

K-V Pharmaceutical Company
Audit Committee Charter

Purpose

There shall be an Audit Committee (the “Committee”) of the Board of Directors of K-V Pharmaceutical Company, a Delaware corporation (the “Company”).

The Committee shall have responsibility to oversee the Company’s management and internal and outside auditors in regard to corporate accounting and financial reporting. The Committee has the authority to institute, conduct and oversee any investigation it deems appropriate, with full access to all books and records, facilities, personnel and outside advisors of the Company. The Committee is empowered to retain outside counsel, auditors or other experts in its discretion, and the Company shall provide any funding, as determined by the Committee, in connection with the Committee’s engagement of any outside counsel, auditor or other experts.

The Committee’s primary purposes shall be as follows:

- Be directly responsible for the appointment, compensation and oversight of the work of any outside auditor employed by the Company (including resolution of disagreements between management and the outside auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work;
- Assist the Board in fulfilling its responsibilities to the shareholders, potential shareholders and the investment community with regard to the oversight of (1) the quality and integrity of the Company’s financial statements and (2) the Company’s compliance with legal requirements;
- Serve as a communications focal point among non-Committee directors, management, any internal auditor (or person(s) or firm fulfilling the internal audit function) and the outside auditors with respect to accounting, financial reporting and compliance issues;
- Oversee the qualifications, independence and performance of the Company’s internal audit function and outside auditor;
- Prepare the Committee report required in the Company’s proxy statement; and
- Perform other functions as time to time required by law, regulation, the New York Stock Exchange rules or assigned by the Board.

Organization

The Committee shall:

Number and Appointment

- consist of at least three directors, each appointed by the full Board;

Requirement of Independence

- consist solely of directors deemed to be “independent.” The Board of Directors shall affirmatively determine that each director who is a member of the Committee is independent and has no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Such determination by the Board of Directors will be disclosed in the Company’s proxy statement. Notwithstanding the foregoing, no director shall be deemed “independent” for purposes of the Committee if the director:
 - ☞ accepted, directly or indirectly, any consulting, advisory or other compensatory fee from the Company since the beginning of the Company’s last full fiscal year, other than in his or her capacity as a member of the Committee, the Board of Directors or any other board committee;
 - ☞ is an affiliated person of the Company or any subsidiary thereof (an “affiliated person” includes, among others, officers, employees or 5% or greater shareholder of the Company or any other person that may be deemed to control, or be controlled by, the Company); or
 - ☞ does not meet the independence requirements of any laws, regulations or regulatory agency, including, without limitation, the independence requirements of the New York Stock Exchange as then in effect;

Understanding of Financial Information

- consist of members able to read and understand fundamental financial statements, including the Company’s balance sheet, income statement and cash flow statement. If a director is not capable of understanding such fundamental financial statements, he or she must become able to do so within a reasonable period of time after appointment to the Committee;

Limitation on Service on other Audit Committees

- not have any member that serves on more than two other audit committees, unless the Board of Directors determines that service on more than two other audit committees will not impair the ability of the director to serve effectively on the Committee. Any such determination by the Board of Directors will be disclosed in the Company’s proxy statement; and

*Audit Committee
Financial Expert*

- have at least one member of the Committee who is deemed an “audit committee financial expert.” The determination that a Committee member is an “audit committee financial expert” shall be made by the Board of Directors.

☞ An “audit committee financial expert” is a person who has the following attributes: (1) an understanding generally accepted accounting principles (“GAAP”) and financial statements, (2) the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves, (3) experience in preparing, auditing, analyzing or evaluating financial statements that present a breadth and level of complexity of accounting that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company’s financial statements, or experience in supervising one or more persons engaged in such activities, (4) an understanding of internal controls and procedures for financial reporting, and (5) an understanding of audit committee functions.

☞ An “audit committee financial expert” shall have acquired the foregoing attributes through: (1) education or experience (as a public accountant, principal financial officer, comptroller or principal accounting officer or a position that involves the performance of similar functions); (2) experience in supervising a public accountant, principal financial officer, comptroller or principal accounting officer or person in a similar position; (3) experience in overseeing or accessing the performance of companies or public accountants with respect to the preparation, auditing or evaluation of financial statements; or (4) other relevant experience.

Responsibilities

The Committee recognizes that the preparation of the Company’s financial statements and other financial information is the responsibility of the Company’s management and that the auditing, or conducting limited reviews, of those financial statements and other financial information is the responsibility of the Company’s outside auditors. The Committee’s responsibility is to oversee the financial reporting process.

The Company’s outside auditors are ultimately accountable to the Board and the Committee, as representatives of the shareholders. The Committee has the sole authority and responsibility for the appointment, compensation, and oversight of the Company’s outside auditors.

