

EMCLAIRE FINANCIAL CORP  
Form 10-Q  
August 09, 2010

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2010

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-18464

EMCLAIRE FINANCIAL CORP.  
(Exact name of registrant as specified in its charter)

Pennsylvania 25-1606091  
(State or other jurisdiction of incorporation or organization) (IRS Employer Identification No.)

612 Main Street, Emlenton, Pennsylvania 16373  
(Address of principal executive offices) (Zip Code)

(724) 867-2311  
(Registrant's telephone number)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company as defined in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares outstanding of the Registrant's common stock was 1,457,404 at August 9, 2010.

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EMCLAIRE FINANCIAL CORP.

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PART I - FINANCIAL INFORMATION

Item 1. Interim Financial Statements

Emclaire Financial Corp.  
 Consolidated Balance Sheets (Unaudited)  
 As of June 30, 2010 and December 31, 2009  
 (Dollar amounts in thousands, except share data)

June 30, December 31,  
 2010      2009

ue	\$	3,168	\$	2,822					
th		31,529		36,130					
ash		34,697		38,952					
or		129,839		105,243					
For of		292,496		292,615					
nk ost		4,275		4,125					
d ce		5,491		5,388					
		1,591		1,574					
nd		8,976		9,170					
		3,664		3,657					
it		2,281		2,585					
nd s		3,840		4,217					

s \$ 487,150 \$ 467,526

rs'

st \$ 75,979 \$ 67,033

328,568 318,292  
 its 404,547 385,325

5,000 5,000

35,000 35,000

729 711

nd

2,391 4,456

447,667 430,492

nts

- -

rs'

e

0

7,439 7,430

(6)

Robert G. Adams is also a director of NHC but receives no compensation as a director.

During 2008, Mrs. Swafford did not defer any compensation under both the non-qualified deferred compensation plan and the Company's 401(k) Plan. Mr. Adams and Mr. Coggin did not defer any compensation under the non-qualified deferred compensation plan but did make contributions under the Company's 401(k) Plan in the amount of \$10,000, respectively. Mr. Daniel deferred \$223,400 under the non-qualified deferred compensation plan and under the 401(k) Plan. Mr. Ussery deferred \$85,959 under the non-qualified deferred compensation plan and under the 401(k) Plan.

For additional details on the Key Employee Plan, please see the details in the table so identified.

**GRANTS OF PLAN-BASED AWARDS**

(None in 2008)

**2008 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END**

Name	Option Awards					Stock Awards			
	Number of Securities Under-lying Unexercised Options (#)	Number of Securities Under-lying Unexercised Options (#)	Equity Incentive Plan Awards: Number of Securities Under-lying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date (1)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units (\$)	Number of Shares or Units of Stock That Have Not Vested (#)	Other Rights That Have Not Vested (#)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Robert G. Adams	0	100,959	0	\$20.90	3/23/09	0	0	0	0

CEO								
D. Gerald Coggin, SVP Corporate Relations	0	15,687	0	\$20.90	3/23/09	0	0	
Donald K. Daniel, SVP & Controller, Prin. Accounting Officer	0	15,687	0	\$20.90	3/23/09	0	0	
Charlotte A. Swafford, SVP & Treasurer	0	15,687	0	\$20.90	3/23/09	0	0	
Michael Ussery,  Chief Operating Officer	0	12,550	0	\$20.90	3/23/09	0	0	

(1) These stock options vest on February 21, 2009.

No equity awards were issued in 2008. The current outstanding grants to executive officers and other key employees of the Company were stock options issued on March 24, 2004, and in the case of two more recently hired executive officers, February 16, 2007.

**2008 OPTIONS EXERCISED AND STOCK VESTED**

<b>Name</b>	<b><u>Option Awards</u></b>		<b><u>Stock Awards</u></b>	
	<b>Number of</b>		<b>Number of</b>	
	<b>Shares</b>	<b>Value</b>	<b>Shares</b>	<b>Value</b>
	<b>Acquired</b>	<b>Realized</b>	<b>Acquired</b>	<b>Realized</b>
	<b>on Exercise</b>	<b>on Exercise</b>	<b>on Vesting</b>	<b>on Vesting</b>
<b>(#)</b>	<b>(\$)</b>	<b>(#)</b>	<b>(\$)</b>	
<b>(a)</b>	<b>(b)</b>	<b>(c)</b>	<b>(d)</b>	<b>(e)</b>
Robert G. Adams, CEO	39,920	1,061,872	0	0
D. Gerald Coggin, Sr. V.P., Corp. Relations	12,500	332,500	0	0
Donald K. Daniel, Sr. V.P. & Controller	12,500	332,500	0	0
Charlotte A. Swafford, Sr. V.P. & Treasurer	12,500	332,500	0	0
Michael Ussery, Chief Operating Officer	10,000	266,000	0	0

**2008 PENSION BENEFITS**

The Company does not offer any pension benefit plans; thus this table is not utilized.

