

**PREMIUM STANDARD FARMS, INC.**

**CHARTER OF THE AUDIT COMMITTEE  
OF THE BOARD OF DIRECTORS  
(as of May 6, 2005)**

**I. Purpose**

The purpose of the Audit Committee (the "Audit Committee") of the Board of Directors (the "Board") of Premium Standard Farms, Inc. (the "Company") is to assist the Board in fulfilling its oversight responsibilities to the stockholders, potential stockholders and the investment community with respect to matters involving the accounting, financial reporting and internal control functions of the Company and its subsidiaries. These responsibilities include assisting the Board in overseeing: (a) the integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements, (c) the independent auditors' qualifications, independence and performance, and (d) the performance of the Company's internal audit function. The Audit Committee also will prepare the Audit Committee report that the Securities and Exchange Commission (the "SEC") rules require to be included in the Company's annual proxy statement. The Audit Committee also will review periodically and oversee the financial reporting process, the system of internal controls and the audit process, and will oversee the Company's process for monitoring compliance with the Company's policies and Code of Ethics.

**II. Membership and Qualification**

The Audit Committee members will be elected by the Board and will serve at the discretion of the Board. The Audit Committee will consist of not less than three directors, each of whom will be independent as required by: (a) NASD Rule 4200(a)(15); (b) Section 10A(m) of the Securities Exchange Act of 1934, as may be amended from time to time (the "Exchange Act"); (c) Rule 10A-3(b)(1) under the Exchange Act (subject to exemption provided in Rule 10A-3(c)), and (d) any other rules and regulations of the SEC promulgated under the Exchange Act. The Audit Committee members will be elected annually by the Board for the term of one year, or until their successors are duly elected and qualified. The Board also appoints the Audit Committee Chairman.

**A. *Special Limitation***

If an Audit Committee member simultaneously serves on the audit committees of more than three public companies, the Board must determine that such simultaneous service would not impair such member's ability to serve effectively on the Company's Audit Committee and such determination by the Board must be disclosed in the Company's annual proxy statement.

**B. *Special Qualifications***

Each member of the Audit Committee must be able to read and understand fundamental financial statements, including a balance sheet, income statement and cash flow statement. At least one

member of the Audit Committee shall, in the judgment of the Board, be an “audit committee financial expert” as defined by the SEC in Item 401(h)(2) of Regulation S-K, as amended from time to time, and at least one Audit Committee member (who may also serve as the “audit committee financial expert”) shall, in the judgment of the Board, meet the financial sophistication standard as required by NASD Rule 4350(d)(2)(A).

### **III. Meetings and Other Actions**

The Audit Committee will meet at least four times each year and at such other times as may be necessary to fulfill its responsibilities. The Audit Committee will meet following the end of each fiscal quarter of the Company prior to the release of quarterly or annual earnings to review the financial results of the Company for the preceding fiscal quarter or year, as the case may be. Meetings may be called by the Chairman of the Audit Committee or the Chairman of the Board. In addition, the Audit Committee will meet at any time that the independent auditors believe communication to the Audit Committee is necessary. All meetings and other actions of the Audit Committee will be held and taken pursuant to the Bylaws of the Company (including, without limitation, bylaw provisions governing notice of meetings and waiver thereof, the number of Audit Committee members required to take actions at meetings and by written consent) and the General Corporation Law of the State of Delaware.

- (i) As part of its meetings, the Audit Committee will meet separately, at least quarterly, with each of management, the Company’s internal auditors, if any, and the Company’s independent auditors.
- (ii) Reports of meetings of and actions taken at meetings or by written consent by the Audit Committee since the most recent Board meeting (except to the extent covered in an interim report circulated to the Board) will be made by the Audit Committee Chairman or his or her delegate to the Board at its next regularly scheduled meeting following the Audit Committee meeting or action and will be accompanied by any recommendations from the Audit Committee to the Board. In addition, the Audit Committee Chairman or his or her delegate will be available to answer any questions the other directors may have regarding the matters considered and actions taken by the Audit Committee.

### **IV. Goals, Responsibilities and Authority**

In carrying out its duties and responsibilities, the Audit Committee should design its policies and procedures to be flexible, so that it may be in a position to react or respond appropriately to changing circumstances or conditions and to ensure that the corporate accounting and financial reporting practices of the Company, as well as the auditing process, are in accordance with all applicable requirements, and also are appropriately tailored for the Company’s specific business and financial risks. In carrying out its duties and responsibilities, the following are within the responsibilities and authority of the Audit Committee.

**A. Internal Controls**

In conjunction with management, the independent auditors and the internal auditors, if any, the Audit Committee will periodically evaluate the adequacy of the Company's financial reporting systems and business process controls, discuss significant exposures and the actions management has taken to monitor and control such exposures, and elicit any recommendations for the improvement of the internal control procedures or particular areas where new or more detailed controls or procedures are desirable. In addition, the Audit Committee will review significant findings noted by the independent auditors and the internal auditors, if any, in the course of their audit functions, as well as management responses.

**B. Financial Reporting Generally**

In connection with its general oversight of the Company's financial reporting, the Audit Committee will:

- (1) Evaluate significant accounting and reporting issues identified in any analyses prepared by management or the independent auditors or otherwise identified in the course of the Audit Committee's review of the Company's financial statements and discussions with its auditors, with due consideration of their impact on the Company's financial statements.
- (2) Review with management and the independent auditors, management's proposals regarding:
  - (a) new accounting pronouncements;
  - (b) the adoption of, and changes of choice regarding, material accounting principles and practices to be followed when preparing the financial statements of the Company, including with respect to material new transactions or events;
  - (c) alternative principles and practices that could have been followed;
  - (d) the reasons for selecting the principles and practices to be followed;
  - (e) the financial impacts of the principles and practices selected as compared to those of the other alternatives available; and
  - (f) the provision of any "pro forma" or "adjusted" non-GAAP information.
- (3) Inquire as to whether the independent or internal auditors have any concerns regarding:
  - (a) the possibility of significant accounting or reporting risks or exposures;
  - (b) the appropriateness and quality of significant accounting treatments and whether there has been any aggressive creativity in any such treatments;

- (c) any business transactions that may affect the fair presentation of the Company's financial condition or results of operations; and
  - (d) any weaknesses in the Company's internal control systems.
- (4) Establish and maintain procedures for:
  - (a) The receipt, retention and treatment of any complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and
  - (b) The confidential, anonymous submission by employees of the Company of any concerns regarding questionable accounting or auditing matters.
- (5) Affirm in connection with the Audit Committee's review of the Company's annual and quarterly financial statements that the independent auditors communicate certain matters to the Audit Committee as required by professional standards related to their audit of the annual financial statements and their review of the interim financial information.
- (6) Discuss with management, on a pre-issuance basis all of the following:
  - (a) The types of information to be disclosed and types of presentation to be made in earnings press releases and in financial information and earnings guidance provided to analysts and rating agencies;
  - (b) Significant financial reporting matters to be disclosed in any SEC filings, such as a change in accounting principles or extraordinary and non-recurring items and transactions or any other filing containing the Company's financial statements; and
  - (c) Significant matters to be disclosed in Form 8-K filings with the SEC.
- (7) The Audit Committee Chairman may represent the entire Audit Committee for purposes of reviewing and discussing with management and the independent auditors the Company's earnings press releases, financial information and earnings guidance furnished to analysts and rating agencies, and interim financial statements.

**C. *Financial Disclosure***

In fulfilling its duties and responsibilities, the Audit Committee will:

- (1) Review and discuss with management and the independent auditors the Company's annual report on Form 10-K and annual audited financial statements prior to the filing of such financial statements with the SEC, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Audit Committee will

review any items communicated by the independent auditors to the Audit Committee in accordance with SAS 61, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management. The Audit Committee will recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.