In carrying out its oversight responsibilities, the Committee shall perform the following duties:

Oversight of Outside Auditors

The Committee shall oversee the outside auditors and the services provided by the outside auditors, including the following:

Responsibilities Over Outside Auditors

- Be directly responsible for the appointment, compensation and oversight of the work of any outside auditor employed by the Company and, where appropriate, replacement of the outside auditors. The outside auditors shall report directly to the Committee;

Determine Outside Auditor's Independence

- Require that the outside auditors provide the Committee with a formal written statement delineating all relationships between the outside auditors and the Company, consistent with Independence Standards Board Standard No. 1, and discuss with the outside auditors their independence;

- Actively engage in a dialogue with the outside auditors regarding any disclosed relationships or services that may impact the objectivity and independence of the outside auditors;

- Take appropriate action to oversee the independence of the outside auditors;

- Require that the outside auditors confirm that the audit partners providing services to the Company are “independent” of the Company under the requirements of the Sarbanes-Oxley Act of 2002 (the “SO Act”) and regulations pursuant to the SO Act, including, without limitation, with regard to the compensation paid to the audit partner;

- Ensure that no member of the outside auditor is hired by the Company in a financial reporting oversight role if, within the one-year period prior to the member’s hiring, the member was on the audit engagement team for the Company’s account;

Oversee Rotation of Audit Partners

- Confirm and oversee that the outside auditor’s audit partners which provide services to the Company are rotated pursuant to the requirements of the SO Act and regulations thereunder;

Pre-approve all Services provided to the Company by the Outside Auditors

- Pre-approve all services provided to the Company by the outside auditors and confirm that any non-audit services provided to the Company by the outside auditor are permitted non-audit services (defined below);

- Subject to the *de minimus* exception below, pre-approve the scope and

fees of audit and permitted non-audit services provided by the outside auditors and disclose to investors in the Company's periodic reports filed pursuant to the Securities Exchange Act of 1934, the Committee's decision to pre-approve any permitted non-audit services;

- Subject to the *de minimus* exception below, review permitted non-audit services, including tax services, provided by the outside auditors to determine what effect, if any, these services may have on their independence;

Permitted Non-audit Services

- "Permitted non-audit services" means services not related to the audit services provided to the Company by its outside auditors;
- The following will not be considered permitted non-audit services and in no instance may be provided by the outside auditors to the Company:

- ☞ management functions or human resources services;

- ☞ broker or dealer, investment adviser or investment banking services;

- ☞ legal services and expert services unrelated to the audit, such as providing an expert opinion or other expert service for the Company in any litigation or regulatory or administrative proceeding or investigation; and

- ☞ any other service that the Public Company Accounting Oversight Board determines, by regulation, is impermissible.

- The following will not be considered permitted non-audit services unless the Committee reasonably concludes that the results of these services would not be subject to audit procedures during an audit of the Company's financial statements:

- ☞ bookkeeping or other services related to the accounting records or financial statements of the Company;

- ☞ financial information designs and implementation;

- ☞ appraisal of valuation services, fairness opinions or contribution-in-kind reports;

- ☞ actuarial services; and

- ☞ internal audit outsourcing services;

De Minimus Exception to Pre-

- The pre-approval requirement will not apply to *de minimus* permitted non-audit services, which are those (1) that account, in the aggregate,

Approval Requirement for less than 5% of the total revenues paid by the Company to its auditors during the fiscal years in which such services are provided, (2) that the Company did not recognize as “non-audit” services at the time of the engagement, and (3) are promptly brought to the attention of, and approved by, the audit committee before the completion of the audit; and

Delegation of Authority

- The Committee may delegate, to one or more of its members, the authority to pre-approve audit or permitted non-audit services (or to approve, after the fact, permitted non-audit services that fall within the *de minimus* exception) so long as any decisions made under delegated authority are presented to the full Committee at its next scheduled meeting.