**2008 NONQUALIFIED DEFERRED COMPENSATION**

<b>Name</b>	<b>Executive Contributions in Last FY</b>	<b>Registrant Contributions in Last FY</b>	<b>Aggregate Earnings in Last FY</b>	<b>Aggregate Withdrawals/ Distributions</b>	<b>Aggregate Balance at Last FYE<sup>(1)</sup></b>
	<b>(\$)</b>	<b>in Last FY</b>	<b>in Last FY</b>	<b>(\$)</b>	
			<b>(1)</b>		

(a)	(b)	(\$) (c)	(\$) (d)	(e)	(\$) (f)
Robert G. Adams	0	0	-	0	-
CEO					
D. Gerald Coggin	0	0	-	0	-
SVP, Corp. Relations					
Donald K. Daniel	223,400	33,510	-	0	-
SVP & Controller					
Charlotte A. Swafford	0	0	-	0	-
SVP & Treasurer					
Michael Ussery	85,959	12,894	-	0	-
Chief Operating Officer					

(1) The Key Employee Plan is not provided by the Company and as such the Company has no responsibility for the Aggregate Earnings or the Aggregate Balance. While the Company funds and expenses the contributions to the Key Employee Plan, the Company is not obligated to pay the executive the Aggregate Balance of the nonqualified deferred compensation account and the Aggregate Balance is not a claim on the Company's assets. Therefore, no amounts are reported in these columns. See the second paragraph under "Retirement and Post Employment Compensation" of the CD on page 17.

The Company's only non-qualified deferred compensation plan has been previously described under "Key Employee Compensation - Non-Qualified Deferred Compensation Plan." The above table indicates that only two of the five Named Executive Officers contributed to the plan during 2008, although all five have participated in one or more years. The amounts reported forth in column (c) in the 2008 Nonqualified Deferred Compensation Table above are included in the Summary Compensation Table in column (i).

## DIRECTOR COMPENSATION

Our principles of directors' compensation are aligned with the overall goals and objectives of overall partner compensation. That is, the directors (as the policy makers for the Company) should be compensated primarily on the basis of financial and quality performance of the Company and only secondarily by cash compensation. Accordingly, compensation is divided into two components:

A.

### Cash Compensation

Directors receive cash compensation based on meetings actually attended in person. The current compensation is \$10,000 per regularly scheduled meeting attended and is an amount which was recommended to the Board by the Chief Executive Officer but which may be set at the Board's discretion. Since 2002, the Company has also chartered and created three Board committees: the Nominating and Corporate Governance Committee, the Compensation Committee and the Audit Committee. Beginning in 2008, the Chairman of the Audit Committee received an additional fee of \$8,000 per year and the Chairmen of the Compensation and Nominating and Corporate Governance Committee received an additional fee of \$4,000 per year. No additional payments are typically made to either committee or the chairman of these committees.

B.

### Equity Awards

Under the stock option plan approved by the Company's shareholders, directors receive a five year stock option and issued on the day of the Annual Meeting of the Shareholders each year with an exercise price set at the closing price of NHC's Common Stock on that day. Such options expire at the end of five years and vest immediately upon exercise. The Board has not historically focused on compensation of comparable companies because it has been able to attract and retain independent Board members at the current compensation level. However, the Board annually reviews the compensation package in light of compensation paid to directors of comparable health care companies and has adjusted compensation comparable with similar companies.

## 2008 DIRECTOR COMPENSATION

Name	Change in						Total
	Fees Earned or			Pension Value and Nonqual-ified			
	Paid in	Stock	Option	Non-Equity	Deferred	All Other	
	Cash	Awards	Awards	Compensation	Compensation	Compensation	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	
J. Paul Abernathy, M.D.	16,000	0	122,216	0	0	125,000	243,216
Robert G. Adams	0	0	0	0	0	0	0
W. Andrew Adams	9,000	0	122,216	0	0	0	131,216
Ernest G. Burgess III	12,000	0	122,216	0	0	125,000	269,216
Emil E. Hassan	16,000	0	122,216	0	0	125,000	263,216
Richard F. LaRoche, Jr.	12,000	0	122,216	0	0	125,000	269,216
Lawrence C. Tucker	20,000	0	122,216	0	0	125,000	267,216

(1) Stock Option shares unexercised and outstanding include the following: 27,620 shares for Dr. Abernathy, 68,000 shares for Mr. W. Andrew Adams, -0- shares for Mr. R. G. Adams, 66,372 shares for Mr. Burgess, 60,000 shares for Mr. Hassan, 68,000 shares for Mr. LaRoche, and 60,000 shares for Mr. Tucker, of which all may be acquired upon the exercise of stock options granted under the Company's 2002 Stock Option Plan, 2004 Stock Plan or 2005 Stock Plan.

