

CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF TANOX, INC.

Purpose

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its responsibilities by reviewing: (i) the financial reports and other financial information provided by the Company to governmental agencies, the Company's shareholders or to the general public, (ii) the Company's systems of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board of Directors have established, and (iii) the Company's auditing, accounting and financial reporting processes in general. Consistent with this function, the Committee should encourage continuous improvement of, and should foster adherence to, the Company's policies, procedures and practices, at all levels. The Committee will primarily fulfill these responsibilities by carrying out the activities enumerated in this Charter.

Composition

The Audit Committee shall be comprised of three or more directors as determined by the Board of Directors, each of whom shall be independent directors, and free from any relationship that, in the opinion of the Board of Directors, would interfere with the exercise of his or her independent judgment as a member of the Committee. Members of the Committee shall be considered independent if they have no relationship to either the Company or management that may interfere with the exercise of their independence from management and the Company. Examples of such relationships include:

- a director being employed by the Company or any of its affiliates for the current year or any of the past three years;
- a director accepting any compensation from the Company or any of its affiliates, other than compensation for service on the Board of Directors, benefits under a tax qualified retirement plan or non-discretionary compensation;
- a director being a member of the immediate family of an individual who is, or has been in any of the past three years, employed by the Company or any of its affiliates as an executive officer ("immediate family" includes a person's spouse, parents, children, siblings, mother-in-law, father-in-law, brother-in-law, sister-in-law, daughter-in-law and anyone who resides in such person's home);
- a director being a partner in, or a controlling shareholder or an executive officer of, any for-profit business organization to which the Company made, or from which the Company received, payments (other than those arising solely from investments in the Company's securities) that exceed 5% of the Company's (or the business organization's) consolidated gross revenues for that year, or \$200,000, whichever is more, in any of the past three years;
- a director being employed as an executive of another entity where any of the Company's executives serve on that entity's compensation committee

- a director is an affiliated person of the Company, which would include ownership of 20% or more of the Company’s voting securities.

At least one member of the Committee shall be designated as a “financial expert” as required by the rules and regulations of the NASDAQ. Other Committee members must possess the necessary skills in finance or accounting as defined by the rules and regulations of the NASDAQ. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Company or an outside consultant. The Committee may engage independent counsel and other advisors, as it deems necessary, and the Company will provide sufficient funding for the Committee to carry out its responsibilities.

The members of the Committee shall be elected by the Board of Directors at the annual meeting of the Board of Directors and shall serve until their successors shall be duly elected and qualified or until their earlier resignation or removal. Unless a Chair is elected by the full Board of Directors, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

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, the director of the internal auditing department, if any, and the independent accountants in separate sessions to discuss any matters that the Committee or each of these groups believe should be discussed privately, including the need for an internal audit function.

Responsibilities and Duties

To fulfill its responsibilities and duties the Committee shall:

Documents/Reports Review

1. Review and reassess the adequacy of this Charter periodically as conditions dictate, but at least annually (and update the Charter accordingly), and ensure that this Charter be included in the Company’s proxy statement once every three years.
2. Review with financial management and the independent accountants the Company’s annual financial statements and any reports or other financial information submitted to any governmental agencies, the Company’s shareholders or the general public, including any certification, report, opinion or review rendered by the independent accountants, including reviewing the nature and extent of any significant changes in accounting principles.
3. Review with management and the independent accountants the need for an internal audit function, and the regular internal reports to management, if any, prepared by the internal auditing department and management’s response. Note: Further references to internal audit functions and reports and the internal audit department assume creation of an internal audit function and department.

4. Review with financial management and the independent accountants interim financial statements prior to their filing on Form 10-Q and prior to the release of earnings. The Chair of the Committee may represent the entire Committee for purposes of this review.

