

KINDRED HEALTHCARE, INC
Form DEF 14A
April 01, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(a)
OF THE SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to Rule 14a-12

**CONFIDENTIAL, FOR USE OF THE COMMISSION
ONLY (AS PERMITTED BY RULE 14A-6(E)(2))**

KINDRED HEALTHCARE, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

KINDRED HEALTHCARE, INC.

April 1, 2010

Dear Shareholder:

You are cordially invited to attend the Annual Meeting of Shareholders of Kindred Healthcare, Inc., to be held at 10:00 a.m. (EDT) on Tuesday, May 18, 2010, at Kindred's principal office at 680 South Fourth Street, Louisville, Kentucky 40202-2412.

Information concerning the business to be conducted at the meeting is included in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement. Please give all of the information contained in the Proxy Statement your careful attention.

In accordance with rules adopted by the Securities and Exchange Commission, we are providing access to our proxy materials over the Internet. Accordingly, we are mailing to our shareholders a Notice of Internet Availability of Proxy Materials, which contains instructions on how to access our proxy materials over the Internet and vote online. If you received a Notice of Internet Availability of Proxy Materials, you will not receive a printed copy of our proxy materials by mail unless you request one. If you wish to receive a printed copy of our proxy materials for the 2010 Annual Meeting, please follow the instructions for requesting those materials set forth in the Notice of Internet Availability of Proxy Materials.

YOUR VOTE IS VERY IMPORTANT. Whether or not you plan to attend the meeting, it is important that your shares be represented. Therefore, we urge you to vote by submitting your proxy over the Internet, by telephone or by mail. Please refer to the Notice of Internet Availability of Proxy Materials for more detailed voting instructions. If you attend the meeting, you will, of course, have the right to vote in person.

I look forward to greeting you personally, and on behalf of our Board of Directors and management, I would like to express our appreciation for your interest in Kindred.

Sincerely,

Paul J. Diaz

President and Chief Executive Officer

Kindred Healthcare, Inc.

680 South Fourth Street

Louisville, Kentucky 40202-2412

KINDRED HEALTHCARE, INC.

680 SOUTH FOURTH STREET

LOUISVILLE, KENTUCKY 40202-2412

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 18, 2010

To the Shareholders of Kindred Healthcare, Inc.:

The Annual Meeting of Shareholders of Kindred Healthcare, Inc. (Kindred) will be held at 10:00 a.m. (EDT) on Tuesday, May 18, 2010, at Kindred s principal office at 680 South Fourth Street, Louisville, Kentucky 40202-2412 for the following purposes:

- (1) To elect a board of ten directors;
- (2) To ratify the appointment of PricewaterhouseCoopers LLP as Kindred s independent registered public accounting firm for fiscal year 2010;
- (3) To consider and act upon a shareholder proposal described in the accompanying Proxy Statement, if properly presented at the Annual Meeting; and
- (4) To transact such other business as may properly come before the meeting.

Only shareholders of record at the close of business on March 23, 2010 will be entitled to notice of, and to vote at, the meeting and any adjournments thereof.

IT IS IMPORTANT THAT YOU VOTE YOUR SHARES. WHETHER YOU PLAN TO ATTEND THE MEETING OR NOT, PLEASE SUBMIT YOUR VOTING INSTRUCTIONS AS SOON AS POSSIBLE IN ORDER TO AVOID ADDITIONAL SOLICITING EXPENSES TO KINDRED. THE PROXY IS REVOCABLE AND WILL NOT AFFECT YOUR RIGHT TO VOTE IN PERSON IN THE EVENT YOU FIND IT CONVENIENT TO ATTEND THE MEETING.

April 1, 2010

Paul J. Diaz

President and Chief Executive Officer

PROXY STATEMENT

FOR ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON MAY 18, 2010

GENERAL INFORMATION

This proxy statement and the accompanying form of proxy are furnished in connection with the solicitation of proxies by the Board of Directors (the Board or Board of Directors) of Kindred Healthcare, Inc. (Kindred or the Company) for use at the Annual Meeting of Shareholders (the Annual Meeting), to be held at 10:00 a.m. (EDT) on May 18, 2010, at the Company's principal office at 680 South Fourth Street, Louisville, Kentucky 40202-2412, and at any adjournment or postponement thereof. Only shareholders of record on the books of the Company at the close of business on March 23, 2010 will be entitled to notice of, and to vote at, the Annual Meeting. This proxy statement is dated April 1, 2010 and was first made available to shareholders on or about April 5, 2010.

Proxies are solicited by the Board of Directors in order to provide each shareholder with an opportunity to vote on all matters scheduled to come before the Annual Meeting, whether or not he or she attends the Annual Meeting in person. When your proxy is properly executed, the shares represented by the corresponding proxy card will be voted in accordance with your directions. If your proxy does not specify a choice, the shares will be voted as recommended by the Board of Directors.

The cost of preparing, assembling, posting and mailing the Notice of Internet Availability of Proxy Materials (including the notice of Annual Meeting), proxy statement and proxies will be paid by the Company. In addition to the use of the mail, proxies may be solicited by directors, officers and other employees of the Company, without additional compensation, in person, by telephone or other electronic means. Furthermore, the Company has retained Georgeson Inc., a proxy solicitation firm, to solicit proxies from brokers, banks and institutional holders by telephone or mail. The Company does not anticipate the fees paid to Georgeson, exclusive of reimbursement of costs, will exceed \$25,000. Kindred will reimburse brokerage houses and other nominees for their expenses in forwarding proxy materials to beneficial owners of the Company's common stock.

In accordance with rules adopted by the Securities and Exchange Commission (the SEC), the Company is providing access to its proxy materials over the Internet. Accordingly, on or about April 5, 2010, the Company is mailing to its record and beneficial shareholders a Notice of Internet Availability of Proxy Materials, which contains instructions on how to access the Company's proxy materials over the Internet and vote online. If you received a Notice of Internet Availability of Proxy Materials, you will not receive a printed copy of the Company's proxy materials by mail unless you request one. If you wish to receive a printed copy of the Company's proxy materials for the 2010 Annual Meeting, please follow the instructions for requesting those materials set forth in the Notice of Internet Availability of Proxy Materials.

Revocability of Proxy

Executing and returning your proxy will not affect your right to attend the Annual Meeting and vote in person. If you do attend, you may vote by ballot at the Annual Meeting, thereby effectively canceling any proxies previously given. In addition, a shareholder giving a proxy may revoke it at any time before it is voted at the Annual Meeting by filing with the Corporate Secretary of the Company any instrument revoking it, or by filing with the Company a duly executed proxy bearing a later date.