(2) Outside directors were each awarded a \$125,000 bonus to exercise outstanding stock options. Mr. W. Andrew Adams chose not to accept the bonus.

From time to time the Board may form independent committees. These committees are empowered to retain outside advisors and pay themselves additional compensation for their work. Mr. Robert G. Adams, as CEO of the Company, receives no compensation for service on the Board of Directors. Directors Abernathy, Burgess, Hassan, LaRoche, and Tucker each attended four regular Board meetings in 2008, receiving \$3,000 per meeting. Director W. Andrew Adams attended three regular Board meetings in 2008, receiving \$3,000 per meeting.

The Company's directors do not participate in any other compensation plans or programs of the Company.

Pursuant to the Company's shareholder approved stock option plan, directors who are not executive officers receive an option to purchase 15,000 shares of the Company's Common Stock at its closing price on the date of the Annual Meeting of the Shareholders each fiscal year. Pursuant to SFAS 123(R) the 15,000 shares that were granted on May 1, 2008 had a grant date fair value of \$8.1477 per share. The option exercise price for these shares, however, is \$51.50 per share.

We have carefully considered these compensation programs, always taking into account shareholders' concerns that our programs and the compensation which they produce for not only our Named Executive Officers but also our partners in all areas of the Company and its subsidiaries are vital to our continuing efforts to obtain and retain our competitive position and improve our competitive position.

Submitted by the National HealthCare Corporation Compensation Committee.

Emil E. Hassan, Chairman  
J. Paul Abernathy  
Richard F. LaRoche, Jr.  
Lawrence C. Tucker

#### **SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Section 16(a) of the Securities and Exchange Act of 1934 as amended requires officers, directors, and persons who own more than 10% of the Company's equity securities to file statements of changes in beneficial ownership (Form 4) with the Securities and Exchange Commission (the "SEC"). Officers, directors and greater than 10% shareholders are required by SEC regulations to furnish the Company with copies of all such forms they file, and must make such filings with the SEC within 2 days of any applicable transaction. The Company reminds all of the officers and directors of this requirement monthly.

To the Company's knowledge and based on the review of the copies of such forms received by it and monthly filings provided by officers and directors, the Company believes that during 2008 all filing requirements applicable to officers, directors, and greater than 10% beneficial owners were filed timely, except for a Form 4 filing by Richard F. LaRoche, Jr. on 4/24/08 that was one day late, a Form 4 filing by D. Gerald Coggin on 1/12/09 that was six days late.

Form 4 filing by W. Andrew Adams on 5/7/08 that was two days late and a Form 5 filing by W. Andrew Adams on 2/26/09 that should have been reported on a Form 4 on 12/29/08.

### **SECURITIES OWNED BY DIRECTORS & OFFICERS**

The following table presents the security ownership of management, showing the ownership of directors, Named Executive Officers and directors and Named Executive Officers as a group as of March 6, 2009:

<b><u>Name of Beneficial Owner</u></b>	<b><u>Amount &amp; Nature of Common Stock Beneficial Ownership<sup>(1)(2)(3)</sup></u></b>	<b><u>Percent of Class</u></b>	<b><u>Amount &amp; Nature of Preferred Stock Beneficial Ownership</u></b>	<b><u>Percent of Class</u></b>
J. Paul Abernathy, M.D., Director	41,091	*	12,388	*
Robert G. Adams, Chairman & CEO	462,957	3.4%	446,309	4.1%
W. Andrew Adams, Director	889,847	6.4%	594,924	5.5%
Ernest G. Burgess III, Director	251,919	1.8%	147,560	1.4%
Emil E. Hassan, Director	85,115	*	17,000	*
Richard F. LaRoche, Jr., Director	486,471	3.5%	386,239	3.6%
Lawrence C. Tucker, Director	130,000	*	-	-
D. Gerald Coggin, Sr. V.P., Corporate Relations	419,520	3.1%	263,181	2.4%
Donald K. Daniel, Sr. V.P. & Controller, Principal Accounting Officer	249,365	1.8%	141,073	1.3%
Charlotte A. Swafford, Sr. V.P. & Treasurer	226,150	1.7%	152,978	1.4%
Michael Ussery, Chief Operating Officer	85,506	*	37,257	*
Directors & Named Executive Officers as a group	3,327,941	22.9%	2,198,909	20.3%

\* Less than 1%

(1) Assumes exercise of stock options outstanding. See AOption Plans.@ Included in the amounts above are 2 shares to Dr. Abernathy, 60,000 shares to Mr. W. A. Adams, -0- shares to Mr. R. G. Adams, 66,372 shares to Mr. Burgess, 60,000 shares to Mr. Hassan, 68,000 shares to Mr. LaRoche, 60,000 shares to Mr. Tucker, -0- shares to Mr. Coggin, -0- shares to Mr. Daniel, -0- shares to Ms. Swafford, and -0- shares to Mr. Ussery, of which all may be upon the exercise of stock options granted under the Company's 2002, 2004 and 2005 Stock Plans.

(2) Assumes conversion of the Preferred Stock held by each holder with respect to their ownership only. Included above are 2,998 shares to Dr. Abernathy, 143,995 shares to Mr. W. A. Adams, 108,025 shares to Mr. R. G. Adams, 35,715 shares to Mr. Burgess, 4,115 shares to Mr. Hassan, 93,485 shares to Mr. LaRoche, 63,700 shares to Mr. Tucker, 34,145 shares to Mr. Daniel, 37,027 shares to Ms. Swafford, and 9,018 shares to Mr. Ussery.

(3) None of the shares owned by members of management have been pledged as security for any obligation except as follows: 149,832 shares by Ernest G. Burgess III, 115,000 shares by D. Gerald Coggin, 29,000 shares by Charlotte A. Swafford and 6,519 shares by Michael Ussery.

#### CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

### **Related Persons**

NHC employs two persons who are immediate family members of directors and/or executive officers as described in the Proxy Statement under the caption "Directors & Executive Officers of Registrant" and who receive in excess of \$120,000 in salary and benefits. J. Buckley Winfree and Lynn B. Foster are administrators of nursing homes affiliated or managed by NHC and are compensated in accordance with the same standards that are applied to administrators at NHC owned, managed or leased nursing facilities.

### **National Health Investors, Inc.**

In 1991, NHC formed NHI as a wholly-owned subsidiary. The Company then transferred to NHI certain healthcare facilities owned by us and distributed the shares of NHI to NHC's shareholders. The distribution had the effect of separating NHC and NHI into two independent public companies. As a result of the distribution, all of the outstanding shares of NHI were distributed to the then NHC investors. NHI is listed on the New York Stock Exchange and as of December 31, 2008, NHC owned 1,630,642 shares (5.9%) of NHI's outstanding common stock.

On October 17, 1991, concurrent with NHC's conveyance of real property to NHI, the Company leased from NHI real property of 40 long-term healthcare centers and three retirement centers. Each lease was for an initial term of five years, originally expiring December 31, 2001, with two additional five-year renewal terms at NHC's option, assuming no defaults. During 2000, NHC exercised its option to extend the lease term for the first five-year renewal term under the same terms and conditions as the initial term.

On December 27, 2005, NHC exercised its option to extend the existing master lease on 41 properties for the 15-year renewal term. The 41 properties include four Florida properties that are leased to and operated by others, none of which we own or control, but for which NHC continues to guarantee the lease payments to NHI under the master lease. The 15-year lease extension began January 1, 2007 and includes three additional five-year renewal options, each at market value. Under the terms of the lease, base rent for 2007 will total \$33,700,000 with rent thereafter escalating 4% of the increase in facility revenue over a 2007 base year. The lease renewal provides for no percentage rent since 2007 is the new base year. The percentage rent is based on a quarterly calculation of revenue increases and is payable on a quarterly basis. Percentage rent for 2008 was approximately \$531,000.

### **National Health Corporation**

National Health Corporation ( "National" ), which is wholly-owned by the National Health Corporation Employee Stock Ownership Plan (AESOP@), was formed in 1986 and served as NHC's administrative general partner when it operated as a master limited partnership through December 31, 1997. NHC manages five centers for NHC under a management contract that has been extended until January 20, 2018.

In conjunction with NHC's management contract, the Company has entered into a line of credit arrangement with National. Amounts may be due to or from National from time to time. The maximum loan commitment under the line of credit is \$2,000,000. The interest rate on the line of credit is 85% of prime and the final maturity is January 20, 2018. In January 1991, NHC borrowed \$10,000,000 from National. The term note payable required quarterly interest payments until December 31, 2007 and at 85% of the prime rate thereafter. This note was renewed on January 1, 2008. The entire principal due at maturity in 2018.

