



**AUDIT COMMITTEE CHARTER**

**APRIL 25, 2006**

# PANACOS PHARMACEUTICALS INC.

## AUDIT COMMITTEE CHARTER

### A. Purpose

The purpose of the Audit Committee is to assist the Board of Directors' oversight of:

- the integrity of the Company's financial statements;
- the adequacy of the Company's internal controls and disclosure controls;
- the independent auditor's qualifications and independence; and
- the performance of the Company's independent auditors.

### B. Structure and Membership

1. Number. The Audit Committee shall consist of at least three members of the Board of Directors.
2. Independence. Except as otherwise permitted by the applicable rules of The NASDAQ Stock Market and Section 301 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder, including Rule 10A-3(b)(1) of the Securities Exchange Act of 1934, as amended), each member of the Audit Committee shall be "independent" as defined by such rules and Act.
3. Financial Literacy. Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement, at the time of his or her appointment to the Audit Committee. At least one member of the Audit Committee shall be a "financial expert" (as defined by applicable NASDAQ and SEC rules) or the Company will disclose in its annual report the absence of a financial expert and the reasons for such absence. All members of the Audit Committee shall participate in continuing education programs as set forth in the rules developed by the NASDAQ Listing and Hearings Review Council.
4. Chair. Unless the Board of Directors elects a Chair of the Audit Committee, the Audit Committee shall elect a Chair by majority vote.
5. Compensation and Affiliate Status. The compensation of Audit Committee members shall be as determined by the Board of Directors. No member of the Audit Committee may receive any compensation from the Company other than fees for Board and committee service. No member of the Audit Committee may be an affiliate of the Company or its subsidiary.

6. Selection and Removal. Members of the Audit Committee shall be appointed by the Board of Directors. The Board of Directors may remove members of the Audit Committee from such Committee, with or without cause.

## C. **Authority and Responsibilities**

### **General**

The Audit Committee shall discharge its responsibilities, and shall assess the information provided by the Company's management and the independent auditor, in accordance with its business judgment. The authority and responsibilities set forth in this Charter do not reflect or create any duty or obligation of the Audit Committee to plan or conduct any audit, to determine or certify that the Company's financial statements are complete, accurate, fairly presented, or in accordance with generally accepted accounting principles or applicable law, or to guarantee the independent auditor's report.

### **Oversight of Independent Auditors**

1. Selection. The Audit Committee shall be solely and directly responsible for appointing, evaluating and, when necessary, terminating the independent auditor. The Audit Committee may, in its discretion, seek stockholder ratification of the independent auditor it appoints.
2. Independence. The Audit Committee shall take, or recommend that the full Board of Directors take, appropriate action to oversee the independence of the independent auditor. In connection with this responsibility, the Audit Committee shall obtain and review a formal written statement from the independent auditor describing all relationships between the independent auditor and the Company, including the disclosures required by Independence Standards Board Standard No. 1. The Audit Committee shall actively engage in dialogue with the independent auditor and the Board of Directors, if necessary, concerning any disclosed relationships or services that might impact the objectivity and independence of the auditor.
3. Compensation. The Audit Committee shall have sole and direct responsibility for setting the compensation of the independent auditor. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of the independent auditor established by the Audit Committee.
4. Preapproval of Services. The Audit Committee shall preapprove all audit services, which may entail providing comfort letters in connection with securities underwritings, and non-audit services (other than de minimus non-audit services as defined by the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder)) to be provided to the Company by the independent auditor. The Audit Committee shall preapprove and cause the Company to disclose in its SEC periodic reports the approval by the Audit Committee of any non-audit services to be performed by the independent auditor.

5. Oversight. The independent auditor shall report directly to the Audit Committee and the Audit Committee shall have sole and direct responsibility for overseeing the independent auditor, including resolution of disagreements between Company management and the independent auditor regarding financial reporting. In connection with its oversight role, the Audit Committee shall, from time to time as appropriate obtain and review the reports required to be made by the independent auditor pursuant to paragraph (k) of Section 10A of the Securities Exchange Act of 1934 regarding:
  - critical accounting policies and practices;
  - alternative treatments of financial information within generally accepted accounting principles that have been discussed with Company management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
  - other material written communications between the independent auditor and Company management.
6. Rotation of Auditors. The Audit Committee shall ensure that the lead or coordinating audit partner having primary responsibility for the audit, or the audit partner responsible for reviewing the audit, does not perform audit services for the Company for more than five (5) consecutive fiscal years.
7. Hiring of Auditors. The Audit Committee shall set clear hiring policies for employees or former employees of the Company's independent auditor.

