

NATIONAL HEALTHCARE CORPORATION

AND AFFILIATES

Standards of Conduct & Compliance Handbook

VALUESLINE 888-568-8578

The Compliance Program in no way alters the at-will employment status of every partner, and neither creates a policy of progressive discipline, nor a guarantee of a disciplinary measure less than termination.

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INTRODUCTION & STATEMENT OF PURPOSE

National HealthCare Corporation and its affiliate companies ("NHC") have always sought professional, competent people who will make the right decisions in difficult situations. How we conduct our business and provide health care services to our patients will define our company. It is important that NHC be known for the quality of its services to our patients, the integrity of our partners and our high standards of business conduct and practices.

The rules and regulations governing our conduct grow more complex every day. It is not always easy to decide what is the "right" decision. Laws and business practices vary from state to state. This *Standards of Conduct and Compliance Handbook* explains basic expectations for professional and personal business behavior each of us should follow. No document like this could possibly describe every challenge, issue or dilemma you may encounter in your work. But, this *Standards of Conduct and Compliance Handbook*, your management staff and the resources of corporate staff departments such as Legal, Human Resources, and the Corporate Compliance Officer should be your compass to help you steer the right course.

Because these issues are so important, the Corporate Compliance Officer is an available resource. This individual oversees and coordinates NHC's efforts to live up to the principles of this *Standards of Conduct and Compliance Handbook* and NHC's Compliance Program. To further assist you, NHC has set up a partner Compliance ValuesLine Communication system. We encourage our partners to report all violations, suspected violations and questionable practices to his/her immediate supervisor or to the Compliance ValuesLine at 1-888-568-8578. Partners may also report a concern through the ValuesLine website at nhc.alertline.com.

It is NHC's policy to comply with all applicable laws and regulations pertaining to its business throughout the country and to act in an honest and professional manner at all times. You should never *assume* or *read between the lines*, even if ordered to do so by your supervisor, that NHC wants you to violate the law, regulations or act unprofessionally in your work.

This *Standards of Conduct and Compliance Handbook* has been created in response to numerous applicable federal and state statutes. It is designed to call your attention to appropriate practices, and assist you in detecting and preventing violations of the law and applicable regulations. For additional information regarding compliance issues, please consult the NHC Compliance Program Policy and Procedure Manual.

CODE OF ETHICS & BUSINESS CONDUCT

NHC's founder, Dr. Carl E. Adams, strongly believed in and was guided by ethical standards emphasizing the love of God to man, and of man to man. Many of his sayings and philosophies are the basis of our company's culture. Among other things, he is quoted as saying:

- *Go when called, be available when needed, your best pay is the appreciation. If you deserve it, you will enjoy it.*
- *There is always room at the top - it's the middle that's crowded.*
- *A person succeeds by hard work. I believe in a good work ethic. Get up early and manage your business with careful attention to detail. You have to keep a balance between quality and earnings. Either one without the other will lead to failure. You can't spend money you don't have and if you don't put money back to improve the services then the business will fail.*

Based upon these and other maxims, the following statements of corporate policy constitute NHC's Code of Ethics and Business Conduct. It reaffirms NHC's corporate motto that "Care is Our Business" and requires that NHC and its partners conduct their business and operations in accordance with the law and the high standards of business ethics. In a service business, it is not possible to have a "rule book" that covers every decision or action. The following principles outline the guidelines for NHC partners to use. Disregard of these principles will not be accepted or tolerated.

- All NHC partners will be honest, fair, and courteous in their dealings with any of our stakeholders.
- All NHC partners will be vigilant to assure that our services are appropriate, effective, efficient, and accurately recorded or documented.
- All NHC partners will comply with all applicable state and federal rules, regulations and laws that govern our business activities.
- All NHC partners will represent the company honestly and accurately in their activities, at home, at work and in their community.
- Every NHC partner is expected to continue to learn, to improve, and to seek better understanding of the many complex issues that confront them; and to contribute to the evolving art and science of providing health care and hospitality services for current and future patients and residents.

The following is NHC's Code of Ethics and Business Conduct that applies to all directors, officers, partners and contractors.

Introduction.

The Board of Directors of NHC has adopted this Code of Ethics and Business Conduct (the "**Code**") in order to:

- promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest;
- promote full, fair, accurate, timely and understandable disclosure in reports and documents that NHC files with, or submits to, the Securities and Exchange Commission (the "**SEC**") and in other public communications made by NHC;
- promote compliance with applicable governmental laws, rules and regulations;

- promote the protection of NHC assets, including corporate opportunities and confidential information;
- promote fair dealing practices;
- deter wrongdoing; and
- ensure accountability for adherence to the Code.

All directors, officers, partners, contractors and affiliates are required to be familiar with the Code, comply with its provisions and report any suspected violations as described below in ***Reporting and Enforcement***.

