

**CHARTER FOR THE  
AUDIT COMMITTEE OF THE BOARD OF DIRECTORS  
OF KINDRED HEALTHCARE, INC.**

**Mission Statement**

The Audit Committee (the “Committee”) is appointed to assist the Board of Directors (the “Board”) in monitoring: (1) the integrity of the Company’s financial statements and the adequacy of the Company’s system of internal controls, accounting policies and financial reporting practices; (2) the independent auditor’s qualifications, independence and performance; (3) the performance of the Company’s internal audit function; and (4) the Company’s compliance with legal and regulatory requirements.

**Organization**

The Committee shall be comprised of at least three directors. Each member of the Committee shall meet the requirements of independence, financial literacy and any other requirements under applicable laws and regulations and the rules of the New York Stock Exchange or such other exchange upon which the Company’s securities are principally traded. No member of the Committee will receive any compensation from the Company other than Board-related fees.

The members of the Committee shall be appointed and removed by the Board. The Board shall designate a Committee Chair. At least one member of the Committee shall, in the judgment of the Board, qualify as an “audit committee financial expert” as defined by the Securities and Exchange Commission (the “SEC”). To the extent practicable, the Committee’s membership should include at least one member of the Quality of Care and Patient Outcomes Committee.

The Committee shall meet at least four times annually. A quorum at any Committee meeting shall be at least a majority of the members. All determinations of the Committee shall be made by a majority of its members present at a meeting duly called and held. Notwithstanding the foregoing, any decision or determination of the Committee reduced to writing and signed by all of the members of the Committee shall be fully as effective as if it had been made at a meeting duly called and held.

Minutes shall be kept of each meeting of the Committee, and the Committee shall regularly report to the Board on its actions and matters within the scope of its responsibility.

The Committee shall review and reassess this Charter at least annually, or more frequently as conditions dictate, and recommend changes it considers appropriate to the Board for approval. A copy of the current version of this Charter shall be posted on the Company’s website.

The Committee shall annually review its own performance.

**Committee Authority and Responsibilities**

In discharging its responsibilities, the Committee shall have full access to any relevant records of the Company. The Committee also may request that any officer or other employee of the Company, the Company’s outside counsel, or any other person meet with any members of, or consultants, advisors or counsel to, the Committee.

The Committee shall have the authority to retain and terminate any outside consultant, advisor or counsel it deems necessary to discharge its responsibilities and shall have sole authority to approve the fees and other retention terms of such consultant, advisor or counsel.

The Company must provide for appropriate funding, as determined by the Committee, for payment of: (1) compensation to any independent auditors for the purpose of preparing or issuing an audit report or performing other audit, review, or attest services for the Company; (2) compensation to any advisors engaged by the Committee; and (3) ordinary administrative expenses of the Committee that are necessary or appropriate in carrying out its duties

In carrying out its mission, the primary responsibilities of the Committee shall be to:

### ***Independent Auditors***

- Appoint, retain, compensate, oversee the work of, and replace any independent auditors engaged for the purpose of issuing an audit report or performing other audit, review or attest services for the Company (taking into account the vote on shareholder ratification), which shall report directly to the Committee.
- Have the sole authority to pre-approve all audit engagement fees and terms as well as permissible non-audit engagements with the independent auditors. The Committee shall consult with management but shall not delegate these responsibilities, except that the Committee may delegate to one or more members of the Committee the pre-approval of audit engagements and permissible non-audit services; any such pre-approval shall be presented to the Committee at its next scheduled meeting.
- Review the scope, plans and activities of the independent auditors and the coordination of their audit efforts.
- Review and discuss with the independent auditors any audit problems or disagreements between management and the independent auditors concerning financial reporting matters, as well as management's response and to resolve any such disagreements.
- On an annual basis, obtain from the independent auditors a written communication delineating all of their relationships and professional services with the Company as required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent auditor's independence. In addition, review with the independent auditors the nature and scope of any disclosed relationships or professional services and take, or recommend that the Board take, appropriate action to ensure the continuing independence of the auditors.
- Periodically review and evaluate the performance of the independent auditor, including the lead audit partner of the independent auditor, oversee the required rotation of the lead audit partner responsible for the Company's audit, and consider whether, to ensure continuing independent auditor independence, there should be a regular rotation of the audit firm itself.
- At least annually, obtain and review a report by the independent auditors describing: (i) the independent auditor's quality control procedures; (ii) any material issues raised by the most recent internal quality control or peer review of the independent auditors, or by any inquiry or investigation by governmental or professional authorities within the preceding

five years respecting one or more independent audits performed by the independent auditors; and (iii) any steps taken to deal with any such issues.

