

# **Identification Solutions Inc.**

## **AUDIT AND CORPORATE GOVERNANCE COMMITTEE** **CHARTER**

### **PURPOSE**

The Audit and Corporate Governance Committee (the “Committee”) of Identification Solutions Inc. (the “Company”) is chartered to oversee (1) the integrity of reported financial results, (2) the quality and adequacy of disclosures, (3) the soundness of the Company’s accounting policies and internal controls, (4) Company’s compliance with significant applicable financial, legal, and ethical requirements, (5) the independence and performance of the Company’s external auditors, and (6) communications among the external auditors, financial and senior management, and the board of directors. In performing its role, the Committee shall comply with all Securities and Exchange Commission (“SEC”) and the NASDAQ Stock Market, Inc. (“NASDAQ”) regulations covering audit committees of public corporations. The Company shall provide appropriate funding as determined by the Committee for payment of compensation to the external auditors and any advisors employed by the Committee.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company’s financial statements are complete and accurate and are in accordance with generally accepted accounting principles. Those tasks are the responsibility of management and the external auditors. The external auditors are ultimately accountable to the Board of Directors through its interaction with the Committee.

The Committee shall undertake those specific duties and responsibilities listed below and such other duties as the Board may from time to time prescribe. All powers of the Committee are subject to any restrictions imposed by the Company’s Bylaws and applicable law.

### **MEMBERSHIP**

The Committee shall consist of at least three members of the Board of Directors. Each Member (the “Member”), including the Chairperson, shall be appointed every three years by, and shall serve at the discretion of the Board of Directors and shall not receive any compensation from MOBILE SCAN other than compensation for Board or Committee service. At the time of appointment, each Member shall be an independent director, as such term is defined by applicable law, the SEC and NASDAQ, and shall be generally knowledgeable in financial, accounting, and auditing matters and shall be able to read and understand financial statements. In addition, at least one Member shall be a financial expert; as such term is defined by applicable law and the SEC.

### **DUTIES AND RESPONSIBILITIES**

The specific duties and responsibilities of the Committee include the following:

Financial and Auditing Matters

1. The Committee shall have sole responsibility for hiring and firing the external auditors and shall review and approve the scope of the annual audit plan.
2. The Committee shall review and evaluate the external auditors' qualifications, independence, and performance, taking into account the opinions of Company management.
3. The Committee shall obtain from the external auditors an annual written communication that is prepared in accordance with Standard No. 1 of the Independence Standards Board delineating all relationships of the external auditors with the Company as well as the nature and extent of the professional advisory services provided to the Company. The Committee shall present its conclusions on the foregoing matters to the board of directors and shall take, or recommend that the full board of directors take, appropriate action to oversee the independence of the external auditors. The Committee shall also approve, in advance, all permissible non-audit services performed by the external auditors. The Committee also shall annually review all non-audit services performed by the external auditors in order to ensure that the audit firm remains independent and objective.
4. The Committee shall direct the activities and review the findings of the external auditors. Upon completion of the annual audit, the Committee shall review the audited financial statements and discuss the results of the audit with the external auditors and management. The review will focus on significant areas including, but not limited to:
  - a. all critical accounting policies and practices, such as the application of the Company's revenue recognition and inventory reserve policies;
  - b. disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
  - c. press releases related to the Company's earnings (paying particular attention to any use of "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies;
  - d. litigation reserves;
  - e. other significant commitments and contingencies;
  - f. the effect or potential effect of off-balance sheet structures on the Company's financial statements;
  - g. any correspondence with regulators or governmental agencies and any employee complaints that raise material and credible issues regarding the Company's financial statements or accounting policies;
  - h. the accounting treatment for any significant non-routine transactions;
  - i. any new accounting, reporting, or disclosure requirements, the application of those standards to the Company's public filings, and changes in accounting policy or its application; and
  - j. other matters required by applicable law, the SEC and NASDAQ, or related to the conduct of the audit, which are to be communicated to the Committee under generally accepted auditing standards.
5. The Committee shall obtain timely reports from the external auditors regarding any material written communication between the external auditors and management, such as any management letter or schedule of unadjusted differences.

6. Upon completion of the annual audit, the Committee shall engage in an independent discussion with the external auditors and inquire as to:
  - a. whether there were any difficulties or disputes with management during the audit;
  - b. whether there were any accounting or disclosure issues not resolved to the satisfaction of the external auditors;
  - c. whether management cooperated with the external auditors during their examination including providing access to all requested information and whether there were any restrictions on the scope of their activities; and
  - d. whether there are any other matters that should be discussed with the Committee that have not been raised or covered elsewhere.

The Committee shall receive a confidential assessment of the competence of the Company's financial and accounting personnel and any relevant recommendations made by the external auditors. The Committee shall resolve any disagreements between the external auditors and management regarding financial reporting.

7. The Committee shall review the external auditors' assessment of the Company's internal accounting and financial controls and major financial exposures, including those related to risk assessment and risk management, and recommendations and discuss management's responses to those findings.
8. Annually, the Committee shall direct independent assessments of the security and back-up and contingency provisions of the Company's computer systems and discuss management's responses to those assessments.
9. The Committee shall, unless otherwise performed by a comparable body of the board of directors, review and approve all related-party transactions; as such term is defined by the SEC and NASDAQ.
10. The Committee shall review with the Company's legal counsel any legal matters that could have a significant impact on the Company's financial statements.
11. The Committee shall routinely review the Company's foreign exchange exposures and hedging practices, share repurchase activity, and tax planning and compliance activities.
12. The Committee shall review, and approve changes to, the Company's investment policy, and performance.
13. The Committee shall review and approve the code of ethics for senior financial officers and any changes to or waivers of such code.
14. The Committee shall review at least annually the Company's legal entity structure.
15. The Committee shall establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters and confidential and anonymous submission by Company employees of concerns regarding questionable accounting or auditing matters.

Corporate Governance Matters

16. The Committee shall keep abreast of developments and best practices in corporate governance matters and shall review the Company's Corporate Governance Guidelines at least annually to

ensure that they remain relevant and are being complied with and, where appropriate, recommend any changes for approval by the Board.

17. Review any proposed changes to the Company's Articles of Incorporation and bylaws and make recommendations to the Board.
18. Determine the manner in which shareholders of the Company may send communications to the Board (as a whole or individually). Establish the process by which the Chair of the Committee will determine which shareholder communications will be relayed to the Board and what the Board's response, if any, should be.
19. Oversee compliance by the Board and its committees with applicable laws and regulations, including those promulgated by the SEC and NASDAQ.

#### **Board Evaluation Matters**

20. The Committee shall review the disclosure included in the Company's proxy statement regarding the Company's nomination process.
21. The Committee shall receive comments from all directors, oversee the evaluation process, and report annually to the Board with an assessment of the Board's performance as a whole, for each Board committee, and for each Board member eligible for re-election. These matters are to be discussed with the Board following the end of each fiscal year.
22. The Committee shall review on a periodic basis, the charter and composition of each Board committee and make recommendations to the Board for the creation of additional Board committees or the change in mandate or dissolution of Board committees.
23. The Committee shall evaluate director compensation, consulting with outside consultants and/or Human Resources department when appropriate, and make recommendations to the Board regarding director compensation.
24. The Committee shall make recommendations for continuing education of Board members.
25. The Committee shall review actual and potential conflicts of interest of Board members and corporate officers, and approve or prohibit any involvement of such persons in matters that may involve a conflict of interest or taking of a corporate opportunity.
26. The Committee may form and delegate authority to subcommittees when appropriate.
27. The Committee shall annually review and reassess the adequacy of this Charter and propose any changes to the Board for approval. The Committee shall also annually evaluate its operation against this charter.
28. The Committee shall perform such other functions as assigned by law, the Company's bylaws, or the board of directors.

#### **AUTHORITY**

The Committee has the following authority:

1. In discharging its oversight role, the Committee shall have full authority to conduct or authorize any investigation on matters within the scope of the Committee's duties and responsibilities, including matters related to the integrity of reported financial results, the soundness of the Company's accounting policies and internal control systems, and any material illegal act or

conflict of interest that could jeopardize the Company's control systems or the integrity of its financial statements and disclosure.

2. The Committee shall have the sole authority to appoint, approve the compensation for, and oversee the external auditors.
3. The Committee shall also have authority to obtain advice and assistance from internal or external legal, accounting, or other advisors regarding matters within the Committee's duties and responsibilities.
4. The Committee shall have the authority to engage and approve the compensation and other retention terms for independent counsel and other advisors as necessary to perform its duties and responsibilities.

### **CONDUCT OF BUSINESS**

The Committee shall conduct its business in accordance with this Charter and any direction by the Board. The Committee is expected to maintain free and open communication with the external auditors, financial and senior management, and the Board of Directors. This communication shall include private executive sessions, at least annually, with each of these parties. Prior to the annual meeting of shareholders, the Committee will nominate and report to the Board the persons who will be the nominees for election to the Board of Directors at the annual meeting of shareholders. As part of this process, the Committee will consider candidates recommended by the Company's shareholders.

The Committee shall report, at least annually, to the Board. The Committee chairperson shall also report on the Committee activities to the full Board. The Committee shall annually review its own performance.

### **MEETINGS**

The Committee shall meet, either in person or via telephonic conference, on a regular basis, at least quarterly, or more frequently as circumstances require. The Committee may ask members of management or others to attend the meeting and provide pertinent information as necessary.

### **MINUTES**

The Committee shall maintain written minutes of its meetings and shall file such minutes with the minutes of the meetings of the Board of Directors.