

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

A. PURPOSE

The Audit Committee (the "Committee") of the Board of Directors (the "Board") of Psychemedics Corporation (the "Company") shall assist the Board in providing oversight of the Company's accounting functions and internal controls and will monitor the objectivity of the Company's financial statements. The Committee will assist the Board in oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the independent registered public accounting firm's qualifications and independence and (4) the performance of the Company's internal audit function (if applicable) and independent registered public accounting firm. In addition, the Committee will prepare all the Committee reports required under the law and will provide an open avenue of communication between the financial management, internal auditors (if applicable) independent registered public accounting firm, and the board of Directors.

The term "registered public accounting firm" as used herein shall mean any public accounting firm registered with the Public Company Accounting Oversight Board (the "Accounting Board") under Section 102 of the Sarbanes-Oxley Act of 2002 that performs the independent auditing function for the Company.

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.

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 operation of the Committee will be subject to the provisions of the Bylaws of the Company, as in effect from time to time. Subject to the foregoing, the following shall be the principal recurring processes of the Audit Committee in carrying out its oversight responsibilities:

Registered Public Accounting Firm

1. The Company's registered public accounting firm reports directly to the Committee. Annually, the Committee shall evaluate and appoint the registered public accounting firm. The Committee shall have the sole authority to select, evaluate and, where it deems appropriate, replace the registered public accounting firm. The Committee shall receive from the registered public accounting firm an annual report on (1) the registered public accounting firm's quality control procedures, (2) any material issues raised by the most recent internal quality control review, or peer review, of the registered public accounting firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to audits carried out by the registered public accounting firm, (3) as necessary, the timetable for the rotation of partners under legal requirements, (4) all relationships between the registered public accounting firm and the Company, and (5) such other reports as the Committee deems appropriate from the registered public accounting firm regarding such firm's independence, and discuss with the registered public accounting firm 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 registered public accounting firm.
2. The Committee shall meet with the registered public accounting firm prior to the audit to review the scope and staffing of the audit of the Company's financial statements and internal controls.
3. The Committee shall pre-approve all audit and non-audit services (and related fees) provided by the Company's registered public accounting firm, as outlined below, and implement procedures so that the registered public accounting firm 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 Company's registered public accounting firm. The Company shall not hire an employee or former employee of any registered public accounting firm 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, Vice President - Finance, and Treasurer.

Conflicts of Interest; Ethics

1. The Committee shall periodically receive reports from and discuss with the Company's principal financial officer and its 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.
2. The Committee shall review and approve all related-party transactions (i.e., those transactions required to be disclosed in response to Item 404 of Regulation S-K) for potential conflict of interest situations on an ongoing basis.
3. The Committee shall review and approve (i) the adoption of and any change to or waiver of the Company's codes of business conduct and ethics applicable to directors, senior financial officers (including the principal executive officer, principal financial officer, principal accounting officer, controller, or persons performing similar functions) or employees, and (ii) any disclosure made in the manner permitted by SEC rules that is required to be made regarding such change or waiver.

Financial Statements and Disclosure Matters

With respect to the Company's financial statements and other disclosure matters, the Committee shall:

1. review with management and the registered public accounting firm 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," such review to

include 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 registered public accounting firm), material correcting adjustments identified by the registered public accounting firm, 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 registered public accounting firm;

2. meet, review and discuss with management the Company's earnings press releases with respect to the types of information to be disclosed and the types of presentations to be made;
3. following completion of its review of the annual audited financial statements, recommend to the Board, if appropriate, that the Company's annual audited financial statements and the reports of the registered public accounting firm thereon be included in the Company's annual report on Form 10-K filed with the SEC; and
4. based on reviews and discussions noted above, report regularly to the Board of Directors any issues of which it becomes aware of with respect to the integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the qualifications and independence of the Company's independent registered public accounting firms and the performance of the independent registered public accounting firm.

Internal Controls and Compliance Matters

With respect to the Company's internal controls over financial reporting and compliance matters:

1. in consultation with management and the registered public accounting firm, review and assess the adequacy of the Company's system of internal controls and procedures for financial reporting and the procedures designed to assess, monitor and manage business risk and legal and ethical compliance programs;
2. when applicable, review and assess any disclosures made to the Committee by the Company's Chief Executive Officer and principal financial officer during their certification process for the Company's Forms 10-K and 10-Q about any significant deficiencies in the design or operation of internal controls over financial reporting or material weaknesses therein, and any fraud involving management or other employees who have a significant role in the Company's internal controls over financial reporting;
3. when applicable, review and discuss with management and the registered public accounting firm any major issues as to the adequacy of the design or operation of the Company's internal controls over financial reporting, management's annual assessment of the Company's internal controls over financial reporting and the registered public accounting firm's attestation report thereon, and any special steps adopted in light of significant deficiencies or material weaknesses therein and the adequacy of disclosures about changes in internal controls over financial reporting;
4. 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 Whistleblower Policy and shall be revised as the Committee shall deem necessary from time to time; and
5. discuss and evaluate the Company's policies with respect to risk assessment and risk management as well as the Company's significant areas of financial risk exposure and steps management has taken to monitor and control such exposures (including management's risk

assessment and risk management policies).

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

The Committee shall:

1. review and discuss the Company's financial information and earnings guidance, if any given, provided to analysts and rating agencies.
2. at least quarterly, meet separately with representatives from the registered public accounting firm and management;
3. review with management and the registered public accounting firm the sufficiency in number and the quality of financial and accounting personnel of the Company; and
4. perform any other activities consistent with this Charter, the Company's By-laws and governing law as the Committee or the Board deems necessary or appropriate.

Other Matters

1. The Committee and its members shall have unrestricted access to management.
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.