- Recommend to the Board policies for the Company's hiring of employees and former employees of the independent auditor who were engaged on the Company's account.

### ***Internal Audit***

- Review and approve the internal audit department's audit plans, responsibilities and activities as well as the department's staffing and budget.
- Review and approve the performance evaluation, appointment or replacement of the Vice President of Internal Audit.
- Review the significant findings from completed internal audits as well as the actions management is taking in response to these audits.

### ***Financial Reporting***

- Review with management and the independent auditors the Company's annual and quarterly financial statements, including disclosures made in the management's discussion and analysis section as well as any other matters required to be communicated to the Committee by the independent auditors. Discuss the results of the independent auditor's review of the quarterly and annual financial statements prior to the filing with the SEC of the Company's Form 10-Q and 10-K.
- Discuss with management and the independent auditors the quality of the accounting principles and judgments used in preparing the financial statements, including: the Company's selection or application of, or changes in, accounting principles; any major issues as to the adequacy of the Company's internal controls; the development, selection and disclosure of critical accounting estimates; and the analysis of the effect of alternative assumptions, estimates or generally accepted accounting principles ("GAAP") methods on the Company's financial statements; and material written communications between management and the independent auditors such as management letters and schedule of unadjusted differences.
- Review and discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.
- Review with the Company's independent auditors, internal auditors, and management the adequacy and effectiveness of the accounting and financial controls of the Company. Review management's responses with respect to recommendations for internal control improvements. Review any allegations of fraud involving persons having a significant role in the internal controls.
- Based on the Committee's review and discussions with management and the independent auditors, recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.

### ***Compliance and Legal***

- Review with the Company’s Compliance Officer and financial and other personnel, the adequacy and effectiveness of the Company’s internal regulatory, corporate compliance and risk management controls, and elicit any recommendations for the improvement of such internal control procedures or particular areas where new or more detailed controls or procedures are desirable. The Committee should review management’s response to any such recommendations.
- Obtain and review reports from the Compliance Officer or Vice President of Internal Audit, the General Counsel, the independent auditors and the Quality of Care and Patient Outcomes Committee (as applicable) regarding legal or compliance matters (including any material reports or inquiries from regulatory or governmental agencies) that may have a material effect on the Company’s business, financial statements or compliance policies.
- Review with the Compliance Officer the issues reported to the Company through its compliance hotline or otherwise brought to the Company’s attention and the results of any internal investigations initiated by the Company regarding any regulatory issues that may have a material effect on the Company’s business, financial statements or compliance policies.
- Establish and maintain procedures for: (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding internal accounting controls, questionable accounting, or auditing matters. Review with the Compliance Officer or Vice President of Internal Audit significant issues or findings regarding such matters.

### ***Other Responsibilities***

- Review and assess the guidelines and policies governing the Company’s risk management assessment and mitigation processes.
- Review with management on an annual basis the security and integrity of the Company’s information technology systems and related internal control implications.
- Meet periodically in separate sessions with (i) management, (ii) the Compliance Officer, (iii) the Vice President of Internal Audit, and (iv) the independent auditor to discuss any matters which the Committee or these groups believe should be discussed privately with the Committee.
- Prepare a report of the Audit Committee as required to be included in the Company’s proxy statement.
- Review the quality and integrity of financial reporting to Federal health care programs.
- Review and oversee the Company’s compliance with the terms of any Corporate Integrity Agreement (“CIA”) or similar arrangement that may be entered into by the Company and any governmental authority from time to time. Unless otherwise required by the CIA, at any time a CIA is in effect, these responsibilities shall include:

- receiving direct reports at least quarterly from the Compliance Officer;
  - overseeing matters relating to the compliance of the Company's operations with Federal health care program requirements and the obligations of any CIA; and
  - meeting at least quarterly to review and oversee the Company's compliance program, including but not limited to the performance of the Compliance Officer and Quality of Care and Patient Outcomes Committee.
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- Form and delegate authority to subcommittees when appropriate and carry out such other duties that may be delegated to it by the Board from time to time or as may be required by law.
  - Take any other actions necessary or advisable from time to time to comply with applicable laws and regulations and all applicable listing standards.

### **Limitation on Committee's Responsibilities**

While the Committee has the responsibility and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with GAAP and applicable rules and regulations. These are the responsibilities of management and the independent auditors. Management is responsible for the financial statements and the underlying financial reporting processes, including the system of internal controls. The independent auditors are responsible for auditing the Company's financial statements, expressing an opinion on the conformity of such audited consolidated financial statements with GAAP and expressing an opinion on the effectiveness of the Company's internal control over financial reporting. In addition, the Committee has the responsibility to interact with the independent auditors but it is not responsible for the audits performed by the independent auditors.