Voting Rights and Outstanding Shares

Each share of common stock, \$0.25 par value (Common Stock), of the Company outstanding at the close of business on March 23, 2010 is entitled to one vote at the Annual Meeting. As of March 23, 2010, there were 39,493,971 shares of Common Stock outstanding.

The presence at the Annual Meeting in person or by proxy of holders of record of a majority of the outstanding shares of Common Stock is required to constitute a quorum for the transaction of all business at the Annual Meeting. The Company's bylaws provide for majority voting for directors in uncontested elections. As such, each director-nominee listed in this proxy statement will be elected if the votes cast for such nominee's election exceed the votes cast against such nominee's election. As set forth in the Company's Corporate Governance Guidelines, the Board of Directors of the Company expects a director to tender his or her resignation for consideration by the Board if he or she fails to receive the requisite number of votes for re-election.

The affirmative vote of a majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote will be necessary (1) to ratify the appointment of PricewaterhouseCoopers LLP as the Company's independent registered public accounting firm for fiscal year 2010, (2) to approve the shareholder proposal described in this proxy statement as Proposal 3, and (3) to approve any other matters that may properly come before the Annual Meeting for shareholder consideration.

Under rules of the New York Stock Exchange (NYSE), matters subject to shareholder vote are classified as routine or non-routine. In the case of non-routine matters, brokers may not vote shares held in street name for which they have not received instructions from the beneficial owner (Broker Non-Votes), whereas they may vote those shares in their discretion in the case of any routine matter. Abstentions and Broker Non-Votes are counted in determining whether a quorum is present. In the election of directors, which is a non-routine matter, abstentions or Broker Non-Votes for a director-nominee will have no effect. The ratification of the appointment of the independent registered public accounting firm is a routine matter, and the shareholder proposal is a non-routine matter. Abstentions will be counted as shares present and entitled to vote on both such proposals in determining whether they have received the requisite number of favorable votes, and Broker Non-Votes in connection with the shareholder proposal will not be counted as shares present and entitled to vote on that proposal. Thus, abstentions will have the same effect as votes against both of these proposals, and Broker Non-Votes will have no effect in determining whether the shareholder proposal has been approved. Therefore, it is important that you complete and return your proxy early so that your vote may be recorded.

Votes cast by proxy or in person at the Annual Meeting will be tabulated by the inspectors of election appointed for the Annual Meeting, who also will determine whether a quorum is present.

PROPOSAL 1. PROPOSAL TO ELECT DIRECTORS

The Board of Directors currently consists of ten persons. The Board of Directors has nominated the ten persons listed below to be elected as directors at the Annual Meeting. Each director elected at the Annual Meeting will serve, subject to the provisions of the Company's bylaws, until the next annual meeting of shareholders or until his or her successor is duly elected and qualified. The names and ages of the nominees proposed for election as directors, all of whom are presently directors of the Company, together with certain information concerning the nominees, are set forth below.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION AS DIRECTORS OF EACH OF THE NOMINEES LISTED BELOW.

Nominees For Director

EDWARD L. KUNTZ (64) has served as Chairman of the Board of Directors since May 2009. He served as the Executive Chairman of the Board of Directors of the Company from January 2004 to May 2009 and as the Company's Chairman of the Board and Chief Executive Officer from January 1999 to December 31, 2003. He served as President of the Company from November 1998 until January 2002. He also served as Chief Operating Officer and a director of the Company from November 1998 to January 1999. Mr. Kuntz is a director of Rotech

Healthcare, Inc. (OTC BB: ROHI), a provider of home medical equipment and related products and services. Mr. Kuntz served as a director of PharMerica Corporation (NYSE: PMC), a leading institutional pharmacy services company serving healthcare facilities in the United States, from July 2007 to July 2008. Mr. Kuntz has served as Chief Executive Officer of two publicly traded post-acute healthcare companies. His extensive experience with post-acute care, as well as his familiarity and length of service with the Company, position him well to serve as Chairman of the Board of Directors. (1)

JOEL ACKERMAN (44) has served as a director of the Company since December 2008. Mr. Ackerman is currently a Senior Portfolio Fellow with the Acumen Fund, a non-profit global venture fund that uses entrepreneurial approaches to solve the problems of poverty. Previously, Mr. Ackerman served as Managing Director and head of the Health Services Group at Warburg Pincus LLC, a global private equity firm, from January 1998 to September 2008. Mr. Ackerman is a director of Coventry Health Care, Inc. (NYSE: CVH), a national managed healthcare company, where he chairs the Nominating and Corporate Governance Committee. He served as a director of Medical Staffing Network Holdings, Inc. (Other-OTC: MSNW), a leading diversified temporary healthcare staffing company, from October 2001 to June 2009. In his role with Warburg Pincus, Mr. Ackerman gained extensive experience with strategic planning, mergers and acquisitions and capital markets in the healthcare services sector. While at Warburg Pincus, he served as an advisor to senior executives of more than 15 healthcare services companies and reviewed over 500 healthcare services opportunities. His experience at Warburg Pincus and his service on the boards of other healthcare related companies serve him well in advising the Company on strategic matters. (1)(2)(3)

ANN C. BERZIN (57) has served as a director of the Company since November 2006. Ms. Berzin served from 1992 to 2001 as Chair and Chief Executive Officer of Financial Guaranty Insurance Company, then a subsidiary of General Electric Capital Corporation. Ms. Berzin is a director of Ingersoll-Rand plc (NYSE: IR), a worldwide climate control, industrial solutions, infrastructure development and security products company, where she serves on the Audit Committee. Ms. Berzin is also a director of Constellation Energy Group, Inc. (NYSE: CEG), the largest wholesale power seller and competitive supplier of electricity to large commercial and industrial customers in the United States, where she serves on the Audit Committee. Ms. Berzin's role as Chief Executive Officer with Financial Guaranty Insurance Company, then a subsidiary of General Electric Capital Corporation, provided her with valuable experience in operating large organizations as well as successfully implementing growth strategies. This experience, along with her service on the boards of other large, publicly held corporations, allows her to provide valuable insights on operations, corporate strategy and best management practices. (2)(3)