Honest and Ethical Conduct.

NHC's policy is to promote high standards of integrity by conducting its affairs honestly and ethically.

Each director, officer, partner, contractor and affiliate must act with integrity and observe the highest ethical standards of business conduct in his or her dealings with NHC's customers, suppliers, partners, service providers, competitors, employees and anyone else with whom he or she has contact in the course of performing his or her job.

Conflicts of Interest.

A conflict of interest occurs when an individual's private interest (or the interest of a member of his or her family) interferes, or even appears to interfere, with the interests of NHC as a whole. A conflict of interest can arise when a partner, officer or director (or a member of his or her family) takes actions or has interests that may make it difficult to perform his or her work for NHC objectively and effectively. Conflicts of interest also arise when a partner, officer or director (or a member of his or her family) receives improper personal benefits as a result of his or her position in NHC.

Loans by NHC to, or guarantees by NHC of obligations of, partners or their family members are of special concern and could constitute improper personal benefits to the recipients of such loans or guarantees, depending on the facts and circumstances. Loans by NHC to, or guarantees by NHC of obligations of, any director or executive officer or their family members are expressly prohibited.

Whether or not a conflict of interest exists or will exist can be unclear. Conflicts of interest should be avoided unless specifically authorized below:

Persons other than directors and executive officers who have questions about a potential conflict of interest or who become aware of an actual or potential conflict should discuss the matter with, and seek a determination and prior authorization or approval from, their supervisor or the Corporate Compliance Officer. A supervisor may not authorize or approve conflict of interest matters or make determinations as to whether a problematic conflict of interest exists without first providing the Corporate Compliance Officer with a written description of the activity and seeking the Corporate Compliance Officer's written approval. If the supervisor is himself or herself involved in the potential or actual conflict, the matter should instead be discussed directly with the Corporate Compliance Officer.

Directors and executive officers must seek determinations and prior authorizations or approvals of potential conflicts of interest exclusively from the Audit Committee.

Compliance.

Partners, officers, directors, contractors and affiliates should comply, both in letter and spirit, with all applicable laws, rules and regulations in the cities, states and countries in which NHC operates.

Although not all partners, officers and directors are expected to know the details of all applicable laws, rules and regulations, it is important to know enough to determine when to seek advice from appropriate personnel. Questions about compliance should be addressed to the Legal Department and/or the Compliance Department.

No director, officer or partner may purchase or sell any NHC securities while in possession of material non-public information regarding NHC, nor may any director, officer or partner purchase or sell another company's securities while in possession of material non-public information regarding that company. It is against NHC policies and illegal for any director, officer or partner to use material non-public information regarding NHC or any other company to:

- obtain profit for himself or herself; or
- (b) directly or indirectly "tip" others who might make an investment decision on the basis of that information.

Disclosure.

NHC's periodic reports and other documents filed with the SEC, including all financial statements and other financial information, must comply with applicable federal securities laws and SEC rules.

Each director, officer and partner who contributes in any way to the preparation or verification of NHC's financial statements and other financial information must ensure that NHC's books, records and accounts are accurately maintained. Each director, officer and partner must cooperate fully with NHC's accounting and internal audit departments, as well as NHC's independent public accountants and counsel.

Each director, officer and partner who is involved in NHC's disclosure process must:

- be familiar with and comply with NHC's disclosure controls and procedures and its internal control over financial reporting; and
- take all necessary steps to ensure that all filings with the SEC and all other public communications about the financial and business condition of NHC provide full, fair, accurate, timely and understandable disclosure.

Protection and Proper Use of NHC Assets.

All directors, officers and partners should protect NHC's assets and ensure their efficient use. Theft, carelessness and waste have a direct impact on NHC's profitability and are prohibited.

All NHC assets should be used only for legitimate business purposes. Any suspected incident of fraud or theft should be reported for investigation immediately.

The obligation to protect NHC assets includes NHC's proprietary information. Proprietary information includes intellectual property such as trade secrets, patents, trademarks, and copyrights, as well as business and marketing plans, engineering and manufacturing ideas, designs, databases, records and any

non-public financial data or reports. Unauthorized use or distribution of this information is prohibited and could also be illegal and result in civil or criminal penalties.

Corporate Opportunities.

All directors, officers and partners owe a duty to NHC to advance its interests when the opportunity arises. Directors, officers and partners are prohibited from taking for themselves personally (or for the benefit of friends or family members) opportunities that are discovered through the use of NHC assets, property, information or position. Directors, officers and partners may not use NHC assets, property, information or position for personal gain (including gain of friends or family members). In addition, no director, officer or partner may compete with NHC.

Confidentiality.

