

## AUDIT COMMITTEE CHARTER

### **K-SWISS INC., a Delaware corporation**

**1. Members.** The Board of Directors of K-Swiss Inc., a Delaware corporation (the "**Board**") shall appoint an Audit Committee of at least three members, consisting entirely of independent directors of the Board, and shall designate one member as chairperson or delegate the authority to designate a chairperson to the Audit Committee. For purposes hereof, the term "independent" shall mean a director who meets the independence requirements of The NASDAQ Stock Market LLC ("**NASDAQ**") for directors and audit committee members, as determined by the Board.

Each member of the Audit Committee must be financially literate and at least one member of the Audit Committee must have financial sophistication, each as determined by the Board, and at least one member of the Audit Committee shall be an "audit committee financial expert," as determined by the Board in accordance with Securities and Exchange Commission (the "**SEC**") rules. In addition, no Audit Committee member may have participated in the preparation of the financial statements of the Company or any of the Company's current subsidiaries at any time during the past three years.

**2. Purposes, Duties, and Responsibilities.**

The purposes of the Audit Committee shall be to:

- represent and assist the Board in discharging its oversight responsibility relating to: (i) the accounting, reporting, and financial practices of the Company and its subsidiaries, including the Company's financial statement audits and the integrity of the financial statements; (ii) the Company's compliance with legal and regulatory requirements; (iii) the outside auditor's qualifications and independence; and (iv) the performance of the Company's internal audit function and the Company's outside auditor; and
- prepare the report required by the rules of the SEC to be included in the Company's annual proxy statement.

Among its specific duties and responsibilities, the Audit Committee shall:

- (i) Be directly responsible, in its capacity as a committee of the Board, for the appointment, compensation and oversight of the work of the outside auditor. In this regard, the Audit Committee shall appoint, retain, compensate, evaluate, and terminate, when appropriate, the outside auditor, which shall report directly to the Audit Committee.
- (ii) Approve in advance all audit and non-audit services to be provided by the outside auditor, and

establish policies and procedures for the pre-approval of all permissible audit and non-audit services to be provided by the outside auditor.

(iii) At least annually, consider the independence of the outside auditor, including whether the outside auditor's performance of permissible non-audit services is compatible with the auditor's independence, and, consistent with the rules of the Public Company Accounting Oversight Board, obtain and review a report by the outside auditor describing any relationships between the outside auditor and its affiliates, and the Company or individuals in a financial reporting oversight role at the Company, that may reasonably be thought to bear on the independence of the auditor and discuss with the outside auditor the potential effects of any such relationships on independence.

(iv) Review and discuss with the outside auditor: (A) the scope of the audit, the results of the annual audit examination by the auditor, and any difficulties the auditor encountered in the course of their audit work, including any restrictions on the scope of the outside auditor's activities or on access to requested information, and any significant disagreements with management; and (B) any reports of the outside auditor with respect to interim periods.

(v) Review and discuss with management and the outside auditor the annual audited and quarterly financial statements of the Company, including: (A) an analysis of the auditor's judgment as to the quality of the Company's accounting principles, setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements; (B) the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," including accounting policies that may be regarded as critical; and (C) major issues regarding the Company's accounting principles and financial statement presentations, including any significant changes in the Company's selection or application of accounting principles and financial statement presentations; and receive reports from the outside auditor as required by applicable SEC rules and professional standards.

(vi) Recommend to the Board based on the review and discussion described in paragraphs (iii) - (v) above, whether the financial statements should be included in the Annual Report on Form 10-K.

(vii) Receive reports from the outside auditor and management regarding, and review and discuss the adequacy and effectiveness of, the

Company's internal controls, including any significant deficiencies in internal controls and significant changes in such controls reported to the Audit Committee by the outside auditor or management.

(viii) Receive reports from management regarding, and review and discuss the adequacy and effectiveness of, the Company's disclosure controls and procedures and management reports thereon.

(ix) Review and discuss with the principal internal auditor of the Company, if any, the scope and results of the internal audit program, and periodically review the responsibilities, budget and staffing of the internal audit program.

(x) Review and discuss earnings press releases, and corporate policies with respect to: (i) earnings press releases; and (ii) financial information and earnings guidance, if any, provided to analysts and ratings agencies.

(xi) Review and approve or ratify related person transactions (as defined in applicable SEC rules), and establish policies and procedures for the review, approval and ratification of related person transactions.

(xii) Review and discuss the Company's policies with respect to risk assessment and risk management.

(xiii) Oversee the Company's compliance systems with respect to legal and regulatory requirements and review the Company's codes of conduct and programs to monitor compliance with such codes.

(xiv) Establish and oversee procedures for handling complaints regarding accounting, internal accounting controls and auditing matters, including procedures for confidential, anonymous submission of concerns by employees regarding accounting and auditing matters.

(xv) Establish policies for the hiring of employees and former employees of the outside auditor.

(xvi) Annually evaluate the performance of the Audit Committee and assess the adequacy of the Audit Committee charter.

**3. Outside Advisors.** The Audit Committee shall have the authority to retain such outside counsel, accountants, experts and other advisors as it determines appropriate to assist it in the performance of its functions and shall receive appropriate funding, as determined by the Audit Committee, from the Company for payment of compensation to any such advisors.

**4. Meetings.** The Audit Committee shall meet at least quarterly, either in person or telephonically, and at such times and places as the Audit Committee shall determine. The Audit Committee shall meet separately in executive session, periodically, with each of management, the principal internal auditor of the Company, if any, and the outside auditor. The Audit Committee shall report regularly to the full Board of Directors with respect to its activities. The majority of the members of the Audit Committee shall constitute a quorum.

100647238\_3.DOC