

REFINITIV

DELTA REPORT

10-Q

NHC - NATIONAL HEALTHCARE CORP

10-Q - MARCH 31, 2024 COMPARED TO 10-Q - SEPTEMBER 30, 2023

The following comparison report has been automatically generated

TOTAL DELTAS 1073

■ CHANGES	315
■ DELETIONS	435
■ ADDITIONS	323

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

FORM 10-Q

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

For the quarterly period ended September 30, 2023 March 31, 2024

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 001-13489



(Exact name of registrant as specified in its Charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

52-2057472

(I.R.S. Employer
Identification No.)

100 E. Vine Street

Murfreesboro, TN

37130

(Address of principal executive offices)

(Zip Code)

(615) 890-2020

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common, \$0.01 par value	NHC	NYSE American

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as is defined in Rule 12b-2 of the Exchange Act). Yes No

15,324,560 **15,399,724** shares of common stock of the registrant were outstanding as of **October 30, 2023** **May 1, 2024**.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

NATIONAL HEALTHCARE CORPORATION

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REFINITIV 

Interim Condensed Consolidated Statements of Operations

(in thousands, except share and per share amounts)

(unaudited)

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30		September 30		March 31	
	2023	2022	2023	2022	2024	2023
Revenues and grant income:						
Revenues:						
Net patient revenues	\$ 277,005	\$ 260,247	\$ 804,617	\$ 776,661	\$ 285,823	\$ 258,007
Other revenues	11,480	10,596	36,013	33,584	11,353	11,556
Government stimulus income	-	-	-	10,940		
Net operating revenues and grant income	288,485	270,843	840,630	821,185		
Net operating revenues					297,176	269,563
Cost and expenses:						
Salaries, wages, and benefits	182,664	173,198	525,782	518,828	183,138	167,824
Other operating	72,490	72,883	217,213	218,279	77,429	71,489
Facility rent	10,094	10,294	30,087	30,770	10,348	10,092
Depreciation and amortization	10,135	10,253	30,266	30,011	10,586	10,048
Interest	77	137	268	451	46	98
Total costs and expenses	275,460	266,765	803,616	798,339	281,547	259,551
Income from operations	13,025	4,078	37,014	22,846	15,629	10,012
Other income:						
Non-operating income	4,097	2,731	12,116	8,451	5,685	4,323
Unrealized gains/(losses) on marketable equity securities	(3,093)	(11,056)	2,943	(11,479)		
Unrealized gains on marketable equity securities					14,399	1,386
Income/(loss) before income taxes	14,029	(4,247)	52,073	19,818		
Income tax (provision)/benefit	(3,908)	1,140	(14,750)	(5,415)		
Net income/(loss)	10,121	(3,107)	37,323	14,403		
Net loss attributable to noncontrolling interest	267	678	1,069	1,689		
Income before income taxes					35,713	15,721
Income tax provision					(9,462)	(4,436)
Net income					26,251	11,285
Net (income)/loss attributable to noncontrolling interest					(38)	438
Net income/(loss) attributable to National HealthCare Corporation	\$ 10,388	\$ (2,429)	\$ 38,392	\$ 16,092		
Net income attributable to National HealthCare Corporation					\$ 26,213	\$ 11,723
Earnings/(loss) per share attributable to National HealthCare Corporation stockholders:						
Earnings per share attributable to National HealthCare Corporation stockholders:						
Basic	\$ 0.68	\$ (0.16)	\$ 2.51	\$ 1.04	\$ 1.71	\$ 0.76
Diluted	\$ 0.68	\$ (0.16)	\$ 2.50	\$ 1.04	\$ 1.69	\$ 0.76

		Weighted average common shares outstanding:			Weighted average common shares outstanding:		
Weighted average common shares outstanding:							
Basic		15,299,913	15,445,569	15,311,453	15,438,375	15,350,240	15,337,423
Diluted		15,324,511	15,445,569	15,334,269	15,477,103	15,505,096	15,356,335
Dividends declared per common share		\$ 0.59	\$ 0.57	\$ 1.75	\$ 1.69	\$ 0.59	\$ 0.57

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

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NATIONAL HEALTHCARE CORPORATION
Interim Condensed Consolidated Statements of Comprehensive Income/(Loss) Income
(unaudited – in thousands)

	Three Months Ended				Nine Months Ended			
	September 30				September 30			
	2023	2022	2023	2022	2023	2022	2023	2022
Net income/(loss)	\$ 10,121	\$ (3,107)	\$ 37,323	\$ 14,403				
Other comprehensive loss:								
Unrealized losses on investments in marketable debt securities	(1,185)	(3,979)	(605)	(13,985)				
Reclassification adjustment for realized (gains)/losses on sales of marketable debt securities	-	-	20	(122)				
Income tax benefit related to items of other comprehensive income	124	539	3	2,079				
Other comprehensive loss, net of tax	(1,061)	(3,440)	(582)	(12,028)				
Net loss attributable to noncontrolling interest	267	678	1,069	1,689				
Comprehensive income/(loss) attributable to National HealthCare Corporation	\$ 9,327	\$ (5,869)	\$ 37,810	\$ 4,064				

	Three Months Ended			
	March 31			
	2024	2023	2024	2023
Net income	\$ 26,251	\$ 11,285	\$ 26,251	\$ 11,285
Other comprehensive income/(loss):				
Unrealized gains/(losses) on investments in marketable debt securities	(472)	1,958	(472)	1,958
Reclassification adjustment for realized gains on sales of marketable debt securities	(10)	-	(10)	-
Income tax (expense)/benefit related to items of other comprehensive income	45	(279)	45	(279)
Other comprehensive income/(loss), net of tax	(437)	1,679	(437)	1,679
Net (income)/loss attributable to noncontrolling interest	(38)	438	(38)	438
Comprehensive income attributable to National HealthCare Corporation	\$ 25,776	\$ 13,402	\$ 25,776	\$ 13,402

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

NATIONAL HEALTHCARE CORPORATION
Interim Condensed Consolidated Balance Sheets
(in thousands)

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
			unaudited	unaudited
Assets				
Current Assets:				
Cash and cash equivalents	\$ 100,308	\$ 58,667	\$ 93,982	\$ 107,076
Restricted cash and cash equivalents, current portion	18,865	15,121	26,010	17,725
Marketable equity securities	102,137	100,786	123,040	111,117
Marketable debt securities	8,049	23,136	484	5,427
Restricted marketable equity securities	23,683	22,358	29,616	26,779
Restricted marketable debt securities, current portion	12,005	16,244	4,790	12,822
Accounts receivable	102,603	99,986	125,664	108,545
Inventories	7,373	7,088	6,763	7,386
Prepaid expenses and other assets	7,555	10,546	6,750	8,855
Notes receivable			487	503
Total current assets	382,578	353,932	417,586	406,235
Property and Equipment:				
Property and equipment, at cost	1,102,467	1,081,219	1,065,543	1,101,681
Accumulated depreciation and amortization	(604,201)	(574,687)	(576,845)	(608,352)
Net property and equipment	498,266	506,532	488,698	493,329
Other Assets:				
Restricted cash and cash equivalents, less current portion	1,082	1,077	1,140	1,167
Restricted marketable debt securities, less current portion	106,857	103,267	119,042	109,478
Deposits and other assets	13,472	12,728	13,738	14,786
Operating lease right-of-use assets	100,788	120,521	87,356	94,201
Goodwill	168,295	168,295	168,295	168,295
Intangible assets	7,038	7,038	7,038	7,038
Investments in unconsolidated companies	3,531	2,060	16,747	16,267
Total other assets	401,063	414,986	413,356	411,232
Total assets	\$ 1,281,907	\$ 1,275,450	\$ 1,319,640	\$ 1,310,796

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

NATIONAL HEALTHCARE CORPORATION
Interim Condensed Consolidated Balance Sheets (continued)
(in thousands, except share and per share amounts)

	September 30, 2023 <i>unaudited</i>	December 31, 2022	March 31, 2024 <i>unaudited</i>	December 31, 2023
Liabilities and Stockholders' Equity				
Current Liabilities:				
Trade accounts payable	\$ 16,471	\$ 16,958	\$ 20,697	\$ 19,194
Finance lease obligations, current portion	2,134	4,985	-	860
Operating lease liabilities, current portion	29,222	29,075	29,733	29,352
Accrued payroll	69,719	72,510	64,156	84,110
Amounts due to third party payors	15,588	16,631	19,988	18,369
Accrued risk reserves, current portion	30,870	31,365	30,800	30,549
Other current liabilities	31,650	17,615	24,302	22,991
Contract liabilities			7,667	-
Dividends payable	9,040	8,748	9,086	9,051
Total current liabilities	<u>204,694</u>	<u>197,887</u>	<u>206,429</u>	<u>214,476</u>
Finance lease obligations, less current portion	-	860		
Operating lease liabilities, less current portion	70,200	91,016	56,004	63,175
Accrued risk reserves, less current portion	77,255	71,104	77,437	72,710
Refundable entrance fees	5,949	6,207	5,708	6,376
Deferred income taxes	9,847	10,909	19,639	17,200
Other noncurrent liabilities	26,622	19,953	27,909	26,379
Total liabilities	<u>394,567</u>	<u>397,936</u>	<u>393,126</u>	<u>400,316</u>
Equity:				
Common stock, \$.01 par value; 45,000,000 shares authorized; 15,324,560 and 15,357,746 shares, respectively, issued and outstanding	153	153		
Common stock, \$.01 par value; 45,000,000 shares authorized; 15,399,724 and 15,350,661 shares, respectively, issued and outstanding			154	153
Capital in excess of par value	226,888	226,991	226,909	227,604
Retained earnings	668,244	656,664	704,726	687,599
Accumulated other comprehensive loss	(10,114)	(9,532)	(7,041)	(6,604)
Total National HealthCare Corporation stockholders' equity	<u>885,171</u>	<u>874,276</u>	<u>924,748</u>	<u>908,752</u>
Noncontrolling interest	2,169	3,238	1,766	1,728
Total equity	<u>887,340</u>	<u>877,514</u>	<u>926,514</u>	<u>910,480</u>
Total liabilities and equity	<u>\$ 1,281,907</u>	<u>\$ 1,275,450</u>	<u>\$ 1,319,640</u>	<u>\$ 1,310,796</u>

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

NATIONAL HEALTHCARE CORPORATION
Interim Condensed Consolidated Statements of Cash Flows
(unaudited – in thousands)

Cash Flows From Operating Activities:

	Nine Months Ended September 30		Three Months Ended March 31	
	2023	2022	2024	2023
Net income	\$ 37,323	\$ 14,403	\$ 26,251	\$ 11,285
Adjustments to reconcile net income to net cash provided by operating activities:				

Depreciation and amortization	30,266	30,011	10,586	10,048
Equity in earnings of unconsolidated investments	(1,941)	(498)	(67)	(1,535)
Distributions from unconsolidated investments	470	439		
Unrealized (gains)/losses on marketable equity securities	(2,943)	11,479		
Realized losses on sale of marketable securities	603	756		
Recovery of notes receivable	-	(3,728)		
Unrealized gains on marketable equity securities			(14,399)	(1,386)
(Gains)/losses on sale of marketable securities			(344)	492
Gain on sale of unconsolidated company			(1,024)	-
Deferred income taxes	(1,059)	4,977	2,484	331
Stock-based compensation	2,119	1,980	793	639
Changes in operating assets and liabilities:				
Accounts receivable	(2,617)	(2,879)	(17,119)	(3,148)
Inventories	(285)	1,284	623	142
Prepaid expenses and other assets	2,444	(11,484)	3,153	1,957
Operating lease obligations	(936)	-	55	(316)
Trade accounts payable	(487)	(3,045)	1,503	(4,018)
Accrued payroll	(2,791)	(29,356)	(19,954)	(15,800)
Amounts due to third party payors	(1,043)	(2,099)	1,619	48
Accrued risk reserves	5,656	5,662	4,978	3,157
Provider relief funds	-	(8,927)		
Contract liabilities	-	(14,884)	7,667	-
Other current liabilities	14,035	4,014	1,311	5,407
Other noncurrent liabilities	6,669	(1,297)	1,530	6,554
Net cash provided by/(used in) operating activities	85,483	(3,192)		
Net cash provided by operating activities			9,646	13,857
Cash Flows From Investing Activities:				
Purchases of property and equipment	(19,300)	(24,563)	(5,955)	(6,640)
Acquisition of skilled nursing facility	(2,700)	-		
Proceeds from the sale of property and equipment	-		4,175	
Investments in notes receivable	(400)	(2,000)		
Proceeds from sale of unconsolidated company			2,100	-
Investments in unconsolidated companies			(1,488)	-
Collections of notes receivable	203	4,181	16	2
Purchases of marketable securities	(21,763)	(28,717)	(8,703)	(10,281)
Proceeds from sale of marketable securities	36,578	38,114	11,615	15,492
Net cash used in investing activities	(7,382)	(8,810)	(2,415)	(1,427)
Cash Flows From Financing Activities:				
Principal payments under finance lease obligations	(3,711)	(3,495)	(860)	(1,218)
Dividends paid to common stockholders	(26,520)	(25,830)	(9,051)	(8,748)
Noncontrolling interest contributions	-		250	
Issuance of common shares	260	1,281		
Issuance of common stock			8,412	-
Repurchase of common shares	(2,482)	(6,907)	(9,900)	(2,482)
Entrance fee refunds	(258)	(840)	(668)	(171)
Net cash used in financing activities	(32,711)	(35,541)	(12,067)	(12,619)
Net Increase/(Decrease) in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	45,390	(47,543)		
Net Decrease in Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents			(4,836)	(189)
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, Beginning of Period	74,865	119,743	125,968	74,865
Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents, End of Period	\$ 120,255	\$ 72,200	\$ 121,132	\$ 74,676

Balance Sheet Classifications:

Cash and cash equivalents	\$ 100,308	\$ 44,515	\$ 93,982	\$ 46,144
Restricted cash and cash equivalents	19,947	27,685	27,150	28,532
Total Cash, Cash Equivalents, Restricted Cash, and Restricted Cash Equivalents	\$ 120,255	\$ 72,200	\$ 121,132	\$ 74,676

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

NATIONAL HEALTHCARE CORPORATION
Interim Condensed Consolidated Statements of Stockholders' Equity
(in thousands, except share and per share amounts)
(unaudited)

For the **nine** **three** months ended **September 30, 2023** **March 31, 2024**:

	Common Stock		Capital in Excess of Par Value		Accumulated Other Comprehensive Loss		Non-controlling Interest		Total Stockholders' Equity		Common Stock		Capital in Excess of Par Value		Accumulated Other Comprehensive Loss	
	Shares	Amount	Par Value	Earnings							Shares	Amount	Par Value	Earnings		
Balance at January 1, 2023	15,357,746	\$ 153	\$ 226,991	\$ 656,664	\$ (9,532)	\$ 3,238	\$ 877,514									
Net income/(loss)	—	—	—	11,723	—	(438)	—	11,285								
Other comprehensive income	—	—	—	—	1,679	—	—	1,679								
Balance at January 1, 2024									15,350,661	\$ 153	\$ 227,604	\$ 687,599	\$ (6,639)			
Net income									—	—	—	—	—	26,213		
Other comprehensive loss									—	—	—	—	—	—		
Stock-based compensation	—	—	639	—	—	—	—	639	—	—	793	—	—	—		
Shares sold – options exercised	7,046	—	—	—	—	—	—	—	150,194	1	8,412	—	—	—		
Repurchase of common shares	(44,349)	—	(2,482)	—	—	—	—	(2,482)	(101,131)	—	(9,900)	—	—	—		
Dividends declared to common stockholders (\$0.57 per share)	—	—	—	(8,733)	—	—	—	(8,733)								
Balance at March 31, 2023	15,320,443	\$ 153	\$ 225,148	\$ 659,654	\$ (7,853)	\$ 2,800	\$ 879,902									
Net income/(loss)	—	—	—	16,281	—	(364)	—	15,917								
Other comprehensive loss	—	—	—	—	(1,200)	—	—	(1,200)								

Stock-based compensation	–	–	772	–	–	–	–	772
Shares sold – options exercised	100	–	6	–	–	–	–	6
Dividends declared to common stockholders (\$0.59 per share)	–	–	–	(9,039)	–	–	(9,039)	–
Balance at June 30, 2023	15,320,543	153	225,926	666,896	(9,053)	2,436	886,358	
Net income/(loss)	–	–	–	10,388	–	(267)	10,121	
Other comprehensive loss	–	–	–	–	(1,061)	–	(1,061)	
Stock-based compensation	–	–	708	–	–	–	708	
Shares sold – options exercised	4,017	–	254	–	–	–	254	
Dividends declared to common stockholders (\$0.59 per share)	–	–	–	(9,040)	–	–	(9,040)	
Balance at September 30, 2023	15,324,560	153	226,888	668,244	(10,114)	2,169	887,340	
Balance at March 31, 2024								15,399,724 \$ 154 \$ 226,909 \$ 704,726 \$ (7

For the **nine** **three** months ended **September 30, 2022** **March 31, 2023**:

	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)		Non-controlling Interest	Total Stockholders' Equity	Common Stock		Capital in Excess of Par Value	Retained Earnings	Accumulated Other Comprehensive Income (Loss)
	Shares	Amount			Interest	Equity			Shares	Amount			
	Balance at January 1, 2022	15,452,033	\$ 154	\$ 232,167	\$ 669,078	\$ 1,605	\$ 5,456	\$ 908,460	Balance at January 1, 2022	15,452,033	\$ 154	\$ 232,167	\$ 669,078
Net income	–	–	–	–	15,318	–	31	15,349	Net income	–	–	–	–
Other comprehensive loss	–	–	–	–	–	(5,060)	–	(5,060)	Other comprehensive loss	–	–	–	–
Stock-based compensation	–	–	712	–	–	–	–	712	Stock-based compensation	–	–	712	–
Shares sold – options exercised	21,463	–	–	–	–	–	–	–	Shares sold – options exercised	21,463	–	–	–

Repurchase of common shares	(2,165)	–	(146)	–	–	–	(146)
Dividends declared to common stockholders (\$0.55 per share)	–	–	–	(8,509)	–	–	(8,509)
Balance at March 31, 2022	15,471,331	\$ 154	\$ 232,733	\$ 675,887	\$ (3,455)	\$ 5,737	\$ 911,056
Balance at January 1, 2023							15,357,746 \$ 153 \$ 226,991 \$ 656,664 \$ (911,056)
Net income/(loss)	–	–	–	3,203	–	(1,042)	2,161
Other comprehensive loss	–	–	–	–	(3,528)	–	(3,528)
Stock-based compensation	–	–	629	–	–	–	629
Shares sold – options exercised	16,554	–	1,120	–	–	–	1,120
Dividends declared to common stockholders (\$0.57 per share)	–	–	–	(8,828)	–	–	(8,828)
Balance at June 30, 2022	15,487,885	\$ 154	\$ 234,482	\$ 670,262	\$ (6,983)	\$ 4,695	\$ 902,610
Net income loss	–	–	–	(2,429)	–	(678)	(3,107)
Other comprehensive loss	–	–	–	–	(3,440)	–	(3,440)
Other comprehensive income							1,1723
Stock-based compensation	–	–	639	–	–	–	639
Shares sold – options exercised	2,600	–	161	–	–	–	161
Repurchase of common shares	(97,382)	(1)	(6,760)	–	–	–	(6,761)
Dividends declared to common stockholders (\$0.57 per share)	–	–	–	(8,774)	–	–	(8,774)
							1,1723

Balance at							
September 30, 2022	15,393,103	153	228,522	659,059	(10,423)	4,017	881,328
Balance at March 31, 2023							
							15,320,443 \$ 153 \$ 225,148 \$ 659,654 \$ (7)

The accompanying notes to interim condensed consolidated financial statements are an integral part of these consolidated statements.

NATIONAL HEALTHCARE CORPORATION
 Notes to Interim Condensed Consolidated Financial Statements
 September 30, 2023 March 31, 2024
 (unaudited)

Note 1 – Description of Business

National HealthCare Corporation ("NHC" or the "Company") is a leading provider of senior health care services. As of **September 30, 2023**, **March 31, 2024**, we operate or manage, through certain affiliates, **65** skilled nursing facilities with a total of **8,732** **8,421** licensed beds, **26** **24** assisted living facilities with **1,501** **1,365** units, five independent living facilities, three behavioral health hospitals, 35 homecare agencies, and 30 hospice agencies. We operate specialized care units within certain of our healthcare centers such as Alzheimer's disease care units and sub-acute nursing units. In addition, we provide insurance services, management and accounting services, and we lease properties to operators of skilled nursing and assisted living facilities. We operate in 8 states and are located primarily in the southeastern United States.

Note 2 – Summary of Significant Accounting Policies

The listing below is not intended to be a comprehensive list of all our significant accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by U.S. generally accepted accounting principles ("GAAP"), with limited need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. See our audited December 31, **2022** **2023** consolidated financial statements and notes thereto which contain accounting policies and other disclosures required by U.S. GAAP. Our audited December 31, **2022** **2023** consolidated financial statements are available at our web site: www.nhccare.com.

Basis of Presentation

The unaudited interim condensed financial statements to which these notes are attached include all normal, recurring adjustments which are necessary to fairly present the financial position, results of operations and cash flows of NHC. All significant intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements include the accounts of all entities controlled by NHC. The Company presents noncontrolling interest within the equity section of its consolidated balance sheets. The Company presents the amount of consolidated net income that is attributable to NHC and the noncontrolling interest in its consolidated statements of operations.

We assume that users of these interim financial statements have read or have access to the audited December 31, **2022** **2023** consolidated financial statements and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnotes and other disclosures which would substantially duplicate the disclosure contained in our most recent annual report to stockholders have been omitted. This interim financial information is not necessarily indicative of the results that may be expected for a full year for a variety of reasons.

Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and could cause our reported net income to vary significantly from period to period.

Net Patient Revenues and Accounts Receivable

Net patient revenues are derived from services rendered to patients for skilled and intermediate nursing, rehabilitation therapy, assisted living and independent living, home health care services, hospice services, and behavioral health services. Net patient revenue is reported at the amount that reflects the consideration to which the Company expects to be entitled in exchange for providing patient services. These amounts are due from patients, governmental programs, and other third-party payors, and include variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations.

The Company recognizes revenue as its performance obligations are completed. Routine services are treated as a single performance obligation satisfied over time as services are rendered. These routine services represent a bundle of services that are not capable of being distinct. The performance obligations are satisfied over time as the patient simultaneously receives and consumes the benefits of the healthcare services provided. Additionally, there may be ancillary services which are not included in the daily rates for routine services, but instead are treated as separate performance obligations satisfied at a point in time when those services are rendered. Contract liabilities are recorded for payments the Company receives in which performance obligations have not been completed.

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The Company determines the transaction price based on established billing rates reduced by explicit price concessions provided to third party payors. Explicit price concessions are based on contractual agreements and historical experience. The Company considers the patient's ability and intent to pay the amount of consideration upon admission. Credit losses are recorded as bad debt expense, which is included as a component of other operating expenses in the interim condensed consolidated statements of operations. Bad debt expense was **\$1,668,000** **\$2,471,000** and **\$5,331,000** **\$1,811,000** for the three and nine months ended **September 30, 2023**, **March 31, 2024** respectively. For the three and nine months ended **September 30, 2022**, bad debt expense was **\$1,685,000** and **\$6,026,000**, respectively. As of **September 30, 2023** **March 31, 2024**, and December 31, 2022, 2023, the Company has recorded allowance for doubtful accounts of **\$8,598,000** **\$9,174,000** and **\$6,246,000**, **\$8,054,000**, respectively, as our best estimate of expected losses inherent in the accounts receivable balance.

Other Revenues

Other revenues include revenues from the provision of insurance services, to other healthcare providers, management and accounting services to other healthcare long-term care providers, and rental income. Our insurance revenues consist of premiums that are generally paid in advance and then amortized into income over the policy period. We charge for management services based on a percentage of net revenues. We charge for accounting services based on a monthly fee or a fixed fee per bed of the healthcare center under contract. We record other revenues as the performance obligations are satisfied based on the terms of our contractual arrangements.

We recognize rental income based on the terms of our operating leases. Under certain of our leases, we receive variable rent, which is based on the increase in revenues of a lessee over a base year. We recognize variable rent annually or monthly, as applicable, when, based on the actual revenue of the lessee is earned.

Government Grants

We account for government grants in accordance with International Accounting Standard ("IAS") 20, *Accounting for Government Grants and Disclosure of Government Assistance*, and as such, we recognize grant income on a systematic basis in line with the recognition of specific expenses and lost revenues for which the grants are intended to compensate.

Segment Reporting

In accordance with the provisions of Accounting Standards Codification ("ASC") 280, *Segment Reporting*, the Company is required to report financial and descriptive information about its reportable operating segments. The Company has two reportable operating segments: (1) inpatient services, which includes the operation of skilled nursing facilities, assisted and independent living facilities, and behavioral health hospitals, and (2) homecare and hospice services. The Company also reports an "all other" category that includes revenues from rental income, management and accounting services fees, insurance services, and costs of the corporate office. See Note 76 for further disclosure of the Company's operating segments.

Other Operating Expenses

Other operating expenses include the costs of care and services that we provide to the residents of our facilities and the costs of maintaining our facilities. Our primary patient care costs include drugs, medical supplies, purchased professional services, food, and professional liability insurance and licensing fees. The primary facility costs include utilities and property insurance.

General and Administrative Costs

With the Company being a healthcare provider, the majority of our expenses are "cost of revenue" items. Costs that could be classified as "general and administrative" by the Company would include its corporate office costs, excluding stock-based compensation, and incentive compensation, which were **\$5,661,000** **\$6,164,000** and **\$16,309,000** **\$5,653,000** for the three and nine months ended **September 30, 2023**, **March 31, 2024** respectively. General and administrative costs were **\$6,050,000** and **\$16,636,000** for the three and nine months ended **September 30, 2022**, respectively.

Long-Term Leases

The Company's lease portfolio primarily consists of finance and operating real estate leases for certain skilled nursing facilities, assisted and independent living facilities, homecare and hospice offices, and pharmacy warehouses. The original terms of the leases typically range from two to fifteen years. Several of the real estate leases include renewal options which vary in length and may not include specific rent renewal amounts. We determine if an arrangement is a lease at inception of a contract. We determine the lease term by assuming exercise of renewal options that are reasonably certain.

The Company records right-of-use assets and liabilities for non-cancelable real estate operating leases with original or remaining lease terms in excess of one year. Leases with a lease term of 12 months or less at inception are not recorded and are expensed on a straight-line basis over the lease term. We recognize lease components and non-lease components together and not as separate parts of a lease for real estate leases.

Operating lease right-of-use assets and liabilities are recorded at the present value of the lease payments over the lease term. The present value of the lease payments are discounted using the incremental borrowing rate associated with each lease. The variable components of the lease payment that fluctuate with the operations of a health facility are not included in determining the right-of-use assets and lease liabilities. Rather, these variable components are expensed as incurred.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided by the straight-line method over the expected useful lives of the assets estimated as follows: buildings and improvements, 20-40 years and equipment and furniture, 3-15 years. Leasehold improvements are amortized over periods that do not exceed the non-cancelable respective lease terms using the straight-line method.

Finance leases are recorded at cost. Finance leases are amortized in accordance with the provision codified within ASC 842, *Leases*. Amortization of finance lease assets is included in depreciation and amortization expense.

Business Combinations

We account for acquisitions using the acquisition method of accounting in accordance with ASC 805, *Business Combinations*. Acquisitions are accounted for as purchases and are included in our consolidated financial statements from their respective acquisition dates. Assets acquired and liabilities assumed, if any, are measured at fair value on the acquisition date using the appropriate valuation method. Goodwill generated from acquisitions is recognized for the excess of the purchase price over the fair value of tangible and identifiable intangible assets acquired and liabilities assumed. In determining the fair value of identifiable assets, we use various valuation techniques. These valuation methods require us to make estimates and assumptions surrounding projected revenues and costs, future growth, and discount rates.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations. Goodwill is not amortized but is subject to an annual impairment test. We perform our annual goodwill impairment assessment on the first day of the fourth quarter. Tests are performed more frequently if events occur, or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

The Company's indefinite-lived intangible assets consist of trade names and certificates of need and licenses. The Company reviews indefinite-lived intangible assets for impairment on an annual basis or more frequently if events or changes in circumstances indicate that the fair value carrying amount of the intangible asset is below its carrying amount. may not be recoverable.

Accrued Risk Reserves

We are self-insured for risks related to workers' workers' compensation and general and professional liability insurance. We have two wholly-owned limited purpose insurance companies that insure these risks. The accrued risk reserves include a liability for reported claims and estimates for incurred but unreported claims. Our policy is to engage an external, independent actuary to assist in estimating our exposure for claims obligations (for both asserted and unasserted claims). We reassess our accrued risk reserves on a quarterly basis.

Professional liability remains an area of particular concern to us. The long-term care industry has seen an increase in personal injury/wrongful death claims based on alleged negligence by skilled nursing facilities and their employees in providing care to residents. The Company has been, and continues to be, subject to claims and legal actions that arise in the ordinary course of business, including potential claims related to patient care and treatment. A significant increase in the number of these claims, or an increase in the amounts due as a result of these claims could have a material adverse effect on our consolidated financial position, results of operations and cash flows. It is also possible that future events could cause us to make significant adjustments or revisions to these reserve estimates and cause our reported net income to vary significantly from period to period.

We are principally self-insured for incidents occurring in all centers owned or leased by us. The coverage includes coverages include both primary policies and excess policies. In all years, settlements, if any, in excess of available insurance policy limits and our own reserves would be expensed by us.

Continuing Care Contracts

We have one continuing care retirement center ("CCRC") within our operations. Residents at this retirement center may enter into continuing care contracts with us. The contracts provide that 10% of the resident entry fee becomes non-refundable upon occupancy, and the remaining refundable portion of the entry fee is calculated using the **lesser** of the price at which the apartment is re-assigned or 90% of the original entry fee, plus 40% of any appreciation if the apartment value exceeds the original resident's entry fee.

Non-refundable fees are included as a component of the transaction price and are amortized into revenue over the actuarially determined remaining life of the resident, which is the expected period of occupancy by the resident. We pay the refundable portion of our entry fees to residents when they relocate from our community and the apartment is re-occupied. Refundable entrance fees are not included as part of the transaction price and are classified as noncurrent liabilities in our consolidated balance sheets.

We also annually estimate the present value of the cost of future services and the use of facilities to be provided to the current CCRC residents and compare that amount with the balance of non-refundable deferred revenue from entrance fees received. If the present value of the cost of future services exceeds the related anticipated revenues, a liability is recorded with a corresponding charge to income. As of **September 30, 2023, March 31, 2024**, and December 31, **2022, 2023**, we have recorded a future service obligation liability in the amount of **\$2,218,000, \$1,606,000**. This obligation is reflected within other noncurrent liabilities in the interim condensed consolidated balance sheets.

Other Noncurrent Liabilities

Other noncurrent liabilities include reserves primarily related to various uncertain income tax positions, deferred revenue, and obligations to provide future services to our CCRC residents. Deferred revenue includes the deferred gain on the sale of assets to National Health Corporation ("National") and the non-refundable portion (10%) of CCRC entrance fees being amortized over the remaining life expectancies of the residents.

Other noncurrent liabilities also include funds received related to the Employee Retention Credit ("ERC"), a refundable tax credit for businesses that sustained a partial suspension of operations limiting commerce due to COVID-19 or had significant declines in gross receipts during 2020 and 2021.

Noncontrolling Interest

The noncontrolling interest in a subsidiary is presented within total equity in the Company's interim condensed consolidated balance sheets. The Company presents the noncontrolling interest and the amount of consolidated net income attributable to NHC in its interim condensed consolidated statements of operations. The Company's earnings per share is calculated based on net income attributable to NHC's stockholders. The carrying amount of the noncontrolling interest is adjusted based on an allocation of the subsidiary earnings, contributions, and distributions.

Variable Interest Entities

We have equity interests in unconsolidated limited liability companies that operate various post-acute and senior healthcare businesses. We analyze our investments in these limited liability companies to determine if the company is considered a variable interest entity ("VIE") and would require consolidation. To the extent that we own interests in a VIE and we (i) have the power to direct the activities of the VIE and (ii) have the obligation or rights to absorb the VIE's losses or receive its benefits, then we would be determined to be the primary beneficiary and would consolidate the VIE. To the extent we own interests in a VIE, then at each reporting period, we re-assess our conclusions as to which, if any, party within the VIE is considered the primary beneficiary.

The Company's maximum exposure to losses in its investments in unconsolidated VIEs cannot be quantified and may or may not be limited to its investment in the unconsolidated VIE. The investments in unconsolidated VIEs are classified as "investments in unconsolidated companies" in the interim condensed consolidated balance sheets.

Recently Issued Accounting Guidance

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No.2023-07, "Segment Reporting (Topic 280): Improvement to Reportable Segment Disclosures." The ASU improves reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. In addition, the amendments enhance interim disclosure requirements, clarify circumstances in which an entity can disclose multiple segment measures of profit and loss, and contain other disclosure requirements. This ASU is effective for fiscal years beginning after December 15, 2023, which will be the Company's fiscal year 2024, and interim periods within fiscal years beginning after December 15, 2024. We are currently evaluating the impact this standard will have on our disclosures.

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Note 3—Coronavirus Pandemic

In early March 2020, COVID-19, a disease caused by the novel strain of the coronavirus, was characterized as a pandemic by the World Health Organization. The U.S. government enacted several laws beginning in March 2020 designed to help the nation respond to the COVID-19 pandemic. The laws impacted healthcare providers in a variety of ways, but the largest legislation from a monetary relief perspective was the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). Through the CARES Act, as well

as the Paycheck Protection Program and Health Care Enhancement Act ("PPPCHE"), the federal government allocated \$178 billion to the Public Health and Social Services Emergency Fund, which is referred to as the Provider Relief Fund. The Provider Relief Fund is administered through grants and other mechanisms to skilled nursing providers, home health providers, hospitals, and other Medicare and Medicaid enrolled providers to cover unreimbursed health care related expenses or lost revenue attributable to the public health emergency resulting from COVID-19.