Review of Financial Reporting Matters with and Reports of Outside Auditors and Management

The Committee shall review the following matters with and require the following reports of outside auditors and management. Unless otherwise specified, the timing of the review and reports shall be as deemed necessary by the Committee, but not less than annually:

Review of Policies and Procedures

- Review with management and the outside auditors the policies and procedures related to:
 - ☞ conflicts of interest;
 - ☞ ethical conduct;
 - ☞ compliance with regulatory reporting and compliance requirements; and
 - ☞ risk assessment and risk management;

Review Scope and Plan of Audit

- Review with the chief financial officer and the outside auditors the coordination of the audit effort to assure completeness of coverage, reduction of redundant offices, and the effective use of audit resources;
- Review with the outside auditors the proposed scope (including staffing) of their audit plan with emphasis on accounting and financial areas where the Committee, the internal auditors or management believe special attention should be directed;

Review Changes to Accounting Principles

- Review and consider with the outside auditors and management any significant changes to the Company’s accounting principles and the matters identified in Statement on Auditing Standards No. 61;

Review Annual and

- Meet to review and discuss with the outside auditors and management

*Interim Financial
Statements*

the Company's audited financial statements, as well as management's discussion and analysis of financial condition and results of operations, that are to be included in the Company's Form 10-K and determine whether to recommend to the Board of Directors that the financial statements be included in the Company's Form 10-K for filing with the Securities and Exchange Commission;

- Meet to review and discuss with management and the outside auditors the Company's quarterly financial results prior to the release of earnings, and policies with respect to risk assessment and risk management. Meet to review and discuss the Company's financial statements that are to be included in the Company's Form 10-Q with the outside auditors and management, as well as management's discussion and analysis of financial condition and results of operations;
- Review any matters identified by the outside auditors pursuant to Statement on Auditing Standards No. 71 regarding the Company's interim financial statements. Any such review shall occur prior to the filing of such interim financial statements on the Company's Form 10-Q;
- In conjunction with reviewing the annual audited and quarterly financial statements with management and the outside auditors, the Committee should review:
 - ☞ financial information and earnings guidance provided to analysts and rating agencies;
 - ☞ major issues regarding accounting principles and financial statement presentation, including any significant change in the Company's selection or application of accounting principles and major issues as to the adequacy of the Company's internal controls and any special audit steps taken in light of major control deficiencies;
 - ☞ analyses prepared by management and/or the outside auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including an analysis of the effects of alternative GAAP methods on the financial statements; and
 - ☞ the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements;
- Prior to filing any outside auditor's report with the SEC, the Committee shall require the outside auditors to report to it on:

*Report from
Outside Auditors*

- ☞ the results of their audit, including their opinion on the financial statements and the outside auditors' judgment on the quality and appropriateness, not just the acceptability, of the Company's accounting principles as applied in the financial statements;
- ☞ significant disputes, if any, with management;
- ☞ cooperation received from management in the conduct of the audit;
- ☞ their evaluation of the adequacy of the Company's system of internal controls;
- ☞ all critical accounting policies and practices to used;
- ☞ all alternative treatments of financial information within GAAP that have been discussed with management officials of the Company, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the outside auditor;
- ☞ other material written communications between the auditor and management, such as any management letter or schedule of unadjusted differences; and
- ☞ any material issues raised by the most recent internal quality-control review, or peer review, of the outside auditor or by any inquiry or investigation by governmental or professional authorities in the preceding five years relating to an independent audit conducted by the outside audit firm and any steps taken to deal with such issues;

*Review of
Management's
Cooperation with
Audit*

- The Committee must regularly review with the independent auditor any difficulties the auditor encountered in the course of the audit work, including any restrictions to access to information, any significant disagreements with management, any communications between the audit team and the audit firm's national office respecting issues presented by the engagement, any management letter issued, or proposed to be issued, by the audit firm to the Company, and a discussion of the adequacy of the Company's internal audit function;

Dispute Resolution

- The Committee shall resolve any disagreements between management and the outside auditor regarding financial reporting. The Committee may retain outside experts, in its discretion, to assist in doing so and the Company shall provide any funding, as determined by the Committee, in connection with the Committee's engagement of outside experts;

Report of Chief

- The Committee shall require the Chief Executive Officer and Chief

*Executive Officer
and Chief
Financial Officer*

Financial Officer disclose, if applicable and as soon as practicable (1) 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 (2) any fraud (whether or not material) involving management or other employees who have a significant role in the Company's internal controls or preparation of financial statements; and

*Annual Review of
Accounting Issues*

- The Committee shall annually review (1) major issues regarding accounting principles and financial statement presentations and major issues as to the adequacy of the Company's internal controls, (2) an analysis of the treatment of financial information and alternatives, (3) the effect of regulatory and accounting initiatives on the financial statements of the company, and (4) earnings press releases (paying specific attention to pro forma or adjusted information) and financial information and guidance provided to analysts and rating agencies.