JONATHAN D. BLUM (51) has served as a director of the Company since December 2008. Mr. Blum has served as the Senior Vice President Public Affairs for Yum! Brands, Inc. (NYSE: YUM), the world's largest restaurant company with approximately 1.4 million employees, since 1997. Mr. Blum has gained extensive experience in government and public affairs, corporate brand development and management and corporate communications. As a result of his role at YUM! Brands, Mr. Blum provides valuable insights into public relations matters, corporate compliance and best management practices of multi-site operators with large employee-based operations. (4)(5)

THOMAS P. COOPER, M.D. (65) has served as a director of the Company since May 2003. Dr. Cooper is the founder and Chairman of Vericare Management, Inc., a provider of mental health services to patients in long-term care facilities, since 1991. Dr. Cooper also is an adjunct professor at the Columbia University School of Business. Dr. Cooper is a director of Hanger Orthopedic Group, Inc. (NYSE: HGR), the largest operator of orthotic and prosthetic patient care centers in the United States, where he serves as the lead independent director and as a member of the Executive Compensation Committee. Dr. Cooper is also a director of IPC The Hospitalist Company, Inc. (NASDAQ: IPCM), a leading provider of hospitalist services in the United States, where he chairs the Quality Committee and serves on the Compensation Committee. Dr. Cooper has substantial experience in healthcare from his roles as a practicing physician as well as an entrepreneur in several healthcare ventures. He has held senior management positions in companies that provide mental health services, nurse triage services and physician services. Dr. Cooper brings a unique perspective on physician matters, quality of care issues and the business of healthcare. (1)(4)(5)

PAUL J. DIAZ (48) has served as a director of the Company since May 2002, as Chief Executive Officer of the Company since January 1, 2004 and as President of the Company since January 2002. He served as the Chief Operating Officer of the Company from January 2002 to December 31, 2003. Mr. Diaz is a director of DaVita, Inc. (NYSE: DVA), a provider of dialysis services for patients suffering from chronic kidney failure. Mr. Diaz served as a director of PharMerica Corporation (NYSE: PMC), a leading institutional pharmacy services company serving healthcare facilities in the United States, from July 2007 to July 2008. Mr. Diaz has served in various executive capacities with other long-term healthcare providers in operational, financial and legal positions. As the sole management representative on the Board, Mr. Diaz provides an unique perspective regarding the business and strategic direction of the Company and has experience in all aspects of the Company's business. (1)

ISAAC KAUFMAN (62) has served as a director of the Company since April 2001. Since September 1998, Mr. Kaufman has served as the Senior Vice President and Chief Financial Officer of Advanced Medical Management, Inc., a manager of medical practices and an outpatient surgical center. Mr. Kaufman is a director of TransWorld Entertainment Corporation (NASDAQ: TWMC), a leading specialty retailer of music and video products, where he chairs the Audit Committee and serves on the Compensation Committee and the Nominating and Governance Committee. Mr. Kaufman is also a director of Hanger Orthopedic Group, Inc. (NYSE: HGR), the largest operator of orthotic and prosthetic patient care centers in the United States, where he chairs the Audit Committee and serves on the Corporate Governance and Nominating Committee. Mr. Kaufman has served in senior financial roles with healthcare companies and is a certified public accountant. In these roles, he has gained significant experience in financial and accounting matters, Sarbanes-Oxley compliance as well as corporate governance issues. He also has substantial experience with over 40 years of cumulative service on public company boards and currently chairs the two aforementioned audit committees. (2)(3)

FREDERICK J. KLEISNER (65) has served as a director of the Company since March 2009. Mr. Kleisner has served as Chief Executive Officer of Morgans Hotel Group Co. (NASDAQ: MHGC), a hospitality company that owns, operates, acquires, develops and redevelops boutique hotels in the United States and Europe, since September 2007, and as a director since February 2006. Since April 2008, Mr. Kleisner has served as a Director and Trustee of Innkeepers USA Trust (Other-OTC: INKPP), a subsidiary of Apollo Investment Corporation (NASDAQ: AINV). Since October 2007, Mr. Kleisner has served as President and a director of Hard Rock Hotel Holdings, LLC, a destination casino and resort company. From January 2006 to September 2007, Mr. Kleisner served as the Chairman and Chief Executive Officer of Rex Advisors, LLC, a hotel advisory firm. From 1999 to 2006, Mr. Kleisner was the Chairman of the Board of Directors, President and Chief Executive Officer of Wyndham International, Inc., a global hospitality company that operates and develops hotels and vacation ownership resorts. Mr. Kleisner has substantial management experience in operating multi-site locations in the hospitality industry. His current Chief Executive Officer position along with his experience at other hotel operators has provided him with strong operating, market repositioning and financial management experience. (2)(5)

EDDY J. ROGERS, JR. (69) has served as a director of the Company since August 2003. Mr. Rogers has been a partner with the law firm of Andrews Kurth LLP since October 2001. During his over 40 years of legal practice, Mr. Rogers has focused his practice on venture capital, mergers and acquisitions, executive compensation, restructurings and general corporate matters, and has represented several clients in the healthcare industry. In addition, Mr. Rogers has previously served on the board of directors of other healthcare companies. His legal and business background permits him to provide perspectives on the Company's compliance profile and important elements of the Company's strategy, notably acquisitions. (3)(4)

PHYLLIS R. YALE (52) has served as a director of the Company since January 1, 2010. Ms. Yale has been a partner with Bain & Company, Inc., a global management consulting firm, since 1987. Ms. Yale served as a director of Pediatric Services of America, Inc., a comprehensive pediatric home healthcare services provider, from February 2006 to April 2007, and as a director of NeighborCare, Inc., a national institutional pharmacy

provider, from October 2003 to July 2005. In her role at Bain, Ms. Yale has obtained a deep knowledge base in several segments of the healthcare industry. Her experience includes advising healthcare clients on corporate strategies, marketing, cost and quality management as well as mergers and acquisitions. (1)(4)(5)

- (1) Member of the Strategic Development Committee, of which Mr. Diaz is Chair.
- (2) Member of the Audit Committee, of which Mr. Kaufman is Chair.
- (3) Member of the Nominating and Governance Committee, of which Ms. Berzin is Chair.
- (4) Member of the Executive Compensation Committee, of which Mr. Rogers is Chair.
- (5) Member of the Compliance and Quality Committee, of which Dr. Cooper is Chair.

From 1996 to July 1998, Mr. Diaz served in various executive capacities with Mariner Health Group, Inc. (Mariner Health), a long-term healthcare provider, most recently as Executive Vice President and Chief Operating Officer. On July 31, 1998, Paragon Health Network, Inc., the predecessor to Mariner Post-Acute Networks, Inc. (Mariner Post-Acute) acquired Mariner Health. Mariner Post-Acute and substantially all of its subsidiaries, including Mariner Health, filed voluntary petitions under the Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware on January 18, 2000.

