



## **REHABCARE**

### **CHARTER OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS**

#### **Purpose**

The purpose of the Audit Committee (the “Committee”) is to assist the Board of Directors of RehabCare Group, Inc. (the “Company”) in its oversight of:

- The integrity of the Company’s financial statements, including monitoring the Company’s financial reporting process and systems of internal controls regarding finance, legal accounting and regulatory compliance;
- The Company’s compliance with applicable legal and regulatory requirements with respect to financial reporting;
- The qualifications and independence of the Company’s independent auditors; and
- The performance of the independent auditors and the Company’s internal audit function.

The Committee shall have the sole authority to retain and terminate the independent auditors of the Company and to approve any non-audit relationship with the independent auditors. The Committee has the authority to conduct any investigation it deems appropriate in fulfilling its responsibilities and has the ability to retain, at the Company’s expense, any legal, accounting or other consultants or experts that it deems necessary in the performance of its duties.

In addition, the Committee will prepare its report that is required by the rules and regulations of the Securities and Exchange Commission to be included in the Company’s proxy statement for the annual meeting of stockholders and provide an avenue of communication among the independent auditors, the internal auditors, those responsible for the financial management of the Company and the Board of Directors.

#### **Composition, Qualifications and Meetings**

Committee members shall satisfy the requirements of the New York Stock Exchange and the federal securities laws. The Committee shall be comprised of three or more directors as determined by the Board of Directors, each of whom shall be an “independent” director. An independent director is a member of the Board of Directors of the Company who:

- The Board of Directors has affirmatively determined has no material commercial, industrial, banking, consulting, legal, accounting, charitable or familial relationship with the Company, either individually or as a partner, stockholder or officer of an organization

or entity having such a relationship with the Company, which relationship would adversely impact the director's independence in connection with the Company;

- Is not currently receiving, and has not received, during the three years prior to the date of determination, any direct compensation from the Company, other than director and committee fees and receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service to the Company (provided that such compensation is not contingent in any way on continued service) and has no immediate family member who is receiving or has received such compensation either currently or during such three-year period;
- Is not, and has not been, for the three years prior to the date of determination, an employee of the Company and has no immediate family member who is or has been, for the three years prior to the date of determination, an executive officer of the Company;
- Is not, and has not been, affiliated with or employed by the present or a former internal or external auditor of the Company, and has no immediate family member who is, or has been, affiliated with or employed in a professional capacity by the present or a former internal or external auditor of the Company, unless, in each case, it has been more than three years since the affiliation, employment or the auditing relationship ended;
- Is not, and has not been (and has no immediate family member who is or has been), for the three years prior to the date of determination, part of an interlocking directorship in which an executive officer of the Company serves on the compensation committee of the company that concurrently employed the director (or immediate family member) as an executive officer;
- Is not an executive officer or an employee (and has no immediate family member who is an executive officer) of another company that presently, or at any time within the three years prior to the date of determination, makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues; and
- Is compensated by the Company solely with the directors' fees that are paid by the Company to each Committee member and, if applicable, fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service to the Company (provided that such compensation is not contingent in any way on continued service).

For the purpose of determining independence, "immediate family member" means such director's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law and anyone who shares the director's home. The Committee may determine a director to be independent if the disqualifying issue relates to an immediate family member who is no longer an immediate family member as a result of legal separation or

divorce or if the relevant immediate family member has died or become incapacitated. References to any company include any parent or subsidiary in a consolidated group with the company.

Each director who serves on the Committee shall, in the judgment of the Board of Directors, have a basic understanding of finance and accounting and be able to read and understand financial statements, and at least one member shall be an “Audit Committee financial expert.” A director shall be considered an Audit Committee financial expert if the director:

- Has an understanding of financial statements and generally accepted accounting principles;
- Has the ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
- Has experience preparing, or actively supervising others in, auditing, analyzing or evaluating financial statements with a breadth and level of complexity generally comparable to the breadth and complexity of issues that can reasonably be expected to arise in the Company’s financial statements;
- Has an understanding of internal controls and procedures for financial reporting; and
- Has an understanding of the functions of the Committee.