#### **Review of Audited Financial Statements**

1. Discussion of Audited Financial Statements. The Audit Committee shall review and discuss with the Company's management and independent auditor the Company's audited financial statements, including the matters about which Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU §380) requires discussion.
2. Recommendation to Board Regarding Financial Statements. The Audit Committee shall consider whether it will recommend to the Board of Directors that the Company's audited financial statements be included in the Company's Annual Report on Form 10-K.
3. Audit Committee Report. The Audit Committee shall prepare for inclusion where necessary in a proxy or information statement of the Company relating to an annual meeting of security holders at which directors are to be elected (or special meeting or written consents in lieu of such meeting), the report described in Item 306 of Regulation S-K.

## **Review of Other Financial Disclosures**

1. Independent Auditor Review of Interim Financial Statements. The Audit Committee shall review the financial statements and other disclosures included in the Company's Quarterly Reports on Form 10-Q. The Audit Committee shall direct the independent auditor to use its best efforts to perform all reviews of interim financial information prior to disclosure by the Company of such information and to discuss promptly with the Audit Committee and the Chief Financial Officer any matters identified in connection with the auditor's review of interim financial information which are required to be discussed by Statement on Auditing Standards Nos. 61, 71 and 90. The Audit Committee shall direct management to advise the Audit Committee in the event that the Company proposes to disclose interim financial information prior to completion of the independent auditor's review of interim financial information.
2. The Audit Committee shall review with management and the independent auditor the effect of regulatory and accounting initiatives that may affect the Company as well as the effect of any off-balance sheet structures and transactions on the Company's financial statements.

## **Controls and Procedures**

1. Oversight. The Audit Committee shall coordinate the Board of Director's oversight of the Company's internal accounting controls, the Company's disclosure controls and procedures and the Company's code of conduct. The Audit Committee shall receive and review the reports of the CEO and CFO required by Section 302 of the Sarbanes-Oxley Act of 2002 (and the applicable rules thereunder) and Rule 13a-14 of the Exchange Act.
2. Procedures for Complaints. The Audit Committee shall establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.
3. Related-Party Transactions. The Audit Committee shall review all related party transactions (including transactions between the Company and its executive officers, members of its Board, beneficial holders of more than 5% of the Company's securities and immediate family members of any of the foregoing) on an ongoing basis and all such transactions must be preapproved by the Audit Committee.
4. Additional Powers. The Audit Committee shall have such other duties as may be delegated from time to time by the Board of Directors.

## **D. Procedures and Administration**

1. Meetings. The Audit Committee shall meet as often as it deems necessary in order to perform its responsibilities, but at least quarterly. The Audit Committee shall keep such records of its meetings as it shall deem appropriate. The Audit Committee shall also meet with the Company's management and auditors to review the financial statements for each fiscal quarter.
2. Subcommittees. The Audit Committee may form and delegate authority to one or more subcommittees (including a subcommittee consisting of a single member), as it deems appropriate from time to time under the circumstances. Any decision of a subcommittee to preapprove audit or non-audit services shall be presented to the full Audit Committee at its next scheduled meeting.
3. Reports to Board. The Audit Committee shall report regularly to the Board of Directors.
4. Charter. At least annually, the Audit Committee shall review and reassess the adequacy of this Charter and recommend any proposed changes to the Board for approval.
5. Independent Advisors. The Audit Committee shall have the authority to engage and determine funding for such independent legal, accounting and other advisors as it deems necessary or appropriate to carry out its responsibilities. Such independent advisors may be the regular advisors to the Company. The Audit Committee is empowered, without further action by the Board of Directors, to cause the Company to pay the compensation of such advisors as established by the Audit Committee.
6. Investigations. The Audit Committee shall have the authority to conduct or authorize investigations into any matters within the scope of its responsibilities as it shall deem appropriate, including the authority to request any officer, employee or advisor of the Company to meet with the Audit Committee or any advisors engaged by the Audit Committee.