

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

Mission Statement

The Executive Compensation Committee (the “Committee”) is appointed by the Board of Directors (the “Board”) to ensure that the Company’s key executives, officers and Board members are compensated in accordance with the Company’s overall compensation policies and executive compensation policy. The Committee shall recommend and approve compensation policies, programs, and pay levels that support the Company’s objectives and that are rational and reasonable to the value of the services rendered.

Organization

The Committee shall be comprised of at least three directors. Each member of the Committee shall meet the independence 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. In addition, each member of the Committee shall also qualify as a “non-employee director” within the meaning of Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and an “outside director” within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended. The members of the Committee shall be appointed and removed by the Board. The Board also shall designate a Committee Chair. The Committee shall meet at least three times annually and shall regularly report to the Board on its findings and matters within the scope of its responsibility.

A quorum at any Committee meeting shall be 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. The Chair of the Committee shall be responsible for establishing the agenda for meetings of the Committee. An agenda, together with materials relating to the subject matter of each meeting, shall be sent to the members of the Committee prior to the meeting. The Committee shall maintain minutes of all of its meetings to document its activities and recommendations. 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

The Committee’s policies should remain flexible to react to changing conditions and to ensure the Board and shareholders that (1) the achievement of the overall goals and objectives of the Company can be supported by adopting an appropriate compensation policy and implementing it through an effective total compensation program, and (2) the total compensation

program of the Company is designed with full consideration of applicable accounting, tax, securities laws and regulatory requirements and is of a high quality.

The Committee shall:

- Review and approve the Company's overall compensation program along with its executive compensation program. The executive compensation program should (1) motivate and retain executive officers, (2) award the achievement of short-term and long-term performance goals, (3) establish an appropriate relationship between executive pay and short-term and long-term performance, and (4) align executive officers' interests with those of the Company's shareholders.
- Review and approve the annual base salary level, annual incentive opportunity levels, long-term incentive opportunity levels, equity-based compensation awards, executive perquisites, employment agreement, change in control agreement and benefits of the chief executive officer of the Company. In determining the long-term incentive component of chief executive officer compensation, the Committee will consider the Company's performance and relative shareholder return, the value of similar incentive awards to chief executive officers at comparable companies, and the awards given to the chief executive officer in past years, and such other data the Committee believes is relevant.
- Review and approve the annual base salary levels, annual incentive opportunity levels, long-term incentive opportunity levels, equity-based compensation awards, executive perquisites, employment agreements, change in control agreements and benefits of the named executive officers as required under applicable securities laws, and the other executive officers of the Company. The chief executive officer of the Company may be present at the Committee meetings where such matters are reviewed and approved.
- Evaluate annually the compensation levels of the chief executive officer and other executive officers against (1) pre-established performance goals and objectives, and (2) an appropriate peer group.
- Review and assess performance goals established for a performance period and determine when performance goals have been achieved following the end of such performance period.
- Administer the compensation plans of the Company for the chief executive officer, named executive officers, and other key officers and employees and review and approve awards under such plans as recommended by Company management. Subject to sizing the pool of available equity, the Committee may delegate such authority as permitted under the Company's compensation plans for awards made to persons other than the Company's executive officers.

- Review and recommend for approval incentive plans to the Board that are consistent with the Company's overall compensation program, and monitor the appropriateness of payouts under alternative business scenarios.
- Review the retirement plans of the Company and the results of the retirement plan investments for compliance with the Company's overall compensation policies, tax law, the Employment Retirement Income Security Act of 1974 (ERISA), and related legal requirements.
- The Committee shall have the sole authority to retain, terminate or obtain the advice of any compensation consultant, legal counsel or other advisor to be used to assist in the evaluation of the compensation package for directors, the chief executive officer, or the other senior executives and shall have sole authority to approve the related fees and other retention terms as well as directly oversee the work of any such consultant or advisor.
- The Committee shall select a compensation consultant, legal counsel or other advisor only after taking into consideration all factors relevant to that person's independence from management, including the following:
 - (i) The provision of other services to the Company by the person that employs the compensation consultant, legal counsel or other advisor;
 - (ii) The amount of fees received from the Company by the person that employs the compensation consultant, legal counsel or other advisor, as a percentage of the total revenue of such person;
 - (iii) The policies and procedures of the person that employs the compensation consultant, legal counsel or other advisor that are designed to prevent conflicts of interest;
 - (iv) Any business or personal relationship of the compensation consultant, legal counsel or other advisor with a member of the Committee;
 - (v) Any stock of the Company owned by the compensation consultant, legal counsel or other advisor; and
 - (vi) Any business or personal relationship of the compensation consultant, legal counsel, other advisor or the person employing the advisor with an executive officer of the Company.
- Annually review and approve non-employee director compensation (retainers, fees, benefit plans, equity awards, and perquisites).
- Keep abreast of current developments in executive compensation outside the Company.

- Review and discuss the Compensation Discussion and Analysis section proposed for inclusion in the Company's Annual Report on Form 10-K and annual proxy statement with management and, based upon such review and discussion, recommend to the Board whether such section should be included in such Annual Report and proxy statement as required by applicable law.
- Furnish a report of the Committee for inclusion in the Company's Annual Report and proxy statement as required by applicable law.
- Oversee the Company's submissions to shareholders on executive compensation matters, including advisory votes on executive compensation, incentive and other executive compensation plans.
- 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.
- Periodically review the Company's compensation plans, programs, and policies to evaluate whether incentive and other forms of pay encourage unnecessary or excessive risk taking.