

CHARTER OF
US DATAWORKS, INC.
AUDIT COMMITTEE

PURPOSE

The purpose of the Audit Committee (the “Committee”) of the Board of Directors of US Dataworks, Inc. (the “Company”) is to:

1. assist the Board of Directors oversight of (a) the integrity of the Company’s financial statements, (b) the Company’s compliance with legal and regulatory requirements, (c) the independent auditor’s qualifications and independence, and (d) the performance of the Company’s internal audit function and independent auditors;
2. be directly responsible, in its capacity as a committee of the Board of Directors, for the appointment, compensation and oversight of the work of any public accounting firm employed by the Company for the purpose of preparing or issuing an audit report or related work;
3. prepare the report that Securities and Exchange Commission (“SEC”) rules require be included in the Company’s annual proxy statement; and
4. perform such other duties and responsibilities enumerated in and consistent with this Charter.

The Committee’s function is one of oversight, recognizing that the Company’s management is responsible for preparing the Company’s financial statements, and the independent auditor is responsible for auditing those statements. In adopting this Charter, the Board of Directors acknowledges that the Committee members are not employees of the Company and are not providing any expert or special assurance as to the Company’s financial statements or any professional certification as to the external auditor’s work or auditing standards. Each member of the Committee shall be entitled to rely on the integrity of those persons and organizations within and outside the Company that provide information to the Committee and the accuracy and completeness of the financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary.

MEMBERSHIP AND PROCEDURES

Membership and Appointment

The Committee shall comprise not fewer than three members of the Board of Directors, as shall be appointed from time to time by the Board of Directors based on recommendations from the Nominating and Corporate Governance Committee, if any.

Independence and Qualifications

Each member shall meet the standards for independence, financial literacy and experience requirements established from time to time by law and the American Stock Exchange (“AMEX”).

Chairperson

A chairperson of the Committee (the “Chairperson”) may be designated by the Board of Directors. In the absence of such designation, the members of the Committee may designate the Chairperson by majority vote of the full Committee membership. The Chairperson shall determine the agenda, the length of meetings and shall have unlimited access to management, employees and information.

Meetings

The Committee shall meet at least four times per year, and each time the Company proposes to issue a press release with its quarterly or annual earnings information. These meetings may be combined with regularly scheduled meetings, or more frequently as may be determined by the Chairperson. The Committee may ask members of management or others to attend the meetings and provide pertinent information as necessary.

Delegation

The Committee may, by resolution passed by a majority of the Committee, designate one or more subcommittees, each subcommittee to consist of one or more members of the Committee. Any such subcommittee to the extent provided in the resolutions of the Committee, and to the extent not limited by applicable law or listing standard, shall have the power and authority of the Committee to grant preapprovals of auditing and non-audit services by the independent auditor. Any decision of a subcommittee to whom authority is delegated to preapprove an activity shall be presented to the Committee at each of its scheduled meetings.

Authority to Retain and Terminate Advisers

The Committee shall have the power and authority, at the Company’s expense, to retain, terminate and compensate independent counsel and other advisers, as it determines necessary to carry out its duties.

Annual Performance Evaluation

The Committee shall perform an annual performance evaluation of the Committee and assessment of the Audit Committee Charter and, to the extent the Committee so determines, make recommendations to the Board of Directors for changes or modifications to the Audit Committee Charter.

DUTIES AND RESPONSIBILITIES

The following shall be the common recurring duties and responsibilities of the Committee in carrying out its oversight functions. These duties and responsibilities are set forth below as a guide to the Committee with the understanding that the Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law or listing standard.

With respect to the independent auditors

1. The Committee shall have the sole authority to appoint or replace the Company's independent auditors. The Committee shall be directly responsible for the compensation and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The independent auditors shall report directly to the Committee.

2. The Committee, or a subcommittee of the Committee, shall pre-approve the provision of all auditing and non-audit services by the independent auditor to the Company and its subsidiaries and shall also approve all audit engagement fees and terms and all non-audit engagements with the independent auditor.

3. In connection with the Committee's approval of non-audit services, the Committee shall consider whether the independent auditor's performance of any non-audit services is compatible with the independent auditor's independence.

4. The Committee shall ascertain that the lead or concurring audit partner from any public accounting firms performing audit services, serves in that capacity for no more than five fiscal years of the Company. In addition, the Committee shall determine whether any partner other than the lead or concurring partner serves no more than seven years at the partner level on the Company's audit.

5. At least annually, the Committee shall obtain and review a report by the independent auditor describing:

- () the independent auditor's internal quality-control procedures;

- () any material issues raised by the most recent internal quality control review or peer review of the independent auditor's 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 independent auditor's firm, and the steps taken to deal with those issues; and
- () all relationships between the independent auditor and the Company, in order to assess the auditor's independence.