The Board of Directors can determine that a person has acquired the above attributes through the person’s education and the person’s direct experience as, or experience actively supervising, a principal financial officer, principal accounting officer, controller, public accountant or auditor or another position with responsibility for the preparation, auditing or evaluation of financial statements.

Committee members shall be appointed by the Board of Directors and shall serve until such member’s successor is appointed and qualified or until such member’s earlier resignation or removal. The members of the Committee may be removed, with or without cause, by a majority vote of the Board of Directors. A Committee member shall not concurrently serve on the audit committee of more than three public companies unless the Board of Directors (1) determines that such concurrent service would not impair his or her ability to serve on the Company’s Committee and (2) discloses its determination in the Company’s annual proxy statement.

The Committee shall meet at least four times annually, or more frequently as circumstances dictate. The Committee Chair shall approve an agenda in advance of each meeting. If a Committee Chair is not designated or present at a Committee meeting, the members of the Committee may designate a Chair by a majority vote of the Committee membership.

## **Responsibilities and Duties**

The primary function of the Committee is oversight, which recognizes that the Company's management is responsible for the preparation, presentation and integrity of the Company's financial statements as well as the maintenance of appropriate accounting and financial reporting practices and policies and internal controls and procedures designed to provide reasonable assurances that the Company is in compliance with applicable accounting standards, laws and regulations. The Committee also recognizes that the independent auditors are responsible for planning and performing a proper audit of the Company's annual financial statements and performing reviews of the Company's quarterly financial statements prior to the filing of each of these reports with the Securities and Exchange Commission.

The Committee recognizes that the persons who are responsible for the financial management of the Company and the independent auditors have more time, knowledge and detailed information regarding the Company and its financial information than do the Committee members. Consequently, in carrying out its responsibilities, the Committee is not providing any expert or special assurances as to the Company's financial statements or any professional certification as to the independent auditors' work. Each member of the Committee is entitled to rely on (i) the integrity of those persons and organizations within and outside the Company from which he or she receives information and (ii) the accuracy of the financial and other information provided to the Committee by such persons and organizations, absent actual knowledge to the contrary (which shall be promptly reported to the Board of Directors).

In carrying out its oversight responsibilities, the Committee shall:

- On an annual basis, prior to the mailing of the proxy materials for the annual meeting of stockholders of the Company, recommend to the Board of Directors a public accounting firm to be placed before the stockholders for ratification as the Company's independent auditors for the ensuing year and set the compensation of, or terminate, the independent auditors as the Committee deems necessary. The independent auditors shall report directly to the Committee and the Committee shall be directly responsible for oversight of the independent auditors, including the resolution of any disagreements between the independent auditors and those persons responsible for the financial management of the Company. The Committee shall have the sole authority to (1) approve all audit engagement fees and terms and (2) pre-approve all non-audit services;
- Engage counsel and other consultants and advisors that it deems necessary to advise the Committee on any matter within the scope of the Committee's duties, and cause the Company to pay such counsel, consultants and advisors. The Committee has the authority to procure these outside services and provide for their compensation without the prior approval of the Board of Directors;
- Meet with the independent auditors and management of the Company to review the scope of the proposed audit for the then-current year, the proposed audit fees and the audit procedures to be utilized, and at the conclusion of the audit, review the audit, including

any comments or recommendations of the independent auditors, and elicit the judgment of the independent auditors regarding the quality of the accounting principles applied to the Company's financial statements;

