

AUDIT COMMITTEE CHARTER

AVP, INC.

Preamble

The Company's independent registered public accounting firms (auditor) ultimately is accountable to the Company's Board of Directors and Audit Committee, as representatives of the stockholders, which, as such, have the ultimate authority and responsibility to select, evaluate and, if appropriate, replace the independent auditor, subject to ratification by the Company's stockholders.

The Committee will assist the Board in fulfilling its responsibilities to oversee the Company's financial and accounting operations. In performing its duties, the Committee will maintain effective working relationships with the Board, management, and the auditors and shall report to the Board from time to time regarding its activities and findings, including recommending whether the Company's audited financial statements should be included in the Company's annual report to the Securities and Exchange Commission. The Committee will confirm with the auditor its understanding that it has access to the Committee at any time.

Organization and Meetings

Committee Composition

The Committee shall be composed entirely of three non-management directors, or such other number as the Board shall from time to time designate as members of the Committee. The Committee may designate a chairman, if the Committee so chooses.

Meetings

The Committee shall meet at such times and for such purposes within the scope of its authority and responsibilities as the members shall determine from time to time, but in all events shall hold regular meetings quarterly, to review the Company's earnings announcements and reports to the SEC before they are released to the public or filed with the SEC. The Committee shall meet with the auditors at each regular meeting and at any other time as the auditors may request.

Specific Responsibilities

The Audit Committee's specific responsibilities shall include the following:

Charter

The Audit Committee shall review and reassess the adequacy of this charter annually.

Audit Engagement

The Committee shall pre-approve all audit and non-audit services to be provided by the auditors to the Company. The Committee may delegate to an independent member the authority to grant pre-approvals respecting non-audit services. For this purpose, a member is independent if the member does not receive any advisory, consulting, or other fee or compensation, except in the member's capacity as a board or committee member.

The Committee shall not approve any proposed non-audit service that an auditor is prohibited from providing to an audit client pursuant to federal securities law.

The Audit Committee shall require the independent auditor, at least annually, to

- disclose to the Audit Committee, in writing, all relationships between the independent auditor and its related entities and the Company and its related entities that in the independent auditor's professional judgment may reasonably be thought to bear on independence or is considered to impair or preclude independence under SEC rules;
- confirm in the disclosure that, in its professional judgment, it is independent of the Company within the meaning of the federal securities laws; and
- discuss the auditor's independence with the Committee.

Before each annual engagement, the Committee shall meet with the auditor to review the scope and fees of the audit and services regarding the Company's reporting of its quarterly results, and the Committee shall report to the Board regarding the results of such review. The Committee shall seek to define the scope of engagement to include all services that the Committee and the auditor anticipate that the auditor will provide during the course of the engagement.

Audit Oversight

During the course of the engagement the auditor must discuss with the Committee:

- ***Quality***, not just acceptability, of the Company's accounting principles. Quality includes:
 - *Relevance*—the usefulness of the information to predict future results because of its capacity to explain past results. Criteria for evaluating relevance include:
 - current trends in the market place;
 - transparency; and
 - clarity.
 - *Reliability*—whether the information is reasonably free from error and bias and faithfully represents what it purports to represent.
 - *Comparability*—whether the information enables users to identify similarities in and differences between two sets of economic phenomena.
 - *Consistency*—conformity of the information from period to period with unchanging policies and procedures.

- **Internal controls:**

- *Internal controls*—auditor must report any changes in internal controls during the reporting period.
- “*Reportable condition*”—auditor must report to the audit committee any significant deficiency in design or operation of internal controls that could adversely affect the company’s ability to initiate, record, summarize, and report financial data.

- **Significant accounting policies and practices:**

- *Initial selection and changes*—with regard to initial selection of and any change in an accounting policy or practice, the auditor must:
 - *identify selected policy and practice or change;
 - *describe effect each alternative accounting principle would have on clarity and usefulness of financial information;
 - *compare how financial statement amounts would be affected by various alternative policies or procedures;
 - discuss principles used by peer companies;
 - *state auditor’s preferred policy or practice.
- “*Innovative*” *accounting*—auditor must highlight use of accounting structures and policies in areas for which authoritative guidance or consensus is lacking, *e.g.*, revenue recognition, leased employees/outsourcing, off-balance-sheet financing, lease vs. sale or purchase.

- **Management judgments and accounting estimates.** Auditors must describe, present, or evaluate:

- processes used by management to make judgments, estimates;
- auditors’ assessment of reasonableness of estimates;
- adequacy, reasonableness of reserves;
- business trends affecting such judgments and estimates, *e.g.*, accounts receivable, inventory aging, warranty claims;
- factors affecting asset and liability carrying values, *e.g.*, asset useful lives, discount rates for calculating pension obligations;
- management’s criteria for materiality and cost/benefit analysis.

- **Clarity and transparency of disclosure; related party and other unusual transactions.** Auditors must evaluate:

- disclosure of business, market, and other risks;
- quality of MD&A;
- appropriateness of segment disclosure
- significant unusual transactions and structures, *e.g.*, whether timing of transaction, special purpose entities, shared ownership of assets, is directed at achieving a particular accounting result
- whether terms of related party purchases/sales/leases, loans, employment of members of management’s family, etc. are at arms’ length;

- appropriateness of bill and hold, extended payment terms/merchandise return arrangements; self insurance; asset dispositions with retained interests.

- ***Audit adjustments; disagreements with management:***

- Auditor must discuss any recommended adjustments, regardless whether recorded by management (even if recorded, matters underlying the adjustment might have material impact on future financial statements, although not currently material).

- Auditor must discuss every uncorrected misstatement determined by management to be immaterial.

- Auditor must timely disclose all material written communications between auditor and management, *e.g.*, management letter or schedule of unadjusted differences.

- ***Management issues***—auditor must describe or present:

- cooperation of Company personnel or difficulties encountered in connection with performing audit or review;

- management's consultation with other accountants about auditing and accounting matters;

- major issues discussed with management prior to retention;

- assessment of Company financial, accounting personnel;

- recommendations the independent auditor may have to improve the Company's internal financial controls, choice of accounting principles, or management reporting systems.

(* Indicates a specific requirement under the Sarbanes-Oxley Act.)

Audit Committee Report

The Committee will report each year in the Company's proxy statement whether:

- the Committee has reviewed and discussed the audited financial statements with management;

- the Committee has discussed with the independent auditors the matters required to be discussed by Statement of Accounting Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380), as it may be modified or supplemented;

- the Committee has received the written disclosures and the letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committees*), as it may be modified or supplemented, and has discussed with the independent accountant the independent accountant's independence; and

- based on the foregoing review and discussions, the Committee recommended to the Board of Directors that the audited financial statements be included in the company's Annual Report on Form 10-KSB or Form 10-K. (The report shall not be deemed to be "soliciting material," or to be "filed" with the Securities and Exchange Commission or subject to SEC Regulations 14A or 14C.)