As a result of decreased Medicare and Medicaid reimbursement rates introduced by the Balanced Budget Act of 1997 and other issues, the Company was unable to meet its then existing financial obligations, including rent payable to the Company's largest landlord, Ventas, Inc., and debt service obligations under its then existing indebtedness. Accordingly, on September 13, 1999, the Company filed voluntary petitions for protection under the federal Bankruptcy Code. On March 1, 2001, the Bankruptcy Court approved the Company's Fourth Amended Joint Plan of Reorganization. From the date of the bankruptcy filing until it emerged from bankruptcy on April 20, 2001, the Company operated its businesses as a debtor-in-possession subject to the jurisdiction of the Bankruptcy Court. Mr. Kuntz served as Chairman of the Board, President and Chief Executive Officer at the time of the Company's bankruptcy filing.

The information contained in this proxy statement concerning the nominees is based upon statements made or confirmed to the Company by or on behalf of such nominees, except to the extent certain information appears in its records. Directors' ages are given as of January 1, 2010.

SHARES OF COMMON STOCK OF THE COMPANY REPRESENTED BY PROXIES EXECUTED AND RETURNED PURSUANT TO THE INSTRUCTIONS SET FORTH IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS WILL BE VOTED FOR THE ELECTION AS DIRECTORS OF ALL OF THE NOMINEES, UNLESS OTHERWISE SPECIFIED. The Board of Directors does not contemplate that any of the nominees will be unable to serve as a director. However, in the event that one or more nominees are unable or unwilling to accept or are unavailable to serve, the persons named in the proxies or their substitutes will have the authority, according to their judgment, to vote or refrain from voting for other individuals as directors.

CERTAIN INFORMATION CONCERNING THE BOARD OF DIRECTORS

The Board of Directors has determined that the following eight directors are independent, as defined under the listing standards of the NYSE: Mr. Joel Ackerman, Ms. Ann C. Berzin, Mr. Jonathan D. Blum, Thomas P. Cooper, M.D., Mr. Isaac Kaufman, Mr. Frederick J. Kleisner, Mr. Eddy J. Rogers, Jr. and Ms. Phyllis R. Yale. The independent directors have regularly scheduled meetings at which members of management are not present. The Company's lead independent director presides as chair of these meetings. Mr. John H. Klein served as the Company's lead independent director until his resignation from the Board of Directors on May 20, 2009. Thomas P. Cooper, M.D. was appointed as the Company's lead independent director effective May 20, 2009. Mr. Garry N. Garrison also served as an independent director until his resignation from the Board of Directors on May 20, 2009.

The Board's independence determination for each director was based upon a review in which each director's independence was evaluated on a case-by-case basis. In performing the independence evaluations, the Board considers any matters that could affect the ability of each outside director to exercise independent judgment in discharging his or her responsibilities as a director, including all transactions and relationships between each such director, the director's family members and organizations with which the director or the director's family members have an affiliation and the Company, its subsidiaries and its management. Any such matters are evaluated both from the standpoint of the director and from that of persons or organizations with which the director has an affiliation. In addition, the Board also considers any other transactions, relationships or arrangements that could affect director independence.

In 2009, the Board reviewed relationships between the Company and other entities for which a director of the Company serves as a director. This review included analysis of ordinary course business transactions between the Company and (1) Coventry Health Care, Inc. for which Mr. Ackerman serves as a non-employee director, (2) Medical Staffing Network Holdings, Inc., for which Mr. Ackerman served as a non-employee director until June 2009, (3) Constellation Energy Group, Inc. for which Ms. Berzin serves as a non-employee director, (4) Hanger Orthopedic Group, Inc. for which Dr. Cooper and Mr. Kaufman serve as non-employee directors, and (5) IPC The Hospitalist Company, Inc. for which Dr. Cooper serves as a non-employee director.

Prior to Ms. Yale joining the Board effective January 1, 2010, the Board reviewed the relationship between the Company and Bain & Company, Inc., a global management consulting firm for which Ms. Yale has been a partner since 1987. The Company engaged Bain on several projects during and prior to 2008, mostly related to strategic planning. Bain has not provided any services to the Company since 2008. Ms. Yale's compensation from Bain is not contingent upon fees generated from the Company.

In this review, the Board identified no transactions, relationships or arrangements in which a director of the Company had or will have a direct or indirect material interest or which otherwise adversely impacted the Board's independence evaluation of the applicable outside directors.

During 2009, the Board of Directors held eight meetings, including five regular and three special meetings. For the time periods during which each director served on the Board, each director attended more than 75% of the total number of meetings held by the Board and the applicable committees.

The Board has no policy with respect to the separation of the offices of Chairman of the Board of Directors and the Chief Executive Officer. The Board believes that this issue is part of the succession planning process and that it is in the best interests of the Company for the Board to make a determination when it elects a new chief executive officer. Currently, the Board has elected to separate the roles of Chairman of the Board of Directors and Chief Executive Officer.

The independent directors meet in executive session at least quarterly to consider such matters as they deem appropriate, including, but not limited to, a review of the performance of the Chief Executive Officer.

It is the policy of the Board that a lead independent director be chosen annually by the independent directors from among the independent directors. The lead independent director (1) presides at all meetings of the directors at which the Chairman of the Board of Directors is not present, including all meetings of the independent directors; (2) serves as a liaison between the Chairman of the Board of Directors and the independent directors; (3) has the authority to call meetings of the independent directors; and (4) is available for direct communication from shareholders.

The Board of Directors has established an Audit Committee, a Compliance and Quality Committee, an Executive Compensation Committee, a Nominating and Governance Committee and a Strategic Development Committee. Each committee has a written charter which is available on the Company's website at www.kindredhealthcare.com. The Company's Corporate Governance Guidelines also are available on the

Company's website at www.kindredhealthcare.com. Information on the Company's website is not part of this proxy statement.

The Board of Directors annually reviews a Company-wide enterprise risk assessment, as presented by the Company's senior strategy, risk management and internal audit executives. This presentation and corresponding annual report is intended to give the Board of Directors a current view of the Company's primary operational, compliance, financial and strategic risks, on both a Company-wide as well as a division-specific basis. In addition to this annual enterprise risk assessment, an evaluation of principal areas of risk and corresponding mitigation strategies are examined in further detail during the year by (1) the Board of Directors regarding key strategic risks; (2) the Audit Committee regarding key financial risks; (3) the Compliance and Quality Committee regarding key operational and quality risks; and (4) the Executive Compensation Committee regarding the relationship of the Company's executive compensation program and risk.

