



Dear Shareholder,

In a routine announcement in the business section of a Nashville newspaper dated March 7, 1971, it was reported that Health Care, Inc. would transfer all its nursing homes and their liabilities to Dr. Carl Adams and associates for \$3 million payable over 15 years. Few people envisioned that 40 years later this transaction would develop into a company whose financial success is only exceeded by the quality of care and compassion delivered daily to our customers by over 12,000 dedicated partners.

As we approach our 40th anniversary, it is gratifying to reflect on the growth and accomplishments of NHC since our modest beginning in 1971. However, it is even more exciting to anticipate the future of our company thanks to the passion and skill of our partners, the support and encouragement of our communities, the vision and commitment of our senior management team and your trust in us as shareholders. As our theme for this year states, we are "Partners in Excellence".

In addition to the financial accomplishments outlined in this letter, we also had several development and growth accomplishments during 2010. In March we announced the opening of NHC Bluffton, a 120-bed skilled care and dementia center in Bluffton, South

NHC's financial success is only exceeded by the quality of care and compassion delivered daily to its customers by over 12,000 dedicated partners.

Carolina. This \$22.6 million project is located in one of the fastest growing senior population areas of the country and is located near the Del Webb development of Sun City/Hilton Head. That event was followed in April by the opening of The Palmettos of Mauldin, a 45-unit assisted living community in Mauldin, South Carolina near Greenville and adjacent to our 180-bed health care center.

Last year also saw the growth of our home care program with the purchase of three additional offices in South Carolina, bringing our total number of home care offices to 36. We finished the year with the purchase of two 120-bed health care centers in Missouri and the lease of a third 120-bed center in Missouri, all of which we had previously managed.

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, which represents significant changes to the current U.S. health care system. These laws affect providers of aging services, our partners and our patients and residents in a multitude of ways. We have evaluated the provisions of the Acts and will continue to do so. We do not expect material effects on our results of operations, liquidity or cash flows in 2011. We anticipate that many of the provisions of the Acts may be subject to further clarification and modification through the rule-making process.

Earnings and Financial Position

Our net income available to common shareholders was \$44,022,000 or \$3.22 per share basic for the year ended December 31, 2010, compared to \$31,376,000 or \$2.31 per share basic for the year ended December 31, 2009. Annual revenues in 2010 increased 7.1% from \$668,221,000 to \$715,504,000.

Our occupancy and census mix continue to be strong at our health care centers. In 2010 our occupancy remained consistent at 92%. Private pay and Medicare revenue accounted for 72% of our total revenue in 2010 compared to 71% in 2009.

Dividends

NHC increased its dividend by 7.69% in the second quarter of 2010. The current quarterly dividend is \$.28 per common share and \$.20 per preferred share. We will continue to evaluate dividends for appropriateness.

Future

NHC continues to evaluate expansion opportunities in all areas of senior care.

In 2011 we will complete construction on two assisted living projects, a 46-unit expansion in Brentwood, Tennessee and a new 75-unit facility in Columbia, South Carolina. We also expect to break ground on two additional health care centers by the end of the year.

As exciting as the financial growth and the service expansion is to our company, it is the daily contact with our customers that continues the mission of NHC that Dad envisioned 40 years ago. On the following pages you will see just a few of the comments that we received throughout the year. I trust you as a NHC shareholder are as proud of your company as I am.

Thank you for your continued trust and investment in NHC. We remain steadfast in our commitment to you our shareholders, to our partners, and most importantly, to the patients we care for each and every day.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert G. Adams". The signature is fluid and cursive, written over a light blue horizontal line.

Robert G. Adams
Chairman/CEO