



COMPENSATION
COMMITTEE CHARTER

As of March 3, 2009

Advocat Inc. Compensation Committee Charter

Organization

The Board of Directors (the “Board”) of Advocat Inc. (the “Company”) shall designate annually a Compensation Committee comprised of two or more Directors, who may be removed by the Board in its discretion. The members of the Compensation Committee shall be “independent” as determined by the Board as determined in accordance with all applicable laws, rules, regulations and requirements. The Compensation Committee shall report regularly to the Board. Each member of the Compensation Committee shall be literate in compensation-related matters. Such literacy shall be determined by the Board in its business judgment.

A Chairman of the Compensation Committee shall be elected annually by the Board. The Compensation Committee member so designated shall: (a) chair all meetings of the Compensation Committee; (b) coordinate the evaluation of the performance of the Chief Executive Officer (“CEO”); and (c) perform such other activities as from time to time are requested by the other Compensation Committee members or as circumstances indicate.

Purpose

The purpose of the Compensation Committee is to: (a) establish and maintain a competitive, fair and equitable compensation and benefits policy designed to retain personnel, to stimulate their useful and profitable efforts on behalf of the Company and to attract necessary additions to the staff with appropriate qualifications; (b) discharge the Board’s responsibilities for compensating the Company’s executives; (c) oversee the competency and qualifications of senior management of the Company, provision for senior management succession, the soundness of the organization structure and other related matters necessary to insure the effective management of the business; (d) produce an annual report on executive compensation for inclusion in the Company’s proxy statement; (e) review and discuss with the Company’s management the Compensation Discussion and Analysis to be included in the Company’s proxy statement; (f) carry out its responsibilities under the terms of the Company’s benefit plans; and (g) act on specific matters within delegated authority.

Meetings

The Compensation Committee shall meet as often as it deems necessary or appropriate to carry out its responsibilities and may, in its sole discretion, form and delegate authority to subcommittees (comprised only of Compensation Committee members) in furtherance of such responsibilities. Meetings of the Compensation Committee shall be called by the Chairman of the Compensation Committee, the Chairman of the Board or the President of the Company. All such meetings shall be held pursuant to the By-Laws of the Company with regard to notice and waiver thereof, and written minutes of each such meeting shall be duly filed in the Company’s records.

Committee's Duties and Responsibilities

The Compensation Committee shall:

(1) Produce an annual report on executive compensation for inclusion in the Company's proxy statement and shall review and discuss with the Company's management the Compensation Discussion and Analysis to be included in the Company's proxy statement.

(2) Assess the Company's financial and non financial performance against the background of the factors and principles outlined by the Compensation Committee, evaluate the CEO in light of this performance, and set the CEO's compensation level based on this evaluation.

(3) Review and provide oversight of the Company's compensation philosophy and composition of the peer company community used for market comparison, and shall approve the establishment of competitive targets versus the peer community and all equity-based plans requiring shareholder approval.

(4) Review eligibility criteria and award guidelines for corporate-wide compensation programs in which management level employees participate, including bonuses, stock compensation and stock options.

(5) Review the design and management of the various perquisite, pension, savings, health and welfare plans that cover the Company's employees.

(6) Review the performance of the trusts in which benefit assets are invested.

(7) Make regular reports to the Board.

(8) Review and approve any recommended compensation actions for the Company's executive officers, including base salary, annual incentive bonus and stock option awards.

(9) Form and delegate authority to subcommittees when appropriate.

(10) Review verification from the Company's independent auditors that compensation awards to members of the Company's executive officers, including the CEO, comply with all requirements of the Company's equity incentive plans.

(11) Determine and/or approve awards to employees of stock options or other equity incentives pursuant to any of the Company's equity incentive plans and to exercise such other power and authority as may be permitted or required under such equity incentive plans. At the Committee's discretion, the approval of stock option awards to employees, other than to the Company's executive officers, may be delegated to the Company's executive officers.

(12) From time to time review and approve compensation (fees and equity) for the non-employee members of the Board.

(13) Have the responsibility to comply with applicable requirements as established by the Securities and Exchange Commission, the NASDAQ Capital Market or other governing regulatory authority regarding compensation consultants used to assist in the evaluation of the CEO, other executive officers or non-employee members of the Board.

Additional Powers and Responsibilities

The Compensation Committee shall have the authority to engage and obtain advice and assistance from advisors, including independent or outside counsel, shall have authority to retain and terminate any compensation consultant retained to assist in the evaluation of director, CEO or executive officer compensation, and shall have the authority to approve fees and other retention terms, as it determines is necessary or appropriate to carry out its duties. All related fees and costs of such advisors shall be paid promptly by the Company in accordance with its normal business practices. The Compensation Committee shall, on an annual basis, review and reassess the adequacy of this Charter and conduct an evaluation of the Compensation Committee's own performance during such past year. The Compensation Committee shall perform such other activities as the Compensation Committee or the Board may from time to time deem necessary or appropriate.