

NHC

NATIONAL HEALTHCARE CORPORATION



Embracing the Challenge of Change

Annual Report 2009

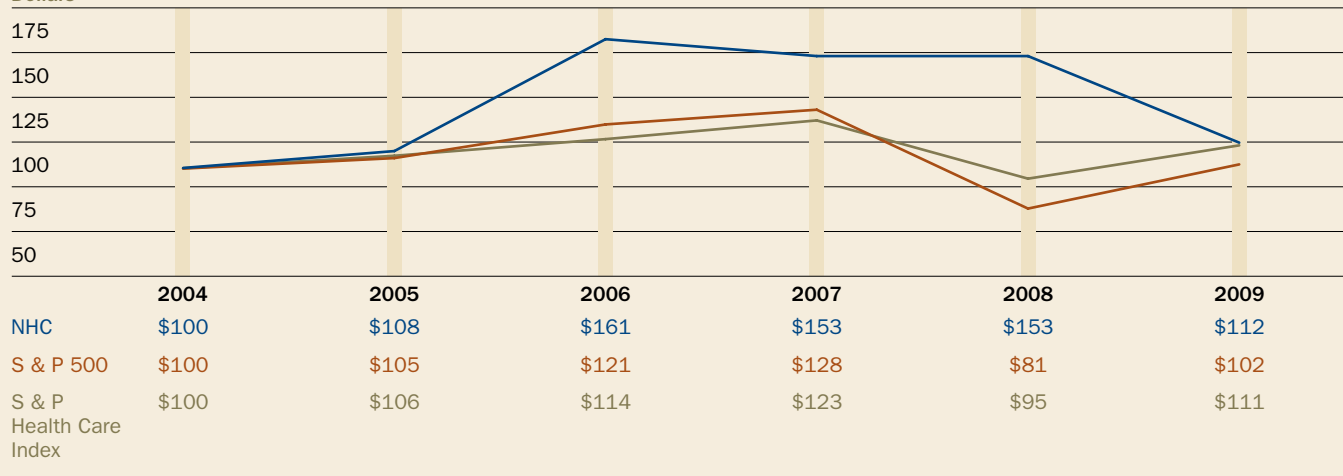
Financial and Healthcare Highlights

(dollars in thousands, except per share amounts)

Year Ended December 31,	2009	2008	2007	2006	2005
Operating Data:					
Net operating revenues	\$ 668,221	\$ 633,208	\$ 579,360	\$ 544,005	\$ 533,099
Total costs and expenses	617,349	595,656	525,800	508,679	495,691
Non-operating income	16,784	15,735	18,674	18,953	9,282
Income before income taxes	67,656	53,287	72,234	54,279	46,690
Income tax provision	27,607	16,916	26,785	17,539	18,055
Net income	40,049	36,371	45,449	36,740	28,635
Dividends to preferred shareholders	8,673	8,673	1,831	—	—
Net income available to common shareholders	31,376	27,698	43,618	36,740	28,635
Earnings per common share:					
Basic	\$ 2.31	\$ 2.16	\$ 3.47	\$ 2.99	\$ 2.34
Diluted	2.31	2.11	3.36	2.85	2.24
Cash dividends declared:					
Per preferred share	\$.80	\$.80	\$.169	\$ —	\$ —
Per common share	1.02	.93	.810	.69	.575
Balance Sheet Data:					
Total assets	\$ 788,532	\$ 777,296	\$ 698,408	\$ 471,477	\$ 410,625
Accrued risk reserves	107,456	106,000	88,382	76,471	70,290
Long-term debt, less current portion	10,000	10,000	10,000	10,381	13,568
Stockholders' equity	525,779	480,817	455,708	249,142	203,059
Other Data:					
Long-Term Care Centers					
Total Operating Centers	76	76	73	74	74
Owned or Leased Centers	50	50	48	48	48
Centers Managed for Others	26	26	25	26	26
Total Licensed Beds	9,772	9,772	9,153	9,245	9,177
Beds Owned or Leased	6,858	6,858	6,539	6,481	6,151
Beds Managed for Others	2,914	2,914	2,614	2,764	3,026
Homecare					
Homecare Programs	33	32	32	30	30
Retirement					
Retirement Centers	7	7	6	6	6
Retirement Apartments	761	761	488	488	488
Assisted Living Units	921	921	830	830	830
Hospice					
Hospice Programs	23	16	15	11	9