Audit Committee. The Audit Committee has four members consisting of Mr. Isaac Kaufman (Chair), Mr. Joel Ackerman, Ms. Ann C. Berzin and Mr. Frederick J. Kleisner. Each member of the Audit Committee is independent as defined under the listing standards of the NYSE. The Board of Directors has determined that each member of the Audit Committee qualifies as an Audit Committee financial expert as defined in Item 407 of Regulation S-K promulgated under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee held seven meetings during 2009. The Audit Committee assists the Board of Directors in monitoring (1) the adequacy of the Company's system of internal controls, accounting policies, financial reporting practices, and the quality and integrity of the Company's financial reporting; (2) the independent registered public accounting firm's qualifications and independence; (3) the performance of the Company's internal audit function and independent registered public accounting firm; and (4) the Company's compliance with legal and regulatory requirements.

Compliance and Quality Committee. The Compliance and Quality Committee has four members consisting of Thomas P. Cooper, M.D. (Chair), Mr. Jonathan D. Blum, Mr. Frederick J. Kleisner and Ms. Phyllis R. Yale. Each member of the Compliance and Quality Committee is independent as defined under the listing standards of the NYSE. The Compliance and Quality Committee held five meetings in 2009. The Compliance and Quality Committee assists the Board of Directors in overseeing, monitoring, and evaluating (1) the Company's compliance with applicable healthcare laws, regulations, policies, professional standards and industry guidelines; (2) the Company's compliance with its Code of Conduct; and (3) the Company's programs, policies, procedures and performance improvement practices that support and enhance the quality of care provided by the Company.

Executive Compensation Committee. The Executive Compensation Committee has four members consisting of Mr. Eddy J. Rogers, Jr. (Chair), Mr. Jonathan D. Blum, Thomas P. Cooper, M.D. and Ms. Phyllis R. Yale. Each member of the Executive Compensation Committee is independent as defined under the listing standards of the NYSE, and qualifies as an outside director within the meaning of Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code), and as a non-employee director within the meaning of Rule 16b-3 under the Exchange Act. The Executive Compensation Committee held six meetings in 2009. The Executive Compensation Committee assists the Board of Directors in fulfilling its responsibility to the shareholders, potential shareholders and the investment community by ensuring 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 Executive Compensation Committee recommends and approves compensation policies, programs and pay levels that are necessary to support the Company's objectives and that are rational and reasonable to the value of the services rendered. The Executive Compensation Committee also reviews and discusses with management the Compensation Discussion and Analysis prepared for inclusion in the proxy statement and, based upon such review, determines whether to recommend to the Board that the Compensation Discussion and Analysis be included in this proxy statement. Furthermore, the Executive Compensation Committee prepares the Compensation Committee Report that begins on page 56 of this proxy statement.

The Executive Compensation Committee's processes and procedures for the consideration and determination of executive compensation, including the role of the Company's Chief Executive Officer in making recommendations to the Executive Compensation Committee and the role of compensation consultants in assisting the Executive Compensation Committee in its functions, are more fully described in the Compensation Discussion and Analysis section that begins on page 14 of this proxy statement.

Nominating and Governance Committee. The Nominating and Governance Committee has four members consisting of Ms. Ann C. Berzin (Chair), Mr. Joel Ackerman, Mr. Isaac Kaufman and Mr. Eddy J. Rogers, Jr. Each member of the Nominating and Governance Committee is independent as defined under the listing standards of the NYSE. The Nominating and Governance Committee held six meetings in 2009. The Nominating and Governance Committee assists the Board of Directors by (1) identifying individuals qualified to become Board members, approving the director nominees for the next annual meeting of shareholders and approving nominees to fill vacancies on the Board; (2) recommending to the Board nominees for director and chair(s) for each committee; (3) leading the Board in its annual review of the Board and senior management's performance; and (4) recommending to the Board the Corporate Governance Guidelines applicable to the Company. The Nominating and Governance Committee also recommends to the Board of Directors whether or not to accept the expected resignation of any director who fails to receive the required vote for re-election in any uncontested election as set forth in the Company's bylaws and Corporate Governance Guidelines, or whether other action should be taken.

Strategic Development Committee. The Strategic Development Committee has five members consisting of Mr. Paul J. Diaz (Chair), Mr. Joel Ackerman, Thomas P. Cooper, M.D., Mr. Edward L. Kuntz and Ms. Phyllis R. Yale. With the exception of Messrs. Diaz and Kuntz, each member of the Strategic Development Committee is independent as defined under the listing standards of the NYSE. The Strategic Development Committee was formally established in December 2009 and did not hold any meetings in 2009. The Strategic Development Committee assists the Board of Directors and management in the development and evaluation of the Company's business and strategic initiatives.

It is the policy of the Nominating and Governance Committee to consider director candidates recommended by shareholders in accordance with the procedures set forth below and who appear to be qualified to serve on the Company's Board of Directors. The Nominating and Governance Committee may choose not to consider an unsolicited recommendation if no vacancy exists on the Board of Directors. There have been no material changes to the procedures by which shareholders may recommend director candidates since the Company last disclosed such procedures.

To submit a recommendation of a director candidate to the Nominating and Governance Committee, a shareholder should submit the following information in writing, addressed to the Chair of the Nominating and Governance Committee, care of the Corporate Secretary, at the Company's principal office:

1. The name of the person recommended as a director candidate;
2. All information relating to such person that is required to be disclosed in solicitations of proxies for election of directors pursuant to Regulation 14A under the Exchange Act;
3. The written consent of the person being recommended as a director candidate to being named in the proxy statement as a nominee and to serving as a director if elected;
4. As to the shareholder making the recommendation, the name and address, as they appear on the Company's records, of such shareholder; provided, however, that if the shareholder is not a registered holder of the Company's Common Stock, the shareholder should submit his or her name and address along with a current written statement from the record holder of the shares that reflects ownership of the Company's Common Stock, and the number and class of all shares of each class of stock of the Company owned of record or beneficially by such holder; and
5. A statement disclosing whether such shareholder is acting with or on behalf of any other person and, if applicable, the identity of such person.

In order for a director candidate to be considered for nomination at the Company's annual meeting of shareholders to be held in 2011, the recommendation must be received in accordance with the requirements for other shareholder proposals. See Shareholder Proposals and Director Nominations.

