

NANOSPHERE, INC.

Charter of the Audit Committee of the Board of Directors

This Audit Committee Charter (this “**Charter**”) was adopted by the Board of Directors (the “**Board**”) of Nanosphere, Inc. (the “**Company**”) on October 26, 2007.

I. PURPOSE

The purpose of the Audit Committee (the “**Audit Committee**”) of the Board is to assist the Board in its oversight of (i) the quality and integrity of the Company’s financial statements and internal controls; (ii) the Company’s cash management policy; (iii) the Company’s compliance with legal and regulatory requirements; (iv) the Company’s overall risk management profile; and (v) the independent auditors’ qualifications, independence and performance.

In addition to the powers and responsibilities expressly delegated to the Audit Committee in this Charter, the Audit Committee may exercise any other powers and carry out any other responsibilities as may be required by applicable law, the Nasdaq Stock Market (“**Nasdaq**”), the Company’s amended and restated certificate of incorporation or amended and restated bylaws, or delegated to it by the Board from time to time. The powers and responsibilities delegated by the Board to the Audit Committee in this Charter or otherwise shall be exercised and carried out by the Audit Committee as it deems appropriate without requirement of Board approval, and any decision made by the Audit Committee (including any decision to exercise or refrain from exercising any of the powers delegated to the Audit Committee hereunder) shall be at the Audit Committee’s sole discretion. While acting within the scope of the powers and responsibilities delegated to it, the Audit Committee shall have and may exercise all the powers and authority of the Board. To the fullest extent permitted by law, the Audit Committee shall have the power to determine which matters are within the scope of the powers and responsibilities delegated to it.

Each member of the Audit Committee shall be entitled to rely on the integrity of those persons within the Company and of the professionals and experts (including the Company’s internal auditor (or others responsible for the internal audit function, including contracted non-employee or audit or accounting firms engaged to provide internal audit services) (the “**internal auditor**”) and the Company’s independent auditor (the “**Independent Auditor**”)) from which the Audit Committee receives information and, absent actual knowledge to the contrary, the accuracy of the financial and other information provided to the Audit Committee by such persons, professionals or experts.

Further, auditing literature, particularly Statement of Financial Accounting Standards No. 100, defines the term “review” to include a particular set of required procedures to be undertaken by Independent Auditors. The members of the Audit Committee are not independent auditors, and the term “review” as used in this Charter is not intended to have that meaning and should not be interpreted to suggest that the Audit Committee members can or should follow the procedures required of auditors performing reviews of financial statements.

II. MEMBERSHIP

The Audit Committee shall be comprised of three or more members of the Board, and members of the Audit Committee shall be appointed by the Board and may be removed by the Board in its discretion. Each member of the Audit Committee shall be appointed by the Board at least annually and serve until the earlier to occur of his or her resignation or removal, or the appointment of such member's successor; provided, that if at any time there is a vacancy on the Audit Committee and the remaining members meet all membership requirements, then the Audit Committee may consist of two members until the earlier of the Company's next annual stockholders meeting or one year from the occurrence of the vacancy. Each member of the Audit Committee shall meet the independence and experience requirements, including being free of disallowed compensation agreements, set forth in the listing standards of the Nasdaq and the Securities Exchange Act of 1934 (the "**Exchange Act**"). Each member of the Audit Committee shall be able to read and understand fundamental financial statements, including a company's balance sheet, income statement and cash flow statement, and must comply with all financial literacy requirements of the securities exchange(s) on which the Company is listed. No member of the Audit Committee shall have participated in the preparation of the financial statements of the Company in the past three years. At least one member of the Audit Committee shall be an "audit committee financial expert" as defined by the Securities and Exchange Commission (the "**SEC**"). However, one director who does not meet the definition of independence contained in the Nasdaq listing standards, but who meets the criteria set forth in Section 10A(m)(3) under the Exchange Act and the rules thereunder, and who is not a current officer or employee or a family member of a current officer or employee, may serve for no more than two years on the Audit Committee if the Board, under exceptional and limited circumstances, determines that such individual's membership is required by the best interests of the Company and its shareholders. Such person may not chair the Audit Committee. The existence of such a member, including his or her name, will be disclosed in periodic filings as required by the SEC. In addition, if an Audit Committee member ceases to be independent for reasons outside the member's reasonable control, his or her membership on the Audit Committee may continue until the earlier of the Company's next annual shareholders' meeting or one year from the occurrence of the event that caused the failure to qualify as independent.

III. DUTIES AND RESPONSIBILITIES

1. *Appointment and Oversight of Independent Auditor.* The Audit Committee shall have the authority to appoint, determine funding for, and oversee the outside auditors (subject, if applicable, to shareholder ratification). The Audit Committee shall be directly responsible for the appointment, compensation, retention and oversight of the work of the Independent Auditor (including resolution of disagreements between management and the Independent Auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work. The Audit Committee shall review the performance of the Independent Auditor and remove the Independent Auditor if circumstances warrant. The Independent Auditor shall report directly to the Audit Committee and the Audit Committee will oversee the resolution of disagreements between management and the Independent Auditor as they arise.

2. *Pre-Approval of Services of Independent Auditor.* Before the Independent Auditor is engaged by the Company or its subsidiaries to render audit or non-audit services, the

Audit Committee has pre-approve the engagement. The Audit Committee shall pre-approve all auditing services, internal control-related services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its Independent Auditor, subject to the de minimis exception for non-audit services that are approved by the Audit Committee prior to the completion of the audit. Audit Committee pre-approval of audit and non-audit services will not be required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established from time to time by the Audit Committee regarding the Company's engagement of the Independent Auditor, provided the policies and procedures are detailed as to the particular service, the Audit Committee is informed of each service provided and such policies and procedures do not include delegation of the Audit Committee's responsibilities under the Exchange Act to the Company's management. The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to grant pre-approvals, provided such approvals are presented to the Audit Committee at a subsequent meeting. If the Audit Committee elects to establish pre-approval policies and procedures regarding non-audit services, the Audit Committee must be informed of each non-audit service provided by the Independent Auditor. Audit Committee pre-approval of non-audit services (other than review and attest services) also will not be required if such services fall within available exceptions established by the SEC. Approval of non-audit services will be disclosed to investors in periodic reports required by Section 13(a) of the Securities Exchange Act of 1934.

3. *Financial Statements and Internal Controls.* The Audit Committee shall:

- (i) Meet with management, the Independent Auditor and the internal auditor in connection with each annual audit to discuss the scope of the audit, the procedures to be followed and the staffing of the audit;
- (ii) Review and discuss with management and the Independent Auditor the annual audited financial statements, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations";
- (iii) Based on the review and discussions in this Section III, and based on the disclosures received from the Independent Auditor regarding its independence and discussions with the auditor regarding such independence pursuant to subparagraph 4(iv) below, determine whether to recommend to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year subject to the audit;
- (iv) Review and discuss with management and the Independent Auditor the Company's quarterly financial statements, including the results of the Independent Auditor's review, if any, of the quarterly financial statements;
- (v) In consultation with the Independent Auditor and the internal auditor, review the integrity of the organization's financial reporting processes (both internal and external), and the internal control structure (including

disclosure controls and procedures and internal control over financial reporting);