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The Provider Relief Fund grants come with terms and condition certifications in which all providers are required to submit documents to ensure the funds are used for healthcare-related expenses or lost revenue attributable to COVID-19. The Company recorded \$0 of government stimulus income from the Provider Relief Funds for the three months ended September 30, 2023 and 2022. The Company recorded \$0 and \$10,940,000 of government stimulus income from the Provider Relief Funds for the nine months ended September 30, 2023 and 2022, respectively. The grant income was determined on a systematic basis in line with the recognition of specific expenses and lost revenues for which the grants are intended to compensate. The Company's assessment of whether the terms and conditions for amounts received have been met for income recognition and the Company's related income calculation considered all frequently asked questions and other interpretive guidance issued to date by the U.S. Department of Health and Human Services ("HHS").

We have also received supplemental Medicaid payments from many of the states in which we operate to help mitigate the incremental costs resulting from the COVID-19 public health emergency. We have recorded \$4,232,000 and \$4,773,000 in net patient revenues for these supplemental Medicaid payments for the three months ended September 30, 2023 and 2022, respectively. We have recorded \$15,362,000 and \$15,312,000 in net patient revenues for these supplemental Medicaid payments for the nine months ended September 30, 2023 and 2022, respectively.

Note 4 – Net Patient Revenues

The Company disaggregates revenue from contracts with customers by service type and by payor.

Revenue by Service Type

The Company's net patient services can generally be classified into the following two categories: (1) inpatient services, which includes the operation of skilled nursing facilities, assisted and independent living facilities, and behavioral health hospitals, and (2) homecare and hospice services (*in thousands*).

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30		September 30		March 31	
	2023	2022	2023	2022	2024	2023
Net patient revenues:						
Inpatient services	\$ 243,865	\$ 228,138	\$ 706,795	\$ 680,776	\$ 252,254	\$ 226,169
Homecare and hospice	33,140	32,109	97,822	95,885	33,569	31,838
Total net patient revenue	\$ 277,005	\$ 260,247	\$ 804,617	\$ 776,661	\$ 285,823	\$ 258,007
Total net patient revenues						

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For inpatient and hospice services, revenue is recognized on a daily basis as each day represents a separate contract and performance obligation. For homecare, revenue is recognized when services are provided based on the number of days of service rendered in the period of care or on a per-visit basis. Typically, patients and third-party payors are billed monthly after services are performed or the patient is discharged, and payments are due based on contract terms.

As our performance obligations relate to contracts with a duration of one year or less, the Company is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. The Company has minimal unsatisfied performance obligations at the end of the reporting period as our patients are typically under no obligation to remain admitted in our facilities or under our care. As the period between the time of service and time of payment is typically one year or less, the Company did not adjust for the effects of a significant financing component.

Revenue by Payor

Certain groups of patients receive funds to pay the cost of their care from a common source. The following table sets forth sources of net patient revenues for the periods indicated:

Source	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30	2023	September 30	2023	March 31	2024

Medicare	33%	37%	35%	37%	34%	36%
Managed Care	10%	9%	10%	10%	10%	11%
Medicaid	32%	29%	30%	28%	28%	27%
Private Pay and Other	25%	25%	25%	25%	28%	26%
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

Medicare covers skilled nursing services for beneficiaries who require nursing care and/or rehabilitation services following a hospitalization of at least three consecutive days. For each eligible day a Medicare beneficiary is in a skilled nursing facility, Medicare pays the facility a daily payment, subject to adjustment for certain factors such as a wage index in the geographic area. The payment covers all services provided by the skilled nursing facility for the beneficiary that day, including room and board, nursing, therapy and drugs, as well as an estimate of capital-related costs to deliver those services.

For homecare services, Medicare pays based on the acuity level of the patient and based on periods of care. A period of care is defined as a length of care up to 30 days with multiple continuous periods allowed. The services covered by the payment include all disciplines of care, in addition to medical supplies, within the scope of the home health benefit.

For hospice services, Medicare pays a daily rate to cover the hospice's costs for providing services included in the patient care plan. Medicare makes daily payments based on 1 of 4 levels of hospice care. All hospice care and services offered to patients and their families must follow an individualized written plan of care that meets the patient's needs.

Our hospice service revenue is subject to certain limitations on payments from Medicare. We are subject to an inpatient cap limit and an overall Medicare payment cap for each provider number. We monitor these caps on a provider-by-provider basis and estimate amounts due back to Medicare if we estimate a cap has been exceeded. If applicable, we record these cap adjustments as a reduction to revenue.

Medicaid is operated by individual states with the financial participation of the federal government. The states in which we operate currently use prospective cost-based reimbursement systems. Under cost-based reimbursement systems, the skilled nursing facility is reimbursed for the reasonable direct and indirect allowable costs it incurred in a base year in providing routine resident care services as defined by the program.

Private pay, managed care, and other payment sources include commercial insurance, individual patient funds, managed care plans and the Veterans Administration. Private paying patients, private insurance carriers and the Veterans Administration generally pay based on the healthcare center's charges or specifically negotiated contracts. For private pay patients in skilled nursing, assisted living and independent living facilities, the Company bills for room and board charges, with the remittance being due on receipt of the statement and generally by the 10th day of the month the services are performed.

Certain managed care payors for homecare services pay on a per-visit basis. This revenue is recorded on an accrual basis based upon the date of services at amounts equal to its established or estimated per-visit rates.

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State Relief Supplemental Funding

The Company received supplemental Medicaid payments from various states, including healthcare relief funding under the American Rescue Plan Act ("ARPA") and other state specific relief programs. The funding generally incorporates specific use requirements primarily for direct patient care including labor related expenses or various patient care related expenses. We have recorded \$3,462,000 and \$4,883,000 in net patient revenues for these supplemental Medicaid payments for the three months ended March 31, 2024 and 2023, respectively.

Contract Liabilities

Included in the Company's interim condensed consolidated balance sheets are contract liabilities, which represent payments the Company receives in advance of services provided. As of March 31, 2024 and December 31, 2023, the Company has recorded \$7,667,000 and \$0, respectively, in contract liabilities related to receipts during the first quarter of 2024 from the Change Healthcare/Optum Payment Disruption ("CHOPD") Accelerated and Advance Payment program. These payments were issued to providers who experienced delays in the submission or processing of Medicare claims payments as a result of the Change Healthcare/Optum cyber incident, which began February 21, 2024. Recoupment of the accelerated payments began in the first quarter of 2024.

A summary of the activity related to contract liabilities follows (in thousands):

Balance at December 31, 2023	\$	-
Payments received		9,881
Payments recouped		(2,214)
Balance at March 31, 2024	\$	7,667

Third Party Payors

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Noncompliance with such laws and regulations can be subject to regulatory actions including fines, penalties, and exclusion from the Medicare and Medicaid programs. We believe that we are following all applicable laws and regulations.

Medicare and Medicaid program revenues, as well as certain Managed Care program revenues, are subject to audit and retroactive adjustment by government representatives or their agents. Settlements with third-party payors for retroactive adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care. These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and the Company's historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations. We believe that any differences between the net revenues recorded, and final determination will not materially affect the consolidated financial statements. We have made provisions of approximately \$15,588,000 \$19,988,000 and \$16,631,000 \$18,369,000 as of September 30, 2023 March 31, 2024 and December 31, 2022, 2023, respectively, for various Medicare, Medicaid, and Managed Care claims reviews and current and prior year cost reports.

Note 54 – Other Revenues

Other revenues are outlined in the table below. Revenues from rental income include health care real estate properties owned by us and leased to third party operators. Revenues from management and accounting services include fees provided to manage and provide accounting services to other healthcare operators. Revenues from insurance services include premiums for workers' compensation and professional liability insurance policies that our wholly owned insurance subsidiaries have written for certain healthcare operators to which we provide management or accounting services. "Other" revenues include miscellaneous health care related earnings (in thousands).

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30		September 30		March 31	
	2023	2022	2023	2022	2024	2023
Rental income	\$ 5,958	\$ 5,830	\$ 17,966	\$ 17,642	\$ 5,959	\$ 6,043
Management and accounting services fees	4,185	3,922	14,045	11,993	4,438	4,097
Insurance services	989	1,015	2,920	3,497	872	1,048
Other	348	(171)	1,082	452	84	368
Total other revenues	\$ 11,480	\$ 10,596	\$ 36,013	\$ 33,584	\$ 11,353	\$ 11,556

Rental Income

The Company leases real estate assets consisting of skilled nursing facilities and assisted living facilities to third party operators. Additionally, we sublease four Florida skilled nursing facilities included in our lease from National Health Investors ("NHI") as noted in Note 87 – Long Term Leases.

Management Fees from National Health Corporation

We manage five skilled nursing facilities owned by National Health Corporation ("National"). We recognized management fees and interest on management fees from these facilities of \$1,243,000 and \$1,029,000 for For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. We we recognized management fees and interest on management fees of \$3,968,000 \$1,320,000 and \$3,012,000 from \$1,190,000, respectively, for these facilities for the nine months ended September 30, 2023 and 2022, respectively, centers.

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Insurance Services

For workers' compensation insurance services, the premium revenues reflected in the interim condensed consolidated statements of operations for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 were \$678,000 \$582,000 and \$496,000, respectively. The premium revenues reflected in the interim condensed consolidated statements of operations for the nine months ended September 30, 2023 and 2022 were \$1,985,000 and \$1,939,000, \$736,000, respectively. Associated losses and expenses including those for self-insurance are included in the interim condensed consolidated statements of operations as "Salaries, wages and benefits."

For professional liability insurance services, the premium revenues reflected in the interim condensed consolidated statements of operations for the three months ended September 30, 2023 March 31, 2024 and 2022 2023 were \$312,000 \$290,000 and \$519,000, respectively. The premium revenues reflected in the interim condensed consolidated

statements of operations for the nine months ended September 30, 2023 and 2022 were \$935,000 and \$1,558,000, \$312,000, respectively. Associated losses and expenses including those for self-insurance are included in the interim condensed consolidated statements of operations as "Other operating costs and expenses".

Note 65 – Non-Operating Income

Non-operating income **includes equity** is comprised of the following (in **earnings** thousands):

	Three Months Ended March 31	
	2024	2023
Dividends and net realized gains and losses on sales of securities	\$ 2,056	\$ 1,233
Interest income	2,538	1,555
Equity in earnings of unconsolidated investments	67	1,535
Gain on sale of unconsolidated company	1,024	-
Total non-operating income	\$ 5,685	\$ 4,323

Gain on sale of unconsolidated investments, dividends and other realized gains and losses on sales of marketable securities, and interest income (in thousands) company.

	Three Months Ended September 30		Nine Months Ended September 30	
	2023	2022	2023	2022
Dividends and net realized gains and losses on sales of securities	\$ 1,690	\$ 1,324	\$ 4,604	\$ 4,381
Interest income	2,222	1,373	5,571	3,572
Equity in earnings of unconsolidated investments	185	34	1,941	498
Total non-operating income	\$ 4,097	\$ 2,731	\$ 12,116	\$ 8,451

In January 2024, the Company sold its 50% joint venture ownership interest in a homecare agency located in Nashville, Tennessee. The total consideration paid to the company was \$2,100,000, which resulted in a gain of \$1,024,000.

Note 76 – Business Segments

The Company has two reportable operating segments: (1) inpatient services, which includes the operation of skilled nursing facilities, assisted and independent living facilities, and behavioral health hospitals; and (2) homecare and hospice services. These reportable operating segments are consistent with information used by the Company's Chief Executive Officer, as chief operating decision maker ("CODM"), to assess performance and allocate resources. The Company also reports an "all other" category that includes revenues from rental income, management and accounting services fees, insurance services, and costs of the corporate office.

The Company's CODM evaluates performance and allocates capital resources to each segment based on an operating model that is designed to improve the quality of patient care and profitability of the Company while enhancing long-term shareholder value. The CODM does not review assets by segment in his resource allocation and therefore, assets by segment are not disclosed below.

The following table sets forth the Company's unaudited interim condensed consolidated statements of operations by business segment (in thousands):

	Three Months Ended September 30, 2023				Three Months Ended March 31, 2024			
	Inpatient Services	Homecare and Hospice	All Other	Total	Inpatient Services	Homecare and Hospice	All Other	Total
Revenues:								
Net patient revenues	\$ 243,865	\$ 33,140	\$ -	\$ 277,005	\$ 252,254	\$ 33,569	\$ -	\$ 285,823
Other revenues	297	-	11,183	11,480	15	-	11,338	11,353
Net operating revenues	244,162	33,140	11,183	288,485	252,269	33,569	11,338	297,176

Costs and expenses:								
Salaries, wages, and benefits	151,912	20,066	10,686	182,664	150,890	21,009	11,239	183,138
Other operating	64,228	5,868	2,394	72,490	68,683	5,972	2,774	77,429
Rent	8,186	538	1,370	10,094	8,112	566	1,670	10,348
Depreciation and amortization	9,203	185	747	10,135	9,630	187	769	10,586
Interest	77	-	-	77	46	-	-	46
Total costs and expenses	233,606	26,657	15,197	275,460	237,361	27,734	16,452	281,547
Income/(loss) from operations	10,556	6,483	(4,014)	13,025	14,908	5,835	(5,114)	15,629
Non-operating income	-	-	4,097	4,097	-	-	5,685	5,685
Unrealized losses on marketable equity securities	-	-	(3,093)	(3,093)				
Unrealized gains on marketable equity securities							14,399	14,399
Income/(loss) before income taxes	\$ 10,556	\$ 6,483	\$ (3,010)	\$ 14,029				
Income before income taxes					\$ 14,908	\$ 5,835	\$ 14,970	\$ 35,713

	Three Months Ended September 30, 2022				Three Months Ended March 31, 2023			
	Inpatient Services	Homecare and Hospice	All Other	Total	Inpatient Services	Homecare and Hospice	All Other	Total
Revenues:								
Net patient revenues	\$ 228,138	\$ 32,109	\$ -	\$ 260,247	\$ 226,169	\$ 31,838	\$ -	\$ 258,007
Other revenues	(198)	-	10,794	10,596	271	-	11,285	11,556
Net operating revenues	227,940	32,109	10,794	270,843	226,440	31,838	11,285	269,563
Costs and expenses:								
Salaries, wages, and benefits	144,047	19,581	9,570	173,198	138,939	20,244	8,641	167,824
Other operating	66,522	6,310	51	72,883	62,264	5,499	3,726	71,489
Rent	8,088	575	1,631	10,294	8,168	558	1,366	10,092
Depreciation and amortization	9,198	248	807	10,253	9,117	185	746	10,048
Interest	137	-	-	137	98	-	-	98
Total costs and expenses	227,992	26,714	12,059	266,765	218,586	26,486	14,479	259,551
Income/(loss) from operations	(52)	5,395	(1,265)	4,078	7,854	5,352	(3,194)	10,012
Non-operating income	-	-	2,731	2,731	-	-	4,323	4,323
Unrealized losses on marketable equity securities	-	-	(11,056)	(11,056)				
Unrealized gains on marketable equity securities							1,386	1,386
Income/(loss) before income taxes	\$ (52)	\$ 5,395	\$ (9,590)	\$ (4,247)				
Income before income taxes					\$ 7,854	\$ 5,352	\$ 2,515	\$ 15,721

	Nine Months Ended September 30, 2023			
	Inpatient Services	Homecare and Hospice	All Other	Total
Revenues:				
Net patient revenues	\$ 706,795	\$ 97,822	\$ -	\$ 804,617
Other revenues	894	-	35,119	36,013
Net operating revenues	707,689	97,822	35,119	840,630

Costs and expenses:				
Salaries, wages, and benefits	435,517	60,804	29,461	525,782
Other operating	192,473	17,356	7,384	217,213
Rent	24,520	1,639	3,928	30,087
Depreciation and amortization	27,474	555	2,237	30,266
Interest	268	-	-	268
Total costs and expenses	680,252	80,354	43,010	803,616
 <i>Income/(loss) from operations</i>	 27,437	 17,468	 (7,891)	 37,014
<i>Non-operating income</i>	-	-	12,116	12,116
<i>Unrealized gains on marketable equity securities</i>	-	-	2,943	2,943
 <i>Income before income taxes</i>	 \$ 27,437	 \$ 17,468	 \$ 7,168	 \$ 52,073
	<i>Nine Months Ended September, 2022</i>			
	<i>Inpatient Services</i>	<i>Homecare and Hospice</i>	<i>All Other</i>	<i>Total</i>
 <i>Revenues and grant income:</i>				
<i>Net patient revenues</i>	\$ 680,776	\$ 95,885	\$ -	\$ 776,661
<i>Other revenues</i>	15	-	33,569	33,584
<i>Government stimulus income</i>	10,940	-	-	10,940
<i>Net operating revenues and grant income</i>	691,731	95,885	33,569	821,185
 <i>Costs and expenses:</i>				
Salaries, wages, and benefits	435,322	58,007	25,499	518,828
Other operating	192,791	19,848	5,640	218,279
Rent	24,498	1,759	4,513	30,770
Depreciation and amortization	27,120	472	2,419	30,011
Interest	451	-	-	451
Total costs and expenses	680,182	80,086	38,071	798,339
 <i>Income/(loss) from operations</i>	 11,549	 15,799	 (4,502)	 22,846
<i>Non-operating income</i>	-	-	8,451	8,451
<i>Unrealized losses on marketable equity securities</i>	-	-	(11,479)	(11,479)
 <i>Income/(loss) before income taxes</i>	 \$ 11,549	 \$ 15,799	 \$ (7,530)	 \$ 19,818

Note 87 – Long-Term Leases

Operating Leases

At September 30, 2023, March 31, 2024, we lease from NHI the real property of 28 skilled nursing facilities, five assisted living centers and three independent living centers under one lease agreement. As part of the lease agreement, we sublease four Florida skilled nursing facilities to a third-party operator. The lease includes base rent plus a percentage rent. The annual base rent is \$34,075,000 in 2023, \$32,625,000 in 2024, \$32,225,000 in 2025, and \$31,975,000 in 2026 with the lease term expiring in December 2026. The percentage rent is based on a quarterly calculation of revenue increases and is payable on a quarterly basis. Total facility rent expense to NHI was \$9,300,000 \$9,472,000 and \$9,478,000 \$9,295,000 for the three months ended September 30, 2023, March 31, 2024 and 2022, 2023, respectively. Total facility rent expense to NHI was \$27,719,000 and \$28,293,000 for the nine months ended September 30, 2023 and 2022, respectively.