- (2) Review and discuss with management and the independent auditors the Company's quarterly financial statements prior to the filing of its Form 10-Q, including the Company's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Audit Committee will review any items communicated by the independent auditors in accordance with generally accepted auditing standards.
- (3) Prior to the filing of the respective audit report with the SEC, review with the independent auditors the following items as to which the independent auditors are required to report to the Audit Committee: (a) all critical accounting policies and practices to be used, (b) all alternative treatments of material items within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and (c) other material written communications between the independent auditors and management, including any management letter or schedule of unadjusted differences.
- (4) From time to time as determined by the Audit Committee, review with the independent auditors and management all material transactions involving related persons or entities, with clear discussion of arrangements that may involve transaction terms or other aspects that differ from those which would likely be negotiated with clearly independent parties.
- (5) From time to time as determined by the Audit Committee, review with the independent auditors their judgments about the quality and appropriateness of the Company's accounting principles as applied to its financial reporting.
- (6) Provide an open avenue of communication among the independent auditors, financial and senior management, the internal auditing group, if any, and the Board.

***D. Oversight of the Company's Internal Audit Function***

In conjunction with the Audit Committee's review of financial statements and reports, the Audit Committee will:

- (1) Oversee the Company's internal auditing group, if any, which will report functionally to the Audit Committee and administratively to the Chief Financial Officer of the Company.

- (2) Review periodically with management the appointment and replacement of the senior internal auditing executive, if any.
- (3) Review with management and the independent auditors the adequacy and effectiveness of the Company's financial reporting processes and controls, including: (a) internal controls and procedures for financial reporting (including any significant deficiencies in the design or operation of internal controls, any material weaknesses in internal controls and any fraud, whether or not material, that involves management or other employees who have a significant role in the internal controls), and (b) disclosure controls and procedures.
- (4) Review all material reports to management prepared by the internal auditing group and management's responses.
- (5) Discuss with the independent auditors and management the internal auditing group responsibilities, budget, staffing and independence and any recommended changes in the planned scope of the internal audit.
- (6) Meet with the Company's internal auditors (or other personnel responsible for the Company's internal audit function) periodically in a private session without other members of management present to discuss matters that the Audit Committee or the internal auditors believe should be discussed.

***E. Independent Auditors***

The Audit Committee has sole authority and direct responsibility to appoint, compensate, evaluate, retain, replace and oversee the work of the independent auditors rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company. The independent auditors will report directly to the Audit Committee and will, in all respects, be accountable to the Audit Committee. Accordingly, the Audit Committee will have direct responsibility to:

- (1) Select, retain, and if necessary, replace the Company's independent auditors, based upon the Audit Committee's review of the independence and effectiveness of the independent auditors.
- (2) Approve the fees and other compensation to be paid to the independent auditors and the funding thereof. The Company will provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditors for the purpose of rendering or issuing an audit report or related work or performing other audit, review or attest services for the Company.
- (3) Meet with management and the independent auditors to review the scope of the proposed audit for the current year and material audit procedures to be used.
- (4) Oversee the work of the independent auditors (including resolution of disagreements between management and the independent auditors regarding

financial reporting) for the purposes of preparing or issuing an audit report or related work or performing other audit, review or attest services for the Company.