Comparison of Cumulative Total Return

Dollars



Dear Shareholder,

This year's theme at NHC is *Embracing the Challenge of Change*. Change is not a new phenomenon in the health care industry. We are consistently adjusting and anticipating changes in our customers' health care needs, as well as their preferences in accommodations, dining, daily activities schedules and many other patient directed requests. Changes in reimbursement from Medicare, Medicaid, managed care organizations and private insurers are also a regular occurrence. Government intervention, by way of increased rules and regulations, brings its own set of challenges and requires us to constantly be aware that we provide care under ever increasing scrutiny.

Through all the challenges and changes the long term industry has faced the past 39 years, your company, NHC, has not only survived but grown in service, size and value due to one overriding factor; we focus on our patients, residents, families, partners, and communities. Our mission statement says it best, 'We are committed to being the industry leader in customer and investor satisfaction'. NHC's strength is in our partners' commitment to this mission and in the faith of our investors and customers. With this support, NHC is appropriately positioned to face the Challenge of Change.

NHC's strength is in our partners' **commitment** to this mission and in your **faith** and **trust** in us as an investor. With this **support**, NHC is appropriately positioned to face the **Challenge of Change**.



Earnings and Financial Position

Our net income available to common shareholders was \$31,376,000 or \$2.31 per common share basic for the year ended December 31, 2009, compared to \$27,698,000 or \$2.16 per common share basic for the year ended December 31, 2008 an increase of 13.3%. Annual net operating revenues increased 5.5% from \$633,208,000 to \$668,221,000.

Our occupancy and census mix continue to be strong at our health care centers. In 2009 our occupancy was 92%. Private pay and Medicare revenue accounted for 71% of our total revenue in 2009 compared to 70% in 2008.

Dividends

The current quarterly dividend is \$.26 per common share and \$.20 per preferred share. We will continue to evaluate dividends for appropriateness.

Person-Centered Care

We place a great deal of importance on **listening** to our customers and making **changes** to meet their current **needs**.

At NHC we are embracing the challenge for culture change with “Person-centered care”. Person-centered care is based on a home model and raises the importance of providing care and daily routines similar to those a patient might experience in their home. We have been on the cutting edge of this movement in many aspects, as our culture of care provides an environment in which we serve our customers as individuals. We realize that we can still improve and grow in this area by incorporating changes in our daily routines, policies, and physical plant designs. The wonderful thing about the culture change movement for person-centered care is that it fits beautifully with NHC’s culture and The Better Way 20 promises. It’s simply a “Better Way” of focusing on the customer and their needs as an individual.

The National Survey of Consumer and Workforce Satisfaction in Nursing Homes indicates the most powerful drivers for whether a patient or family member would recommend a health care center are: care or concern shown by staff, competency of staff, quality of service, and attention to the patient’s choices or preferences. We have found this statement to be true and we understand that customer satisfaction is an extremely important dimension of providing quality services. We place a great deal of importance on listening to our customers and making changes to meet their current needs.

This format of listening and collecting feedback provides us with information which creates opportunities to continually evaluate and enhance NHC’s systems. This is just one example of how NHC is well positioned to embrace change which promotes customer and investor satisfaction.



Hospitality

Snack carts, fruit baskets and pantries stocked with our **customers' favorite** snacks make the center feel like **home** and may be compared to **amenities** you might find while staying at a hotel.

When one hears the word 'hospitality', we think of the hotel and/or restaurant industry. However, our partners at NHC have a goal to create hospitable environments for our customers. The dining experience offers our customers a choice of "open dining" versus "scheduled dining". The Dietary Departments provide various dining styles such as in-room service, buffet-style dining, family-style dining, restaurant-style dining and continental breakfast service. In fact, several of these may be happening under one roof!

Our centers are incorporating 'on-demand' menus at bedside with items that will be prepared upon the customer's request. Snack carts, fruit baskets and pantries stocked with our customers' favorite snacks make the center feel like home and may be compared to amenities you might find while staying at a hotel.

