

**TAX TREATMENT FOR FORMER NATIONAL HEALTH REALTY, INC.
SHAREHOLDERS RELATED TO THE MERGER**

In connection with the October 31, 2007 merger of National Health Realty, Inc. (“NHR”) with and into Davis Acquisition Sub LLC (an indirect wholly owned subsidiary of National HealthCare Corporation (“NHC”)), each NHR shareholder received a combination of cash and shares of NHC Series A Convertible Preferred Stock. The merger consideration received per NHR common share was as follows:

Record Date	Payable Date	Total Distribution	Box	
			8	9
			Cash Liquidation Distribution	Noncash Liquidation Distribution
3/30/2007	4/13/2007	.3325	.3325	--
6/29/2007	7/13/2007	.3325	.3325	--
9/28/2007	10/15/2007	.3325	.3325	--
10/23/2007	10/29/2007	.1400	.1400	--
10/31/2007	10/31/2007	9.000	9.0000	--
10/31/2007	10/31/2007	13.6600	--	13.66

The Noncash Liquidation Distribution consideration was in the form of NHC Series A Convertible Preferred Stock (calculated based on one (1) share of NHC Series A Convertible Preferred Stock with a fair market value of \$13.66 on October 31, 2007 received per share of NHR common stock).

The total of the amounts listed above, \$23.7975, (plus any cash received for fractional shares), will be treated by NHR as a liquidating distribution to each former NHR shareholder. Since the merger was treated as a taxable transaction, each former NHR shareholder should report a gain or loss for United States federal income tax purposes on the tendered NHR shares by netting the total consideration received (plus any cash received for fractional shares) against the underlying tax basis of each associated NHR share.

For United States federal income tax reporting purposes, the consideration detailed above has been reported to NHR shareholders as a liquidating distribution in boxes 8 and 9 of Internal Revenue Service Form 1099-DIV.

THIS SUMMARY IS FOR GENERAL INFORMATION ONLY, IS NOT TAX ADVICE AND IS NOT INTENDED TO CONSTITUTE A COMPLETE DESCRIPTION OF ALL TAX CONSEQUENCES RELATING TO THE MERGER. ALL FORMER NHR SHAREHOLDERS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISOR REGARDING THE PARTICULAR TAX CONSEQUENCES TO THEM (INCLUDING THE APPLICATION AND EFFECT OF ANY FEDERAL ESTATE AND GIFT, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS).