

NEOWARE SYSTEMS, INC.

AUDIT COMMITTEE CHARTER

Purpose

The primary purpose of the Audit Committee is to assist the Board of Directors (the “Board”) in fulfilling its oversight responsibilities with respect to (a) the financial statements and other financial information provided by Neoware Systems, Inc. and its subsidiaries (the “Company”) to its stockholders, its potential stockholders and the investment community, (b) the Company’s compliance with legal and regulatory requirements, (c) the independent auditors’ qualifications and independence and (d) the performance of the Company’s financial management and independent auditors.

Membership

The Audit Committee shall consist of at least three and no more than six directors, each of whom shall have no relationship to the Company that may interfere with the exercise of their independence from management and the Company and shall satisfy the membership requirements of Section 10A of the Securities Exchange Act, the NASDAQ National listing standards and any other regulatory requirements. The members and the chair of the Audit Committee shall be appointed by the Board.

Meetings

The Audit Committee shall meet at least four times per year on a quarterly basis, or more frequently as circumstances require. As part of its job to foster open communications, the Audit Committee shall meet at least quarterly with the Company’s Chief Financial Officer and the independent auditors in separate executive sessions to discuss any matters that the Audit Committee or each of these groups believe should be discussed privately. The Audit Committee shall regularly update the Board regarding the Audit Committee’s activities. Minutes of all Audit Committee meetings shall be submitted to the Board, or the Audit Committee shall report to the Board at each Board meeting following a meeting of the Audit Committee.

Responsibilities

The Audit Committee’s function is one of oversight, recognizing that the Company’s management is responsible for preparing the Company’s financial statements and that the independent auditors are responsible for auditing those financial statements. Additionally, the Audit Committee recognizes that financial management and the independent auditors, have more time, knowledge and detailed information regarding the Company than do Audit Committee members. Consequently, in carrying out its oversight responsibilities, the Audit Committee is not conducting any audits and is not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the external auditors’ work. These are the responsibilities of management and the independent auditors.

Independent Auditors

- The Audit Committee shall be directly responsible for the appointment, compensation and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing the audit report or related work. The Audit Committee shall have the sole authority to review in advance, and grant any appropriate pre-approvals, of (a) all auditing services to be provided by the independent auditors (including the scope and plan of the work to be done by the independent auditors) and (b) all non-audit services to be provided by the independent auditors as permitted by Section 10A of the Securities Exchange Act, and, in connection therewith, to approve all fees and other terms of engagement. The Audit Committee shall consult with management and the Company's financial management but shall not delegate these responsibilities.
- The Audit Committee shall annually review the performance (effectiveness, objectivity and independence) of the independent auditors, including the lead audit partner.
- The Audit Committee shall request and receive on an annual basis a written statement from the independent auditors, as required by Independence Standards Board Standard No. 1, delineating all relationships between the independent auditors and the Company. Additionally, the Audit Committee shall discuss with the independent auditors any disclosed relationships or services that may affect the objectivity or independence of the independent auditors and satisfy itself as to the independent auditors' independence.
- At least annually, the Audit Committee shall obtain and review an annual report from the independent auditors describing (a) the independent auditors' internal quality control procedures and (b) any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues.
- The Audit Committee shall confirm that the lead audit partner and the audit partner responsible for reviewing the audit has not performed audit services for the Company in each of the five previous fiscal years.
- The Audit Committee shall review and discuss reports from the independent auditors on (a) all critical accounting policies and practices used by the Company, (b) alternative accounting treatments within GAAP related to material items that have been discussed with management, including the ramifications of the use of the alternative treatments and the treatment preferred by the independent auditor, and (c) other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences.

Reporting and Reviews

With respect to annual financial statements:

- The Audit Committee shall review and discuss with management and the independent auditors the Company's annual audited financial statements, including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board, if appropriate, that the Company's annual audited financial statements be included in the Company's Annual Report on Form 10-K.
- The Audit Committee shall discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, relating to the conduct of the audit.
- The Audit Committee shall prepare the report required by the Securities and Exchange Commission to be included in the Company's annual proxy statement and any other reports of the Audit Committee required by applicable securities laws or stock market listing requirements or rules.

