

AMERICA SERVICE GROUP INC.

**CHARTER OF THE AUDIT COMMITTEE
OF THE BOARD OF DIRECTORS**

(As adopted by the Audit Committee on April 23, 2004)

The Board of Directors of **America Service Group Inc.** (the “Company”) has heretofore constituted and established an Audit Committee (the “Audit Committee”) with the authority, responsibility and specific duties as described herein. This Charter and the composition of the Audit Committee are intended to comply with applicable law, including the federal securities laws and the rules of The Nasdaq Stock Market, Inc. (“Nasdaq”). This document replaces and supersedes in its entirety the previous Charter of the Audit Committee adopted by the Board of Directors on March 8, 2000.

I. PURPOSES

The Audit Committee is appointed by the Board of Directors to assist the Board of Directors in its oversight of: (1) the integrity of the Company’s financial statements and the Company’s systems of internal controls regarding finance, accounting and ethics established by management and the Board of Directors; (2) the performance of the Company’s internal audit function and independent auditors, including the Company’s auditing, accounting and financial reporting processes generally; (3) the independent auditor’s qualifications and independence; and (4) the compliance by the Company with legal and regulatory requirements. In doing so, it is the responsibility of the Audit Committee to:

- serve as an independent and objective party to monitor the Company’s financial statements and the financial reporting process and systems of internal financial and accounting controls;
- review and appraise the audit efforts of the Company’s independent auditors and internal auditing department; and
- maintain open communication among the independent auditors, management, employees and the Board of Directors.

The Audit Committee shall have the sole authority and responsibility for the appointment, compensation, oversight (including the resolution of disagreements between management and the independent auditor regarding financial reporting), and, where appropriate, the termination and replacement of the Company’s independent auditors. Any independent auditors retained by the Company are ultimately accountable to the Audit Committee and shall report directly to the Audit Committee.

II. COMPOSITION AND MEETINGS

The Audit Committee shall be comprised of at least three directors, each of whom in the judgment of the Board of Directors shall be independent, as defined in, and to the extent required by, the applicable rules of the Nasdaq Stock Market, the Securities Exchange Act of 1934 (the “Exchange Act”) and the rules and regulations of the Securities and Exchange Commission (the “Commission”). The Board of Directors shall affirmatively conclude that the members of the Audit Committee are independent, as required.

Each member of the Audit Committee shall be financially literate and must be able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement, and cash flow statement, at the time of appointment to the Audit Committee. At least one member shall have accounting or related financial management expertise, and at least one member must be an “audit committee financial expert” as such term is defined by the rules and regulations of the Commission. No member of the Audit Committee may simultaneously serve on more than three (3) audit committees of public companies.

The Audit Committee shall meet at least quarterly and more frequently if circumstances require. Periodically, the Audit Committee should meet separately and privately with each of management and the Company’s independent auditors to discuss any matters that the Audit Committee or each of these groups believes should be discussed.

III. RESPONSIBILITIES AND FUNCTIONS

The primary responsibilities of the Audit Committee are to oversee, on behalf of the Board of Directors, the independent auditors, the Company’s internal accounting controls and auditing functions, and the financial reporting process and to report the results of its activities to the Board of Directors. The Audit Committee shall have the sole authority to appoint or replace the independent auditor. The Audit Committee shall be directly responsible for the compensation 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 independent auditor shall report directly to the Audit Committee. Management is responsible for preparing the Company’s financial statements and the independent auditors are responsible for auditing those financial statements. The Audit Committee’s role is not to provide expert or special assurance as to the Company’s financial statements or any professional certification as to the independent auditor’s work.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain independent legal, accounting or other advisors. The Company shall provide for appropriate 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 and to any advisors employed by the Audit Committee. The Company shall also provide appropriate funding, as determined by the Audit Committee, for payment of ordinary administrative expenses of the Audit Committee that are necessary or appropriate in carrying out its duties.

In discharging its responsibilities and functions, the Audit Committee is authorized to:

A. Independent Auditors

- Retain and terminate the Company's independent auditors, approve all audit engagement terms and fees, oversee all work performed by the independent auditors and resolve any disagreements between management and the Company's independent auditors regarding financial reporting.
- Pre-approve all audit services and all permissible non-audit services (including tax services) to be performed for the Company by its independent auditors, subject to the *de minimus* exceptions for non-audit services described in the Exchange Act which are approved by the Audit Committee prior to the completion of the audit. The Audit Committee may delegate to one or more of its members the authority to pre-approve audit services and permissible non-audit services; provided, however, that all pre-approved services must be disclosed by such delegate to the full Audit Committee at its next scheduled meeting.
- Evaluate the independent auditors, including the independent auditors' qualifications, performance and independence, the competence, experience and qualifications of the lead partner and senior members of the independent auditor team, and the quality control procedures of the independent auditors. The Audit Committee also shall ensure the rotation of the audit partners as required by law.
- Discuss with the independent auditors the overall scope and plans for their audits, including the adequacy of staffing.
- Obtain and review a quarterly report from the independent auditors which describes (a) all critical accounting policies and practices to be used by the Company, (b) all alternative treatments of financial information that have been discussed with management, the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditors, and (c) other written material communications with management of the Company.
- At least annually, obtain and review a report from the independent auditors which describes (a) the audit firm's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the audit firm, or by any inquiry or investigation by governmental or professional authorities, within the last five years, respecting one or more independent audits carried out by the audit firm, and any steps taken to address any such issues, and (c) all relationships between the audit firm and the Company. At least annually, obtain and review the written disclosures and the letter from the independent auditors required by

Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and discuss with the independent auditors their independence.