National provides payroll services to NHC, provides employee fringe benefits, and maintains certain liability insurance. We pay to National all the costs of personnel employed for our benefit, as well as an administrative fee equal to 1% of payroll costs. At December 31, 2008 National owned 1,271,147 shares (or approximately 9.8%) of NHC's Common Stock and 1,271,147 shares (or approximately 11.7%) of the outstanding Preferred Stock. Please refer to Item 4 of the consolidated financial statements of the 2008 Form 10-K for more detail regarding NHC's relationship with National.

### **Policies and Procedures for Related Party Persons Review**

The Audit Committee of our Board of Directors reviews and evaluates any transaction, arrangement or relationship in which NHC and any of its subsidiaries is a participant and the amount involved exceeds \$120,000 in which an officer, director, director nominee or 5% stockholder (or their immediate family members) (each of whom we refer to as a "related party") has a direct or indirect material interest.

A related party transaction reviewed under the policy will be considered ratified if it is approved by the Audit Committee (the Committee) after full disclosure of the related party's interest in the transaction. As appropriate circumstances, the Committee will review and consider:

- 

the related party's interest in the related party transaction;

- 

the approximate dollar value of the amount involved in the related party transaction;

- 

whether the transaction was undertaken in the ordinary course of the Company's business;

- 

whether the terms of the transaction are proposed to be, or were, entered into on terms no less favorable to the Company than terms that could have been, or have been, reached with an unrelated third party;

- 

the purpose of, and the potential benefits to us of, the transaction;

- 

whether any alternatives were considered that would not have involved a transaction with a related party; and

- 

any other information regarding the related party transaction or the related party in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The Committee may approve or ratify the transaction only if the Committee determines that, under all of the circumstances, the transaction is in the Company's best interest. The Committee may impose any conditions on the Company in connection with the related party transaction that it deems appropriate.



## **SHAREHOLDER COMMUNICATIONS**

The Board of Directors has adopted the ANHC Valuesline@ program in order to enable employees and shareholders to communicate (on a non-identifiable basis if so desired) with the NHC Compliance Officer, NHC executive officer, or member of the NHC Board. The Valuesline toll free number is 800-526-4064 and is answered by an independent contractor who transmits the communication to the Compliance Officer and establishes a date by which the caller can obtain a response to the communication, if so requested. The Compliance Officer will forward any inquiries to or about executive officers or directors to the Corporate Secretary, who will coordinate any necessary communication and response. All shareholder communications concerning officers, directors, or corporate board questions are relayed to the Board of Directors. The Compliance Officer meets at least annually with the Board in Executive Session.

## **SHAREHOLDER PROPOSALS**

Proposals from shareholders intended for inclusion in the Proxy Statement and form of proxy for the 2010 Annual Meeting of Shareholders must be received by the Company on or before November 25, 2009. Proposals submitted on or after November 25, 2009 will be considered untimely for the 2010 Annual Meeting of Shareholders pursuant to SEC Rule 14a-8(e). Your submission of any proposal will be reviewed in accordance with the procedures found in SEC Regulation 14a-8, which we will supply upon request.

## **EXPENSES OF SOLICITATION**

The total cost of this solicitation will be borne by the Company. The Company utilizes the services of Broadridge Financial Solutions to disseminate its proxy materials. In addition to use of the mail, proxies may be solicited from shareholders, directors and officers of the Company personally and by telephone, telegraph, or facsimile transmission.

## **WEBSITE INFORMATION**

The NHC website ([www.NHCcare.com](http://www.NHCcare.com)) contains information on the Company, including all public filings (10-Ks, Statements of Beneficial Ownership, press releases and the like). We also maintain the following documents on the website, all of which we hereby incorporate herein by reference as though copied verbatim:

- The Restated Audit Committee Charter,
- The Compensation Committee Charter,
- The Nominating and Corporate Governance Committee Charter,
- Valuesline information, and
- The NHC Code of Ethics.