With respect to quarterly financial statements:

- The Audit Committee shall review and discuss with management and the independent auditors the Company's quarterly financial statements, including disclosures made in "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board, if appropriate, that the Company's quarterly financial statements be included in the Company's Quarterly Report on Form 10-Q.

Annual reviews:

- The Audit Committee shall discuss with management and the independent auditors major issues regarding accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles, and review and discuss analyses prepared by management and/or the independent auditors setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on financial statements.

Periodic reviews:

- The Audit Committee shall periodically review separately with each of management and the independent auditors (a) any significant disagreement between management and the independent auditors in connection with the preparation of the financial statements, (b) any difficulties encountered during the course of the audit, including any restrictions on the scope of work or access to required information and (c) management's response to each.

- The Audit Committee shall periodically discuss with the independent auditors, without management being present, (a) their judgments about the quality and appropriateness of the Company's accounting principles and financial disclosure practices as applied in its financial reporting and (b) the completeness and accuracy of the Company's financial statements.
- The Audit Committee shall consider significant changes to the Company's accounting principles and financial disclosure practices as suggested by the independent auditors or management. The Audit Committee shall also review with the independent auditors and management, at appropriate intervals, the extent to which any changes or improvements in accounting or financial practices, as approved by the Audit Committee, have been implemented.
- The Audit Committee shall review and discuss with management and the independent auditors and the Company's independent counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including applicable changes in accounting standards or rules.

Discussions with Management

- The Audit Committee shall review and discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussions may be done generally (i.e., discussion of the types of information to be disclosed and the types of presentations to be made).
- The Audit Committee shall review and discuss with management all material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses.
- The Audit Committee shall review and discuss with management the Company's major risk exposures and the steps management has taken to monitor, control and manage such exposures, including the Company's risk assessment and risk management guidelines and policies.

Internal Control over Financial Reporting

- The Audit Committee shall review, based upon the recommendation of the independent auditors and financial management, the scope and plan of the work to be done by financial management and discuss the responsibilities, budget and staffing needs of financial management.
- The Audit Committee shall review on an annual basis the performance of financial management.

- In consultation with the independent auditors and financial management, the Audit Committee shall review the adequacy of the Company's internal control over financial reporting designed to ensure compliance with laws and regulations, and any special audit steps adopted in response to any material control deficiencies.
- The Audit Committee shall establish procedures for (a) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and (b) the confidential, anonymous submission by employees of the Company of concerns regarding the questionable accounting or auditing matters.
- The Audit Committee shall review (a) the internal control report prepared by management, including management's assessment of the effectiveness of the Company's internal control over financial reporting and (b) the independent auditors' attestation, and report, on the assessment made by management.

Other

- The Audit Committee shall review and approve all related-party transactions.
- The Audit Committee shall review and approve (a) any change or waiver in the Company's code of ethics for the chief executive officer and senior financial officers and (b) any disclosure made on Form 8-K regarding such change or waiver.
- The Audit Committee shall establish a policy addressing the Company's hiring of employees or former employees of the independent auditors who were engaged on the Company's account.
- The Audit Committee shall review and reassess the adequacy of this Charter annually and recommend to the Board any changes deemed appropriate by the Audit Committee.
- The Audit Committee shall review its own performance annually.
- The Audit Committee shall have authority to conduct and authorize investigations into any matter within the scope of its responsibilities.
- The Audit Committee shall take such other action, within the scope of the foregoing, the Company's by-laws and governing law, as the Audit Committee or the Board shall deem appropriate.

Resources

The Audit Committee shall have the authority to retain independent legal accounting and other consultants to advise the Audit Committee. The Audit Committee may request any officer or employee of the Company or the Company's outside counsel or independent auditors to attend a meeting of the Audit Committee or to meet with any members of, or consultants to, the Audit Committee. The Audit Committee shall have full access to all books, records and facilities of the Company.

The Audit Committee shall determine the extent of funding necessary for payment of compensation to the independent auditors for purpose of rendering or issuing the annual

audit report and to any independent legal, accounting and other consultants retained to advise the Audit Committee.