Finance Leases

At September 30, 2023, we leased and operated three senior healthcare facilities in the state of Missouri under three separate lease agreements. Two of the healthcare facilities are skilled nursing facilities that also include assisted living facilities and the third healthcare facility is a memory care facility. Each of the leases is a ten-year lease with two five-year renewal options with the original lease expiring in 2024. Under the terms of the leases, base rent totals \$5,200,000 annually with rent thereafter escalating by 4% of the increase in facility revenue over the 2014 base year.

Minimum Lease Payments

The following table summarizes the maturity of our finance and operating lease liabilities as of September 30, 2023 March 31, 2024 (in thousands):

	Finance Leases	Operating Leases	Operating Leases
2024	\$ 2,166	\$ 34,765	
2025	-	33,699	\$ 34,351
2026	-	32,991	33,590
2027	-	8,510	24,933
2028	-	184	493
2029			207
Thereafter	-	4	21
Total minimum lease payments	2,166	110,153	93,595
Less: amounts representing interest	(32)	(10,731)	(7,858)
Present value of future minimum lease payments	2,134	99,422	85,737
Less: current portion	(2,134)	(29,222)	(29,733)
Noncurrent lease liabilities	\$ -	\$ 70,200	\$ 56,004

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Note 98 – Earnings per Share

Basic net income per share is computed based on the weighted average number of common shares outstanding for each period presented. Diluted net income per share reflects the potential dilution that would have occurred if securities to issue common stock were exercised, converted, or resulted in the issuance of common stock that would have then shared in our earnings.

The following table summarizes the earnings and the weighted average number of common shares used in the calculation of basic and diluted earnings per share (in thousands, except for share and per share amounts):

	Three Months Ended		Nine Months Ended		Three Months Ended	
	September 30		September 30		March 31	
	2023	2022	2023	2022	2024	2023
Basic:						
Weighted average common shares outstanding	15,299,913	15,445,569	15,311,453	15,438,375	15,350,240	15,337,423
Net income attributable to National HealthCare Corporation	\$ 10,388	\$ (2,429)	\$ 38,392	\$ 16,092	\$ 26,213	\$ 11,723
Earnings per common share, basic	\$ 0.68	\$ (0.16)	\$ 2.51	\$ 1.04	\$ 1.71	\$ 0.76
Diluted:						
Weighted average common shares outstanding	15,299,913	15,445,569	15,311,453	15,438,375	15,350,240	15,337,423
Effects of dilutive instruments	24,598	-	22,816	38,728	154,856	18,912
Weighted average common shares outstanding	15,324,511	15,445,569	15,334,269	15,477,103	15,505,096	15,356,335
Net income attributable to National HealthCare Corporation	\$ 10,388	\$ (2,429)	\$ 38,392	\$ 16,092	\$ 26,213	\$ 11,723
Earnings per common share, diluted	\$ 0.68	\$ (0.16)	\$ 2.50	\$ 1.04	\$ 1.69	\$ 0.76

In For the above table, three months ended March 31, 2024, 245,726 stock options to purchase 637,409 and 389,781 shares of our common stock have been excluded from the calculation of diluted weighted average shares of common stock outstanding because the inclusion of these securities would have an anti-dilutive effect. For the nine three months ended September 30, March 31, 2023, and 2022, respectively, due to their 691,580 stock options have been excluded from the calculation of diluted weighted average shares of common stock outstanding because the inclusion of these securities would have an anti-dilutive **impact**.
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Note 109 – Investments in Marketable Securities

Our investments in marketable equity securities are carried at fair value with the changes in unrealized gains and losses recognized in our results of operations at each measurement date. Our investments in marketable debt securities are classified as available for sale securities and carried at fair value with the unrealized gains and losses recognized through accumulated other comprehensive income at each measurement date. Any credit-related decline in fair market values below the amortized cost of our available for sale debt securities are recorded in our results of operations through an allowance for credit losses. Realized gains and losses from securities sales are recognized in results of operations upon disposition of the securities using the specific identification method on a trade date basis. Refer to Note 110 for a description of the Company's methodology for determining the fair value of marketable securities.

Marketable securities consist of the following (in thousands):

	September 30, 2023				December 31, 2022				March 31, 2024				December 31, 2023			
	Amortized Cost		Fair Value		Amortized Cost		Fair Value		Amortized Cost		Fair Value		Amortized Cost		Fair Value	
Investments available for sale:																
Marketable equity securities	\$ 30,176	\$ 102,137	\$ 30,176	\$ 100,786	\$ 30,176	\$ 123,040	\$ 30,176	\$ 111,117								
Corporate debt securities	4,358	4,252	14,317	13,885	494	484	2,497	2,441								
Asset-backed securities	-	-	500	494												
U.S. Treasury securities	3,838	3,797	9,009	8,757	-	-	2,990	2,986								
Restricted investments available for sale:																
Marketable equity securities	24,059	23,683	24,326	22,358	24,495	29,616	24,134	26,779								
Corporate debt securities	57,745	53,928	54,412	51,009	61,488	59,398	59,586	57,731								
Asset-based securities	20,661	18,572	24,605	22,437	19,026	17,438	19,388	17,659								
U.S. Treasury securities	47,824	42,401	45,989	41,294	47,323	43,004	46,771	42,863								
State and municipal securities	4,133	3,961	4,877	4,771	4,079	3,992	4,106	4,047								
	\$ 192,794	\$ 252,731	\$ 208,211	\$ 265,791	\$ 187,081	\$ 276,972	\$ 189,648	\$ 265,623								

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Included in the marketable equity securities are the following (in thousands, except share amounts):

	September 30, 2023						December 31, 2022					
	Shares		Cost		Fair Value		Shares		Cost		Fair Value	
NHI Common Stock	1,630,642	\$ 24,734	\$ 83,750	1,630,642	\$ 24,734	\$ 85,152						
March 31, 2024												
	Shares		Cost		Fair Value		Shares		Cost		Fair Value	
NHI Common Stock	1,630,642	\$ 24,734	\$ 102,453	1,630,642	\$ 24,734	\$ 91,071						

The amortized cost and estimated fair value of debt securities classified as available for sale, by contractual maturity, are as follows (in thousands):

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
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	Cost		Fair Value		Cost		Fair Value		Cost		Fair Value	
	Cost	Fair Value	Cost	Fair Value	Cost	Fair Value						
Maturities:												
Within 1 year	\$ 21,937	\$ 21,534	\$ 33,662	\$ 33,037	\$ 21,299	\$ 20,785	\$ 19,664	\$ 19,328				
1 to 5 years	76,971	71,362	81,500	76,394	77,738	73,370	81,517	77,118				
6 to 10 years	38,178	32,606	38,547	33,216	32,012	28,925	33,515	30,802				
Over 10 years	1,473	1,409	-	-	1,361	1,236	642	479				
	\$ 138,559	\$ 126,911	\$ 153,709	\$ 142,647	\$ 132,410	\$ 124,316	\$ 135,338	\$ 127,727				

Gross unrealized gains related to marketable equity securities are \$73,823,000 \$98,459,000 and \$71,869,000 \$84,514,000 as of September 30, 2023 March 31, 2024 and December 31, 2022, 2023, respectively. Gross unrealized losses related to marketable equity securities are \$2,238,000 \$474,000 and \$3,227,000 \$928,000 as of September 30, 2023 March 31, 2024 and December 31, 2022, 2023, respectively. For the three months ended September 30, 2023 March 31, 2024 and 2022, the Company recognized net unrealized losses of \$3,093,000 and \$11,056,000, respectively, for the changes in fair market value of the marketable equity securities in the interim condensed consolidated statements of operations. For the nine months ended September 30, 2023, and 2022, the Company recognized net unrealized gains of \$2,943,000 \$14,399,000 and net unrealized losses of \$11,479,000, \$1,386,000, respectively, for the changes in fair market value of the marketable equity securities in the interim condensed consolidated statements of operations.

Gross unrealized gains related to available for sale marketable debt securities are \$3,000 \$179,000 and \$9,000 \$326,000 as of September 30, 2023 March 31, 2024 and December 31, 2022, 2023, respectively. Gross unrealized losses related to available for sale marketable debt securities are \$11,651,000, comprised of securities with a fair value of \$123,530,000, \$8,273,000 and \$7,937,000 as of September 30, 2023 March 31, 2024. Gross unrealized losses related to available for sale marketable debt securities are \$11,071,000, comprised of securities with a fair value of \$139,629,000, as of and December 31, 2022, 2023, respectively.

The Company's unrealized losses in our available for sale marketable debt securities were determined to be non-credit related. The Company has not recognized any credit related impairments for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023.

For the marketable debt securities in gross unrealized loss positions, (a) it is more likely than not that the Company will not be required to sell the investment securities before recovery of the unrealized losses, and (b) the Company expects that the contractual principal and interest will be received on the investment securities.

Proceeds from the sale of available for sale marketable securities during the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023 were \$36,578,000 \$11,615,000 and \$38,114,000 \$15,492,000, respectively. Investment gains of \$344,000 and investment losses of \$603,000 and \$756,000 \$492,000 were realized on these sales during the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Note 11.10 – Fair Value Measurements

The accounting standard for fair value measurements provides a framework for measuring fair value and requires expanded disclosures regarding fair value measurements. Fair value is defined as the price that would be received for an asset or the exit price that would be paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. This accounting standard establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs, where available. The following summarizes the three levels of inputs that may be used to measure fair value:

Level 1 – The valuation is based on quoted prices in active markets for identical instruments.

Level 2 – The valuation is based on observable inputs such as quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – The valuation is based on unobservable inputs that are supported by minimal or no market activity and that are significant to the fair value of the instrument. Level 3 valuations are typically performed using pricing models, discounted cash flow methodologies, or similar techniques that incorporate management's own estimates of assumptions that market participants would use in pricing the instrument, or valuations that require significant management judgment or estimation.

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A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following table summarizes fair value measurements by level at September 30, 2023 March 31, 2024 and December 31, 2022, 2023 for assets and liabilities measured at fair value on a recurring basis (in thousands):

	Fair Value Measurements Using					Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets For Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)						
September 30, 2023					March 31, 2024					
					Fair Value	Quoted Prices in Active Markets For Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
									(Level 1)	(Level 1)
Cash and cash equivalents	\$ 100,308	\$ 100,308	\$ —	\$ —	\$ 93,982	\$ 93,982	\$ —	\$ —	\$ —	\$ —
Restricted cash and cash equivalents	19,947	19,947	—	—	27,150	27,150	—	—	—	—
Marketable equity securities	125,820	125,820	—	—	152,656	152,656	—	—	—	—
Corporate debt securities	58,180	34,905	23,275	—	59,882	42,611	17,271	—	—	—
Mortgage-backed securities	18,572	—	18,572	—	—	—	—	—	—	—
Asset-backed securities					17,438	—	16,961	477		
U.S. Treasury securities	46,198	46,198	—	—	43,004	43,004	—	—	—	—
State and municipal securities	3,961	1,288	2,673	—	3,992	—	3,992	—	—	—
Total financial assets	<u>\$ 372,986</u>	<u>\$ 328,466</u>	<u>\$ 44,520</u>	<u>\$ —</u>	<u>\$ 398,104</u>	<u>\$ 359,403</u>	<u>\$ 38,224</u>	<u>\$ 477</u>		

	Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets For Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2022					
					(Level 1)
Cash and cash equivalents	\$ 58,667	\$ 58,667	\$ —	\$ —	\$ —
Restricted cash and cash equivalents	16,198	16,198	—	—	—
Marketable equity securities	123,144	123,144	—	—	—
Corporate debt securities	64,894	48,525	16,369	—	—
Asset-backed securities	22,931	—	22,931	—	—
U.S. Treasury securities	50,051	50,051	—	—	—
State and municipal securities	4,771	1,337	3,434	—	—
Total financial assets	<u>\$ 340,656</u>	<u>\$ 297,922</u>	<u>\$ 42,734</u>	<u>\$ —</u>	<u>\$ —</u>

	Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets For Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
December 31, 2023					
					(Level 1)
Cash and cash equivalents	\$ 107,076	\$ 107,076	\$ —	\$ —	\$ —

Restricted cash and cash equivalents	18,892	18,892	–	–
Marketable equity securities	137,896	137,896	–	–
Corporate debt securities	60,171	42,860	17,311	–
Asset-backed securities	17,659	–	17,210	449
U.S. Treasury securities	45,850	45,850	–	–
State and municipal securities	4,047	–	4,047	–
Total financial assets	\$ 391,591	\$ 352,574	\$ 38,568	\$ 449

Note 12.11 – Goodwill and Other Intangible Assets

At September 30, 2023, March 31, 2024, the Company reviewed the carrying value of goodwill for impairment indicators. As a result of the review, there were no impairment indicators regarding the Company's goodwill that required a quantitative test to be performed. However, our accounting estimates could materially change from period to period due to changing market factors. We will continue to monitor future events, changes in circumstances, and the potential impact thereof. If actual results are not consistent with our assumptions and estimates, we may be exposed to future goodwill impairment losses.

At September 30, 2023, March 31, 2024, the following table represents the activity related to our goodwill by segment (in thousands):

	Inpatient Services	Homecare and Hospice	All Other	Total
January 1, 2023	\$ 3,741	\$ 164,554	\$ –	\$ 168,295
Additions	–	–	–	–
September 30, 2023	\$ 3,741	\$ 164,554	\$ –	\$ 168,295

	Inpatient Services	Homecare and Hospice	All Other	Total
January 1, 2024	\$ 3,741	\$ 164,554	\$ –	\$ 168,295
Additions	–	–	–	–
March 31, 2024	\$ 3,741	\$ 164,554	\$ –	\$ 168,295

We also have recorded indefinite-lived intangible assets that consist of trade names (\$4,340,000) and certificates of need and licenses (\$2,698,000).

22.21

Note 13.12 - Stock Repurchase Program

During the nine three months ended September 30, March 31, 2024, the Company repurchased 101,131 shares of its common stock for a total cost of \$9,900,000. During the three months ended March 31, 2023, the Company repurchased 44,349 shares of its common stock for a total cost of \$2,482,000. During the nine months ended September 30, 2022, the Company repurchased 99,547 shares of its common stock for a total cost of \$6,907,000. The shares were funded from cash on hand and were cancelled and returned to the status of authorized but unissued.

Note 14.13 – Stock-Based Compensation

NHC recognizes stock-based compensation expense for all stock options granted over the requisite service period using the fair value at the date of grant using the Black-Scholes pricing model. Stock-based compensation totaled \$708,000 \$793,000 and \$639,000 for the three months ended September 30, 2023 March 31, 2024 and 2022, respectively. Stock-based compensation totaled \$2,119,000 and \$1,980,000 for the nine months ended September 30, 2023 and 2022, respectively. Stock-based compensation is included in "Salaries, wages and benefits" in the interim condensed consolidated statements of operations.

At September 30, 2023, March 31, 2024, the Company had \$4,068,000 \$7,652,000 of unrecognized compensation cost related to unvested stock-based compensation awards. This unrecognized compensation cost will be amortized over an approximate twothree-year period.

Stock Options

The following table summarizes the significant assumptions used to value the options granted for the nine three months ended September 30, 2023 March 31, 2024 and for the year ended December 31, 2022, 2023.