The Code of Ethics has been adopted for all employees, officers and directors of the Company. If there are any amendments or waivers to the Code of Ethics, it will be published on the website. To date there have been no

Copies of any of these documents will be furnished, free of charge, to any interested investor upon receipt of a request. All of our press releases for the last two years can be accessed on the press release page and there are listings of the various services that the Company provides, a listing of the facilities and their locations, information on long-term care insurance and job opportunities. The website is updated regularly for any SEC filings and press

**OTHER MATTERS**

The Board of Directors knows of no other business to be presented at the Meeting, but if other matters do pro  
before the Meeting, the persons named in the proxy will vote on such matters in accordance with their best ju

s/John K. Lines

-

John K. Lines, Secretary, SVP &  
General Counsel

March 27, 2009

Murfreesboro, Tennessee

Exhibit A

**NATIONAL HEALTHCARE CORPORATION**  
**AMENDED AND RESTATED AUDIT COMMITTEE CHARTER**

**I.**

**Purpose**

The primary functions of the Audit Committee are to assist the Board of Directors of National HealthCare Corporation (the "Company") in fulfilling its oversight responsibilities with respect to: (i) the Company's systems of internal control regarding finance, accounting, legal compliance and ethical behavior; (ii) the Company's auditing, accounting and financial reporting processes generally; (iii) the Company's financial statements and other financial information provided by the Company to its stockholders, the public and others; (iv) the Company's compliance with legal and regulatory requirements; and (v) the performance of the Company's corporate audit department and independent auditors. Consistent with these functions, the Committee will encourage continuous improvement of, and foster adherence to, the Company's policies, procedures and practices at all levels.

Although the Audit Committee has the powers and responsibilities set forth in this Charter, the role of the Committee is oversight. The members of the Committee are not full-time employees of the Company and may or may not be accountants or auditors by profession or experts in the fields of accounting or auditing and, in any event, do not act in such capacity. Consequently, it is not the duty of the Committee to conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditors.

**II.**

**Organization**

The Audit Committee shall be comprised of three or more directors as determined by the Board of Directors, all of whom shall satisfy the independence, financial literacy and experience requirements of Section 10A of the Securities Exchange Act of 1934, The American Stock Exchange (now NYSE Alternext US) and any other applicable requirements.

Committee members shall be elected by the Board at the annual organizational meeting of the Board of Directors on the recommendation of the Nominating/Corporate Governance Committee; members shall serve until their successors be duly elected and qualified. The Committee's chairperson shall be designated by the full Board or, if it does not, the Committee members shall elect a chairperson by vote of a majority of the full Committee. The Audit Committee shall report its recommendations to the Board after each Committee meeting and shall conduct and present to the Board an annual performance evaluation of the Committee.

The Committee may form and delegate authority to subcommittees when appropriate.

### **III.**

#### **Meetings**

The Audit Committee shall meet four times per year on a quarterly basis, or more frequently as circumstances require. The Committee shall require members of management, the independent auditors and others to attend meetings to provide pertinent information, as necessary. As part of its job to foster open communications, the Committee shall meet in separate executive sessions during each of its four regularly scheduled meetings with management and the independent auditors to discuss any matters that the Committee (or any of these groups) believes should be discussed privately.

### **IV.**

#### **Responsibilities and Duties**

In recognition of the fact that the Company's independent auditors are ultimately accountable to the Audit Committee, the Committee shall have the sole authority and responsibility to select, evaluate, and, where appropriate, to hire, terminate, independent auditors or nominate the independent auditors for shareholder approval. The Committee shall also review and approve audit engagement fees and terms and all non-audit engagements with the independent auditors. The Committee shall consult with management but shall not delegate these responsibilities.

To fulfill its responsibilities and duties, the Audit Committee shall:

*With respect to the independent auditors:*

1. Be directly responsible for the appointment, compensation and oversight of the work of the independent auditors (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing its audit report or related work.
2. Have the sole authority to review in advance, and grant any appropriate pre-approvals of, (i) all auditing services to be provided by the independent auditors and (ii) all non-audit services to be provided by the independent auditors as permitted by Section 10A of the Securities Exchange Act of 1934, and (iii) in connection therewith to approve all fees and other terms of engagement. The Committee shall also review and approve disclosures required to be included in Securities and Exchange Commission periodic reports filed under Section 13(a) of the Securities Exchange Act of 1934 with respect to non-audit services.
3. Review the performance of the Company's independent auditors on at least an annual basis.
4. On an annual basis, review and discuss with the independent auditors all relationships the independent auditors have with the Company in order to evaluate the independent auditors' continued independence. The Committee: (i) shall ensure that the independent auditors submit to the Committee on an annual basis a written statement (consistent with Independent Standards Board Standards No. 1) delineating all relationships and services that may impact the objectivity and independence of the independent auditors; (ii) shall discuss with the independent auditors any disclosed relationship or services that may impact the objectivity and independence of the independent auditors; and (iii) shall satisfy itself as to the independent auditors' independence.
5. At least annually, obtain and review an annual report from the independent auditors describing (i) the independent auditors' internal quality control procedures and (ii) any material issues raised by the most recent internal quality control review, or peer review, of the independent auditors, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditors, and any steps taken to deal with any such issues.
6. Confirm that the lead audit partner, or the lead audit partner responsible for reviewing the audit, for the Company's independent auditors has not performed audit services for the Company for each of the five previous fiscal years.
7. Review all reports required to be submitted by the independent auditors to the Committee under Section 10A of the Securities Exchange Act of 1934.
8. Review, based upon the recommendation of the independent auditors and the corporate audit department, the scope and plan of the work to be done by the independent auditors for each fiscal year.

*With respect to financial statements:*

1. Review and discuss with management and the independent auditors the Company's quarterly financial statements (including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations and the independent auditors' review of the quarterly financial statements) prior to submission to stockholders, any governmental body, any stock exchange or the public.
2. Review and discuss: (i) with management and the independent auditors the Company's annual audited financial statements (including disclosures made in Management's Discussion and Analysis of Financial Condition and Results of Operations ).
3. Discuss with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, relating to the conduct of the audit.
4. Recommend to the Board of Directors, if appropriate, that the Company's annual audited financial statements be included in the Company's annual report on Form 10-K for filing with the Securities and Exchange Commission.

5. Prepare the report required by the Securities and Exchange Commission to be included in the Company's annual proxy statement and any other Committee reports required by applicable securities laws or stock exchange listing requirements or rules.

*Periodic and Annual Reviews:*

1. Periodically review separately with each of management and the independent auditors (i) any significant disagreement between management and the independent auditors in connection with the preparation of the financial statements, (ii) any difficulties encountered during the course of the audit (including any restrictions on the scope of work or access to required information), and (iii) management's response to each.
2. Periodically discuss with the independent auditors, without management being present, (i) their judgments about the quality, appropriateness, and acceptability of the Company's accounting principles and financial disclosure practices, as applied in its financial reporting, and (ii) the completeness and accuracy of the Company's financial statements.
3. Consider and approve, if appropriate, significant changes to the Company's accounting principles and financial disclosure practices as suggested by the independent auditors or management. Review with the independent auditors and management at appropriate intervals, the extent to which any changes or improvements in accounting or financial practices, as approved by the Committee, have been implemented.
4. Review with management, the independent auditors and the Company's counsel, as appropriate, any legal, regulatory or compliance matters that could have a significant impact on the Company's financial statements, including significant changes in accounting standards or rules as promulgated by the Financial Accounting Standards Board, the Securities and Exchange Commission or other regulatory authorities with relevant jurisdiction.
5. Obtain and review an annual report from management relating to the accounting principles used in the preparation of the Company's financial statements (including those policies for which management is required to exercise discretion or judgments regarding the implementation thereof).

*Discussions with Management:*

- 1.

Review and discuss with management the Company's earnings press releases (including the use of forma or adjusted non-GAAP information) as well as financial information and earnings guidance provided to analysts and rating agencies.

2. Review and discuss with management all material off-balance sheet transactions, arrangements, obligations (including contingent obligations) and other relationships of the Company with unconsolidated entities or other persons, that may have a material current or future effect on financial condition, changes in financial condition, results of operations, liquidity, capital resources, capital reserves or significant components of revenues or expenses.
3. Inquire about the application of the Company's accounting policies and its consistency from period to period, and the compatibility of these accounting policies with generally accepted accounting principles, and (where appropriate) the Company's provisions for future occurrences which may have a material impact on the financial statements of the Company.
4. Review and discuss with management (i) the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures (including management's risk assessment and risk management policies), and (ii) the program that management has established to monitor compliance with its code of business ethics and conduct for directors, officers and employees.
5. Review and discuss with management all disclosures made by the Company concerning any material changes in the financial condition or operations of the Company.

6. Obtain explanations from management for unusual variances in the Company's annual financial statements from year to year, and review annually the independent auditors' letter of recommendations to management and management's response.

*With respect to the internal audit function and internal controls:*

1. Review, based upon the recommendation of the independent auditors, the scope, plan and personnel of the work to be done.
2. In consultation with the independent auditors and management, (a) review the adequacy of the Company's internal control structure and system, and the procedures designed to insure compliance with laws and regulations, and (b) discuss the responsibilities, budget and staffing needs of the corporate audit department.
3. Establish procedures for (i) the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting or auditing matters.

*Other:*

1. Establish a policy on related-party transactions and review and approve all related-party transactions. The currently adopted policy is as follows:

*Policy for Related Party Transactions.* The Audit Committee of the Board of Directors will evaluate any transaction, arrangement or relationship in which National HealthCare Corporation ( "NHC" or "Company" ) or any of its subsidiaries or affiliates is a participant and the amount involved exceeds \$120,000 in which an executive officer, director, director nominee or 5% stockholder (or their immediate family members) (each of whom is a related party ) has a direct or indirect material interest.