- (vi) Discuss with management and the Independent Auditor (A) any significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies and the adequacy of required disclosures; and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in the Company's internal controls;
- (vii) Recommend to the Board whether the financial statements should be included in the annual report on Form 10-K;
- (viii) Review and discuss any report of the Independent Auditors relating to:
 - a. critical accounting policies and practices to be used;
 - b. alternative treatments of financial information within GAAP that have been discussed with management, ramifications of the use of such alternative treatments and the treatment preferred by the Independent Auditors; and
 - c. other material written communications between the Independent Auditors and management, such as a management letter or schedule of unadjusted differences;
- (ix) Discuss with management and the Independent Auditor the effect of regulatory and accounting initiatives as well as any off-balance sheet structures on the Company's financial statements;
- (x) Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies;
- (xi) Review and discuss with the Independent Auditors any problems, difficulties or disputes the auditors may have encountered in the course of the audit work or otherwise and any management letter provided by the auditors and the Company's response to that letter; and
- (xii) Review other relevant reports or financial information submitted by the company to any governmental body or the public, including management certifications as required by the Sarbanes-Oxley Act of 2002 and relevant reports rendered by the Independent Auditor (or summaries thereof).

4. *Oversight of the Company's Relationship with the Independent Auditor.* The Audit Committee shall, at least annually, review the independence and quality control procedures of the Independent Auditor and the experience and qualifications of the Independent Auditor's senior personnel that are providing audit services to the Company. In conducting its review, the Audit Committee shall:

- (i) Review and evaluate the lead partner of the independent auditor team;
- (ii) Obtain and review a report from the Independent Auditor at least annually regarding:
 - a. the Independent Auditor's internal quality-control procedures; and
 - b. any material issues raised by the most recent internal quality-control review, or peer review, of the auditors, 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 auditors; and steps taken to deal with any such issues;
- (iii) Evaluate the qualifications, performance and independence of the Independent Auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management. The Audit Committee shall present its conclusions with respect to the Independent Auditor to the Board;
- (iv) Obtain from the Independent Auditor a formal written statement delineating all relationships between the Independent Auditor and the Company consistent with Independent Standards Board Standard I. It is the responsibility of the Audit Committee to actively engage in a dialogue with the Independent Auditor with respect to any disclosed relationships or services that may impact the objectivity and independence of the auditor and for purposes of taking, or recommending that the full board take, appropriate action to oversee the independence of the outside auditor;
- (v) Confirm with the Independent Auditor that the Independent Auditor is in compliance with the partner rotation requirements established by the SEC;
- (vi) Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis;
- (vii) Recommend to the Board policies for the Company's hiring of employees or former employees of the Independent Auditor;

- (viii) Discuss with the Independent Auditor material issues on which the national office of the Independent Auditor was consulted by the Company's audit team;
 - (ix) Meet with the Independent Auditor prior to the audit to discuss the planning and staffing of the audit;
 - (x) Establish procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls, or auditing matters; and
 - (xi) Establish procedures for the confidential, anonymous submission by Company employees regarding questionable accounting or auditing matters.
5. *Oversight of the Company's Internal Audit Function.* The Audit Committee shall:
- (i) Review and advise on the appointment and replacement of senior internal auditing executive; and
 - (ii) Meet periodically with the Company's internal auditor and management to discuss the responsibilities, budget and staffing of the Company's internal audit function and any issues that the internal auditor believes warrant Audit Committee attention and any recommended changes in the planned scope of the internal audit. The Audit Committee shall review and discuss with the internal auditor any significant reports to management prepared by the internal auditor and any responses from management.
6. *Separate Meetings with the Independent Auditor.* The Audit Committee shall:
- (i) Review with the Independent Auditor any problems or difficulties the Independent Auditor may have encountered during the course of the audit work, including any restrictions on the scope of activities or access to required information or any significant disagreements with management and management's responses to such matters. Among the items that the Audit Committee should consider reviewing with the Independent Auditor are: (A) any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); (B) any communications between the audit team and the independent auditor's national office respecting auditing or accounting issues presented by the engagement; and (C) any "management" or "internal control" letter issued, or proposed to be issued, by the Independent Auditor to the Company;
 - (ii) Discuss with the Independent Auditor the report that such auditor is required to make to the Audit Committee regarding: (A) all accounting policies and practices to be used that the Independent Auditor identifies as critical; (B) all alternative treatments within GAAP for policies and practices related to material items that have been discussed among

management and the Independent Auditor, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the Independent Auditor; and (C) all other material written communications between the Independent Auditor and management of the Company, such as any management letter, management representation letter, reports on observations and recommendations on internal controls, Independent Auditor's engagement letter, Independent Auditor's independence letter, schedule of unadjusted audit differences and a listing of adjustments and reclassifications not recorded, if any; and

- (iii) Discuss with the Independent Auditor the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as then in effect.