The Nominating and Governance Committee has generally identified director nominees based upon suggestions by outside directors, members of management and/or shareholders and outside search firms, and has interviewed and evaluated those persons on its own. On occasion, the Company engages outside search firms to identify and screen potential director candidates. Ms. Yale was appointed to the Board of Directors effective January 1, 2010. Ms. Yale was identified by the Chief Executive Officer and several other independent directors based upon her past interactions with the Company in connection with her service with Bain & Company, Inc.

As set forth in its written charter, the Nominating and Governance Committee generally will seek directors who possess integrity, a high level of education and business experience, broad-based business acumen, an understanding of the Company's business and the healthcare industry generally, strategic thinking and a willingness to share ideas, a network of contacts and diversity of experiences, expertise and backgrounds. Further, as set forth in the Company's Corporate Governance Guidelines, the Nominating and Governance Committee is responsible for annually reviewing with the Board of Directors the requisite skills and characteristics of new Board members, as well as the composition of the Board as a whole. This assessment includes a review of the director's independence, as well as consideration of diversity, age, skills, expertise and experience in the context of the needs of the Board of Directors. While the Corporate Governance Guidelines do not prescribe diversity standards, as a matter of practice, the Nominating and Governance Committee considers diversity in the context of the Board as a whole and takes into account the personal characteristics and experience of current and prospective directors to facilitate Board deliberations that reflect a broad range of perspectives. The Nominating and Governance Committee uses the above criteria to evaluate potential nominees, and does not evaluate proposed nominees differently depending upon who has made the proposal. The Nominating and Governance Committee reviews current directors who may be proposed for re-election considering the factors described above and their past contributions to the Board. In so doing, the Committee has determined that the directors proposed for election at the Annual Meeting have experience, skills and qualifications consistent with the principles set out in the charter of the Nominating and Governance Committee as describe above under Nominees for Director.

Attendance at the Annual Meeting. The Board of Directors does not require directors to attend the annual meeting of shareholders. Notwithstanding the foregoing, Mr. Kuntz, Mr. Ackerman, Ms. Berzin, Mr. Blum, Dr. Cooper, Mr. Diaz, Mr. Kaufman, Mr. Kleisner and Mr. Rogers attended the 2009 annual meeting of shareholders.

CODE OF ETHICS AND RELATED PERSON TRANSACTIONS

Code of Ethics

The Company has adopted a Code of Conduct that serves as its code of ethics and applies to all of the Company's directors and employees, including the principal executive officer, principal financial officer, principal accounting officer, and certain other persons performing similar functions. The text of the Company's Code of Conduct is posted on the Company's website located at www.kindredhealthcare.com under the Investors section and is available in print to any requesting shareholder. Information contained on the Company's website is not part of this proxy statement. In addition, the Company intends to disclose on its website (1) the nature of any amendment to a provision of the Code of Conduct that applies to the Company's principal executive officer, principal financial officer, principal accounting officer, or persons performing similar functions and (2) the nature of any waiver, including an implied waiver, from provisions of the Code of Conduct that is granted to one of these specified individuals (which may only be made by the Board of Directors or a Board committee), the name of the person to whom the waiver was granted and the date of the waiver. Such disclosure will be made within four business days following the date of the applicable amendment or waiver.

The Company's Code of Conduct generally prohibits the Company's directors, executive officers and employees from engaging in activities that conflict with the interests of the Company and the residents and patients served by the Company. Situations that may give rise to a potential conflict of interest under the Code of Conduct include (1) having a direct or indirect financial or business interest in any entity that does business with the Company, (2) having a direct or indirect financial or business interest in any transaction between the Company and a third party, and (3) serving as a director, officer, employee or consultant of an organization that does business with the Company.

To facilitate compliance with these rules, the Code of Conduct requires that individuals report to their supervisors, or to the Board in the case of directors and executive officers, circumstances that may create or appear to create a conflict between the personal interests of the individual and the interests of the Company, regardless of the amount involved. In addition, each director and executive officer annually confirms to the Company certain information about potential related person transactions as part of the preparation of the Company's Annual Report on Form 10-K and its annual proxy statement. Director nominees and persons promoted to executive officer positions also must confirm such information. In addition, management reviews its records and makes additional inquiries of management personnel and, as appropriate, third parties and other resources for purposes of identifying related person transactions, including related person transactions involving beneficial owners of more than 5% of the Company's voting securities.

Related Person Transactions

In accordance with the charter for the Audit Committee of the Board of Directors, the Audit Committee evaluates each related person transaction involving a director or executive officer for the purpose of determining whether to recommend to the disinterested members of the Board that the transactions are fair, reasonable and within Company policy, and whether they should be ratified and approved by the Board. The Audit Committee considers each related person transaction in light of all relevant factors and the controls implemented to protect the interests of the Company and its shareholders.

Relevant factors include:

the benefits of the transaction to the Company;

the terms of the transaction and whether the terms have been negotiated at arm's-length and in the ordinary course of the Company's business;

the direct or indirect nature of the related person's interest in the transaction;

the amount involved and the expected term of the transaction; and

other facts and circumstances that bear on the materiality of the related person transaction under applicable law and listing standards. Approval by the Company's Board of Directors of any related person transaction involving a director also must be made in accordance with applicable law and the Company's organizational documents as from time to time in effect. When a vote of the disinterested directors is required, such vote is called only following full disclosure to such directors of the facts and circumstances of the relevant related person transaction. Transactions that are not approved or ratified as required by the Code of Conduct are subject to termination by the Company, if so directed by an employee's supervisor, the Audit Committee or the Board of Directors, as applicable, taking into account such factors as such individual or body deems appropriate and relevant. Based upon its review, the Audit Committee did not identify any related person transactions under Item 404 of Regulation S-K for 2009 or that are currently proposed.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding beneficial ownership of Common Stock as of March 1, 2010 by (1) each person who is a director or nominee for director, (2) each of the Company's Named Executive Officers (as defined herein), (3) all of the persons who are directors and executive officers of the Company, as a group, and (4) each shareholder known by the Company to be the beneficial owner of more than 5% of its outstanding shares of Common Stock.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class (1)
Directors, Nominees and Named Executive Officers		
Edward L. Kuntz	343,768	*
Paul J. Diaz	1,141,157	2.8%
Joel Ackerman	12,215	*
Ann C. Berzin	30,593	*
Jonathan D. Blum	12,215	*
Thomas P. Cooper, M.D.	53,935	*
Isaac Kaufman	78,680	*
Frederick J. Kleisner	12,215	*
Eddy J. Rogers, Jr.	62,978	*
Phyllis R. Yale	10,165	*
Richard A. Lechleiter	292,855	*
Frank J. Battafarano	214,980	*
Lane M. Bowen	122,582	*
Benjamin A. Breier	104,619	*
All Directors and Executive Officers as a Group (20 persons)	2,965,118	7.2%
Other Security Holders with More than 5% Ownership		
BlackRock, Inc. (2)	3,341,532	8.5%
Dimensional Fund Advisors LP (3)	3,313,070	8.4%
Franklin Mutual Advisers, LLC (4)	2,530,902	6.4%
Wellington Management Company, LLP (5)	2,188,900	5.5%

* Denotes less than 1%.