	September 30, 2023	December 31, 2022	March 31, 2024	December 31, 2023
Risk-free interest rate	4.52%	1.83%	4.33%	4.52%
Expected volatility	29.30%	31.40%	24.1%	29.3%
Expected life, in years	2.9	2.9	2.9	2.9
Expected dividend yield	4.41%	3.57%	2.64%	4.41%

The following table summarizes our outstanding stock options for the nine three months ended September 30, 2023 March 31, 2024 and for the year ended December 31, 2022, 2023.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value
Options outstanding at January 1, 2022	374,926	\$ 72.95	\$ -	445,144	\$ 66.62	\$ -
Options outstanding at January 1, 2023						
Options granted	302,266	64.72	-	299,278	54.44	-
Options exercised	(32,597)	64.49	-	(103,481)	64.72	-
Options cancelled	(199,451)	75.98	-	(52,407)	60.58	-
Options outstanding at December 31, 2022	445,144	66.62	-	588,534	61.30	-
Options outstanding at December 31, 2023						
Options granted	299,712	54.45	-	245,726	94.07	-
Options exercised	(7,540)	65.39	-	(137,874)	60.95	-
Options cancelled	(47,407)	60.75	-			
Options outstanding at September 30, 2023	689,909	61.75	\$ 2,768,603	696,386	\$ 72.93	\$ 15,025,015
Options outstanding at March 31, 2024						
Options exercisable at September 30, 2023	175,847	70.97	\$ -	174,105	\$ 68.48	\$ 4,531,876
Options exercisable at March 31, 2024						

Options Outstanding September 30, 2023	Exercise Prices	Weighted Average Exercise Price	Weighted Average			
			Remaining Contractual			Weighted Average Remaining Contractual
			Weighted Average Remaining Contractual			
			Options Outstanding March 31, 2024	Exercise Prices	Weighted Average Exercise Price	Weighted Average Remaining Contractual
			601,514	-	-	53.94
			377,405	53.94	69.19	58.92
			318,981	69.19	71.64	89.51
				-	94.10	3.5
						3.7
						59.84
						4.0

88,395	71.64	77.92	74.72	1.6
689,909	696,386	61.75	72.93	3.5
689,909	72.93	3.7		
	23.22			

Note 15 14 – Income Taxes

The Company's income tax provision as a percentage of our income before income taxes was 27.9% 26.5% and 28.2% for the three months ended September 30, 2023. The Company's income tax benefit as a percentage of our income before income taxes was 26.8% for the three months ended September 30, 2022.

The Company's income tax provision as a percentage of our income before income taxes was 28.3% and 27.3% for the nine months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively.

Typically, these percentages vary from the U.S. federal statutory income tax rate of 21% primarily due to state income taxes, excess tax benefits from stock-based compensation, benefits resulting from the lapsing of statute of limitations of items in our tax contingency reserve, and non-deductible expenses. The tax benefit related to the statute of limitation expirations was \$0 for For the three and ninemonths ended September 30, 2023. March 31, 2024 The tax benefit related to the statute of limitation expirations was \$437,000 for the threeand nine 2023, months ended September 30, 2022.the accrual of state income tax was the most significant reconciling item.

Our quarterly income tax provision, and our estimate of our annual effective income tax rate, is subject to variation due to several factors, including volatility based on the amount of pre-tax income or loss.

The Company is no longer subject to U.S. federal and state examinations by tax authorities for years before 2019 2020 (with certain state exceptions).

Note 16 15 – Credit Facility

In May 2023, we entered into an unsecured \$50,000,000 credit facility that has a 364-day maturity date. Loans bear interest at the one-month secured overnight financing rate ("SOFR") plus 1.25%. If we maintain certain aggregate deposit levels within the financial institution, the credit facility shall bear interest at one-month SOFR plus 1.10%. The credit facility is available for general corporate purposes, including working capital and acquisitions. The credit facility agreement contains customary representations and financial covenants, including covenants that restrict, among other things, asset dispositions, additional indebtedness, investments, sale-leasebacks, and certain contingent liabilities. The credit facility contains customary events of default and remedies.

As of September 30, 2023, March 31, 2024, we have the Company had no outstanding balance on the credit facility.

We do not expect to renew this credit facility upon its maturity date.

Note 17 16 – Contingencies and Commitments

Accrued Risk Reserves

We have wholly-owned limited purpose insurance companies that insure risks related to workers' compensation and general and professional liability insurance claims both for our owned and leased entities and certain of the entities to which we provide management or accounting services. The liability we have recognized for reported claims and estimates for incurred but unreported claims totals \$108,125,000 \$108,237,000 and \$102,469,000 \$103,259,000 at September 30, 2023 March 31, 2024 and December 31, 2022, 2023, respectively. The liability is included in accrued risk reserves in the interim condensed consolidated balance sheets and is subject to adjustment for actual claims incurred. It is possible that these claims plus unasserted claims could

exceed our insurance coverages and our reserves, which could have a material adverse effect on our consolidated financial position, results of operations and cash flows.

As a result of the terms of our insurance policies and our use of wholly owned limited purpose insurance companies, we have retained significant insurance risk with respect to workers' compensation and general and professional liability. We consider the professional services of independent actuaries to assist us in estimating our exposures for claims obligations (for both asserted and unasserted claims) related to deductibles and exposures in excess of coverage limits, and we maintain reserves for these obligations. Such estimates are based on many variables including historical and statistical information and other factors.

Workers' Compensation

For workers' compensation, we utilize a wholly-owned Tennessee domiciled property/casualty insurance company to write coverage for NHC affiliates and for third-party customers. Policies are written for a duration of twelve months and cover only risks related to workers' compensation losses. All customers are companies which operate in the senior care industry. Business is written on a direct basis.

General and Professional Liability Insurance and Lawsuits

The senior care industry has experienced significant increases in both the number of personal injury/wrongful death claims and in the severity of awards based upon alleged negligence by skilled nursing facilities and their employees in providing care to residents. The Company has been, and continues to be, subject to claims and legal actions that arise in the ordinary course of business, including potential claims related to patient care and treatment. The defense of these lawsuits may result in significant legal costs, regardless of the outcome, and can result in large settlement amounts or damage awards. Additional insurance is purchased through third party providers that serve to supplement the coverage provided through our wholly owned captive insurance company.

There is certain additional litigation incidental to our business, none of which, based upon information available to date, would be material to our financial position, results of operations, or cash flows. In addition, the long-term care industry is continuously subject to scrutiny by governmental regulators, which could result in litigation or claims related to regulatory compliance matters.

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Qui Tam Litigation

[United States of America, ex rel. Jennifer Cook and Sally Gaither v. Integrated Behavioral Health, Inc., NHC HealthCare/Moulton, LLC, et al., Case No. 2:20-CV-00877-AMM \(N.D. Ala.\)](#) This is a qui tam case originally filed under seal on June 22, 2020. The United States declined intervention on March 1, 2021. Thereafter, the Plaintiffs filed an amended Complaint against Dr. Sanja Malhotra, Integrated Behavioral Health, Inc. and other entities that Dr. Malhotra was alleged to own or in which he allegedly had a financial interest. The Complaint also named multiple skilled nursing facilities as Defendants, including NHC Healthcare/Moulton, LLC, an affiliate of National HealthCare Corporation. The Complaint alleged that nurse practitioners affiliated with Dr. Malhotra provided free services to the facilities in exchange for referrals to entities owned by or in which Dr. Malhotra had a financial interest in violation of the False Claims Act and Anti-Kickback Statute. NHC Healthcare/Moulton, LLC denied the allegations and filed a motion to dismiss on November 4, 2021. On January 28, 2022, the district court stayed this matter and administratively terminated the motion to dismiss pending the U.S. Supreme Court's review of a petition for certiorari filed in an unrelated matter but involving one of the legal arguments raised in the motion to dismiss. Thereafter, the U.S. Supreme Court denied the petition for certiorari in the unrelated matter. As a result, NHC Healthcare/Moulton, LLC renewed its motion to dismiss. The District Court granted NHC Healthcare/Moulton's Motion to Dismiss, along with other pending Motions to Dismiss, and entered an Order of Dismissal on March 23, 2023 and an Amended Order of Dismissal on April 4, 2023, which dismissed the case in its entirety with prejudice with respect to the claims asserted by the Plaintiffs. The Plaintiffs filed a Notice of Appeal on April 20, 2023 to appeal the dismissal to the 11th Circuit [United States Court of Appeals](#) which remains pending. [for the Eleventh Circuit. On December 21, 2023, the Eleventh Circuit entered an Order affirming the District Court's](#)

dismissal of the claims. The time period for the Plaintiffs to file a Petition for a Writ of Certiorari with the United States Supreme Court has expired making the Order affirming dismissal issued by the Eleventh Circuit final.

Governmental Regulations

Laws and regulations governing Medicare, Medicaid and other federal healthcare programs are complex and subject to interpretation. Management believes that it is following all applicable laws and regulations in all material respects. However, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusions from the Medicare, Medicaid and other federal healthcare programs.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward-Looking Statements

References throughout this document to the Company include National HealthCare Corporation and its wholly owned subsidiaries. In accordance with the Securities and Exchange Commissions "Plain English" guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words "we", "our", "ours" and "us" refer only to National HealthCare Corporation and its wholly-owned subsidiaries and not any other person.

This Quarterly Report on Form 10-Q and other information we provide from time to time, contains certain "forward-looking" statements as that term is defined by the Private Securities Litigation Reform Act of 1995. All statements regarding our expected future financial position, results of operations or cash flows, continued performance improvements, ability to service and refinance our debt obligations, ability to finance growth opportunities, ability to control our patient care liability costs, ability to respond to changes in government regulations, ability to execute our three-year strategic plan, and similar statements including, without limitations, those containing words such as "believes", "anticipates", "expects", "intends", "estimates", "plans", and other similar expressions are forward-looking statements.

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Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements as a result of, but not limited to, the following factors:

- national and local economic conditions, including their effect on the availability and cost of labor, utilities and materials;
- the effect of government regulations and changes in regulations governing the healthcare industry, including our compliance with such regulations;
- changes in Medicare and Medicaid payment levels and methodologies and the application of such methodologies by the government and its fiscal intermediaries;
- liabilities and other claims asserted against us, including patient care liabilities, as well as the resolution of current litigation (see Note 17:16: Contingencies and Commitments);
- the ability to attract and retain qualified personnel;
- the availability and terms of capital to fund acquisitions and capital improvements;
- the competitive environment in which we operate;

- *our need to make investments continually in our processes and information systems to protect the privacy of patients, partners and other persons and reduce the risk of successful cybersecurity attacks;*
- *damage to our reputation, regulatory penalties, legal claims and liability under state and federal laws that we could suffer upon any cybersecurity or privacy breaches;*
- *the ability to maintain and increase census levels; and*
- *demographic changes.*

See the notes to the quarterly financial statements, and "Item 1. Business" in our [2022 Annual Report](#) on Form 10-K for a discussion of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. This may be found on our web site at [www.nhccare.com](#). You should carefully consider these risks before making any investment in the Company. These risks and uncertainties are not the only ones facing us. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our shares of stock could decline, and you may lose all or part of your investment. Given these risks and uncertainties, we can give no assurances that these forward-looking statements will, in fact, transpire and, therefore, caution investors not to place undue reliance on them.

Overview

National HealthCare Corporation ("NHC" or the "Company") is a leading provider of senior health care services. As of [September 30, 2023](#) [March 31, 2024](#), we operate or manage, through certain affiliates, [68](#) [65](#) skilled nursing facilities with a total of [8,732](#) [8,421](#) licensed beds, [26](#) [24](#) assisted living facilities with [1,501](#) [1,365](#) units, five independent living facilities, three behavioral health hospitals, 35 homecare agencies, and 30 hospice agencies. We operate specialized care units within certain of our healthcare centers such as Alzheimer's disease care units and sub-acute nursing units. In addition, we provide insurance services, management and accounting services, and we lease properties to operators of skilled nursing and assisted living facilities. We operate in 8 states and are located primarily in the southeastern United States.

Impact of COVID-19 Centers for Medicare and Medicaid Services Minimum Staffing Standards

In early March 2020, COVID-19, a disease caused by the novel strain of the coronavirus, was characterized as a pandemic by the World Health Organization. As a provider of healthcare services, we were significantly exposed to the public health and economic effects of the COVID-19 pandemic. NHC's primary objective was and has remained the same throughout the COVID-19 pandemic: that is to protect the health and safety of our patients, residents, and partners (employees). We continue to follow all guidance from [On April 22, 2024](#), the Centers for Medicare and Medicaid Services ("CMS"), issued the [Centers Minimum Staffing Standards for Disease Control Long-Term Care \("LTC"\) Facilities and Prevention Medicaid Institutional Payment Transparency Reporting final rule](#). Included in this final rule are new comprehensive minimum nurse staffing requirements, which aim to significantly reduce the risk of residents receiving unsafe and low-quality care within LTC facilities. CMS is finalizing a total nurse staffing standard of 3.48 hours per resident day ("CDC" HPRD), which must include at least 0.55 HPRD of direct registered nurse ("RN") care and state 2.45 HPRD of direct nurse aide care. Facilities may use any combination of nurse staff (RN, licensed practical nurse and local health departments licensed vocational nurse, or nurse aide) to prevent account for the spread of additional 0.48 HPRD needed to comply with the disease within our operations.

We began our first vaccination clinics in our skilled nursing facilities in December 2020. As the vaccination clinics progressed and as the vaccine became more accessible, we began to see a significant decline in COVID-19 cases among our operations, as well as a significant decrease in the adverse health events related to COVID. Despite the COVID-19 cases and adverse health events from COVID declining, our operating expenses remained elevated with incentive compensation being paid to attract and retain frontline partners, as well as increased costs of personal protective equipment ("PPE"), sanitizers and cleaning supplies, and COVID-19 testing of our patients

and partners. Despite the continued disruption of COVID-19 to our operations, our capital and financial resources, including our overall liquidity, remain strong. Our liquidity provides us with significant flexibility to maintain the strength of our balance sheet in periods of uncertainty or stress. total nurse staffing standard.

Legislation CMS is also finalizing enhanced facility assessment requirements and Government Stimulus Due a requirement to COVID-19 have an RN onsite 24 hours a day, seven days a week ("24/7"), to provide skilled nursing care. The 24/7 RN onsite can be the Director of Nursing; however, they must be available to provide direct resident care.

The U.S. government enacted several laws beginning in March 2020 designed to help This final rule provides a staggered implementation timeframe of the nation respond to the COVID-19 pandemic. The new laws impacted healthcare providers in minimum nurse staffing standards and a variety of ways, but the largest legislation from a monetary relief perspective was the CARES Act. Through the CARES Act, 24/7 RN requirement based on geographic location, as well as the PPPCHE, the federal government allocated \$178 billion to the Public Health and Social Services Emergency Fund, which is referred to as the Provider Relief Fund. The Provider Relief Fund is administered through grants possible exemptions for qualifying facilities for some parts of these requirements based on workforce unavailability and other mechanisms to skilled nursing providers, home health providers, hospitals, and other Medicare and Medicaid enrolled providers to cover unreimbursed health care related expenses or lost revenue attributable to the public health emergency resulting from COVID-19.

The Provider Relief Fund grants come with terms and condition certifications in which all providers are required to submit documents to ensure the funds are used for healthcare-related expenses or lost revenue attributable to COVID-19. The Company recorded \$0 of government stimulus income from the Provider Relief Funds for the three months ended September 30, 2023 and 2022. The Company recorded \$0 and \$10,940,000 of government stimulus income from the Provider Relief Funds for the nine months ended September 30, 2023 and 2022, respectively. The grant income was determined on a systematic basis in line with the recognition of specific expenses and lost revenues for which the grants are intended to compensate. The Company's assessment of whether the terms and conditions for amounts received have been met for income recognition and the Company's related income calculation considered all frequently asked questions and other interpretive guidance issued to date by the U.S. Department of Health and Human Services ("HHS").

We have also received supplemental Medicaid payments from many of the states in which we operate to help mitigate the incremental costs resulting from the COVID-19 public health emergency. We have recorded \$4,232,000 and \$4,773,000 in net patient revenues for these supplemental Medicaid payments for the three months ended September 30, 2023 and 2022, respectively. We have recorded \$15,362,000 and \$15,312,000 in net patient revenues for these supplemental Medicaid payments for the nine months ended September 30, 2023 and 2022, respectively. factors.

Summary of Goals and Areas of Focus

Occupancy

A primary area of management focus continues to be the rates of occupancy within our skilled nursing facilities. The overall census in owned and leased skilled nursing facilities for the three months ending September 30, 2023 March 31, 2024 was 88.1% 88.5% compared to 83.7% 87.4% for the same period a year ago. For the nine months ended September 30, 2023, overall census in our owned and leased skilled nursing facilities was 87.8% compared to 83.4% for the same period a year ago.