A related party transaction reviewed under this policy will be considered ratified if it is approved by the Audit Committee (the "Committee" ) after full disclosure of the related party's interest in the transaction. As appropriate for the circumstances, the Committee will review and consider:

- the related party's interest in the related party transaction;
- the approximate dollar value of the amount involved in the related party transaction;
- whether the transaction was undertaken in the ordinary course of the Company's business;
- whether the terms of the transaction are proposed to be, or were, entered into on terms no less favorable to NHC than terms that could have been, or have been, reached with an unrelated third party;

- the purpose of, and the potential benefits to NHC of, the transaction;
- whether any alternatives were considered that would not have involved a transaction with a related party; and
- any other information regarding the related party transaction or the related party in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The Committee may approve the transaction only if the Committee determines that, under all of the circumstances, the transaction is in the Company's best interest. The Committee may impose any conditions on the Company in connection with the related party transaction that it deems appropriate.

2. Review and approve (i) any change or waiver in the Company's code of business conduct and ethics for directors or executive officers, and (ii) any disclosure made on Form 8-K regarding such change or waiver.
3. Establish the policy for the Company's hiring of employees or former employees of the independent auditors who were engaged on the Company's account.
4. Review any management decision to seek a second opinion from independent auditors other than the Company's regular independent auditors with respect to any significant accounting issue.

5. Review with management and the independent auditors the sufficiency and quality of the financial and accounting personnel of the Company.
6. Review and reassess the adequacy of this Charter annually and recommend to the Board any changes the Committee deems appropriate.
7. The Committee shall conduct an annual performance evaluation.
8. Perform any other activities consistent with this Charter, the Company's By-laws and governing law that the Committee or the Board deems necessary or appropriate.

**V.**

**Resources**

The Audit Committee shall have the authority to retain independent legal, accounting and other consultants to advise the Committee. The Committee may request any officer or employee of the Company or the Company's outside independent auditors to attend a meeting of the Committee or to meet with any members of, or consultants to, the Committee.

The Committee shall determine the extent of funding necessary for payment of compensation to the independent auditors for purpose of rendering or issuing the annual audit report and to any independent legal, accounting and other consultants retained to advise the Committee.

This Charter will be made available on the Company's website at [www.NHCcare.com](http://www.NHCcare.com).

Date of Amendment: April 24, 2007



**PROXY**

**NATIONAL HEALTHCARE CORPORATION**  
**100 E. Vine Street, Murfreesboro, Tennessee 37130**  
**This Proxy is Solicited on Behalf of the Board of Directors.**

The undersigned hereby appoints Robert G. Adams and/or John K. Lines as Proxies, each of them with power substitution, to represent and vote on behalf of the undersigned all of the shares of National HealthCare Corporation which the undersigned is entitled to vote at the Annual Meeting of Shareholders to be held at City Center on the 10th Floor, 100 E. Vine Street, Murfreesboro, Tennessee, on Tuesday, May 5, 2009, at 4:00 p.m. Central Daylight Time and at any continuances thereof, hereby revoking all proxies heretofore given with respect to such stock, upon the proposals more fully described in the notice of and proxy statement for the meeting (receipt whereof is hereby acknowledged).

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSAL I.**

- |                          |                            |                    |
|--------------------------|----------------------------|--------------------|
| I. ELECTION OF DIRECTORS | For nominees listed below: | ___ For All        |
|                          | (1) J. Paul Abernathy      | ___ Withhold All   |
|                          | (2) Robert G. Adams        | ___ For All Except |

To withhold authority to vote, mark A For All, Except @ and write the nominee=s name on line below.

\_\_\_\_\_

In their discretion, the Proxies are authorized to vote upon such other matters as may properly come before the meeting.

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**THIS PROXY, WHEN PROPERLY EXECUTED, WILL BE VOTED IN THE MANNER DIRECTED BY THE UNDERSIGNED SHAREHOLDER. IF NO DIRECTION IS MADE, THIS PROXY WILL BE VOTED FOR PROPOSAL I.**

Please sign exactly as name appears below. When shares are held by joint tenants, both should sign. When signing as attorney, as executor, administrator, trustee or guardian, please give full name as such. If a corporation, please give full corporate name by President or other authorized officer. If a partnership, please sign in partnership name or other authorized person.

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Signature

Date

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Signature, if held jointly

Date

**PLEASE MARK, SIGN, DATE AND RETURN THE PROXY CARD IN THE ENCLOSED ENVELOPE.**