Directors, officers and partners should maintain the confidentiality of information entrusted to them by NHC or by its customers, suppliers or partners, except when disclosure is expressly authorized or legally required. Confidential information includes all non-public information (regardless of its source) that might be of use to NHC's competitors or harmful to NHC or its customers, suppliers or partners if disclosed.

Fair Dealing.

Each director, officer and partner must deal fairly with NHC's customers, suppliers, partners, service providers, competitors, employees and anyone else with whom he or she has contact in the course of performing his or her job. No director, officer or partner may take unfair advantage of anyone through manipulation, concealment, abuse or privileged information, misrepresentation of facts or any other unfair dealing practice.

Reporting and Enforcement.

Reporting and Investigation of Violations.

- Actions prohibited by this code involving directors or executive officers must be reported to the Audit Committee.
- Actions prohibited by this code involving any other person must be reported to the reporting person's supervisor, the corporate compliance liaison or the Corporate Compliance Officer.
- After receiving a report of an alleged prohibited action, the Audit Committee, the relevant supervisor or the Corporate Compliance Officer must promptly take all appropriate actions necessary to investigate.
- All directors, officers and partners are expected to cooperate in any internal investigation of misconduct.

Enforcement.

- NHC must ensure prompt and consistent action against violations of this Code.
- If, after investigating a report of an alleged prohibited action by a director or executive officer, the Audit Committee determines that a violation of this Code has occurred, the Audit Committee will report such determination to the Board of Directors.

- If, after investigating a report of an alleged prohibited action by any other person, the relevant supervisor or the Corporate Compliance Officer determines that a violation of this Code has occurred, the supervisor or the Corporate Compliance Officer will report such determination to the General Counsel.
- Upon receipt of a determination that there has been a violation of this Code, the Board of Directors or the General Counsel will take such preventative or disciplinary action as it deems appropriate, including, but not limited to, reassignment, demotion, dismissal and, in the event of criminal conduct or other serious violations of the law, notification of appropriate governmental authorities.

Waivers.

- Each of the Board of Directors (in the case of a violation by a director or executive officer) and the General Counsel (in the case of a violation by any other person) may, in its discretion, waive any violation of this Code.
- Any waiver for a director or an executive officer shall be disclosed as required by SEC and NYSE rules.

Prohibition on Retaliation.

NHC does not tolerate acts of retaliation against any director, officer or partner who makes a good faith report of known or suspected acts of misconduct or other violations of this Code.

STANDARDS OF CONDUCT

In addition to the NHC Code of Ethics, NHC has developed Standards of Conduct for all partners to follow. Partners shall conduct themselves according to these Standards of Conduct:

- ***Providing Medically Necessary Care.*** Partners shall provide services and equipment for patients/residents that are of high quality, medically necessary and in accordance with community standards.
- ***Respecting Patient Rights.*** Partners will treat patients/residents with dignity and respect and in a patient centered manner that meets the individual needs of the patients/residents, including abiding by applicable laws regarding patient/resident rights. Partners will not discriminate on the basis of a patient's age, sex, gender, disability, race, color, religion, or national origin in the admission and treatment of patients.
- ***Complying with All Laws and Reimbursement Requirements.*** Partners shall commit to compliance with all legal and regulatory requirements under federal, state and local law and regulations. Partners shall seek reimbursement for Medicare and Medicaid covered services in compliance with applicable law and other third party payor requirements as covered by written contract and medical community standards.
- ***Submitting Accurate, Truthful Claims.*** Partners shall prepare accurate, complete, and truthful medical records and ensure that all claims for payment are for services actually rendered and supported by adequate documentation. Partners will refrain from making false claims to gain money from Medicare, Medicaid or any entity for payment of services provided to the residents.
- ***Maintaining Licensure and Certification.*** Partners shall comply with all licensure and certification laws and regulations applicable to their responsibilities and the operation of the

facility. If a partner's licensure status changes, the partner is obligated to immediately notify NHC of the change.

- ***Cooperating with Background Checks.*** Partners shall provide all needed information needed for NHC to conduct appropriate background checks and federal exclusion screening. This information assists NHC in ensuring the integrity of its workforce and safeguarding the welfare of its patients and customers.
- ***Treating Partners with Respect.*** Partners shall treat other staff with courtesy and in a professional manner. NHC will not tolerate any employment decision or workplace harassment based on race, color, sex, disability, gender, religion, national origin or age. NHC is an equal opportunity employer. Any allegations of discrimination should be brought immediately to the attention of the General Counsel.
- ***Cooperating with Government Officials.*** Partners shall treat state and federal surveyors, regulatory agency staff and investigators with courtesy and in a professional manner. At no time will a partner offer anything of value or any inducement to any individual to take action favorable to the organization.
- ***Working with Referral Sources in a Compliant Manner.*** Partners shall not offer or receive any payments, incentives, gifts or anything of value in exchange for referrals of patients or residents. All agreements with referral sources or potential referral sources or agreements between affiliates, subsidiaries or shareholders of NHC must be approved by the Office of the General Counsel. The acceptance or offering of gifts shall comply with NHC's policies.
- ***Protecting Patient Information.*** Partners shall protect the personal privacy and preserve the confidentiality of patient and resident records. NHC has developed policies and procedures to ensure that the treatment of records complies with all privacy and security laws and regulations.
- ***Following Record Retention Policies.*** Partners shall retain records and charts in accordance with NHC policies on record retention and record keeping. All medical records and personnel files and records shall be confidential and shall be released only in accordance with NHC policy.
- ***Maintaining a Safe, Drug Free Workplace.*** Partners shall comply with all requirements that promote the protection of workplace health and safety. Partners also must maintain a workplace that is free of drug or alcohol abuse.