- (1) Includes shares subject to stock options which are exercisable within 60 days from March 1, 2010. The number of shares of Common Stock that may be acquired through exercise of stock options, which are exercisable as of, or within 60 days after, March 1, 2010, are as follows: Mr. Kuntz 204,332 shares; Mr. Diaz 801,128 shares; Mr. Ackerman 3,750 shares; Ms. Berzin 19,628 shares; Mr. Blum 3,750 shares; Dr. Cooper 45,470 shares; Mr. Kaufman 67,715 shares; Mr. Kleisner 3,750 shares; Mr. Rogers 52,013 shares; Ms. Yale 0 shares; Mr. Lechleiter 200,520 shares; Mr. Battafarano 141,339 shares; Mr. Bowen 57,608 shares; and Mr. Breier 39,757 shares. Unless otherwise noted, the Company believes that all persons named in the table have sole voting and investment power with respect to all shares of Common Stock beneficially owned by them. The total for Mr. Lechleiter includes his indirect beneficial ownership of 800 shares held by his wife as custodian for his children under the Uniform Transfer to Minors Act.
- (2) Based upon a Schedule 13G filed by BlackRock, Inc. (BlackRock) dated December 31, 2009 with the SEC. According to the Schedule 13G, BlackRock is a parent holding company for subsidiaries that hold the Common Stock. The address of BlackRock is 40 East 52nd Street, New York, NY 10022.
- (3) Based upon a Schedule 13G/A filed by Dimensional Fund Advisors LP (Dimensional) dated December 31, 2009 with the SEC. According to the Schedule 13G/A, Dimensional furnishes investment advice to four investment companies and serves as investment manager to certain other commingled group

trusts and separate accounts (collectively, the Funds). According to the Schedule 13G/A, Dimensional, in its role as investment advisor or manager, possesses investment and/or voting power over these shares that are owned by the Funds. Dimensional disclaims beneficial ownership of these shares. The address of Dimensional is Palisades West, Building One, 6300 Bee Cave Road, Austin, Texas 78746.

- (4) Based upon a Schedule 13G/A filed by Franklin Mutual Advisers, LLC (FMA) dated December 31, 2009 with the SEC. According to the Schedule 13G/A, these shares are beneficially owned by one or more open-end investment companies or other management accounts of FMA. Under its investment management contracts, FMA has sole voting and investment power over these securities owned by its clients which FMA manages. FMA disclaims beneficial ownership of these shares. The address of FMA is 101 John F. Kennedy Parkway, Short Hills, New Jersey 07078.
- (5) Based upon a Schedule 13G filed by Wellington Management Company, LLP (Wellington) dated December 31, 2009 with the SEC. According to the Schedule 13G, Wellington, in its capacity as investment advisor, may be deemed to beneficially own these shares which are held of record by clients of Wellington. The address of Wellington is 75 State Street, Boston, Massachusetts 02109.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors and executive officers and persons who own more than 10% of the Common Stock to file initial stock ownership reports and reports of changes in ownership with the SEC. Based upon a review of these reports and on written representations from the reporting persons that no other reports were required, the Company believes that the applicable Section 16(a) reporting requirements were complied with for all transactions which occurred in 2009, except as noted below.

On September 15, 2009, Benjamin A. Breier, Executive Vice President and President, Hospital Division, was one day late in filing a Form 4 that reflected the sale of 6,535 shares of Common Stock on September 10, 2009.

COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

COMPENSATION DISCUSSION AND ANALYSIS

Overview

The Company's executive compensation program is designed to (1) motivate and retain executive officers, (2) award the achievement of short-term and long-term performance goals, (3) establish a reasonable and 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. The primary elements of the Company's compensation program are base salary, annual cash incentive awards, long-term cash incentive awards, equity-based compensation and retirement and other perquisites and benefits. The Company believes that each element supports one or more of the objectives of the Company's executive compensation program and provides sufficient flexibility to the Executive Compensation Committee (the "Committee") to structure future awards to address new issues and challenges facing the Company.

The Company's executive compensation program generally attempts to target total direct compensation for the Named Executive Officers (as defined herein) between the 50th and 75th percentiles of the Company's peers, depending upon the individual performance of the Named Executive Officer, his level of responsibility, and the performance of the Company. While the Committee uses this range as a measure of competitiveness, it ultimately uses its discretion to provide appropriate compensation to attract and retain qualified and experienced healthcare executives and to respond to issues impacting the Company, the healthcare industry and the general economy.

In connection with its review of executive compensation in late 2008 and early 2009, the Committee noted the overall economic conditions and the difficult operating challenges the Company believed it would face in 2009. The Committee also noted that incentive compensation in 2008 was significantly lower than 2007 primarily as a result of charges to earnings associated with the closure of two unprofitable hospitals.

In anticipation of a difficult operating environment, the Committee elected to freeze base salaries for the Named Executive Officers during 2009. Freezing base salaries also limited the growth in compensation costs associated with the Company's short-term cash incentive plan and long-term cash incentive plan. In addition, the Committee instituted revised performance hurdles for the Company's short-term incentive plan to increase the difficulty of achieving a partial award while also providing the opportunity for a larger award for outstanding financial performance. Despite a challenging operating and reimbursement environment, the Company performed well in 2009. The Company exceeded its earnings guidance for the year and met substantially all of its financial goals. Several of the quality metrics used by the Company to evaluate its clinical and customer satisfaction performance also improved in 2009. In addition, the Company's common stock price increased 42% year over year. As a result of this performance, the Named Executive Officers achieved substantial compensation awards under the Company's short-term incentive plan and long-term incentive plan for 2009. In addition, the Committee awarded special cash bonuses to Messrs. Diaz and Breier for exceptional performance during 2009.