7. *Compliance Oversight Responsibilities.* The Audit Committee shall:

- (i) Discuss with management and the Independent Auditor the Company's earnings press releases (with particular focus on any "pro forma" or "adjusted" non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies. The Audit Committee's discussion in this regard may be general in nature (i.e., discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the Company may provide earnings guidance;
- (ii) Discuss with management and the Independent Auditor any correspondence from or with regulators or governmental agencies, any employee complaints or any published reports that raise material issues regarding the Company's financial statements, financial reporting process, accounting policies or internal audit function;
- (iii) Discuss with the Company's General Counsel or outside counsel any legal matters brought to the Audit Committee's attention that could reasonably be expected to have a material impact on the Company's financial statements;
- (iv) Discuss with management the Company's policies with respect to risk assessment and risk management;
- (v) Discuss with management the Company's significant financial risk exposures and the actions management has taken to limit, monitor or control such exposures;
- (vi) Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters;

- (vii) Establish procedures for the confidential and anonymous submission by employees regarding questionable accounting or auditing matters;
- (viii) Provide the Company with the report of the Audit Committee with respect to the audited financial statements required by Item 407(d)(3)(i) of Reg. S-K, for inclusion in each of the Company's annual proxy statements;
- (ix) Report regularly, through its Chair, to, and review with, the Board any issues that arise with respect to the quality or integrity of the Company's financial statements, the Company's compliance with legal or regulatory requirements, the performance and independence of the Company's Independent Auditor, the performance of the Company's internal audit function or any other matter the Audit Committee determines is necessary or advisable to report to the Board;
- (x) Obtain from the Independent Auditor assurance that Section 10A(b) of the Exchange Act (regarding illegal acts) has not been implicated;
- (xi) Establish, review, and update periodically a Code of Business Conduct and Ethics and determine whether management has established a system to enforce such Code; and
- (xii) Review and approve all related party transactions. All directors, officers and employees shall be required to report to the Audit Committee any related party transaction for approval prior to its completion. In approving or rejecting a proposed related party transaction, the Audit Committee shall consider the relevant facts and circumstances available and deemed relevant to the Audit Committee, including, but not limited to, the risks, costs and benefits to the Company, the terms of the transaction and the impact on a director's independence. The Audit Committee shall approve only those related party transactions that, in the light of known circumstances, are in, or are not inconsistent with, the Company's best interests, as the Audit Committee determines in good faith exercise of its discretion. A related party transaction includes any transaction, arrangement or relationship, or any series of similar transactions, arrangements or relationships in which the Company is or will be a participant, the amount involved exceeds \$120,000, and a related person had or will have a direct or indirect material interest, including, without limitation, purchases of goods or services by or from the related person or entities in which the related person has a material interest, indebtedness, guarantees of indebtedness, and employment by the Company of a related person. Any related person transaction previously approved by the Audit Committee or otherwise already existing that is ongoing in nature will be reviewed by the Audit Committee on an ongoing basis to ensure that such related person transaction has been conducted in accordance with the previous approval granted by the Audit Committee, if any, and that all required disclosures regarding the related person transaction are made.

