

**PSYCHEMEDICS CORPORATION**  
**CHARTER OF THE AUDIT COMMITTEE**  
**OF THE BOARD OF DIRECTORS**

A. STATEMENT OF POLICY

The Audit Committee (the "Committee") of the Board of Directors of the Company (the "Board") shall assist the Board in providing oversight of the systems and procedures relating to the integrity of the Company's financial statements, the Company's financial reporting process, its systems of internal accounting and financial controls, the annual independent audit process of the Company's annual financial statements, the Company's compliance with legal and regulatory requirements and the qualification and independence of the Company's primary independent audit firm (the "Auditor"). The Committee is not responsible for the implementation of the foregoing activities. Such implementation is the sole responsibility of management. 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 authority to engage independent legal, accounting or other advisors as it deems necessary to carry out its duties, at Company expense.

Management and the Auditor are responsible for planning and conducting audits and determining that the audited financial statements are complete, accurate and in accordance with Generally Accepted Accounting Principles. The Committee, in carrying out its oversight responsibilities, shall discuss with the Auditor and management their respective judgments regarding the quality and the acceptability of the Company's financial reporting.

This Charter governs the operation of the Committee. The Committee shall review and reassess the adequacy of this Charter periodically as conditions dictate, but at least annually, and recommend any proposed changes to the Board for approval. To the extent deemed necessary by the Committee, in its sole discretion, it shall have the authority to engage outside legal counsel and/or independent accounting consultants, at the Company's expense, to review any matter under its responsibility

B. ORGANIZATION

The Committee shall be comprised of a minimum of three directors as appointed by the Board, who shall meet the independence and audit committee composition requirements set forth in applicable rules of the Securities and Exchange Commission ("SEC") and the Nasdaq Stock Market ("Nasdaq"), as in effect from time to time.

All members of the Committee shall be able to read and understand fundamental financial statements, including a balance sheet, cash flow statement and income statement. At least one member of the Committee shall be an "audit committee financial expert" as that term is defined by applicable rules of the SEC.

The Board may appoint one member who does not meet the independence requirements set forth above, provided he or she is not a current employee of the Company or an immediate family member of such employee, if the Board, under exceptional and limited circumstances, determines that membership on the Committee by the individual is required in the best interests of the Company and its shareholders. The Board shall disclose in the next proxy statement after such determination the nature of the relationship and the reasons for the determination.

The members of the Committee shall be elected by the Board at the meeting of the Board following each annual meeting of stockholders and shall serve until their successors shall be duly elected

and qualified or until their earlier resignation or removal. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

#### C. COMMITTEE MEETINGS

The Committee shall hold meetings at least quarterly each fiscal year, and at any additional time as either the Board or the Committee deems necessary. Members of the Committee may participate in meetings by means of conference telephone or similar communications equipment whereby all persons participating in the meeting can hear each other, and such participation shall constitute presence in person at the meeting. The Committee may also act as otherwise permitted by law or the Company's Bylaws. Minutes of each meeting will be kept and distributed to the entire Board. The presence of a majority of Committee members at any meeting shall constitute a quorum.

#### D. RESPONSIBILITIES AND DUTIES

The following shall be the principal recurring processes of the Audit Committee in carrying out its oversight responsibilities:

##### Independent Auditor

1. The Auditor reports directly to the Committee. Annually, the Committee shall evaluate and appoint the Auditor. The Committee shall have the sole authority to select, evaluate and, where it deems appropriate, replace the Auditor. The Committee shall receive from the Auditor an annual report on (1) the Auditor's quality control procedures, (2) any material issues raised by the most recent internal quality control review, or peer review, of the Auditor, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to audits carried out by the Auditor, (3) as necessary, the timetable for the rotation of partners under legal requirements, (4) all relationships between the Auditor and the Company, and (5) such other reports as the Committee deems appropriate from the Auditor regarding the Auditor's independence, and discuss with the Auditor such reports and the matters included in the written disclosures required by the Independence Standards Board Standard No. 1. If necessary, the Committee shall take appropriate action with respect to the independence of the Auditor.
2. The Committee shall meet with the Auditor prior to the audit to review the scope and staffing of the audit.
3. The Committee shall pre-approve all audit and non-audit services (and related fees) provided by the Company's Auditor, as outlined below, and implement procedures so that the Auditor does not perform any service that is prohibited under the Nasdaq and SEC rules.

