporate assets;
- undertake an annual self-evaluation to assess the effectiveness of the Committee;
- review and assess the adequacy of the this charter at least annually and recommend changes to the Board as appropriate; and
- perform such other functions as may be delegated to the Committee by the Board or as may be required of it by law or the Company's certificate of incorporation or bylaws.

Meetings

The Committee shall meet as often as may be deemed necessary or appropriate in its judgment, generally four times each year, either in person or telephonically. The majority of the members of the Committee shall constitute a quorum. The Committee may delegate any of the foregoing powers, duties and responsibilities to a subcommittee of the Committee consisting of not less than two members of the Committee; *provided that* the Committee may delegate the authority to pre-approve audit and permissible non-audit services to one member of the Committee if such member (i) pre-approves the services in accordance with the pre-approval policies adopted by the Committee and (ii) reports any actions taken by him or her to the full Committee at its next scheduled meeting.