8. *Cash Management Policy.* The Audit Committee shall:
 - (i) Establish a cash management policy for the Company; and
 - (ii) Review at least annually the effectiveness of the cash management policy.
9. *Quarterly Financial Statements.* The Audit Committee shall review and discuss the quarterly financial statements with management and the independent auditor, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

IV. MEETINGS AND PROCEDURES

The Chair (or in his or her absence, a member designated by the Chair) shall preside at each meeting of the Audit Committee and approve the agendas for Audit Committee meetings. The Audit Committee shall have the authority to establish its own rules and procedures for notice and conduct of its meetings so long as they are not inconsistent with any applicable provisions of the Company's amended and restated bylaws.

The Audit Committee shall meet at least once during each fiscal quarter and more frequently as the Audit Committee deems desirable. The Audit Committee shall meet separately, periodically, with management, with the internal auditor and with the independent auditor.

The Audit Committee shall meet in person or by conference telephone or other communications equipment by means of which all persons participating in the meeting can hear all such participants. A majority of the members of the Audit Committee shall constitute a quorum for purposes of holding a meeting and the Audit Committee may act by a vote of a majority of the members present at such meeting. When necessary or desirable, members of the Audit Committee may take action by unanimous written consent. Any action of the Audit Committee (other than actions for which the Audit Committee has the sole authority as set forth herein) shall be subject to review and modification by the Board. Written minutes will be kept of each meeting of the Audit Committee, which minutes will be filed with the minutes of meetings of the Board and will be available to each member of the Board. The Audit Committee shall report its recommendations and actions to the Board after each Audit Committee meeting.

All non-management directors that are not members of the Audit Committee may attend and observe meetings of the Audit Committee, but shall not participate in any discussion or deliberation unless invited to do so by the Audit Committee, and in any event shall not be entitled to vote. The Audit Committee may, at its discretion, invite to and include in its meetings members of the Company's management, representatives of the Independent Auditor, the internal auditor, legal counsel, other advisers, any other financial personnel employed or retained by the Company or any other persons whose presence the Audit Committee believes to be necessary or advisable. Notwithstanding the foregoing, the Audit Committee may also exclude from its meetings any persons it deems appropriate, including, but not limited to, any non-management director that is not a member of the Audit Committee.

The Audit Committee may retain any independent counsel, experts or advisors (accounting, legal, financial or otherwise) that the Audit Committee believes to be necessary or

advisable. The Audit Committee may also utilize the services of the Company's regular legal counsel or other advisors to the Company. The Company shall provide for funding, as determined by the Audit Committee, for payment of compensation to the Independent Auditor for the purpose of rendering or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any advisors employed by the Audit Committee and for ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

The Audit Committee may conduct or authorize investigations into any matters within the scope of the powers and responsibilities delegated to the Audit Committee by the Board.

V. PERFORMANCE EVALUATION

The Audit Committee shall prepare and provide to the Board an annual performance evaluation of the Audit Committee, including an assessment of the performance of the Audit Committee based on the duties and responsibilities set forth in this Charter and such other matters as the Audit Committee may determine. The evaluation to the Board may take the form of an oral report by the Audit Committee chairperson or any other member of the Audit Committee designated by the Audit Committee to make the report. The Audit Committee shall review and assess the adequacy of the Audit Committee Charter annually and propose any necessary changes for approval to the Board.

VI. LIMITATION OF AUDIT COMMITTEE'S ROLE

While the Audit Committee has the oversight responsibility set forth in this Charter, it does not have the duty or responsibility to (a) plan or conduct audits, (b) determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations, (c) design and implement internal controls and procedures and disclosure controls and procedures, or (d) conduct other types of auditing or accounting reviews or procedures. These are the responsibilities of management and the independent auditors. In addition, the Audit Committee recognizes that the Company's management, internal audit staff and the independent auditors, devote more time to reviewing or analyzing the Company's business and its operations and as a result, have more knowledge and detailed information concerning the Company than members of the Audit Committee. Consequently, in carrying out its oversight responsibilities, the Audit Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the quality or adequacy of the independent auditors' work or performance.