

KMG AMERICA CORPORATION

AUDIT COMMITTEE CHARTER

December 21, 2004

Pursuant to Section 13.1 - 689 of the Virginia Stock Corporation Act, and Article III of the Bylaws of KMG America Corporation, a Virginia corporation (the "Corporation"), the following shall constitute the Audit Committee Charter (the "Charter") of the board of directors of the Corporation (the "Board"):

I. ORGANIZATION

There shall be constituted a standing committee of the Board to be known as the audit committee (the "Audit Committee").

II. COMPOSITION AND SELECTION

The Audit Committee shall be comprised of three or more directors. The members of the Audit Committee shall meet the independence and experience requirements of the Securities and Exchange Commission and the New York Stock Exchange as then in effect.

All members of the Audit Committee shall have a requisite working familiarity with basic finance and accounting practices in compliance with the rules of the New York Stock Exchange. At least one member of the Committee must be an audit committee financial expert, as such term is defined by the Securities and Exchange Commission.

No member of the Audit Committee may serve on the audit committees of more than three public companies.

The members of the Audit Committee shall be appointed by the Board, at the Board's annual meeting, on the recommendation of the Corporate Governance and Nominating Committee, and may be removed by the Board. The members of the Audit Committee shall serve for one year or until their successors are duly elected and qualified. Unless a Chairman is elected by the full Board, the members of the Audit Committee shall designate a Chairman by majority vote of the full Audit Committee membership.

The duties and responsibilities of Audit Committee members contained herein shall be in addition to those duties otherwise required for members of the Board.

III. STATEMENT OF PURPOSE

The primary function of the Audit Committee shall be to assist the Board in discharging its oversight responsibilities relating to the accounting, reporting, and financial practices of the Corporation and its subsidiaries by monitoring and assessing (1) these practices, generally; (2) the integrity of the financial statements and other financial information provided by the Corporation to any governmental body or the public; (3) the Corporation's compliance with legal

and regulatory requirements; (4) the independent auditor's qualifications and independence; and (5) the performance of the Corporation's independent auditors and internal audit functions.

The Audit Committee shall prepare the report of the Committee required by the rules of the Securities and Exchange Commission to be included in the Corporation's annual proxy statement or, if the Corporation does not file a proxy statement, in the Corporation's annual report on Form 10-K.

IV. COMMITTEE OBJECTIVES

The Audit Committee's primary objectives include providing an independent, direct and open avenue of communication among the Corporation's independent accountants, independent auditors, management, internal auditing department, and the Board; serving as an independent and objective party to review the Corporation's financial reporting processes and internal control systems; overseeing with management the reliability and integrity of the Corporation's accounting policies and financial reporting and disclosure practices; reviewing and considering the work of the Corporation's independent accountants and internal auditing department; reviewing the adequacy of the internal audit department's staffing and the qualifications of its personnel; and reviewing whether available technology is being used to maximize the efficiency and effectiveness of the internal audit function.

V. COMMITTEE AUTHORITY AND RESPONSIBILITIES

The Audit Committee shall have the sole authority to appoint, retain, compensate, evaluate and terminate the independent auditor (subject, if applicable, to shareholder ratification) and shall approve all audit and permissible non-audit engagements, including fees and terms, with the independent auditor. The independent auditor shall be accountable to the Board through the Audit Committee. The Audit Committee shall consult with management but shall not delegate these responsibilities.

The Audit Committee may form subcommittees and delegate authority to subcommittees when appropriate.

The Audit Committee shall have the authority, to the extent it deems necessary or appropriate, to retain special legal, accounting or other consultants to advise the Committee. The Audit Committee shall have the authority to retain and compensate such advisors without seeking further approval and shall receive appropriate funding, as determined by the Audit Committee, from the Corporation to compensate such advisors. The Audit Committee shall have the authority to conduct or authorize investigations into any matters within its scope of responsibilities and shall have the authority to retain outside advisors to assist the Committee in the conduct of any investigation. The Committee may also, to the extent it deems necessary or appropriate, meet with the Corporation's investment bankers or financial analysts who follow the Corporation.