During 2009, the Committee also addressed a significant compensation issue outside of its normal review cycle. Over several meetings during 2009, the Committee considered and approved modifications to the change in control severance agreements of the Company's officers, including each of the Named Executive Officers, to eliminate two provisions that, in the Committee's view, are no longer consistent with best practices. As revised, the change in control severance agreements provide that the Named Executive Officer is not entitled to any change in control severance benefits unless (1) a change in control occurs and (2) the Named Executive Officer is terminated either by the Company other than for "cause" or by the Named Executive Officer upon a "good reason" event. A good reason event is generally defined as an event that materially impairs the Named Executive Officer's employment or level of compensation. Under the previous agreements, a Named Executive Officer could voluntarily terminate his employment for any or no reason within two specified periods following a change in control and receive change in control severance benefits. This right has been removed from the revised agreements. The previous agreements also provided that the Company would "gross-up" the Named Executive

Officers for any excise taxes related to change in control severance benefits. The revised agreements eliminate such provisions and the Named Executive Officers will no longer be grossed-up for any applicable excise taxes. These matters are described in more detail under Employment and Other Agreements.

The Company, like many other healthcare providers, will face significant challenges in 2010 and beyond, particularly in response to potential healthcare reform proposals. The Committee continues to believe that the existing executive compensation program generally provides sufficient flexibility to retain and motivate management during these challenging times. As such, the Committee does not believe it is necessary to substantially deviate from its current compensation practices at this time.

Performance Measures

The primary elements of the Company's executive compensation program are designed to promote the achievement of financial and quality goals established annually by the Committee and to increase shareholder value. The Company uses two cash incentive plans - an annual short-term incentive plan and a long-term incentive plan. These plans provide the Named Executive Officers with the opportunity to earn cash awards for achieving financial goals and measures such as:

- (1) achieving targeted levels of earnings before interest, income taxes, depreciation, amortization and rent (EBITDAR);
- (2) collecting accounts receivable;
- (3) achieving patient admission and census goals;
- (4) managing costs and improving operating efficiencies;
- (5) achieving targeted levels of earnings per share;
- (6) attaining targeted levels of stock price appreciation; and
- (7) implementing strategic goals.

The Company believes that several of these financial goals are measures generally used by investors to value the Company's Common Stock. In addition, the Committee believes that these financial goals reward management for mitigating the negative impact of unexpected reimbursement reductions.

As a provider of healthcare services, the Company also focuses a substantial portion of its short-term cash incentive awards on achieving measurable quality and customer service goals. The goals for 2009 were based upon:

- (1) operational and clinical measures of quality care;
- (2) customer satisfaction measures obtained from customer satisfaction surveys; and
- (3) achieving targeted employee retention rates.

The Company believes that measurable quality and customer service goals are critical to promoting a culture of quality throughout the Company which enhances the services offered by the Company. Moreover, the Company believes that there is a direct link between providing quality

services and achieving favorable short-term and long-term financial results.

The Company also believes that the performance measures it has chosen appropriately reward performance without encouraging unnecessary and excessive risk taking on the part of the Company's employees. The allocation of potential awards among the various financial and quality goals encourages appropriate behavior by the Company's employees that balance short-term objectives with long-term operational and clinical performance and financial stability.

The equity-based component of the Company's executive compensation program is designed to incentivize the Named Executive Officers to increase the value of the Company's Common Stock. As such, equity-based compensation directly links a substantial portion of the total direct compensation of the Named Executive Officers to stock price appreciation and shareholder value.

The Executive Compensation Process

During 2009, the Committee was comprised of between three and six independent directors. Currently, four independent directors serve on the Committee. Each director who served on the Committee during 2009 is independent as defined under the NYSE listing standards and qualifies as an outside director within the meaning of Section 162(m) of the Code and as a non-employee director within the meaning of Rule 16b-3 under the Exchange Act. The Committee meets regularly to review and oversee the Company's executive compensation program. The Committee reviews all components of, and makes all decisions regarding, the compensation of the Named Executive Officers.

During the period commencing in December of the prior fiscal year and ending in February of the upcoming fiscal year, the Committee considers base salaries and incentive compensation targets for the upcoming fiscal year for the Company's key employees, including the Named Executive Officers. During this time, the Committee also determines whether performance targets under each of the cash incentive plans were achieved for the prior fiscal year. The Committee may consider other executive compensation issues and discusses trends and current topics in executive compensation at various times throughout the year.

The 2009 base salaries for the Named Executive Officers were established in February 2009. The 2009 performance targets under the Company's short-term and long-term cash incentive plans were established in February 2009 after review of the Company's 2009 operating budget. As discussed below, the awards under these plans are formulaic, based upon the achievement of measurable financial and quality goals established annually by the Committee. Nevertheless, the Committee retains the right to administer these plans in its discretion, including the ability to decrease cash incentive awards otherwise payable to a Named Executive Officer for unforeseen events or circumstances, such as restatements of the Company's financial statements.

The Committee generally grants equity-based awards to the Named Executive Officers to coincide with the Committee's evaluation of the annual performance of the Company and the Named Executive Officers. Considering equity-based awards at or after the cash incentive plan awards have been determined allows the Committee to consider the value of the equity-based award in relation to the total direct compensation for the Named Executive Officers, thus enabling the Committee to award total direct compensation that is competitive within the healthcare industry (and, in particular, the Company's peer group) and relative to the performance of the Company and the Named Executive Officer. From time to time, the Committee may grant equity-based awards at other times, particularly in connection with promotions, exceptional performance or changes in a Named Executive Officer's level of responsibility.

As Chief Executive Officer, Mr. Diaz participates frequently in a portion of the meetings of the Committee, and the Committee also regularly holds executive sessions not attended by any members of management or any non-independent director. The Committee discusses Mr. Diaz's compensation with him and then makes decisions with respect to Mr. Diaz's compensation without him present. Mr. Diaz provides written evaluations related to the performance of the Company's other executive officers and discusses the roles and responsibilities of such executive officers with the Committee. Members of the Committee also frequently interact with the Company's executive officers and thereby gain an appreciation of the roles and level of responsibility as well as the performance of the executive officers. Mr. Diaz also makes recommendations for the Committee's consideration regarding executive compensation, including base salary, incentive targets, performance measures, equity compensation and any special awards for the Company's executive officers other than himself. The Committee is not obligated to accept Mr. Diaz's recommendations with respect to executive compensation. The other Named

Executive Officers do not make recommendations on incentive compensation or otherwise significantly participate in the process.

In December 2009, the Committee began its annual execu