

**CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS OF
OSTEOTECH, INC.**

Purpose

The primary purpose of the Audit Committee (the “Committee”) is to assist the Board of Directors (the “Board”) in fulfilling its responsibility to oversee management’s conduct of the Company’s financial reporting process and to ensure that the Company’s financial condition and results of operations are fully, timely, fairly, accurately and understandably reported to the Company’s investors and the investment community in general. This process is to be accomplished by overseeing:

- The financial reports and other financial information provided by the Company to any governmental or regulatory body, the public or other user thereof;
- The Company’s systems of internal accounting and financial controls;
- The annual independent audit of the Company’s financial statements;
- The internal audit process; and
- The Company’s legal compliance and ethics programs as established by management and the Board.

In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel, auditors or other experts for this purpose. The Board and the Committee are in place to represent the Company’s shareholders; accordingly, the outside independent auditor is ultimately accountable to the Board and the Committee. Therefore, according to the provisions of the Sarbanes-Oxley Act of 2002, the Committee is empowered to engage the services of the independent outside auditor to audit the Company’s annual financial statements, review the financial statements of the interim quarters of our year and to perform such other services that the Committee deems appropriate.

The Committee shall review the adequacy of the Charter on an annual basis.

Membership

The Committee shall be comprised of no fewer than three members of the Board, and the Committee’s composition will meet the requirements of the Audit Committee Policy of the NASD, the rules and regulations of the SEC, NASDAQ and the Sarbanes-Oxley Act of 2002 (the “Act”). Accordingly, all of the members will be directors that:

- Have no relationship to the Company that may interfere with the exercise of their independence from management and the Company;
- Are financially literate at the time of their appointment;
- Must not receive any payments from the Company other than payment for Board or Committee service; and
- At least one member must be a “financial expert” as defined by Section 407 of the Act and the rules and regulations of the SEC and NASDAQ.

Key Responsibilities

The Committee's job is one of oversight and it recognizes that the Company's management is responsible for preparing the Company's financial statements and that the outside auditors are responsible for auditing those financial statements. Additionally, the Committee recognizes that financial management, as well as the outside auditors, have more time, knowledge and more detailed information on the Company than do Committee members; consequently, in carrying out its oversight responsibilities, the Committee is not providing any professional certification as to the outside auditor's work or as to the Company's financial statements.

The following functions shall be the common recurring activities of the Committee in carrying out its oversight function. These functions are set forth as a guide with the understanding that the Committee may diverge from this guide as appropriate given the circumstances.

In meeting its responsibilities, the Committee shall:

General

- Meet with the independent accountants, internal auditor, management or any other individual in separate executive sessions to discuss any matters that the Committee, these groups or individuals believe should be discussed privately with the Committee.
- Confirm annually that all responsibilities outlined in this Charter have been carried out.

Financial Reporting

- Review with management and the outside auditors the audited financial statements and related footnotes to be included in the Company's Annual Report on Form 10-K (or the Annual Report to Shareholders if distributed prior to the filing of Form 10-K) and review and consider with the outside auditors the matters required to be discussed by Statements of Auditing Standards ('SAS') No. 61, 71, and 90.
- As a whole, or through the Committee chair, review with the outside auditors the Company's interim financial results to be included in the Company's quarterly reports to be filed with the SEC and the matters required to be discussed by SAS No. 61, 71, and 90. This review will occur prior to the Company's filing of the Form 10-Q.
- Unless separately reviewed and approved by the Board as a whole or other comparable body of the Board, review and approve all related-party transactions as that term is defined by SEC rules and regulations.

Independent Auditor

- Have the sole authority and responsibility to select (or nominate for shareholder approval), determine compensation, evaluate, and where appropriate, replace the independent outside auditor. This includes resolving any disagreements between management and the auditor regarding financial reporting.
- Confirm the independence of the outside auditor by requesting, on an annual basis, a formal written statement delineating all relationships between the auditors and the Company. Discuss with the outside auditors any such disclosed relationships and their impact on the outside auditor's independence.
- Recommend that the Board take appropriate action to oversee the independence of the outside auditors.

- Approve, in advance, all permissible non-audit services, as set forth in Section 201 of the Act, or such other services the Committee deems appropriate. Approved services may be amended from time to time and must be disclosed to the shareholders along with the Committee's reason for engaging such services.
- Ensure that audit partners are rotated according to Section 203 of the Act at least once every 5 years.

Internal Auditor

- Review and evaluate the internal audit process for establishing the annual audit plan.
- Review and approve the annual audit plan ensuring the plan is sufficiently linked to the Company's overall business objectives and key risk factors.
- Review with management and the Director of internal auditing:
 - The annual audit plan and any changes to the audit plan or scope of planned audits;
 - Significant findings during the year and management's responses and progress;
 - Any difficulties or scope restrictions encountered during the course of the internal audits;
 - The internal audit budget and staffing; and
 - The internal audit charter.
- Review and concur in the appointment, replacement, reassignment, or dismissal of the Director of internal auditing.
- Confirm and assure the independence of the Director of internal audit and the internal audit staff.

Compliance with the Code of Ethical Conduct and Legal

- Review and assess the Company's Code of Ethical Conduct.
- Assess the process in place to ensure compliance with the Code of Ethical Conduct and the process for approving and disclosing any waivers to the Code.
- Ensure procedures exist for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters. Additionally, the Committee is required to ensure that such complaints are treated confidentially and anonymously, as set forth in Section 301 of the Act.
- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up of any instances of non-compliance.