##### Audit Fees:

Annually, prior to the audit, the Committee will review and approve the audit services and the estimated audit fees for the audit. Periodically thereafter, the Committee will pre-approve any amounts exceeding the original estimates.

##### Non-Audit Services and Fees:

Annually, and otherwise as necessary, the Committee will review and approve all non-audit services and the estimated fees for such services for the current fiscal year. For recurring services such as employee benefit plans, and tax compliance, and statutory filings, the Committee will review and approve the services and estimated total fees therefor by category of service. Periodically thereafter, the Committee will pre-approve any amounts exceeding the original estimates. For non-recurring services such as tax planning or other consulting, the Committee will review and approve the services and estimated fees by category of service and all individual projects exceeding an amount determined by the Committee from time to time. The

Committee will pre-approve any amounts exceeding the original estimates and any new projects exceeding an amount determined by the Committee from time to time.

#### Approval Matrix:

Should an engagement need pre-approval before the next Committee meeting, authority to grant such approval is delegated to the Audit Committee Chairman. Such approval will be reviewed with the entire Committee at the next quarterly meeting.

4. The Committee shall monitor management's compliance with the following hiring policy for employees and former employees of the Auditor. The Company shall not hire an employee or former employee of the Auditor who has provided audit, review, or attest services for the Company during the last two previous fiscal years into an "accounting role or financial reporting oversight role" as defined by the SEC. This definition includes the following Corporate positions: Members of the Board of Directors, Chief Executive Officer, President, Chief Financial Officer, General Counsel, Controller, and Treasurer.

#### Internal Controls; Conflicts of Interest; Ethics

1. In consultation with the Auditor and management, the Committee shall review annually (i) the adequacy of the Company's internal accounting controls and the financial reporting process, and (ii) the status of internal accounting control recommendations made by the Auditor.
2. The Committee shall periodically receive reports from and discuss with the Company's Controller and General Counsel the adequacy of the policies and practices of the Company related to compliance with key regulatory requirements, conflicts of interest and ethical conduct, including any potential or actual conflicts of interest involving directors or officers of the Company.

#### Annual Audit and Quarterly Reviews

The Committee shall discuss with the Auditor the results of the annual audit and quarterly reviews, the Company's critical accounting policies and practices, all alternative treatments within GAAP discussed with management (including ramifications of use of alternatives, and the preferred method of the Auditor), other written material communication (including any management letter or schedule of unadjusted differences), any audit problems or difficulties and management's response, and any other matters required to be communicated to the Committee by the Auditor under Generally Accepted Auditing Standards.

#### Financial Reporting

1. The Committee shall review with management and the Auditor the audited financial statements to be included in the Company's Annual Report on Form 10-K, and the Company's quarterly financial statements, including any disclosure by the Company under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Based on these reviews, the Committee shall annually report to the Board whether the Committee recommends inclusion of the audited financial statements in the Company's Annual Report and Form 10-K.
2. The Committee shall discuss the types of information to be included in, and the type of presentation of, earnings press releases and financial information and earnings guidance provided to analysts and ratings agencies. The Committee shall be informed by management of financial information and earnings guidance that have been provided to analysts and ratings agencies.

### Proxy Report

The Committee shall approve the report of the Committee required to be included in the Company's annual proxy statement by the rules of the Securities and Exchange Commission.

### Other Responsibilities

1. The Committee shall establish procedures for the receipt, retention and treatment of complaints made to the Company, by employees and non-employees, regarding accounting, internal accounting controls or auditing matters and for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Such procedures may be incorporated into the Company's Code of Ethics and Conduct and shall be revised as the Committee shall deem necessary from time to time.
2. At least quarterly, the Committee shall meet separately with representatives from the Auditor and management.

### Other Matters

1. The Committee and its members shall have unrestricted access to management. The Committee shall have sole discretion, in its areas of responsibility, at Company expense, to retain and terminate independent advisors, including sole authority to approve the fees and retention terms for such advisors, if it shall determine the services of such advisors to be necessary or appropriate. Should any member of the Committee believe that participation of management or independent advisors in any discussion of a particular subject at any meeting would be advisable, they are free to make such request.
2. The Committee may, when appropriate in its discretion, delegate authority with respect to specific matters to one or more members, provided that all decisions of any such members are presented to the full Committee at its next scheduled meeting.

### E. REPORTS TO THE BOARD

The Committee shall report to the Board of Directors regularly regarding issues that arise in connection with the performance of its responsibilities outlined herein, including, but not limited to, issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, or the performance and independence of the Auditor.

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