- (5) Evaluate the qualifications, performance and independence of the independent auditors on an ongoing basis, including the following:
  - (a) consider whether the provision of permitted non-audit services is compatible with maintaining the independent auditors' independence;
  - (b) obtain and review a report from the independent auditors at least annually regarding: (i) the independent auditors' internal quality-control procedures, (ii) any material issues raised by the most recent internal quality-control review, or peer review, of the 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, (iii) any steps taken to deal with any such issues, and (iv) all relationships between the independent auditors and the Company (including disclosures required by Independence Standards Board Standard No. 1, as amended from time to time);
  - (c) review and discuss with the accountants any disclosed relationships or services that accountants have with the Company which may affect the accountants' independence;
  - (d) review and evaluate the qualifications, performance and independence of the lead audit partner of the independent auditors;
  - (e) take into account the opinions of management and the senior internal auditing executive;
  - (f) consider the timing and process for implementing the rotation of the lead audit partner, the concurring partner and any other audit partner subject to rotation and consider whether there should be a regular rotation of the audit firm itself; and
  - (g) present its conclusions with respect to the independent auditors to the Board for its information at least annually.
- (6) The Audit Committee is responsible for taking, or recommending that the full Board take, appropriate action to oversee the independence of the independent accountants.
- (7) Pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent auditors, subject to the exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which must be approved by the Audit Committee prior to the completion of the audit. In lieu of pre-approving audit and permitted non-audit services, the Audit Committee may establish policies and

procedures for the engagement of independent auditors to perform such services, provided that the policies and procedures are detailed as to the particular service, the Audit Committee is informed of such service, and such policies and procedures do not include delegation of the Audit Committee's responsibilities to management.

- (8) Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditors who participated in any capacity in the audit of the Company.
- (9) Engage independent counsel and other advisors as the Audit Committee determines necessary or advisable to carry out its duties. The Company will provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to any advisors employed by the Audit Committee.

***F. Reporting Responsibilities***

In fulfilling its duties and responsibilities the Audit Committee will:

- (1) Regularly update the Board of Directors about the Audit Committee's activities and make appropriate recommendations.
- (2) Make such reports of its activities and evaluations as may be required by the SEC in the Company's proxy statement and/or annual report or as determined to be appropriate by the Board.

***G. Resources***

The Audit Committee will have the right to use reasonable amounts of time of the Company's internal and independent accountants, internal and outside lawyers and other internal staff and will also have the right to hire independent accounting experts, lawyers and other consultants to assist and advise the Audit Committee in connection with its responsibilities. The Company will provide funding for any other expenditures of the Audit Committee related to the performance of its duties. The Audit Committee will keep the Company's Chief Financial Officer advised as to the general range of anticipated expenses for outside consultants.

***H. General Duties and Responsibilities***

- (1) The Audit Committee shall review annually this Charter for adequacy and recommend any changes to the Board.
- (2) The Audit Committee shall review and prior approve all related party transactions, as defined by applicable Nasdaq Rules, to which the Company is a party.
- (3) To the extent permitted by applicable law and applicable NASD Rules, as amended from time to time, the Audit Committee may delegate authority to

individual Audit Committee members or such sub-audit committees as the Audit Committee deems appropriate and will review the actions of all such individuals or sub-audit committees as appropriate. Without limiting the foregoing, the Audit Committee may delegate to its Chairman the authority to: (i) pre-approve any engagement for audit services or permitted non-audit services within the policy limits set by the full Audit Committee, (ii) discuss with the independent auditors the matters required to be discussed under generally accepted auditing standards with respect to interim financial statements, and (iii) discuss with the independent auditors their evaluation of the Company's financial, accounting and auditing personnel, and the cooperation that the independent auditor received during the course of the audit.

- (4) While the Audit Committee has the responsibilities and powers set forth in this Charter, and may perform all other functions as assigned by law, the Company's Articles of Incorporation or Bylaws, as amended from time to time, or by the Board of Directors, it is not the duty of the Audit Committee: (i) to plan or conduct audits, (ii) to determine that the Company's financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or (iii) to determine that the Company's internal controls are free of material defects.
- (5) The Audit Committee may rely in good faith upon the records of the Company and upon the information, opinions, reports or statements presented to the Audit Committee by management, the independent auditors, and other advisers of the Company or the Audit Committee. The Audit Committee will not be required to verify any such information.
- (6) The provisions of this Charter supersede any provisions of the Company's Bylaws that conflict with this Charter.