

Encore Medical Corporation Audit Committee Charter

Mission Statement

The purpose of the Audit Committee (the “Committee”) of Encore Medical Corporation (“the Company”) is to (1) assist the Board of Directors in fulfilling its oversight responsibilities, and (2) review the financial reporting process, the system of internal control and disclosure controls, the audit process, and the Company’s process for monitoring compliance with laws and regulations and with its code of conduct. In performing its duties, the Committee will maintain effective working relationships with the Board of Directors, management, and external auditors. To effectively perform his or her role, each Committee member will obtain an understanding of the detailed responsibilities of Committee membership as well as the Company’s business, operations, and risks.

Organization, Structure and Meetings

- The Committee shall be composed of no fewer than three members, all of whom shall be independent (as defined by the SEC and NASDAQ).
- The Committee shall meet at least quarterly. Meetings may be either in person or by telephone conference call which can be heard by all members of the Committee present at the meeting.
- Members of the Committee shall be able to read and understand fundamental financial statements, including a company’s balance sheet, income statement, and cash flow statement.
- At least one member of the Committee shall be a financial expert as defined by the SEC. This will require one member to have the following qualifications, acquired through education and experience as a public-company auditor, controller, principal financial or accounting officer, or equivalent:
 - An understanding of GAAP, the financial statements of SEC registrants, and audit committee functions;
 - Experience in preparing or auditing the financial statements of a comparable company, including experience in accounting for estimates, accruals, and reserves generally comparable to those used in the Company’s financial statements; and
 - Experience with internal controls and procedures for financial reporting.
- The Board of Directors shall appoint the Chairperson of the Committee.
- The Chairperson of the Committee will preside at each meeting of the Committee and, in consultation with the other members of the Committee, shall set the frequency and length of each meeting and the agenda of items to be addressed at each meeting. The Chairperson will ensure that the agenda for each meeting is circulated in advance of the meeting.
- The Committee may invite to its meetings other Directors, Company management and such other persons as the Committee deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to enable it to carry out its responsibilities.

Roles and Responsibilities

The responsibilities of the Committee shall be to:

Engagement of Independent Auditor and Other Professionals

- The Committee shall have the sole authority to appoint or replace the independent auditor (subject, if applicable, to shareholder ratification). The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditor shall report directly to the Committee.
- The Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditor, subject to the *de minimus* exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Committee prior to the completion of the audit.
- Review and evaluate the lead partner of the independent auditor team.
- Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, 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 firm, (c) any steps taken to deal with any such issues, and (d) all relationships between independent auditor and the Company.
- Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management. The Committee shall present its conclusions with respect to the independent auditor to the Board of Directors.
- Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.

Internal Control

- Evaluate whether management is setting the appropriate tone at the top by communicating the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities.
- Focus on the extent to which external auditors review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown.
- Gain an understanding of whether internal control recommendations made by external auditors have been implemented by management.
- Ensure that the external auditors keep the Committee informed about fraud, illegal acts, deficiencies in internal control, and certain other matters.

Financial Reporting

General

- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements, and understand their impact on the financial statements.
- Ask management and the external auditors about significant risks and exposures and the plans to minimize such risks.

Annual Financial Statements

- Review the annual financial statements, including disclosures made in management's discussion and analysis, and determine whether they are complete and consistent with the information known to Committee members, and assess whether the financial statements reflect appropriate accounting principles.
- Pay particular attention to complex and/or unusual transactions.
- Focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of obsolete or slow-moving inventory; product and environmental liability; litigation reserves; and other commitments and contingencies.
- Meet with management and the external auditors to review the financial statements and the results of the audit.
- Ensure that the external auditors communicate certain required matters to the Committee.

Interim Financial Statements

- Be briefed on how management develops and summarizes quarterly financial information, the extent to which the external auditors review quarterly financial information, and whether that review is performed on a pre- or post-issuance basis.
- Meet with management and, if a pre-issuance review was completed, with the external auditors, either telephonically or in person, to review the interim financial statements and the results of the review.
- To gain insight into the fairness of the interim statements and disclosures, obtain explanations from management and from the external auditors on whether:
 - Actual financial results for the quarter or interim period varied significantly from budgeted or projected results;
 - Changes in financial ratios and relationships in the interim financial statements are consistent with changes in the Company's operations and financing practices;
 - Generally accepted accounting principles have been consistently applied;
 - There are any actual or proposed changes in accounting or financial reporting practices;
 - There are any significant or unusual events or transactions;
 - The Company's financial and operating controls are functioning effectively;
 - The Company has complied with the terms of loan agreements or security indentures; and
 - The interim financial statements contain adequate and appropriate disclosures.
- Ensure that the external auditors communicate certain required matters to the Committee.

Disclosures

- Review and discuss quarterly reports from the independent auditors on:
 - All critical accounting policies and practices to be used.
 - All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.
- Other material written communications between the independent auditor and management, such as any management letter or schedule of unadjusted differences. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.
- Review disclosures made to the Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q's about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.
- 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.

Compliance with Laws and Regulations

- Review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) on any fraudulent acts or accounting irregularities.
- Periodically obtain updates from management, general counsel, and tax director regarding compliance.
- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements.
- Review the findings of any examinations by regulatory agencies such as the Securities and Exchange Commission.

Compliance with Code of Conduct

- Ensure that a code of conduct is formalized in writing and that all employees are aware of it.
- Evaluate whether management is setting the appropriate tone at the top by communicating the importance of the code of conduct and the guidelines for acceptable business practices.
- Review the program for monitoring compliance with the code of conduct.
- Periodically obtain updates from management and general counsel regarding compliance.

Other Responsibilities

- Meet with the external auditors and management in separate executive sessions to discuss any matters that the committee or these groups believe should be discussed privately.

- Ensure that significant findings and recommendations made by the external auditors are received and discussed on a timely basis.
- Review, with the Company's counsel, any legal matters that could have a significant impact on the Company's financial statements.
- If necessary, institute special investigations and, if appropriate, hire special counsel or experts to assist.
- Perform other oversight functions as requested by the full Board.
- Review and update the Committee charter; receive approval of changes from the Board.

Reporting Responsibilities

The Committee shall regularly update the Board of Directors about committee activities and make appropriate recommendations.

Committee Resources

The Committee shall have the authority to obtain advice and seek assistance from internal and external legal, accounting and other advisors. The Committee shall determine the extent of funding necessary for the payment of compensation to any consultant retained to advise the Committee. The Committee shall have the power to request from the Board that Company funds be allocated to it to use in connection with the performance of its duties under this Charter.