6. The Committee shall review the report by the independent auditor, which is required by Section 10A of the Securities Exchange Act of 1934, concerning:

- () all critical accounting policies and practices to be used;
- () alternative treatments of financial information within GAAP that have been discussed with management officials, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
- () any other material written communications between the independent auditor and the Company's management.

With respect to the Company's financial statements

7. The Committee shall discuss the annual audited financial statements and quarterly financial statements with management, the internal auditor, if any, and the independent auditor, including the Company's disclosures under the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's reports filed with the SEC.

8. The Committee shall review disclosures made to the Committee by the Company's chief executive officer and chief financial officer during their certification process for Forms 10-KSB and Forms 10-QSB 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.

9. In connection with its review of the Company's financial statements, the Committee shall review and discuss with management, the internal auditor, if any, and the independent auditor the matters relating to the conduct of the audit required to be discussed by Statement on Accounting Standards Nos. 61 and 90 (Communications with Audit Committees), as they may be modified or supplemented, including the auditor's judgment about the quality, not just acceptability, of the Company's accounting principles as applied in its financial reporting.

10. The Committee shall review with management and the independent auditor the effect of any regulatory and accounting initiatives, as well as off-balance sheet structures, if any.

11. The Committee, as a whole or through the Chairperson, shall review the impact on the financial statements of significant events, transactions or changes in accounting principles or estimates that potentially affect the quality of the financial reporting with management and the independent auditors prior to filing of the Company's Reports on Forms 10-KSB or 10-QSB, or as soon as practicable if the communications cannot be made prior to its filing.

12. Based on its review and discussions with management, the internal auditors, if any, and the independent auditor, the Committee shall recommend to the Board of Directors whether the Company's financial statements should be included in the Company's Annual Report on Form 10-KSB (or the annual report to stockholders if distributed prior to the filing of the Form 10-KSB).

13. The Committee shall prepare or cause the preparation of the report required by SEC rules to be included in the Company's annual stockholders' meeting proxy statement.

14. The Committee shall generally discuss earnings press releases, if any, as well as financial information and earnings guidance provided to financial analysts and rating agencies.

15. The Committee shall review related party transactions for potential conflicts of interest.

16. The Committee shall review the regular Management Letter to management prepared by the independent auditors and management's response to such letter.

With respect to periodic reviews and reports

17. Periodically, the Committee shall meet separately with each of management, internal auditors, if any, and the independent auditors.

18. The Committee shall review with the independent auditor any audit problems or difficulties and management's response.

19. The Committee shall discuss the Company's policies with respect to risk assessment and risk management.

20. The Committee shall communicate to the Board of Directors any issues with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's independent auditors or the performance of the independent audit function.

With respect to ethical and legal compliance and other matters

21. The Committee shall ensure that management has set an appropriate corporate “tone” for quality financial reporting, sound business practices and ethical behavior. The Committee shall also periodically review the Company’s policies and procedures regarding compliance with the Company’s Code of Business Conduct and Ethics.

22. The Committee shall establish the Company’s hiring policies for employees or former employees of the Company’s independent auditors.

23. The Committee shall review with management the policies and procedures with respect to officers’ expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the internal auditor, if any, or the independent auditors.

24. The Committee shall consider, with management, the rationale for employing audit firms other than the principal independent auditors.

25. Periodically, the Committee shall review with management, the internal auditor, if any, and the independent auditor the adequacy and effectiveness of the Company’s systems and controls for monitoring and managing legal and regulatory compliance.

26. The Committee shall periodically review management’s review system of the Company’s financial statements, reports and other financial information disseminated to governmental organizations and the public to ensure that such documents satisfy legal requirements.

27. The Committee shall periodically review, with the Company’s counsel, legal and regulatory compliance matters including corporate securities trading policies, and the adequacy and effectiveness of the Company’s systems and controls for monitoring and managing legal and regulatory compliance.

28. The Committee shall periodically review the Company’s Code of Ethics and Business Conduct to ensure that it is adequate and up-to-date and discuss the Company’s results with the Company’s Chief Financial Officer and General Counsel.

29. The Committee shall review, with the Company’s counsel, any legal matter that could have a significant impact on the Company’s financial statements.

30. The Committee shall perform any other activities consistent with this Charter, the Company’s Bylaws and governing law, as the Committee or the Board deems necessary or appropriate.

31. If necessary, the Committee shall initiate special investigations, and if appropriate, hire special counsel or experts to assist the Committee.

32. The Committee shall establish procedures for:

- () the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
- () the confidential, anonymous submission by the Company's employees of concerns regarding accounting or auditing matters.

AMENDMENT

This Charter and any provision contained herein may be amended or repealed by the Board of Directors.