Oversight of Internal Accounting Functions

The Committee shall oversee the internal operations of the Company's accounting, auditing and internal audit functions, including the following:

*Staffing of
Accounting and
Audit Positions*

- Consider with management and the outside auditors the possibility of employing audit firms other than the principal outside auditors;
- Review and concur in the appointment, replacement, reassignment or dismissal of the chief financial officer, vice president finance, any internal auditor, and the controller and review each individual's independence from management;
- Review the internal audit department's mission, objectives and resources and its annual plan including its coordination with the outside auditors;
- Review the results of internal audit activities and its evaluation of the system of internal controls and discuss with the internal auditor any difficulties encountered in the course of audits including any restrictions on the scope of the work or access to required information;
- Consider the effectiveness of the Company's internal control system, including information technology security and control;

*Oversight of Legal
Compliance and
Policies*

- At least once annually, review with the Company's counsel any legal matters that could have a significant impact on the organization's financial statements, the Company's system for monitoring compliance with applicable laws and regulations, including management's responses to any material inquiries received from regulators or

governmental agencies;

- In consultation with management, the outside auditors, and any internal auditor, consider the integrity of the Company’s financial reporting processes and controls. Discuss any significant financial risk exposures and the steps management has taken to monitor, control and report such exposures. Review significant findings prepared by the outside auditors and the internal auditing function together with management’s responses;
- Oversee the development and enforcement of the Company’s Senior Executives Code of Ethics;
- Periodically review, with management and any internal auditor, programs established to monitor compliance with the company’s code of conduct, including the Foreign Corrupt Practices Act;
- Review policies and procedures with respect to officers’ expense accounts and perquisites, including their use of corporate assets, and consider the results of any review of these areas by the outside auditors or internal auditors; and
- Review significant accounting, reporting, regulatory or industry developments affecting the Company, including the potential impact of new accounting pronouncements or reporting practices;
- Establish procedures to promote and protect “whistleblowing,” including procedures for:
 - ☞ receiving, retaining, processing, evaluating and addressing complaints received by the Company relating to accounting and auditing matters; and
 - ☞ enabling employees of the Company to submit to the Committee, on a confidential and anonymous basis, any concerns regarding questionable accounting or auditing matters.

*Establish
Procedures for
Reporting
Complaints*

Meetings

Meetings of the Committee shall be conducted as follows:

*Frequency of
Meetings*

- Meet at least four times annually, with additional meetings held as necessary;

*Meeting
Participants*

- The Committee shall request that members of management, any internal auditor and representatives of the outside auditors be present at

the meetings, as appropriate. The meetings shall include separate sessions with management, the outside auditors and the internal auditor, and shall also include sessions with only Committee members present. The Committee may ask members of management and internal and outside auditors to attend other meetings and/or provide pertinent information as necessary;

*Rules of Conduct
for Meetings*

- The Committee may appoint a member to act as Chairman of the Committee;
- The Committee shall prepare and/or approve an agenda in advance of each meeting. Company management shall assure that the Committee timely receives any materials requested by the Committee for review prior to each meeting;
- Committee members may attend meetings in person, by telephone conference or similar communications equipment, or as otherwise permitted by law;
- The Committee shall keep minutes of matters considered and actions taken at meeting consistent with good corporate practices; and
- Committee meetings shall be otherwise conducted in a manner required of Board of Directors meetings as set forth in the Company's By-laws.

Other

Other functions of the Committee include:

*Review Audit
Committee
Function*

- Review and assess the adequacy of the Audit Committee Charter at least once annually and confirm that all responsibilities of the Committee set forth in the Audit Committee Charter have been carried out, with the assistance of counsel and the Company's outside auditors;
- Prepare self-assessments of Committee members and Committee activities to communicate opinions on the effectiveness of those activities and on the areas that could be approved;

*Prepare Report to
Shareholders*

- Annually prepare a report to shareholders as required by the Securities and Exchange Commission. The report will be included in the Company's annual proxy statement as required by the applicable rules of the SEC and the NYSE;

*Review Any Report
on the Committee*

- Review any reports the Company issues that relate to the Committee's responsibilities;

*Report to Board of
Directors*

- Review with the full board any issues that arise with respect to the Company's audit or financial reporting functions;

- Report regularly to the Board of Directors. The report should include a review of any issues relating to the quality or integrity of the Company's financial statements, the Company's compliance with legal and regulatory requirements, the performance or independence of the outside auditors and the performance of the internal audit function; and

General Oversight

- Perform any other activities consistent with this Charter, the Company's By-laws, and governing law and regulations, as the Committee or the Board deems necessary or appropriate, including, without limitation, overseeing compliance of the Company and outside auditors with provisions of the SO Act and New York Stock Exchange listing requirements which effect the auditing and financial reporting of the Company.

Interpretation

Any clarification or interpretation of this Charter, to the extent applicable, shall be made consistent with the provisions of the SO Act, any regulations under the SO Act and the New York Stock Exchange listing requirements in effect from time to time.