Due to America's healthcare labor shortage, the challenge of maintaining desirable patient census levels has been amplified. Management has undertaken a number of steps in order to best position our current and future health care facilities. This includes working internally to examine and improve systems to be most responsive to referral sources and payors, as well as find creative initiatives to retain and attract qualified healthcare professionals. Additionally, NHC is in various stages of partnerships with hospital systems, payors, and other post-acute alliances to better position us ourselves so we are an active participant in the delivery of post-acute healthcare services.

Quality of Patient Care

CMS introduced the Five-Star Quality Rating System to help consumers, their families and caregivers compare skilled nursing facilities more easily. The Five-Star Quality Rating System gives each skilled nursing operation a rating ranging between one and five stars in various categories (five stars being the best). The Company has always strived for patient-centered care and quality outcomes as precursors to outstanding financial performance.

The tables below summarize NHC's overall performance in these Five-Star ratings versus the skilled nursing industry as of **September 30, 2023** **March 31, 2024**:

	NHC Ratings	Industry Ratings	NHC Ratings	Industry Ratings
Total number of skilled nursing facilities, end of period	68		65	
Number of 4 and 5-star rated skilled nursing facilities	39		40	
Percentage of 4 and 5-star rated skilled nursing facilities	57 %	36 %	62%	36%
Average rating for all skilled nursing facilities, end of period	3.6	2.9	3.6	2.9

Development and Growth

We are undertaking to expand our senior care operations while protecting our existing operations and markets. The following table lists our recent development activities.

Type of Operation	Description	Size	Location	Placed in Service
	New	1	Anderson, SC	January
Homecare Hospice	Agency	agency		2022
Hospice	New Agency	1 agency	Tullahoma, TN	March 2022
Behavioral Health	New Facility	64 beds	Knoxville, TN	April 2022
Hospital	New Facility	16 beds	St. Louis, MO	June 2022
Behavioral Health	New Facility	1 beds	Cedar Bluff, VA	March 2023
Hospital	New Agency	agency		Nashville, TN May 2023
Skilled Nursing	Acquisition	66 beds		Tallahassee, FL May 2023
Homecare	New Agency	1 agency		Vero Beach, FL July 2023
Assisted Living	New Facility	Operations	135 units	FL 2023
Assisted Living	New Facility	Operations	95 units	Merritt Island, FL July 2023
Assisted Living	New Facility	Operations	100 units	Stuart, FL April 2023
Hospice	New Agency	1 agency		TN 2024

Accrued Risk Reserves

Our accrued professional liability and workers' compensation reserves totaled ~~\$108,125,000~~ \$108,237,000 at ~~September 30, 2023~~ March 31, 2024 and are a primary area of management focus. We have set aside restricted cash and cash equivalents and marketable securities to fund our estimated professional liability and workers' compensation liabilities.

As to exposure for professional liability claims, we have developed performance certification criteria to measure and bring focus to the patient care issues most likely to produce professional liability exposure, including in-house acquired pressure ulcers, significant weight loss and numbers of falls. These programs for certification, which we regularly modify and improve, have produced measurable improvements in reducing these incidents. Our experience is that achieving goals in these patient care areas improves both patient and employee satisfaction.

Government Reimbursement Programs

Medicare – Skilled Nursing Facilities

In July 2022, CMS released its final rule outlining fiscal year 2023 Medicare payment rates and policy changes for skilled nursing facilities, which began on October 1, 2022. The fiscal year 2023 rule provided for an approximate 2.7% increase, or \$904 million, compared to 2022 levels. The net increase includes a 3.9% market-basket increase plus a 1.5% market basket forecast error adjustment, less a 0.3% productivity adjustment and a 2.3% decrease in the FY 2023 SNF PPS rates as a result of the recalibrated parity adjustment. The recalibrated parity adjustment is a total of 4.6% and is being phased in over the next two years (2.3% annually).

In July 2023, CMS released its final rule outlining fiscal year 2024 Medicare payment rates and policy changes for skilled nursing facilities, which began on October 1, 2023. The fiscal year 2024 rule equates to a net increase of 4.0%, or approximately \$1.4 billion, ~~\$1.4 billion~~, in Medicare Part A payments to SNFs in fiscal year 2024 compared to 2023 levels. The rule includes a 3.0% market basket rate increase, a 3.6% market basket forecast error adjustment, less a 0.2% productivity adjustment, as well as a negative 2.3%, or approximately \$789 million, ~~\$789 million~~, decrease in 2024 SNF Payment Prospective Systems rates as a result of the second phase of the Patient Driven Payment Model parity adjustment recalibration.

In March 2024, CMS released its proposed rule outlining fiscal year 2025 Medicare payment rates and policy changes for skilled nursing facilities, which will begin on October 1, 2024. The fiscal year 2025 proposal equates to a net 4.1% increase in Medicare Part A payments to SNFs in fiscal year 2025 compared to 2024 levels. The rule includes a market basket increase of 2.8%, an increase of 1.7% to the market basket forecast error adjustment, and a negative 0.4% productivity adjustment. These figures do not incorporate the SNF Value Based Purchasing ("VBP") reduction for certain SNFs subject to the net reduction in payments under the SNF VBP; those adjustments are estimated to total \$196.5 million in fiscal year 2025.

For the first ~~nine~~ three months of ~~2023~~, 2024, our average Medicare per diem rate for skilled nursing facilities increased ~~2.2%~~ 4.7% as compared to the same period in ~~2022~~, 2023.

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Medicaid – Skilled Nursing Facilities

Effective July 1, 2023 and for the fiscal year 2024, the state of Tennessee implemented specific individual nursing facility increases. We estimate the resulting increase in revenue for the 2024 fiscal year will be approximately \$15,000,000 annually, or \$3,750,000 per quarter.

Effective October 1, 2023 and for the fiscal year 2024, the state of South Carolina implemented specific individual nursing facility increases. We estimate the resulting increase in revenue for the 2024 fiscal year will be approximately \$9,000,000 annually, or \$2,250,000 per quarter.

Effective July 1, 2023 and for the fiscal year 2024, the state of Missouri implemented specific individual nursing facility increases. We estimate the resulting increase in revenue for the 2024 fiscal year will be

approximately \$5,000,000 annually, or \$1,250,000 per quarter.

We have also received from many of the states in which we operate a supplemental Medicaid payments payment to help mitigate the incremental inflationary labor and medical supplies costs resulting from the COVID-19 public health emergency. This funding includes healthcare relief funding under the American Rescue Plan Act ("ARPA") and increases in the Federal Medical Assistance Percentage ("FMAP") under the Families First Coronavirus Response Act ("FFCRA"). We have recorded \$4,232,000 \$3,462,000 and \$4,773,000 \$4,883,000 in net patient revenues for these supplemental Medicaid payments for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. We have recorded \$15,362,000 and \$15,312,000 in net patient revenues for these supplemental Medicaid payments for the nine months ended September 30, 2023 and 2022, respectively. The end of the public health emergency created a gradual phase down of the temporary increase in FMAP funding until it is completely phased out at the end of 2023.

For the first nine three months of 2023, 2024, our average Medicaid per diem increased 7.9% 12.0% compared to the same period in 2022, 2023.

State Medicaid plans subject to budget constraints are of particular concern to us. Changes in federal funding coupled with state budget problems and Medicaid expansion under the Affordable Care Act have produced an uncertain environment. Some states will not keep pace with post-acute healthcare inflation. States are currently under pressure to pursue other alternatives to skilled nursing care such as community and home-based services. Medicaid programs are funded jointly by the federal government and the states and are administered by states under approved plans. Most state Medicaid payments are made under a prospective payment system or under programs which negotiate payment levels with individual providers. Some states use, or have applied to use, waivers granted by CMS to implement expansion, impose different eligibility or enrollment restrictions, or otherwise implement programs that vary from federal standards.

Medicare – Homecare Programs

In October 2022, November 2023, CMS released its final rule outlining fiscal year 2023 Medicare payment rates. CMS issued a rate increase of 0.7%, or \$125 million, effective January 1, 2023. The increase reflects the effects of the home health payment update percentage of 4.0%, a permanent behavioral assumption adjustment resulting in a decrease of 3.5%, and an estimated 0.2% increase that reflects the effects of an update to the fixed-dollar loss ratio used in determining outlier payments.

In June 2023, CMS released its proposed rule outlining fiscal year 2024 Medicare payment rates. CMS projects payments to home health agencies in fiscal year 2024 will decrease by 2.2% or \$375 million, relative to the prior year. This decrease reflects a 3.0% market basket update, reduced by a 0.3% productivity adjustment. However, the agency also proposes to apply the full permanent behavioral adjustment due to the implementation of the Patient-Driven Groups Model, resulting in a decrease of 5.1% in CY 2024, which would reduce total payments by an aggregate of \$870 million. In addition, the agency also proposes an estimated 0.2% increase in payments for high-cost outlier cases.

Medicare – Hospice

In July 2022, CMS released its final rule outlining fiscal year 2023 Medicare payment rates. CMS issued a rate increase of 3.8% aggregate by 0.8%, or \$825 million, effective October 1, 2022 \$140 million. The increase is the result of a 4.1% inpatient hospital 3.3% market basket increase update, reduced by a 0.3% productivity adjustment. The FY2023 hospice payment update increase is offset by a behavioral adjustment that will cut payments by a net 2.6%. The behavioral adjustment was designed to achieve budget-neutral implementation of the PDPM. Finally, CMS also includes an update to adjusted the statutory aggregate cap amount, fixed-dollar loss ratio for outlier payments, which limits the overall will increase payments per patient that are made annually. The cap amount for FY2023 is \$32,487. by 0.4%.

Medicare – Hospice

In July 2023, CMS released its final rule outlining fiscal year 2024 Medicare payment rates. CMS issued a rate increase of 3.1%, or \$780 million, effective October 1, 2023. This increase is the result of a 3.3% market basket increase reduced by a 0.2% productivity adjustment. The FY2024 hospice payment update also includes an update to the statutory aggregate cap amount, which limits the overall payments per patient that are made annually. The cap amount for FY2024 is \$33,494.

In March 2024, CMS released its proposed rule outlining fiscal year 2025 Medicare payment rates. CMS issued a rate increase of 2.6%, or \$705 million, effective October 1, 2024. This increase is the result of a 3.0% market basket increase reduced by a 0.4% productivity adjustment. The FY2025 hospice payment update also includes an update to the statutory aggregate cap amount, which limits the overall payments per patient that are made annually. The proposed cap amount for FY2025 is \$34,365.

Segment Reporting

The Company has two reportable operating segments: (1) inpatient services, which includes the operation of skilled nursing facilities, assisted and independent living facilities, and behavioral health hospitals; and (2) homecare and hospice services. These reportable operating segments are consistent with information used by the Company's Chief Executive Officer, as chief operating decision maker ("CODM"), to assess performance and allocate resources. The Company also reports an "all other" category that includes revenues from rental income, management and accounting services fees, insurance services, and costs of the corporate office.

The Company's CODM evaluates performance and allocates capital resources to each segment based on an operating model that is designed to improve the quality of patient care and profitability of the Company while enhancing long-term shareholder value. The CODM does not review assets by segment in his resource allocation and therefore, assets by segment are not disclosed below.

The following table sets forth the Company's unaudited interim condensed consolidated statements of operations by business segment (in thousands):

	Three Months Ended September 30, 2023				Three Months Ended March 31, 2024			
	Inpatient Services	Homecare and Hospice	All Other	Total	Inpatient Services	Homecare and Hospice	All Other	Total
Revenues:								
Net patient revenues	\$ 243,865	\$ 33,140	\$ -	\$ 277,005	\$ 252,254	\$ 33,569	\$ -	\$ 285,823
Other revenues	297	-	11,183	11,480	15	-	11,338	11,353
Net operating revenues	244,162	33,140	11,183	288,485	252,269	33,569	11,338	297,176
Costs and expenses:								
Salaries, wages, and benefits	151,912	20,066	10,686	182,664	150,890	21,009	11,239	183,138
Other operating	64,228	5,868	2,394	72,490	68,683	5,972	2,774	77,429
Rent	8,186	538	1,370	10,094	8,112	566	1,670	10,348
Depreciation and amortization	9,203	185	747	10,135	9,630	187	769	10,586
Interest	77	-	-	77	46	-	-	46
Total costs and expenses	233,606	26,657	15,197	275,460	237,361	27,734	16,452	281,547

<i>Income/(loss)</i>									
from operations	10,556	6,483	(4,014)	13,025	14,908	5,835	(5,114)	15,629	
<i>Non-operating income</i>	-	-	4,097	4,097	-	-	5,685	5,685	
<i>Unrealized losses on marketable equity securities</i>	-	-	(3,093)	(3,093)					
<i>Unrealized gains on marketable equity securities</i>							-	14,399	14,399
<i>Income/(loss) before income taxes</i>	\$ 10,556	\$ 6,483	\$ (3,010)	\$ 14,029					
<i>Income before income taxes</i>					\$ 14,908	\$ 5,835	\$ 14,970	\$ 35,713	
	Three Months Ended September 30, 2022				Three Months Ended March 31, 2023				
	Inpatient Services	Homecare and Hospice	All Other	Total	Inpatient Services	Homecare and Hospice	All Other	Total	
<i>Revenues:</i>									
Net patient revenues	\$ 228,138	\$ 32,109	\$ -	\$ 260,247	\$ 226,169	\$ 31,838	\$ -	\$ 258,007	
Other revenues	(198)	-	10,794	10,596	271	-	11,285	11,556	
Net operating revenues	227,940	32,109	10,794	270,843	226,440	31,838	11,285	269,563	
<i>Costs and expenses:</i>									
Salaries, wages, and benefits	144,047	19,581	9,570	173,198	138,939	20,244	8,641	167,824	
Other operating	66,522	6,310	51	72,883	62,264	5,499	3,726	71,489	
Rent	8,088	575	1,631	10,294	8,168	558	1,366	10,092	
Depreciation and amortization	9,198	248	807	10,253	9,117	185	746	10,048	
Interest	137	-	-	137	98	-	-	98	
Total costs and expenses	227,992	26,714	12,059	266,765	218,586	26,486	14,479	259,551	

<i>Income/(loss)</i>								
from operations	(52)	5,395	(1,265)	4,078	7,854	5,352	(3,194)	10,012
<i>Non-operating income</i>	-	-	2,731	2,731	-	-	4,323	4,323
<i>Unrealized losses on marketable equity securities</i>	-	-	(11,056)	(11,056)				
<i>Unrealized gains on marketable equity securities</i>					-	-	1,386	1,386
<i>Income/(loss) before income taxes</i>	\$ (52)	\$ 5,395	\$ (9,590)	\$ (4,247)				
<i>Income before income taxes</i>					\$ 7,854	\$ 5,352	\$ 2,515	\$ 15,721

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Nine Months Ended September 30, 2023

	Homecare			
	Inpatient Services	and Hospice	All Other	Total
<i>Revenues:</i>				
Net patient revenues	\$ 706,795	\$ 97,822	\$ -	\$ 804,617
Other revenues	894	-	35,119	36,013
<i>Net operating revenues</i>	<u>707,689</u>	<u>97,822</u>	<u>35,119</u>	<u>840,630</u>
<i>Costs and expenses:</i>				
Salaries, wages, and benefits	435,517	60,804	29,461	525,782
Other operating	192,473	17,356	7,384	217,213
Rent	24,520	1,639	3,928	30,087
Depreciation and amortization	27,474	555	2,237	30,266
Interest	268	-	-	268
<i>Total costs and expenses</i>	<u>680,252</u>	<u>80,354</u>	<u>43,010</u>	<u>803,616</u>
<i>Income/(loss) from operations</i>	<u>27,437</u>	<u>17,468</u>	<u>(7,891)</u>	<u>37,014</u>
Non-operating income	-	-	12,116	12,116
Unrealized gains on marketable equity securities	-	-	2,943	2,943
<i>Income before income taxes</i>	<u>\$ 27,437</u>	<u>\$ 17,468</u>	<u>\$ 7,168</u>	<u>\$ 52,073</u>

Nine Months Ended September, 2022

	Homecare			
	Inpatient Services	and Hospice	All Other	Total
<i>Revenues and grant income:</i>				
Net patient revenues	\$ 680,776	\$ 95,885	\$ -	\$ 776,661

<i>Other revenues</i>	15	-	33,569	33,584
<i>Government stimulus income</i>	10,940	-	-	10,940
<i>Net operating revenues and grant income</i>	691,731	95,885	33,569	821,185
Costs and expenses:				
<i>Salaries, wages, and benefits</i>	435,322	58,007	25,499	518,828
<i>Other operating</i>	192,791	19,848	5,640	218,279
<i>Rent</i>	24,498	1,759	4,513	30,770
<i>Depreciation and amortization</i>	27,120	472	2,419	30,011
<i>Interest</i>	451	-	-	451
<i>Total costs and expenses</i>	680,182	80,086	38,071	798,339
<i>Income/(loss) from operations</i>	11,549	15,799	(4,502)	22,846
<i>Non-operating income</i>	-	-	8,451	8,451
<i>Unrealized losses on marketable equity securities</i>	-	-	(11,479)	(11,479)
<i>Income/(loss) before income taxes</i>	\$ 11,549	\$ 15,799	\$ (7,530)	\$ 19,818
	31.29			

Non-GAAP Financial Presentation

The Company is providing certain non-GAAP financial measures as the Company believes that these figures are helpful in allowing investors to more accurately assess the ongoing nature of the Company's operations and measure the Company's performance more consistently across periods. Therefore, the Company believes this information is meaningful in addition to the information contained in the GAAP presentation of financial information. The presentation of this additional non-GAAP financial information is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

Specifically, the Company believes the presentation of non-GAAP financial information that excludes the unrealized gains or losses on our marketable equity securities, operating results for the newly constructed start-up healthcare facilities or start-up operations not at full capacity, gains on sale of unconsolidated companies, and share-based compensation expense is helpful in allowing investors to assess the Company's operations more accurately.