These standards are not intended to be a recitation of every law and regulation that might apply to an individual partner. Rather, these standards are intended to set forth the minimal guidelines by which all NHC partners are expected to conduct themselves. Partners are expected to know the terms of and be governed by the Partner Handbook and its procedures, duties and responsibilities.

Written Policies and Procedures.

To further establish NHC's values, standards and expectations, NHC has developed policies and procedures under the direction of the Corporate Compliance Officer, which direct the operation of the Compliance Program. These policies and procedures provide additional guidance on the elements of the Compliance Program as well as address subjects where guidance in addition to the Code of Ethics and Standards of Conduct is needed. The compliance policies and procedures are reviewed periodically, but no less than on a yearly basis. The Compliance Committee assists in assessing NHC's compliance policies and procedures.

REPORTING COMPLIANCE CONCERNS

Partners are responsible for reporting through the procedures established in the Compliance Program any incident that they know to be or reasonably believe to be a violation of law or the standards set forth in the Compliance Program. Any partner who suspects a compliance issue is required to promptly report it to their supervisor. If the partner is not comfortable reporting the issue to their supervisor, the partner may report it to their corporate compliance liaison, the Corporate Compliance Officer, or through the ValuesLine by using the toll-free hotline or the designated website.

NHC Compliance ValuesLine Communication System.

NHC also has established a dedicated toll-free Compliance ValuesLine for use by partners wishing to report conduct which appears to you to be questionable, violations of law, violations of company policy or information the partner believes he/she cannot otherwise report to a supervisor. The Compliance ValuesLine number is 1-888-568-8578. The ValuesLine can also be accessed via the website nhc.alertline.com.

You may report from home or work. You may report anonymously. If you are uncomfortable using the telephone or the website, you may make your report in writing to:

Corporate Compliance Officer
Personal and Confidential
National Healthcare Corporation
100 E. Vine Street
Murfreesboro, TN 37130

Whether reporting by phone or in writing, you should provide as much detail as possible including names, dates, times, places and the specific conduct you believe may violate the law or NHC policy.

Protection Against Retaliation.

Partners should not fear that a report would lead to reprisal against them. NHC will not tolerate any threat of intimidation or retribution against a partner who reports what he or she believes in good faith to be a violation of any of the principles set forth in this *Standards of Conduct and Compliance Handbook*. Partners should know that self-reporting may not insulate them from appropriate discipline.

STAYING INFORMED AND MEASURING PROGRESS

As you can see from the information in the *Standards of Conduct and Compliance Handbook*, your common sense and good intentions alone cannot always ensure that you will act ethically and comply with all aspects of the law. NHC understands this.

All of us have many demands on our time, but this training will only be effective if you are involved. In the event you have any questions or need further clarification on any specifics, please contact NHC's Corporate Compliance Officer at 615-890-2020, extension 1664.

PARTNER ACKNOWLEDGEMENT FORM

The *Standards of Conduct and Compliance Handbook* describes important information about NHC and my employment. I understand that I should consult my supervisor regarding any questions not answered in the *Standards of Conduct and Compliance Handbook* or if I do not understand anything set forth herein. I further understand that if I engage in any prohibited conduct under this program, I will be subject to disciplinary action, up to and including termination of employment with NHC.

Since the information, policies, and benefits described here are necessarily subject to change, I acknowledge that revisions to the *Standards of Conduct and Compliance Handbook* may occur. All such changes will be communicated through official notices, and I understand that revised information may supersede, modify, or eliminate existing policies.

I hereby acknowledge that this *Standards of Conduct and Compliance Handbook* replaces, revises and supersedes any and all prior Standards of Conduct Handbook(s) or other prior written or oral understandings or agreements between the parties hereto.

I have received the *Standards of Conduct and Compliance Handbook*, and I understand that it is my sole responsibility to read and comply with the policies contained in this Handbook.

Partner's Signature

Date

Partner's Name (Typed or Printed)