The Audit Committee shall make regular reports to the Board, and shall review with the Board any issues that arise with respect to the quality or integrity of the Corporation's financial statements, the Corporation's compliance with legal or regulatory requirements, the performance and independence of the Corporation's independent auditors, or the performance of the internal

audit function. The Audit Committee shall review and reassess the adequacy of this Charter, at least annually, and shall recommend any proposed changes to the Board for approval. The Audit Committee shall annually review its own performance.

The Audit Committee shall:

Financial Statement and Disclosure Matters

1. Review and discuss with management and the independent auditor accounting policies and financial reporting issues and judgments that may be viewed as critical; review and discuss analyses prepared by management and/or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; consider and approve, when appropriate, any significant changes in the Corporation's accounting and auditing policies; review and discuss any accounting and financial reporting proposals that may have a significant impact on the Corporation's financial reports; review and discuss major issues as to the adequacy of the Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;
2. Review and discuss with management and the independent auditor the annual audited financial statements, including disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations," and recommend to the Board whether the audited financial statements should be included in the Corporation's Annual Report on Form 10-K;
3. Review and discuss with management and the independent auditor the Corporation's quarterly financial statements, including the results of the independent auditor's reviews of the quarterly financial statements, prior to the filing of its Form 10-Q;
4. Review and discuss with management and the independent auditor: (a) any material financial or non-financial arrangements of the Corporation which do not appear on the financial statements of the Corporation; and (b) any transactions or courses of dealing with parties related to the Corporation which transactions are significant in size or involve terms or other aspects that differ from those that would likely be negotiated with independent parties and which are relevant to an understanding of the Corporation's financial statements;
5. Review and discuss with management its policies and practices regarding earnings press releases, as well as financial information and earnings guidance given to analysts and ratings agencies, giving attention to any use of "pro forma," "adjusted" or "non-GAAP financial measures" or information;
6. Discuss with management the Corporation's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Corporation's risk assessment and risk management policies;

7. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives, as well as off-balance sheet structures on the Corporation's financial statements;

Oversight of the Company's Relationship with the Independent Auditor

8. Obtain and review a formal written report by the independent auditor, at least annually, which report shall include descriptions of: (a) the independent auditor's internal quality-control procedures; (b) any material issues raised by the most recent internal quality control review, or peer review, or by any inquiry or investigation by governmental or professional authorities in the preceding five years respecting one or more independent audits carried out by the firm; (c) any steps taken to deal with such issues; (d) all relationships between the independent auditor and the Corporation; and (e) any other relationships that may adversely affect the independence of the auditor. The Audit Committee should assess the independence of the independent auditor, including that of the independent auditor's lead partner, based on a review of the written report and recommend to the Board that it take appropriate action in response to the report to satisfy the independence requirements;
9. Evaluate the qualifications, experience, performance and independence of the senior members of the independent auditor team, including that of the independent auditor's lead and concurring partners, taking into consideration the opinions of management and the internal auditors, and present its conclusions with respect to such evaluations to the full Board;
10. Set clear hiring policies for employees or former employees of the independent auditors, taking into account pressures that may exist for auditors consciously or subconsciously seeking a job with the Corporation;
11. Discuss with the independent auditor its ultimate accountability to the Board through the Audit Committee;
12. Establish policies and procedures for the engagement of the independent auditor to provide permissible non-audit services; consider whether the independent auditor's performance of permissible non-audit services is compatible with the auditor's independence;
13. Assure the regular rotation of the lead and concurring audit partners as required by law, and consider whether there should be regular rotation of the independent auditing firm itself, in order to assure continuing independence of the independent auditor;

Process Improvement

14. Establish regular and separate systems of reporting to the Audit Committee by the Corporation's management, the independent auditor and the internal auditors regarding any significant judgments made in management's preparation of the financial statements, and the view of each of the Corporation's management, the independent auditor and the internal auditors as to the appropriateness of such judgments;

