

DREAMS, INC.

Audit Committee Charter

Status

The Audit Committee is a committee of the Board of Directors.

Membership

The Audit Committee shall consist of three or more directors all of whom, in the judgment of the Board of Directors, shall meet the requirements of the American Stock Exchange rules and regulations as they may exist from time to time. Each member, in the judgment of the Board of Directors, shall have the ability to read and understand the Company's fundamental financial statements, including the Company's balance sheet, income statement, and cash flow statement. At least one member of the Audit Committee, in the judgment of the Board of Directors, shall be an Audit Committee financial expert in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC").

Purpose

The Audit Committee shall represent and assist the Board of Directors and shall have oversight with respect to: (a) the integrity of the Company's financial statements and internal controls; (b) the Company's compliance with legal and regulatory requirements; (c) the independent auditor's qualifications and independence; (d) the performance of the Company's internal audit function; and (e) the performance of the independent auditor.

Responsibilities

1. Select and retain (subject to approval by the Company's stockholders), and discharge when appropriate, the independent auditor, set the independent auditor's compensation, and oversee the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting).
2. Pre-approve all audit services and permitted non-audit services to be performed by the independent auditor as required by applicable rules and regulations. Pre-approval of non-audit services may be made by the Chairman as permitted by applicable rules and regulations, provided the Chairman's decision is presented to the full Audit Committee at its next meeting.
3. At least annually, receive and review: (a) a report by the independent auditor describing the independent auditor's internal quality-control procedures and any material issues raised by the most recent internal quality-control review, peer review or Public Company Accounting Oversight Board review, of the independent auditing 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 firm, and any steps taken to deal with any such issues; and (b) other required reports from the independent auditor.
4. At least annually, consider the independence of the independent auditor, including whether the provision by the independent auditor of permitted non-audit services is

compatible with the requirement of independence, and obtain and review a report from the independent auditor describing all relationships between the auditor and the Company or any of its subsidiaries.

5. Review with the independent auditor: (a) the scope and results of the audit; (b) any problems or difficulties that the auditor encountered in the course of the audit work, and management's response; and (c) any questions, comments or suggestions the auditor may have relating to the internal controls, and accounting practices and procedures, of the Company or its subsidiaries.
6. Review, at least annually, the scope and results of the Company's internal audit program, including then current and future programs of the Company's internal audit department, procedures for implementing accepted recommendations made by the independent auditor, and any significant matters contained in reports from the internal audit department.
7. Review with the independent auditor, the Company's internal audit department, and management: (a) the adequacy and effectiveness of the systems of internal controls (including any significant deficiencies and significant changes in internal controls reported to the Audit Committee by the independent auditor or management), accounting practices, and disclosure controls and procedures (and management's report thereon), of the Company and its subsidiaries; and (b) current accounting trends and developments, and take such action with respect thereto as maybe e deemed appropriate.
8. Review with management and the independent auditor the annual and quarterly financial statements of the Company including: (a) the Company's disclosures in its reports to the SEC on Form 10-K and Form 10-Q under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations;" (b) any material changes in accounting principles or practices used in preparing the financial statements prior to the filing of a report on Form 10-K or 10-Q with the SEC; and (c) the items required by Statement of Auditing Standards 61 as in effect at the time in the case of the annual statements and Statement of Auditing Standards 100 as in effect at that time in the case of the quarterly statements.
9. Recommend to the Board of Directors, based on the review described in paragraphs 4 and 8 above, whether the financial statements should be included in the annual report on Form 10-K.
10. Review earnings press releases, as well as the Company's policies with respect to earnings press releases, financial information and earnings guidance provided to analysts and rating agencies (this function may be performed by the Chairman or the full Audit Committee).
11. Discuss the Company's policies with respect to risk assessment and risk management, and review contingent liabilities and risks that may be material to the Company and major legislative and regulatory developments which could materially impact the Company's contingent liabilities and risks.
12. Review: (a) the status of compliance with laws, regulations, and internal procedures; and (b) the scope and status of systems designed to promote the Company's compliance

with laws, regulations and internal procedures, through receiving reports from management, legal counsel and third parties as determined by the Audit Committee.

13. Review all related party transactions for potential conflicts of interest and approve or disapprove such transactions. The term "related party transaction" shall refer to transactions required to be disclosed pursuant to Item 404 of SEC Regulation S-K.
14. Establish procedures for the receipt, retention and treatment of complaints regarding the Company's accounting, internal controls and auditing matters, as well as for the confidential, anonymous submissions by the Company's employees of concerns regarding questionable accounting or auditing matters.
15. Obtain the advice and assistance, as appropriate, of independent counsel and other advisors as necessary to fulfill the responsibilities of the Audit Committee, and receive appropriate funding from the Company, as determined by the Audit Committee, for the payment of compensation to any such advisors.
16. Conduct an annual performance evaluation of the Audit Committee and annually evaluate the adequacy of this Charter.

Meetings

The Audit Committee shall meet at least quarterly and at such other times as it deems necessary to fulfill its responsibilities. The Audit Committee shall periodically meet separately, in executive session, with management, the internal auditor and the independent auditor. The Audit Committee shall report regularly to the Board of Directors with respect to its activities and make recommendations to the Board of Directors as appropriate.

Report

Each year the Audit Committee shall prepare a report, relating to the election of directors, for inclusion in the Company's proxy statement and/or other periodic reports filed with the SEC.