- Review the annual audited and quarterly financial statements with management of the Company and the independent auditors, including the disclosures in the Management's Discussion and Analysis section of the Form 10-K or Form 10-Q. In conjunction with such annual or quarterly review, the Committee shall review:
  - Major issues regarding accounting principles and financial statement presentation, including any significant changes in the Company's selection or application of accounting principles and major issues as to the adequacy and effectiveness of internal controls and any special audit actions taken in light of major internal control deficiencies;
  - Analyses prepared by management and/or the independent auditors 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 methods of generally accepted accounting principles on the financial statements; and
  - The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on financial statements.
- Discuss the type of information to be disclosed in earnings press releases, earnings guidance and other financial presentations that are to be provided to analysts, rating agencies and the general public, paying particular attention to the use of "pro forma" or "as adjusted" financial disclosures that are not determined in accordance with generally accepted accounting principles;
- Discuss the Company's financial risk exposures, the steps management of the Company has taken to monitor and control such exposures and the Company's guidelines and policies regarding risk assessment and management;
- Provide the opportunity for management of the Company, the internal auditors and the independent auditors to meet separately with the Committee. The items to be discussed at the meeting with the independent auditor should include any difficulties encountered in the course of the audit work, any restrictions placed on the scope of the independent auditors' activities and access to information, any disagreements with management and the evaluation by the internal auditors of the Company's financial, accounting and internal auditing personnel and the cooperation that the independent auditors received from such personnel during the course of the audit. The Committee may also review:
  - Any accounting adjustments that were noted by the independent auditors but "passed" (as immaterial or otherwise);

- Any communications between the independent auditors' on-site team and the independent auditors' national offices about auditing or accounting issues raised in the course of the audit of the Company's financial statements; or
- Any management letter issued, or proposed to be issued, by the independent auditors to the Company.

The meeting with the internal auditors should include a review of the responsibilities, budget and staffing of the Company's internal audit function as well as the internal auditors' independence and authority, reporting obligations, proposed internal audit plan for the coming year and coordination of the plan with the independent auditor. The internal auditors should also present a summary of findings for completed internal audits and progress reports on current internal audit plans, with explanations for any deviations from the plan;

- Obtain and review, at least annually, a report by the independent auditors describing the firm's internal quality control procedures, and any material issues raised by the most recent internal quality control review of the firm or by any governmental or professional investigation within the preceding five years with respect to any audit conducted by the firm and steps taken by firm to deal with such issues;
- Evaluate on an annual basis the qualifications, performance and independence of the independent auditors, based on the Committee's review of the independent auditors' report and the performance of the independent auditors throughout the year. In making its evaluation, the Audit Committee should take into consideration the opinion of management and the Company's internal auditors. In conjunction with this evaluation, the Committee shall review the independent auditors' lead partner and consider whether the Company should regularly rotate firms to assure continuing auditors' independence. The Committee shall present to the Board of Directors its conclusions with respect to the independent auditors;
- At least annually, review and approve all relationships between the independent auditors and the Company, other than the audit of the financial statements with a view toward ensuring the objectivity and independence of the independent auditors in this regard. The Committee will set clear hiring policies with respect to employees or former employees of the independent auditors by the Company to ensure that there is no direct or indirect adverse effect on the independence of the independent auditors due to the potentiality of future employment by the Company of such personnel;
- Establish procedures for the receipt, retention and treatment of complaints and concerns received by the Company regarding accounting, internal controls and auditing matters and for the confidential, anonymous submission of such complaints and concerns by employees of the Company; and

- Prepare the report of the Committee as required by the rules and regulations of the Securities and Exchange Commission to be included in the Company's proxy materials and submit reports of all meetings of the Committee to, and discuss matters covered at each meeting with, the Board of Directors. The reports to the Board of Directors should include a review of any issues related to the quality and the integrity of the Company's financial statements, its compliance with legal and regulatory requirements and the performance of the independent auditors and the internal auditors.

### **Annual Review**

The Committee shall annually perform a review and evaluation of the performance of the Committee and its members and report its conclusions to the Board of Directors. In addition, the Committee shall assess the adequacy of the Charter and the Committee's own performance under the Charter. The Committee will determine whether any changes to the Charter are advisable or any corrective actions should be undertaken to correct any deficiencies or weaknesses noted in the review and evaluation. The Committee shall present any amendments to the Charter or corrective actions that the Committee deems necessary or appropriate to the Board of Directors for its approval.

### **Adoption and Publication**

The Audit Committee reviewed this Charter and determined no amendments were necessary on July 25, 2005.

The Charter shall be published on the Company's Internet website, filed with the Securities and Exchange Commission at least every three years in accordance with applicable regulations and otherwise be filed or reported as may be required by law.

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