15. Review and discuss with the independent auditor the audit planning and procedures, including the scope, fees, staffing and timing of the audit; review and discuss the results of the audit exam and management letters, and any reports of the independent auditor with respect to any interim period;
16. Review with the Corporation's internal auditors and the independent auditor the coordination of their audit efforts to assure completeness of coverage, reduction of redundant efforts and effective use of audit resources;
17. Review, on at least a quarterly basis, the adequacy and effectiveness of the Corporation's internal financial controls and recommend any necessary changes and improvements thereto to the Corporation's management;
18. Review separately with the Corporation's management, the independent auditor and the internal auditing department, following completion of the Corporation's annual audit, any significant difficulties encountered during the course of the audit, including: (a) difficulties with management's response; (b) any restrictions on the scope of work or access to required information; and (c) the nature and extent of any significant changes in accounting principles or the application therein;
19. Review and attempt to resolve any significant disagreement among the Corporation's management and its independent auditor or the internal auditing department in connection with the preparation of the Corporation's financial statements;
20. Review with the independent auditor any audit problems or difficulties and management's response, which review shall include any accounting adjustments that were noted or proposed by the auditor but were "passed" (as immaterial or otherwise); review any "management" or "internal control" letters issued, or proposed to be issued, by the audit firm to the Corporation and any discussions with the independent auditor's national office respecting auditing or accounting issues presented by the engagement;
21. Review with the Corporation's independent auditor, the internal auditing department and management the extent to which changes or improvements in financial or accounting practices and standards, as approved by the Audit Committee, have been implemented, with such review to be conducted at an appropriate amount of time subsequent to implementation of any changes or improvements thereto, as decided by the Audit Committee in its discretion;

Oversight of the Corporation's Internal Audit Function

22. Review the appointment, replacement, reassignment or dismissal of the members of the Corporation's internal auditing department, including the appointment and replacement of the senior internal auditing executive;
23. Review the regular internal reports to management prepared by the internal auditing department and management's responses;

24. Discuss with the independent auditor the internal audit department's responsibilities, budget and staffing, and any recommended changes in the planned scope of the internal audit;

Compliance Oversight Responsibilities

25. Obtain from the independent auditor assurance that Section 10A of the Securities Exchange Act of 1934 has not been implicated;
26. Obtain reports from management, the Corporation's senior internal auditing executive and the independent auditor that the Corporation and its subsidiary/foreign affiliated entities are in conformity with applicable legal requirements and the Corporation's Code of Business Conduct and Ethics; review reports and disclosures of insider and affiliated party transactions; advise the Board with respect to the Corporation's policies and procedures regarding compliance with applicable laws and regulations and with the Corporation's Code of Business Conduct and Ethics;
27. Discuss with management and the independent auditor any correspondence with regulators or governmental agencies and any employee complaints or published reports which raise material issues regarding the Corporation's financial statements or accounting policies;
28. Review any material pending legal proceedings involving the Corporation and other contingent liabilities; discuss with the Corporation's General Counsel legal matters that may have a material impact on the Corporation's financial statements or compliance policies;
29. Establish procedures for (a) the receipt, retention and treatment of complaints received by the Corporation regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of the Corporation of concerns regarding questionable accounting or auditing matters;

Ethical and Legal Compliance

30. Review with the Corporation's counsel legal compliance matters, including corporate securities trading policies;
31. Review the procedures established by the Corporation that monitor the Corporation's compliance with its loan and indenture covenants and restrictions; and
32. Perform any other activities consistent with this Charter, the Corporation's Bylaws and governing law, as the Audit Committee or the Board deems necessary or appropriate.

VI. MEETINGS

The Audit Committee shall meet separately, as often as may be deemed necessary or appropriate in its judgment, but at least quarterly, with the Corporation's management, internal auditors and

independent auditors. Following each meeting, the Audit Committee shall report to the Board at the next regularly scheduled Board meeting, or sooner, as circumstances may dictate.

In addition, the Chairman of the Audit Committee shall meet in person or by telephone with the Corporation's independent accountants and the Corporation's chief financial officer quarterly to review the Corporation's financial statements.

VII. LIMITATION OF AUDIT COMMITTEE'S ROLE

While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits, to certify the Corporation's financial statements or to guarantee the auditor's report. These are the responsibilities of management and the independent auditor.

VIII. CONSISTENCY WITH ARTICLES AND BYLAWS

To the extent that any provision or section of this Charter may be inconsistent with any article, provision or section of the Corporation's Amended and Restated Articles of Incorporation, the Corporation's Bylaws or any applicable law or regulation, the Amended and Restated Articles of Incorporation or the Bylaws or the law or regulation, as appropriate, shall fully control.

IX. [RESERVED.]

X. CERTIFICATION

This Audit Committee Charter was duly approved and adopted by the Board of the Corporation on the 20th day of December, 2004.



Kenneth U. Kuk
Secretary

