

## **TERCICA, INC.**

### **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

#### **PURPOSES:**

The purposes of the Audit Committee of the Board of Directors (the “**Board**”) of Tercica, Inc. (the “**Company**”) are to:

- Monitor (i) the accounting and financial reporting processes of the Company, including the Company’s internal accounting and financial controls, (ii) the integrity of the Company’s financial statements, and (iii) the Company’s compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;
- Retain and oversee the independent auditors of the Company’s financial statements; and
- Provide the Board with the results of its monitoring and recommendations derived therefrom, as well as such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the Board’s attention.

In addition, the Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board may from time to time prescribe.

#### **MEMBERSHIP:**

The Audit Committee members will be appointed by, and will serve at the discretion of, the Board. The Audit Committee will consist of at least three members of the Board. Members of the Audit Committee must meet the following criteria:

- Each member will be an independent director, as defined in (i) NASD Marketplace Rule 4200(a)(15) and (ii) Rule 10A-3(b)(i) under the Securities Exchange Act of 1934, as amended; provided, that one non-employee director who is not independent under NASD Marketplace Rule 4200(a)(15) may serve on the Audit Committee if the Board has made the required determination under NASD Marketplace Rule 4350(d)(2)(B);
- Each member will be able to read and understand fundamental financial statements, in accordance with NASD Marketplace Rule 4350(d)(2)(A)(iv); and
- At least one member will qualify as a financial expert under NASD Marketplace Rule 4350(d)(2) and under Item 401(h) of Regulation S-K.

The Board will annually appoint the members of the Audit Committee and the Chair of the Audit Committee, immediately following the Company’s annual meeting of stockholders.

## **RESPONSIBILITIES:**

The responsibilities of the Audit Committee will include the following:

- Reviewing management’s report on its assessment of the effectiveness of the Company’s internal control over financial reporting as of the end of the most recent fiscal year and the independent auditors’ report on management’s assessment;
- Reviewing before release the disclosure regarding the Company’s system of internal controls required to be contained in the Company’s periodic filings, and reviewing the attestations or reports by the auditors relating to such disclosure;
- Appointing, compensating, retaining and overseeing the work of the auditors (including resolving disagreements between management and the auditors regarding financial reporting) for the purpose of issuing an audit report or performing other audit, review or attest services or related work;
- Pre-approving (or designating a member to pre-approve) audit and non-audit services provided to the Company by the auditors and other public accounting firms (or subsequently approving non-audit services when subsequent approval is necessary and permissible);
- Reviewing and providing guidance with respect to the external audit and the Company’s relationship with its auditors, including (i) reviewing the auditors’ qualifications, performance and independence, (ii) reviewing the auditor’s proposed audit scope and audit approach, (iii) discussing with the auditors the financial statements and audit findings, including any matters described in Statement of Accounting Standards (“SAS”) No. 61, and (iv) reviewing reports submitted to the Audit Committee by the auditors in accordance with the applicable requirements of the Securities and Exchange Commission (the “SEC”);
- Reviewing and discussing with management and the auditors the annual audited financial statements and quarterly unaudited financial statements, including the Company’s disclosures under “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” prior to filing the Company’s Annual Report on Form 10-K and Quarterly Reports on Form 10-Q with the SEC;
- Directing the auditors to review before filing with the SEC the Company’s interim financial statements included in Quarterly Reports on Form 10-Q, using professional standards and procedures for conducting such reviews;
- Reviewing (or designating a member to review) before release the unaudited quarterly operating results in the Company’s quarterly earnings release;
- Reviewing with management and the auditors (i) the Company’s significant accounting policies, (ii) the impact of changes in accounting policies and other financial reporting developments, whether voluntary or pursuant to regulatory or accounting initiatives, including the effect of alternative GAAP methods on the Company’s financial statements,

(iii) any transactions as to which management obtained SAS No. 50 letters, (iv) the impact of off-balance sheet structures on the Company's financial statements, and (v) any auditing or accounting issues concerning the Company's employee benefit plans;

- Reviewing with management and the auditors any correspondence with or findings by regulatory agencies, and any employee complaints or published reports that raise material issues, regarding the Company's financial statements or accounting policies;
- Reviewing, in conjunction with counsel, any legal matters that could have a significant impact on the Company's financial statements;
- Reviewing the Company's policies regarding conflicts of interest, reviewing past or proposed transactions between the Company, members of the Board and management for such conflicts, and reviewing and approving in advance any proposed related party transactions;
- Reviewing the Company's risk management policies, including its investment policies and performance for cash and short-term investments;
- Instituting special investigations relating to financial statements or accounting policies with full access to all books, records, facilities and personnel of the Company;
- Retaining and obtaining advice and assistance from outside legal, accounting or other advisors;
- Establishing and maintaining free and open means of communication between the Audit Committee, the auditors and management;
- Establishing procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
- Reviewing its own charter (including its structure, processes and membership requirements) at least annually;
- Providing a report in the Company's proxy statement as required by the rules and regulations of the SEC; and
- Determining the appropriate funding for payment of compensation (i) to the auditors for the purpose of rendering or issuing an audit report or performing other audit, review or attest services and (ii) to any legal, accounting or other advisors employed by the Audit Committee.

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial

statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulations.

**MEETINGS:**

The Audit Committee will meet as often as it determines, but not less frequently than once quarterly.

The Audit Committee, in its discretion, will ask members of management or others to attend its meetings (or portions thereof) and to provide pertinent information as necessary. The Audit Committee will meet separately with the Chief Executive Officer and separately with the Chief Financial Officer of the Company at such times as are appropriate to review the financial affairs of the Company. The Audit Committee will meet periodically in separate executive session with the auditors as well as any internal auditors/financial controllers of the Company, at such times as it deems appropriate to fulfill the responsibilities of the Audit Committee under this charter.

**MINUTES:**

The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board.

**REPORTS:**

In addition to preparing the report in the Company's proxy statement in accordance with the rules and regulations of the SEC, the Audit Committee will summarize its reviews, findings and recommendations to the Board as may be appropriate, consistent with the Audit Committee's charter.

**COMPENSATION:**

Members of the Audit Committee shall receive such fees for their service as Audit Committee members as may be determined by the Board in its sole discretion. Such fees may include retainers or per meeting fees. Fees may be paid in such form of consideration as is determined by the Board.

Members of the Audit Committee may not receive any compensation from the Company except the fees that they receive for service as members of the Board or any committee thereof.

**DELEGATION OF AUTHORITY:**

The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decision is presented to the full Audit Committee at its scheduled meetings.