New dining services are being implemented frequently at NHC as we continue to listen to our customers and embrace person-centered hospitality.



Future

On January 25, 2010 we began admitting patients to our new 120-bed healthcare center in Bluffton, South Carolina. In addition, “The Palmettos of Mauldin”, a 45-unit assisted living and memory care center, is expected to open on March 15, 2010 in Mauldin, South Carolina. Construction has begun on the Palmettos of Parklane, a 75-unit assisted living center in Columbia, SC and a 46-unit assisted living addition to NHC Place Cool Springs in Franklin, Tennessee. These last two projects are expected to be completed early in 2011. In addition to the projects mentioned above, NHC continues to evaluate expansion opportunities in all areas of senior care.

Thank you for your continued trust and investment in NHC. We remain steadfast in our commitment to our investors, to our partners and most importantly to our customers.

Sincerely,



Robert G. Adams
Chairman/CEO



“Nobody knows the quantity of their life, I don’t know how many days you have on earth, nor does anyone else except for God. What I’m most interested in is the quality of life while they are here. That’s the business I am in.”

– Dr. Carl Adams, Founder, NHC

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Senior Regional Vice Presidents

Greg G. Bidwell
Central Tennessee and
Kentucky

D. Doran Johnson
South Central Tennessee
and Alabama

Michael C. Neal
New Hampshire and
Massachusetts

M. Ray Blevins
East Tennessee,
Georgia and Virginia

J.B. Kinney, Jr.
South Carolina

Melvin J. Rector
Missouri and Kansas

Vice Presidents

Catherine E. Reed
Homecare

Jeffrey R. Smith
Treasury

Charles C. Swift
Assistant Controller

Assistant Vice Presidents

Christy J. Beard
CPCS

Donnie P. Hester
Workers Compensation

Joan B. Phillips
Rehabilitation

Ann S. Benson
To Counsel

Martha L. Hughey
Reimbursement

Debbie L. Price
Accounts Receivable

Brigitte L. Burke
Dietary Services

Leslie A. Joyner
Health Information

Judy G. Thomasson
Homecare Acquisitions
and Accounting

Kathy W. Campbell
Partner Benefits

N. Bart King
Chief Audit Executive

Stacia H. Vetter
Long-Term Care
Insurance

Ann A. Coleman
Nursing

Phyllis F. Knight
Payroll

Christopher S. West
Human Resources

Bruce K. Duncan
Health Planning

John D. McKinney
Operational Accounting

Charles J. Wysocki
Operations

Charleen D. Forsythe
Information Systems

Jesse W. Myatt
Information Systems

Barbara F. Harris
Operations

Wayne L. Oliff
Professional Liability

Corporate Headquarters

National HealthCare Corporation
100 E. Vine Street
Murfreesboro, TN 37130
Phone: 615.890.2020
Fax: 615.890.0123

Web Site

www.nhccare.com

Transfer Agent and Registrar

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P. O. Box 43078
Providence, RI 02940-3078
800.568.3476
www.computershare.com

Listed

NYSE-Amex
NHC
NHC.PRA

Annual Stockholders' Meeting

City Center, 14th Floor
100 Vine Street
Murfreesboro, Tennessee
4:00 p.m. Central Time
Thursday, May 6, 2010

Annual Report on Form 10-K

Copies of our Annual Report on
Form 10-K and all other Securities
and Exchange Commission filings
are available free of charge on our
web site or by writing us at the
address listed above.

Independent Registered Public Accounting Firm

Ernst & Young
424 Church Street
Nashville, TN 37219-3302



Robert Adams, Chairman/CEO rings the opening bell of the New York Stock Exchange on July 24, 2009 in recognition of NHC's 38th Anniversary.

Corporate Officers



Robert G. Adams, *Chairman/CEO, Inside Director*, 63, 36 years with NHC, 5 years as President/CEO, 10 years as Chief Operating Officer, 18 years as Senior Vice President, and 18 years on the board. He also served as a health care center administrator and a regional vice president for NHC.