- Discuss with the independent auditors any problems or difficulties the independent auditors may have encountered and any management letter provided by the independent auditors and the Company's response. Such review should include any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to required information, and any disagreements with management.
- Discuss with the independent auditors, at least annually, the matters required to be discussed by Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU § 380) relating to the conduct of the audit.
- Obtain from the independent auditors assurance that Section 10A(b) of the Exchange Act (generally relating to the auditors' identification of illegal acts and related party transactions) has not been implicated.
- Establish clear policies and guidelines for the Company's hiring of employees or former employees of the independent auditors.
- Annually prepare the report required by the rules of the Commission to be included in the Company's annual proxy statement.

B. Financial Reporting Process

- Review and discuss with management and the independent auditors the Company's annual audited financial statements and disclosures set forth in Management's Discussion and Analysis in the Company's Annual Report on Form 10-K prior to filing with the Commission or public distribution, including (i) their judgment about the quality of the Company's accounting principles as applied in its financial reporting, (ii) the reasonableness of significant judgments, and (iii) the clarity of the disclosures in the financial statements. Recommend, based on its review and discussion, that the audited financial statements be included in the Company's Form 10-K for the last fiscal year for filing with the Commission.
- Review and discuss with management and the independent auditors the interim financial statements and disclosures set forth in Management's Discussion and Analysis in the Company's Quarterly Report on Form 10-Q and the results of the independent auditors' reviews of the quarterly financial statements prior to the filing of the Company's Quarterly Report on Form 10-Q with the Commission and/or the Company's release of earnings.

- Obtain and review a report made to the Audit Committee by the Chief Executive Officer and Chief Financial Officer of the Company during their certification processes for the Form 10-K and each Form 10-Q which describes, if any, (a) all significant deficiencies in the design or operation of the Company's internal controls which could adversely affect the Company's ability to record, process and report financial data, and (b) any fraud (whether or not material) involving management or other employees who have a significant role in the Company's internal controls.
- Discuss with management and the independent auditors the adequacy and effectiveness of the Company's accounting and financial processes and controls. The Audit Committee may meet separately with management and with the independent auditors to discuss these matters.
- Review significant changes to the Company's auditing and accounting principles and practices proposed by the independent auditors or management.
- Review with management and the independent auditors the effect of regulatory and accounting initiatives as well as any off-balance sheet structures on the Company's financial statements.
- Review policies with respect to risk assessment and risk management. Discuss significant financial risks and exposures and the steps taken by management to monitor and minimize such risks.
- Discuss generally, in terms of types of information to be disclosed and the type of presentation to be made, the Company's earnings press releases as well as financial information and earnings guidance provided to analysts and rating agencies.

C. Ethical/Legal Compliance and Other Review Procedures

- Establish procedures for the receipt, retention and treatment of complaints regarding the Company's accounting, internal accounting controls or auditing matters and confidential, anonymous submission by employees of concerns regarding accounting questions or auditing matters.
- Develop, review or recommend to the Board of Directors for its approval those provisions of the Company's Policy on Business Practices that relate to areas that the Audit Committee is responsible for overseeing, including conflicts of interest.
- Review the programs and policies of the Company designed to ensure compliance with applicable laws and regulations and monitoring the results of those compliance efforts.

- Review with the Company's executive officer with oversight of legal matters of the Company any legal matters that could have a material impact on the financial statements, the Company's compliance policies and any material reports or inquiries received from governmental agencies or regulators.
- Review and, as required by Nasdaq, approve all related-party transactions.

D. Other Responsibilities

- Review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board of Directors for approval.
- Conduct an annual performance evaluation of the Audit Committee.
- Report periodically to the Board of Directors, which report may include issues that arise with respect to (a) the quality and integrity of the Company's financial statements, (b) the Company's compliance with legal or regulatory requirements, (c) the performance and independence of the Company's independent auditors or (d) the performance of the internal audit function.
- As appropriate, obtain advice and assistance from independent legal, accounting or other advisors. The Audit Committee shall approve the fees paid by the Company to any independent advisor retained by the Audit Committee.

IV. AUTHORITY

The Audit Committee is authorized to confer with Company management and other employees to the extent it may deem necessary or appropriate to fulfill its duties and discharge its responsibilities. The Audit Committee has the authority to investigate any matter brought to its attention, within the scope of its duties, with full access to all Company books, records, facilities, personnel and independent auditors, along with the power to retain, at the Company's expense, such independent counsel, auditors or other experts as the Audit Committee deems necessary or appropriate.