The operating results for the newly constructed healthcare facilities or agencies not at full capacity for the three and nine months ended September 30, 2023 March 31, 2024 include facilities or agencies that began operations from 2021 2022 to 2023, 2024, which is two behavioral health hospitals, two homecare agencies, and two hospice agencies. For the three months and nine months ended September 30, 2022 March 31, 2023, included are facilities or agencies that began operations from 2020 2021 to 2022, 2023, which is two behavioral health hospitals, one homecare agency, and one two hospice agency. agencies.

The tables below provide reconciliations of GAAP to non-GAAP items (dollars in thousands, except per share data):

	Three Months Ended		Nine Months Ended	
	September 30	September 30	2023	2022
<i>Net income/(loss) attributable to National Healthcare Corporation</i>	\$ 10,388	\$ (2,429)	\$ 38,392	\$ 16,092
<i>Non-GAAP adjustments:</i>				

Unrealized (gains)/losses on marketable equity securities	3,093	11,056	(2,943)	11,479
Operating results for newly opened facilities or agencies not at full capacity	66	2,105	1,616	4,033
Share-based compensation expense	708	639	2,119	1,980
Income tax provision on non-GAAP adjustments	(1,005)	(3,588)	(206)	(4,548)
Non-GAAP Net income	\$ 13,250	\$ 7,783	\$ 38,978	\$ 29,036

GAAP diluted earnings/(loss) per share	\$ 0.68	\$ (0.16)	\$ 2.51	\$ 1.04
Non-GAAP adjustments:				
Unrealized (gains)/losses on marketable equity securities	0.15	0.53	(0.14)	0.56
Operating results for newly opened facilities or agencies not at full capacity	-	0.10	0.07	0.19
Share-based compensation expense	0.03	0.03	0.10	0.09
Non-GAAP diluted earnings per share	\$ 0.86	\$ 0.50	\$ 2.54	\$ 1.88

	<i>Three Months Ended</i>	
	<i>March 31</i>	
	<i>2024</i>	<i>2023</i>
Net income attributable to National Healthcare Corporation	\$ 26,213	\$ 11,723
Non-GAAP adjustments		
Unrealized gains on marketable equity securities	(14,399)	(1,386)
Operating results for newly opened facilities or agencies not at full capacity	(457)	1,217
Gain on sale of unconsolidated company	(1,025)	-
Share-based compensation expense	793	639
Income tax provision/(benefit) on non-GAAP adjustments	3,923	(122)
Non-GAAP Net income	\$ 15,048	\$ 12,071
 GAAP diluted earnings per share	 \$ 1.69	 \$ 0.76
Non-GAAP adjustments		
Unrealized gains on marketable equity securities	(0.69)	(0.06)
Operating results for newly opened facilities or agencies not at full capacity	(0.02)	0.06
Gain on sale of unconsolidated company	(0.05)	-
Share-based compensation expense	0.04	0.03
Non-GAAP diluted earnings per share	\$ 0.97	\$ 0.79

32.30

Results of Operations

The following table and discussion set forth items from the interim condensed consolidated statements of operations as a percentage of net operating revenues and grant income for the three and nine months ended September 30, 2023 March 31, 2024 and 2022, 2023.

Percentage of Net Operating Revenues and Grant Income

	Three Months Ended September 30		Nine Months Ended September 30		Three Months Ended March 31	
	2023	2022	2023	2022	2024	2023
	100.0 %	100.0 %	100 %	100 %	100.0 %	100.0 %
Net operating revenues and grant income						
Net operating revenues						
Costs and expenses:						
Salaries, wages, and benefits	63.3	63.9	62.5	63.2	61.6	62.3
Other operating	25.1	26.9	25.8	26.5	26.0	26.5
Facility rent	3.5	3.8	3.6	3.7	3.5	3.7
Depreciation and amortization	3.5	3.8	3.6	3.7	3.5	3.7
Interest	0.1	0.1	0.1	0.1	0.1	0.1
Total costs and expenses	95.5	98.5	95.6	97.2	94.7	96.3
Income from operations	4.5	1.5	4.4	2.8	5.3	3.7
Non-operating income	1.4	1.0	1.4	1.0	1.9	1.6
Unrealized gains/(losses) on marketable equity securities	(1.0)	(4.1)	0.4	(1.4)		
Income/(loss) before income taxes	4.9	(1.6)	6.2	2.4		
Income tax (provision)/benefit	(1.4)	0.5	(1.8)	(0.6)		
Net income/(loss)	3.5	(1.1)	4.4	1.8		
Net loss attributable to noncontrolling interest	0.1	0.2	0.2	0.2		
Net income/(loss) attributable to stockholders of NHC	3.6	(0.9)	4.6	2.0		
Unrealized gains on marketable equity securities					4.8	0.5
Income before income taxes					12.0	5.8
Income tax provision					(3.2)	(1.6)
Net income					8.8	4.2
Net (income)/loss attributable to noncontrolling interest					(0.0)	0.1
Net income attributable to stockholders of NHC					8.8%	4.3%

Three Months Ended September 30, 2023 March 31, 2024 Compared to Three Months Ended September 30, 2022 March 31, 2023

Results for the quarter ended September 30, 2023 March 31, 2024 compared to the third first quarter of 2022 2023 include a 6.5% 10.2% increase in net operating revenues. The net operating revenues increase was primarily driven by the continued occupancy increase in our skilled nursing facilities, as well as increases in skilled nursing per diems from some of our government payors. Excluding the seven skilled nursing facilities in Massachusetts and New Hampshire in which we ceased operations in September 2022, same-facility net operating revenues increased 11.8% during the third quarter of 2023 compared to the same period a year ago.

For the quarter ended September 30, 2023 March 31, 2024, GAAP net income attributable to NHC was \$10,388,000 \$26,213,000 compared to a net loss of \$2,429,000 \$11,723,000 for the same period in 2022 2023. Excluding the unrealized losses/gains in our marketable equity securities portfolio and other non-GAAP adjustments, adjusted net income for the quarter ended September 30, 2023 March 31, 2024 was \$13,250,000 \$15,048,000 compared to \$7,783,000 \$12,071,000 for the same period in 2022 2023. The increase in non-GAAP earnings/adjusted net income for the first quarter ended September 30, 2023 of 2024 compared to the third first quarter of 2022 2023 was primarily due to the continued occupancy increase in our skilled nursing and assisted living facilities, skilled nursing per diem increases from some of our government governmental payors, and the continued reduction of nurse agency staffing expense within our operations.

Net operating revenues

Net patient revenues increased \$16,758,000, \$27,816,000, or 6.4% 10.8%, compared to the same period last year.

The total census at owned and leased skilled nursing facilities for the quarter averaged 88.1% 88.5%, compared to an average of 83.7% 87.4% for the same quarter a year ago. Overall, the composite skilled nursing facility per diem increased 7.6% 8.8% compared to the same quarter a year ago. Our Medicare per diem rates increased 3.0% 4.7% and managed care per diem rates increased 14.0% 5.8% compared to the same quarter a year ago. Medicaid and private pay per diem rates increased 7.9% 12.0% and 6.7% 10.5%, respectively, compared to the same quarter a year ago. For the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively, \$4,232,000 \$3,462,000 and \$4,773,000 \$4,883,000 have been included in our net patient revenues for supplemental COVID-19 Medicaid payments. payments that are in addition to our Medicaid skilled nursing per diems.

New operations, which include one skilled nursing facility acquired May 1, 2023, three assisted living facilities that we began operating on July 1, 2023, two behavioral health hospitals, two hospice agencies and two homecare agencies, have attributed to an increase of \$9,625,000 \$7,727,000 in net patient revenues for the three months quarter ended September 30, 2023 March 31, 2024 compared to the same quarter last in the prior year. In September 2022,

On March 1, 2024, the Company exited a lease and transferred the operations of seven two skilled nursing facilities (included assisted living units) and one memory care facility located in Massachusetts and New Hampshire, which Missouri. The exiting of these operations resulted in net patient revenues decreasing \$12,876,000 \$1,972,000 for the three months quarter ended September 30, 2023 March 31, 2024 compared to the same quarter last in the prior year.

Other revenues increased \$884,000, decreased \$203,000, or 8.3% 1.8%, compared to the same quarter last year, as further detailed in Note 5 4 to our interim condensed consolidated financial statements.

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Total costs and expenses

Total costs and expenses for the three months ended September 30, 2023 March 31, 2024 compared to the same period of 2022 2023 increased \$8,695,000, \$21,996,000, or 3.3% 8.5% to \$275,460,000 \$281,547,000 from \$266,765,000. \$259,551,000.

Salaries, wages, and benefits increased \$9,466,000 or 5.5%, to \$182,664,000 from \$173,198,000. Salaries, wages, and benefits as a percentage of net operating revenues was 63.3% 61.6% compared to 63.9% 62.3% for the three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. We continue to face workforce and labor shortages within all of our operations. The labor operations, which increases wage pressure in regards to retaining and workforce shortages have resulted in us contracting with agency nurse staffing companies in certain markets. The agency nurse staffing companies charge inflated hourly rates; therefore, we are working attracting qualified healthcare partners (employees). We continue to work diligently to find solutions to reduce and eliminate the agency nurse staffing within our healthcare operations. For Our agency staffing expense decreased approximately 51% for the quarter three months ended September 30, 2023, our agency nurse staffing expenses decreased \$8,181,000, or approximately 48.4%, March 31, 2024 compared to the same period a year ago. of 2023.

New operations, which include one skilled nursing facility acquired May 1, 2023, three assisted living facilities that we began operating on July 1, 2023, two behavioral health hospitals, two hospice agencies and two homecare agencies, have attributed to an increase of \$3,591,000 in salaries, wages, and benefits of \$4,778,000 for the three months quarter ended September 30, 2023 March 31, 2024 compared to the same quarter last in the prior year. In September 2022,

On March 1, 2024, the Company exited the lease and transferred the operations of seven two skilled nursing facilities (included assisted living units) and one memory care facility located in Massachusetts and New Hampshire, which Missouri. The exiting of these operations resulted in salaries, wages, and benefits decreasing

\$8,210,000 **\$1,799,000** for the three months quarter ended **September 30, 2023** **March 31, 2024** compared to the same quarter last in the prior year.

Other operating expenses decreased \$393,000, or 0.5%, to \$72,490,000 for the 2023 period compared to \$72,883,000 for the 2022 period. Other operating expenses as a percentage of net operating revenues was **25.1%** **26.1%** and **26.9%** **26.5%** for the three months ended **September 30, 2023** **March 31, 2024** and **2022**, **2023**, respectively. The transfer of the New operations, of the seven which include one skilled nursing facility acquired May 1, 2023, three assisted living facilities located in Massachusetts that we began operating on July 1, 2023, two behavioral health hospitals, two hospice agencies and New Hampshire, as noted above, resulted two homecare agencies, have attributed to an increase of \$2,176,000 in other operating expenses decreasing \$3,245,000 for the three months quarter ended **September 30, 2023** **March 31, 2024** compared to the same quarter last in the prior year. We continue to face inflationary pressures in certain categories within other operating expenses as well, such as food/dietary supplies and drugs/pharmaceutical supplies.

Other income

Non-operating income increased by **\$1,366,000** **\$1,362,000** compared to the same period last year, as further detailed in Note **65** to our interim condensed consolidated financial statements. In January 2024, the Company sold its 50% joint venture ownership interest in a homecare agency located in Nashville, Tennessee. The total consideration paid to the company was \$2,100,000, which resulted in a gain of \$1,025,000.

Income taxes

The income tax provision for the three months ended **September 30, 2023** **March 31, 2024** is **\$3,908,000** **\$9,462,000** (an effective income tax rate of **27.9%** **26.5%**).

Noncontrolling interest

The noncontrolling interest in subsidiaries is presented within total equity of the Company's consolidated balance sheets. The Company presents the noncontrolling interest and the amount of consolidated net income attributable to NHC in its consolidated statements of operations. The Company's earnings per share is calculated based on net income attributable to NHC's stockholders. The carrying amount of the noncontrolling interest is adjusted based on an allocation of subsidiary earnings based on ownership interest.

Nine Three Months Ended September 30, 2023 **March 31, 2023** Compared to Nine Three Months Ended September 30, 2022 **March 31, 2022**

Results for the nine months quarter ended **September 30, 2023** **March 31, 2023** compared to the same period first quarter of 2022 include a 2.4% increase 3.4% decrease in net operating revenues and grant income. The net operating revenues and grant income decrease was primarily driven by the reduction in government stimulus income of \$10,620,000 during the first quarter of 2023 compared to the same period a year ago, as well as us exiting seven skilled nursing facilities in Massachusetts and New Hampshire during the third quarter of 2022. Excluding the government stimulus income and the seven skilled nursing facilities in Massachusetts and New Hampshire, in which we ceased operations in September 2022, same-facility net operating revenues increased 10.3% for 7.1% during the nine months ended September 30, 2023 first quarter of 2023 compared to the same period a year ago.

For the nine months quarter ended **September 30, 2023** **March 31, 2023**, GAAP net income attributable to NHC was **\$38,392,000** **\$11,723,000** compared to net income of **\$16,092,000** **\$15,318,000** for the same period in 2022. Excluding the unrealized gains and losses in our marketable equity securities portfolio and other non-GAAP adjustments, adjusted net income for the nine months quarter ended **September 30, 2023** **March 31, 2023** was **\$38,978,000** **\$12,071,000** compared to **\$29,036,000** **\$14,081,000** for the same period in 2022. The increase decrease in non-GAAP earnings adjusted net income for the nine months ended September 30, 2023 first quarter of 2023 compared to the same period in the prior year first quarter of 2022 was primarily due to the continued occupancy increase \$10,620,000 less in our skilled nursing facilities, skilled nursing per diem increases

from some of our government payors, and stimulus income recorded during the continued reduction of nurse agency staffing expense within our operations. current quarter.

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Net operating revenues and grant income

Net patient revenues increased \$27,956,000, \$1,670,000, or 3.6% 0.7%, compared to the same period last year.

The total census at owned and leased skilled nursing facilities for the nine months ended September 30, 2023 quarter averaged 87.8% 87.4%, compared to an average of 83.4% 82.7% for the same period quarter a year ago. Overall, the composite skilled nursing facility per diem increased 6.0% 3.3% compared to the same period quarter a year ago. Our Medicare per diem rates increased 2.2% 2.1% and managed care per diem rates increased 8.2% 2.7% compared to the same period quarter a year ago. Medicaid and private pay per diem rates increased 7.9% 3.6% and 4.1% 3.1%, respectively, compared to the same period quarter a year ago. For the nine three months ended September 30, 2023 March 31, 2023 and 2022, respectively, \$15,362,000 \$4,883,000 and \$15,312,000 \$5,538,000 have been included in our net patient revenues for supplemental COVID-19 Medicaid payments.

New operations, which include one skilled nursing facility acquired May 1, 2023, three assisted living facilities that we began operating on July 1, 2023, two behavioral health hospitals, two hospice agencies and two homecare agencies, have attributed to an increase of \$18,490,000 in net patient revenues for the nine months ended September 30, 2023 compared to the same period last year. In September 2022, the Company transferred the operations of seven skilled nursing facilities located in Massachusetts and New Hampshire which resulted in net patient revenues decreasing \$48,362,000 \$16,603,000 for the nine three months ended September 30, 2023 March 31, 2023 compared to the same period quarter last year.

Other revenues increased \$2,429,000, decreased \$470,000, or 7.2% 3.9%, compared to the same period quarter last year, as further detailed in Note 54 to our interim condensed consolidated financial statements.

During the nine three months ended September 30, 2023 March 31, 2023 and 2022, respectively, we recorded \$0 and \$10,940,000 \$10,620,000 in government stimulus income related to funds received from the CARES Act Provider Relief Fund. See Note 3 - Coronavirus Pandemic for additional information.

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Total costs and expenses

Total costs and expenses for the nine three months ended September 30, 2023 March 31, 2023 compared to the same period of 2022 increased \$5,277,000, decreased \$5,215,000, or 0.7% 2.0% to \$803,616,000 \$259,551,000 from \$798,339,000. \$264,766,000.