D. Gerald Coggin, *Senior Vice President, Corporate Relations*, 58, 37 years with NHC, 22 years in current position. He also served as a health care administrator and a regional vice president.

Donald K. Daniel, *Senior Vice President, Controller and Principal Accounting Officer*, 63, 33 years with NHC, 24 years as controller and vice president.

Steve F. Flatt, *President* since January 1, 2009, 54, joined NHC in June of 2005 as Senior Vice President, Development. Prior to joining NHC, he served as president of David Lipscomb University in Nashville, Tennessee.

David L. Lassiter, *Senior Vice President, Corporate Affairs*, 55, joined NHC in 1995 and had 17 years of experience in the health care industry prior to joining NHC.

John K. Lines, *Senior Vice President and General Counsel*, 50, joined NHC in September 2006. Prior to joining NHC, he served as general counsel of Trinsic, Inc., and counsel at the law firm of Schiff Hardin LLP.

Julia W. Powell, *Senior Vice President, Patient Services*, 60, 35 years with NHC, 24 years in present position. She also served as NHC nurse consultant and director of NHC's patient assessment computerized services.

Charlotte A. Swafford, *Senior Vice President and Treasurer*, 61, 37 years with NHC, 24 years in present position. She also served as staff accountant, accounting manager and assistant treasurer.

R. Michael Ussery, *Chief Operating Officer* since January 1, 2009, 51, 29 years with NHC. He has also served as senior regional vice president and health care center administrator.



Board of Directors

FRONT ROW (left to right): Robert G. Adams & W. Andrew Adams | BACK ROW (left to right): Emil E. Hassan, J. Paul Abernathy, M.D., Lawrence C. Tucker, Ernest G. Burgess, III & Richard F. LaRoche, Jr.

Dr. J. Paul Abernathy, *Independent Director*, 74, is a retired general surgeon who practiced in Murfreesboro from 1971 to 1995. Prior to 1971, he served as Chief of Surgery for the United States Air Force Base in Keesler, Mississippi. He is a member of the Southern Medical Society and the Southeastern Surgery Society, and is a Fellow in the American College of Surgeons. Dr. Abernathy serves on NHC's Audit Committee, Compensation Committee and is chairman of Nominating and Corporate Governance Committee.

Robert G. Adams, *Chairman/CEO, Inside Director*, 63, 36 years with NHC, 5 years as President/CEO, 10 years as Chief Operating Officer, 18 years as Senior Vice President, and 18 years on the board. He became Chairman of the Board on January 1, 2009 and has been Chief Executive Officer since November 1, 2004. He also served as a health care center administrator and a regional vice president for NHC.

W. Andrew Adams, *Affiliated Director*, 64, 35 years with NHC. He served as NHC's president from 1974 to 2004 and served as chairman from 1994 to 2008. He is chairman of the board of National Health Investors, Inc.

Ernest G. Burgess, III, *Affiliated Director*, 70, 33 years with NHC. He served as NHC's senior vice president of operations for 20 years before retiring in 1994. His board of director's position spans 16 years.

Emil E. Hassan, *Independent Director*, 63, retired as senior vice president of manufacturing, purchasing, quality and logistics for Nissan North America, Inc., in 2004. He is chairman of Auto Services Americas, which handles vehicle transportation logistics for Nissan and other manufacturers. Prior to joining Nissan, he was with Ford Motor Company for 12 years. He is on the board of Middle Tennessee Medical Center and is chairman of NHC's Compensation Committee.

Richard F. LaRoche, Jr., *Independent Director*, 64, 33 years with NHC. He served as secretary and general counsel for 27 years and as senior vice president for 14 years before retiring in May 2002. LaRoche served as NHC's outside counsel from 1971 to 1975. He also serves on the board of Lodge Manufacturing Company.

Lawrence C. Tucker, *Independent Director*, 65, has 41 years with Brown Brothers Harriman & Co., private bankers. Tucker became a general partner with Brown Brothers Harriman & Co. in 1979. He served on the firm's steering committee and was responsible for corporate finance activities, which included management of the 1818 Funds, private equity investing partnerships with originally committed capital of approximately \$2 billion. He is chairman of NHC's Audit Committee.

NHC

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