Independent Accountants

1. Have sole authority for the appointment, compensation and oversight of the independent accountants. On an annual basis, the Committee shall receive from the independent accountants a formal written statement identifying all relationships between the independent accountants and the Company consistent with Independence Standards Board Standard 1. The Committee shall be responsible for ensuring receipt of such statement. The Committee shall review and discuss with the independent accountants all relationships the accountants have with the Company to determine the accountants' independence and objectivity and shall approve all non-audit services performed by the independent accountants in advance. The Committee shall also take action to effect any proposed discharge if the Committee determines the accountants are not appropriately independent. The Committee shall recognize its obligation to ensure the independence of the Company's outside auditors. The Committee shall have the ultimate authority and responsibility, where appropriate, to replace such independent accountants.
2. Periodically consult with the independent accountants out of the presence of management about internal controls and the fullness and accuracy of the organization's financial statements.
3. Review with the independent accountants, as required by the rules and regulations of the SEC:
 - All critical accounting policies and practices used by the Company;
 - All alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and
 - Other material written communications between the independent accountants and management.
4. Review with the Company's independent accountants on a regular basis that they are ultimately accountable to the Committee and the Board of Directors (as opposed to management), in connection with their audit of the Company's financial statements and related services.

Financial Reporting Process

1. When the Committee considers it appropriate to do so, recommend to the Board of Directors creation of an internal audit department and function.
2. Review, at least annually, with management, the independent accountants and the internal auditors, if any, the integrity of the Company's financial reporting processes, and the

adequacy and effectiveness of the Company's internal controls over financial reporting and disclosure controls and procedures, including recommendations for any improvements in these areas.

3. Meet with independent accountants and internal auditors to review the scope of the audit and audit plan for the current year.
4. Consider the independent accountants' judgments about the quality and appropriateness of the Company's accounting principles as applied in its financial reporting and consider and approve, if appropriate, material changes to the Company's auditing and accounting principles and practices as suggested by the independent accountants, management or the internal auditing department.
5. Review organizational structure, qualifications and activities of the internal audit staff.

Process Improvement

1. Establish regular and separate systems of reporting to the Committee by each of management, the independent accountants and the internal auditors, if any, regarding any significant judgments made in management's preparation of the financial statements and the view of each as to appropriateness of such judgments. Review any significant disagreement among management and the independent accountants or the internal auditing department, if any, in connection with the preparation of the financial statements.
2. Following completion of the annual audit, review separately with each of management, the independent accountants and the internal auditing department, if any, any significant difficulties encountered during the course of the audit, including any restrictions on the scope of the work or access to required information.
3. Review with the independent accountants, the internal auditing department, if any, and management the extent to which changes or improvements in financial or accounting practices, as approved by the Committee, have been implemented. (This review should be conducted at an appropriate time subsequent to implementation of changes or improvements, as decided by the Committee.)
4. Establish procedures for the receipt, retention and treatment of complaints 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, as required by the rules and regulations of the SEC.
5. Review and approve all related party transactions.
6. Review and approve any material off-balance sheet arrangements or other financial arrangements that do not appear on the financial statements of the Company.
7. Conduct periodic evaluations of the Committee's effectiveness.

Ethical and Legal Compliance

1. Review with the Company's counsel: (a) legal compliance matters including corporate securities trading policies and (b) any legal matter that could have a significant impact on the Company's financial statements.
2. Perform any other activities consistent with this Charter, the Company's Bylaws and governing law, as the Committee or Board of Directors deems necessary or appropriate.
3. Review the system for monitoring the Company's compliance with laws and regulations and the results of management's investigation of, and action taken in connection with, fraudulent acts and accounting irregularities.

Reporting

1. Report to the Board of Directors following each meeting of the Committee.
2. Maintain minutes of each meeting of the Committee.
3. Prepare an annual report to be included in the Company's annual proxy statement concerning whether the Committee has (i) reviewed and discussed the Company's audited annual financial statements with management, (ii) discussed with the outside auditors, among other things, any accounting disagreements with management, (iii) received mandatory disclosures from the outside auditors about their independence and (iv) recommended the publication of such financials in the Company's Annual Report on Form 10-K to the Board of Directors.