Salaries, wages, and benefits increased \$6,954,000, or 1.3%, to \$525,782,000 from \$518,828,000. Salaries, wages, and benefits as a percentage of net operating revenues and grant income was 62.5% 62.3% compared to 63.2% 61.2% for the nine three months ended September 30, 2023 March 31, 2023 and 2022, respectively. We continue to face workforce and labor shortages within all of our operations. operations, which increases wage pressure in regards to retaining and attracting qualified healthcare partners (employees). The labor and workforce shortages have resulted in us contracting with agency nurse staffing companies. The agency nurse staffing companies charge inflated hourly rates; therefore, we are working diligently to find solutions to reduce and eliminate the agency nurse staffing within our healthcare operations. For the nine months quarter ended September 30, 2023 March 31, 2023, our agency nurse staffing expenses expense decreased \$23,709,000, \$4,941,000, or approximately 43.6% 34%, compared to the same period a year ago.

New operations, which include one skilled nursing facility acquired May 1, 2023, three assisted living facilities that we began operating on July 1, 2023, two behavioral health hospitals, two hospice agencies and

two homecare agencies, have attributed to an increase in salaries, wages, and benefits of \$9,968,000 for the nine months ended September 30, 2023 compared to the same period last year. In September 2022, the Company transferred the operations of seven skilled nursing facilities located in Massachusetts and New Hampshire which resulted in salaries, wages, and benefits decreasing \$31,856,000 \$11,884,000 for the nine months ended September 30, 2023 March 31, 2023 compared to the same period last year.

Other operating expenses decreased \$1,066,000, or 0.5%, to \$217,213,000 for the 2023 period compared to \$218,279,000 for the 2022 period. Other operating expenses as a percentage of net operating revenues and grant income was 25.8% 26.5% and 26.6% for the nine months ended September 30, 2023 March 31, 2023 and 2022, respectively. The transfer of the operations of the seven skilled nursing facilities located in Massachusetts and New Hampshire, as noted above, resulted in other operating expenses decreasing \$13,170,000 \$5,206,000 for the nine months ended September 30, 2023 March 31, 2023 compared to the same period last year. We continue to face inflationary pressures in certain categories within other operating expenses as well, such as food/dietary supplies and drugs/pharmaceutical supplies.

Other income

Non-operating income increased by \$3,665,000 \$1,124,000 compared to the same period last year, as further detailed in Note 6 to our interim condensed consolidated financial statements.

Income taxes

The income tax provision for the nine months ended September 30, 2023 March 31, 2023 is \$14,750,000 \$4,436,000 (an effective income tax rate of 28.3% 28.2%).

Noncontrolling interest

The noncontrolling interest in subsidiaries is presented within total equity of the Company's consolidated balance sheets. The Company presents the noncontrolling interest and the amount of consolidated net income attributable to NHC in its consolidated statements of operations. The Company's earnings per share is calculated based on net income attributable to NHC's stockholders. The carrying amount of the noncontrolling interest is adjusted based on an allocation of subsidiary earnings based on ownership interest.

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Liquidity, Capital Resources, and Financial Condition

Our primary sources of cash include revenues from the operations of our healthcare and senior living facilities, management and accounting services, rental income, and investment income. Our primary uses of cash include salaries, wages and other operating costs of our healthcare and senior living facilities, the cost of additions to and acquisitions of real property, facility rent expenses, and dividend distributions. These sources and uses of cash are reflected in our interim condensed consolidated statements of cash flows and are discussed in further detail below.

The following is a summary of our sources and uses of cash flows (dollars in thousands):

Nine Months Ended September 30		Nine Month Change		Three Months Ended March 31		Three Month Change	
2023	2022	\$	%	2024	2023	\$	%

Cash, cash equivalents, restricted cash, and restricted cash	\$ 74,865	\$ 119,743	\$ (44,878)	(37.5)%	\$ 125,968	\$ 74,865	\$ 51,103	68.3%
equivalents, at beginning of period								
Cash provided by/(used in) operating activities	85,483	(3,192)	88,675	2,778.0				
Cash provided by operating activities					9,646	13,857	(4,211)	(30.4)
Cash used in investing activities	(7,382)	(8,810)	1,428	16.2	(2,415)	(1,427)	(988)	(69.2)
Cash used in financing activities	(32,711)	(35,541)	2,830	8.0	(12,067)	(12,619)	552	4.4
Cash, cash equivalents, restricted cash, and restricted cash	\$ 120,255	\$ 72,200	\$ 48,055	66.6 %	\$ 121,132	\$ 74,676	\$ 46,456	62.2%
equivalents, at end of period	_____	_____	_____	_____	_____	_____	_____	_____
					36.34			

Operating Activities

Net cash provided by operating activities for the **nine** **three** months ended **September 30, 2023** **March 31, 2024** was **\$85,483,000** **\$9,646,000** as compared to cash used in operating activities of **\$3,192,000** **13,857,000** in the same period last year. Cash provided by operating activities consisted of net income of **\$37,323,000** **\$26,251,000** and decreases to operating cash flows related to adjustments for non-cash items of **\$26,442,000** **\$1,627,000**. There was cash provided by working capital in the amount of **\$20,645,000** for the nine months ended September 30, 2023 compared to cash used for working capital needs in the amount of **\$63,011,000** **\$14,634,000** for the three months ended March 31, 2024 compared to **\$6,017,000** for the same period a year ago.

On February 21, 2024, Change Healthcare was the target of a ransomware attack. The Company uses Change Healthcare as an intermediary to process and pay our governmental and insurance company healthcare claims. With Change Healthcare's systems being down during the first quarter of 2024, we had to manually bill the majority of our skilled nursing claims for the months of February and March 2024. Although we manually billed our skilled nursing healthcare claims in February and March 2024, we were not paid as we typically would in the ordinary course of business. At March 31, 2024, our patient accounts receivable balances increased approximately \$15 million from our December 31, 2023 accounts receivable balances. We believe this increase in accounts receivable is temporary and over the next several months we expect our accounts receivable balances and operating cash flow to be back to normal levels.

Included in the adjustments for non-cash items are depreciation expense, equity in earnings of unconsolidated investments, unrealized gains and losses on our marketable equity securities, gain on sale of an unconsolidated company, deferred taxes, and stock compensation.

Investing Activities

Net cash used in investing activities totaled \$7,382,000 \$2,415,000 for the nine three months ended September 30, 2023 March 31, 2024, compared to \$8,810,000 \$1,427,000 for the nine three months ended September 30, 2022 March 31, 2023. Cash used for property and equipment additions was \$19,300,000 \$5,955,000 and \$24,563,000 \$6,640,000 for the nine three months ended September 30, 2023 March 31, 2024, and 2022, 2023, respectively. On May 1, 2023, we acquired the assets of a 66-bed skilled nursing facility in Nashville, Tennessee. Proceeds from the sale of marketable securities, net of purchases, resulted in cash provided by investing activity of \$14,815,000 \$2,912,000 and \$9,397,000 \$5,211,000 for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. In January 2024, the Company sold its 50% joint venture ownership interest in a homecare agency resulting in proceeds from the sale of \$2,100,000.

Financing Activities

Net cash used in financing activities totaled \$32,711,000 \$12,067,000 for the nine three months ended September 30, 2023 March 31, 2024 compared to \$35,541,000 \$12,619,000 for the nine three months ended September 30, 2022 March 31, 2023. We made principal payments under our finance lease obligations in the amount of \$3,711,000 \$860,000 and \$3,495,000 \$1,218,000 for the nine three months ended September 30, 2023 March 31, 2024 and 2022, 2023, respectively. Cash used for dividend payments to common stockholders totaled \$26,520,000 \$9,051,000 in the current year period compared to \$25,830,000 \$8,748,000 for the same period a year ago. Cash provided by the issuance of common stock totaled \$8,412,000 for the quarter ended March 31, 2024. We repurchased common shares outstanding in the amount of \$9,900,000 and \$2,482,000 in the current year period compared to \$6,907,000 for the same period a year ago. three months ended March 31, 2024 and 2023, respectively.

Short-term liquidity

We expect to meet our short-term liquidity requirements primarily from our cash flows from operating activities. In addition to cash flows from operations, our current cash on hand of \$100,308,000, \$93,982,000 and our marketable equity and debt securities of \$110,186,000, and our borrowing capacity on the \$50 million credit facility \$123,524,000 are expected to be adequate to meet our contractual obligations, operating liquidity, and our growth and development plans in the next twelve months. We also have substantial value in our unencumbered real estate assets, which could potentially be used as collateral in future borrowing opportunities.

Long-term liquidity

We expect to meet our long-term liquidity requirements primarily from our cash flows from operating activities, our current cash on hand of \$100,308,000, \$93,982,000 and our marketable equity and debt securities of \$110,186,000, and our borrowing capacity on the credit facility. At September 30, 2023, we do not have an outstanding balance on our credit facility; therefore, leaving \$50 million available for future borrowings \$123,524,000. We also have substantial value in our unencumbered real estate assets, which could potentially be used as collateral in future borrowing opportunities.

Our ability to meet our long-term contractual obligations, and to finance our operating requirements and growth plans will depend upon our future performance. Our future performance will be affected by business, economic, financial and other factors, including potential changes in state and federal government payment rates for healthcare, customer demand, success of our marketing efforts, pressures from competitors, and the state of the economy, including the state of financial and credit markets, as well as many unforeseen factors.

Commitment and Contingencies

Laws and regulations governing the Medicare, Medicaid and other federal healthcare programs are complex and subject to interpretation. Management believes that it is following all applicable laws and regulations in all material respects. However, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusions from the Medicare, Medicaid, and other federal healthcare programs.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market risk represents the potential economic loss arising from adverse changes in the fair value of financial instruments. Currently, our exposure to market risk relates primarily to our fixed-income and equity portfolios. These investment portfolios are exposed primarily to, but not limited to, interest rate risk, credit risk, equity price risk, and concentration risk. We also have exposure to market risk that includes our cash and cash equivalents. The Company's senior management has established comprehensive risk management policies and procedures to manage these market risks.

Interest Rate Risk

The fair values of our fixed-income investments fluctuate in response to changes in market interest rates. Increases and decreases in prevailing interest rates generally translate into decreases and increases, respectively, in the fair values of those instruments. Additionally, the fair values of interest rate sensitive instruments may be affected by the creditworthiness of the issuer, prepayment options, the liquidity of the instrument and other general market conditions. At September 30, 2023 March 31, 2024, we have available for sale marketable debt securities in the amount of \$126,911,000. \$124,316,000. The fixed maturity portfolio is comprised of investments with primarily short-term and intermediate-term maturities. The portfolio composition allows flexibility in reacting to fluctuations of interest rates. The fixed maturity portfolio allows our insurance company subsidiaries to achieve an adequate risk-adjusted return while maintaining sufficient liquidity to meet obligations.

Our cash and cash equivalents consist of highly liquid investments with a maturity of less than three months when purchased. As a result of the short-term nature of our cash instruments, a hypothetical 1% change in interest rates would have minimal impact on our future earnings and cash flows related to these instruments.

We do not currently use any derivative instruments to hedge our interest rate exposure. We have not used derivative instruments for trading purposes and the use of such instruments in the future would be subject to approval/approvals by the Investment Committee of the Board of Directors.

Credit Risk

Credit risk is managed by diversifying the fixed maturity portfolio to avoid concentrations in any single industry group or issuer and by limiting investments in securities with lower credit ratings.

Equity Price and Concentration Risk

Our marketable equity securities are recorded at their fair market value based on quoted market prices. Thus, there is exposure to equity price risk, which is the potential change in fair value due to a change in quoted market prices. At September 30, 2023 March 31, 2024, the fair value of our marketable equity securities is approximately \$125,820,000. \$152,656,000. Of the \$125.8 million \$152.7 million equity securities portfolio, our investment in NHI comprises approximately \$83.7 million, \$102.5 million, or 66.5% 67.1%, of the total fair value. We manage our exposure to NHI by closely monitoring the financial condition, performance, and outlook of the company. Hypothetically, a 10% change in quoted market prices would result in a related increase or decrease in the fair value of our equity investments of approximately \$12.6 million \$15.3 million. At September 30, 2023 March

31, 2024, our equity securities had net unrealized gains of \$71.6 million \$98.0 million. Of the \$71.6 million \$98.0 million of unrealized gains, \$59.0 million \$77.7 million is related to our investment in NHI.

Item 4. Controls and Procedures.

As of **September 30, 2023** **March 31, 2024**, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of **September 30, 2023** **March 31, 2024**.

During the period covered by this report, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

For a discussion of prior, current, and pending litigation of material significance to NHC, please see Note 17 16 of this Form 10-Q.

Item 1A. Risk Factors.

1A.

During the three months ended **September 30, 2023** **March 31, 2024**, there were no material changes to the risk factors that were disclosed in Item 1A of National HealthCare Corporation's Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Not applicable

Item 3. Defaults Upon Senior Securities.

None

Item 4. Mine Safety Disclosures.

Not applicable

Item 5. Other Information.

None

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Item 6. Exhibits.

(a) List of exhibits

EXHIBIT INDEX

Exhibit No.	Description
3.1	<u>Certificate of Incorporation of National HealthCare Corporation (Incorporated by reference to Exhibit 3.1 to the Registrant's registration statement on Form S-4 (File No. 333-37185) dated October 3, 1997.)</u>
3.2	<u>Certificate of Amendment to the Certificate of Incorporation of National HealthCare Corporation (Incorporated by reference to Exhibit 3.5 to the quarterly report on Form 10-Q filed on August 3, 2017.)</u>
3.3	<u>Certificate of Designation Series B Junior Participating Preferred Stock (Incorporated by reference to Exhibit 3.1 to the Registrant's registration statement on Form 8-A, dated August 3, 2007.)</u>
3.4	<u>Restated Bylaws as amended February 14, 2013 (Incorporated by reference to Exhibit 3.5 to the quarterly report on Form 10-Q filed on May 8, 2013.)</u>
4.1	<u>Form of Common Stock (Incorporated by reference to Exhibit 4.1 to the quarterly report on Form 10-Q filed on August 3, 2017.)</u>
10.1	<u>Amendment No. 9 to Master Agreement to Lease between National Health Investors, Inc. and National HealthCare Corporation (Incorporated by reference to Exhibit 10.1 to the quarterly report on Form 10-Q filed on November 3, 2022.)</u>
10.2	<u>Amendment No. 10 to Master Agreement to Lease between National Health Investors, Inc. and National HealthCare Corporation (Incorporated by reference to Exhibit 10.2 to the quarterly report on Form 10-Q filed on November 3, 2022.)</u>
31.1	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer</u>
31.2	<u>Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer</u>
32	<u>Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer and Chief Financial Officer</u>
101.INS	<u>Inline XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document)</u>
101.SCH	<u>Inline XBRL Taxonomy Extension Schema Document</u>
101.CAL	<u>Inline XBRL Taxonomy Extension Calculation Linkbase Document</u>
101.DEF	<u>Inline XBRL Taxonomy Extension Definition Linkbase Document</u>
101.LAB	<u>Inline XBRL Taxonomy Extension Label Linkbase Document</u>
101.PRE	<u>Inline XBRL Taxonomy Extension Presentation Linkbase Document</u>
104	<u>Cover Page Interactive File (embedded within the Inline XBRL document and include in Exhibit 101)</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL HEALTHCARE
CORPORATION
(Registrant)

Date: November /s/ Stephen F. Flatt
2, 2023 May 9,
2024

Stephen F. Flatt
Chief Executive Officer

Date: November /s/ Brian F. Kidd
2, 2023 May 9,
2024

Brian F. Kidd
Senior Vice President
and Chief Financial
Officer

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EXHIBIT 31.1

CERTIFICATION

I, Stephen F. Flatt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of National HealthCare Corporation;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- a. *Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;*
- b. *Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;*
- c. *Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and*
- d. *Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and*

5. *The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function);*

- a. *All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and*
- b. *Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.*

Date: November 2, 2023 May 9, 2024

/s/ Stephen F. Flatt

Stephen F. Flatt

Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, Brian F. Kidd, certify that:

1. *I have reviewed this quarterly report on Form 10-Q of National HealthCare Corporation;*
2. *Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;*

3. *Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;*

4. *The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:*
 - a. *Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;*

 - b. *Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;*

 - c. *Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and*

 - d. *Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and*

5. *The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):*
 - a. *All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and*

 - b. *Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.*

Date: November 2, 2023

May 9, 2024

/s/ Brian F. Kidd

Brian F. Kidd

Senior Vice President and Chief Financial Officer

Exhibit 32

*Certification of Quarterly Report on Form 10-Q
of National HealthCare Corporation
For the Quarter Ended September 30, 2023 March 31, 2024*

The undersigned hereby certify, pursuant to 18 U.S.C. Section 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned's best knowledge and belief, the Quarterly Report on Form 10-Q for National HealthCare Corporation ("Issuer") for the period ending **September 30, 2023****March 31, 2024** as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

(a) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

This Certification accompanies the Quarterly Report on Form 10-Q of the Issuer for the quarterly period ended **September 30, 2023****March 31, 2024**.

This Certification is executed as of **November 2, 2023****May 9, 2024**.

/s/Stephen F. Flatt

Stephen F. Flatt

Chief Executive Officer

/s/ Brian F. Kidd

Brian F. Kidd

Senior Vice President and Chief
Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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