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

FORM 10-K

CHECK ONE:

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

For the fiscal year ended December 31, 2019

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 No.: 1-12996

Diversicare Healthcare Services, Inc.

(exact name of registrant as specified in its charter)

Delaware	**62-1559667**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
1621 Galleria Boulevard, Brentwood, TN	**37027**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (615) 771-7575

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

Title of each class	**Name of each Exchange on which registered**
Common Stock, $0.01 par value per share	**OTCQX**

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☐ No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☑

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 shorter 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, a 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 ☐

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

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. ☐

The aggregate market value of Common Stock held by non-affiliates on June 30, 2019 (based on the closing price of such shares on the Nasdaq Capital Market) was approximately $16,647,000. For purposes of the foregoing calculation only, all directors, named executive officers and persons known to the registrant to be holders of 5% or more of the registrant's Common Stock have been deemed affiliates of the registrant.

On February 28, 2020, 6,676,054 shares of the registrant's $0.01 par value Common Stock were outstanding.

Documents Incorporated by Reference

Registrant's definitive proxy materials for its 2020 annual meeting of shareholders are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Form 10-K.

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PART 1

ITEM 1. BUSINESS

Introductory Summary.

Diversicare Healthcare Services, Inc. provides post-acute care services to skilled nursing facilities, referred to as "skilled nursing centers," "nursing centers," or "centers," patients and residents in nine states, primarily in the Southeast, Midwest, and Southwest United States. Unless the context indicates otherwise, references herein to “Diversicare,” “the Company,” “we,” “us” and “our” include Diversicare Healthcare Services, Inc. and all of our consolidated subsidiaries. Diversicare Healthcare Services, Inc. was incorporated as a Delaware corporation in 1994.

The post-acute care profession encompasses a broad range of non-institutional and institutional services. For those among the aging, infirmed, or disabled requiring temporary or limited special services, a variety of home care options exist. As the need for assistance with activities of daily living develop, assisted living centers become the most viable and cost effective option. For those amongst the aging, disabled, or infirmed requiring more extensive assistance and intensive care, skilled nursing center care may become the only viable option. We have chosen to focus our business primarily on the skilled nursing centers sector and to specialize in this aspect of the post-acute care continuum.

Principal Address and Website.

Our principal executive offices are located at 1621 Galleria Boulevard, Brentwood, Tennessee 37027. Our telephone number at that address is 615.771.7575, and our facsimile number is 615.771.7409. Our website is located at www.dvcr.com. The information on our website does not constitute part of this Annual Report on Form 10-K.

Operating and Growth Strategy.

Our operating objective is to optimize market position in the delivery of health care and related services to the patients and residents in need of post-acute care in the communities in which we operate. Our strategic operations development plan focuses on (i) providing a broad range of high quality, cost-effective post-acute care services; (ii) improving skilled mix in our nursing centers via enhanced capabilities for rehabilitation and transitional care; (iii) building clinical competencies and programs consistent with marketplace needs; and (iv) clustering our operations on a regional basis. Interwoven into our objectives and operating strategy is our mission:

- Improve Every Life We Touch
- Provide Exceptional Healthcare
- Exceed Expectations
- Increase Shareholder Value

Strategic operating initiatives. Our key strategic operating initiatives include improving skilled mix in our nursing centers by enhancing our staffing complement to address the increased medical complexity of certain patients, increasing clinical competencies, and adding clinical programs. Our investments in nursing and clinical care have been implemented in concert with additional investments in nursing center-based sales representatives to cultivate referral and Managed Care relationships. These investments have positioned us and are expected to continue to position us to be a destination for patients covered by Medicare and Managed Care as well as certain private pay individuals. These enhancements and investments have positioned us to admit higher acuity patients.

To achieve our objectives, we:

Provide a broad range of quality cost-effective services. Our objective is to provide a variety of services to meet the needs of the increasing post-acute care population requiring skilled nursing and rehabilitation care. Our service offerings currently include skilled nursing, comprehensive rehabilitation services, programming for Life Steps and Memory Care units (described below) and other specialty programming. By addressing varying levels of acuity, we work to meet the needs of the population we serve. We seek to establish a reputation as the provider of choice in each of our markets. Furthermore, we believe we are able to deliver quality services cost-effectively, compared to other healthcare providers along the spectrum of care, thereby expanding the population base that can benefit from our services.

Improve skilled mix in our nursing centers. By enhancing our registered nurse coverage and adding specialized clinical care, we believe we can admit patients with more medically complex conditions, thereby improving skilled mix and reimbursement. The investments in nursing and clinical care are being conducted in concert with additional investments in nursing center-based sales representatives to develop referral and Managed Care relationships. These investments will better attract quality payor sources for patients covered by Medicare, Managed Care and Medicare replacement payors as well as certain private

pay individuals. We will also continue our program for the renovation and improvement of our nursing centers to attract and retain patients and residents.

Cluster operations on a regional basis. We have developed regional concentrations of operations in order to achieve operating efficiencies, generate economies of scale and capitalize on marketing opportunities created by having multiple operations in a regional market area.

Key elements of our strategy are to:

Increase revenues and profitability at existing nursing centers. Our strategy includes increasing center revenues and profitability through improving payor mix, providing an increasing level of higher acuity care, obtaining appropriate reimbursement for the care we provide, and providing high quality patient care. Ongoing investments are being made in expanded nursing and clinical care. We continue to enhance center-based marketing initiatives to promote higher occupancy levels and improved skilled mix at our nursing centers.

Development of additional specialty services. Our strategy includes the development of additional specialty units and programming in nursing centers that could benefit from these services. The specialty programming will vary depending on the needs of the specific market, and may include complex medical and rehabilitation services, as well as memory care units and other specialty programming. These services allow our centers to meet market needs while improving census and payor mix. A center specific assessment of the market and the current programming being offered is conducted related to specialty programming to determine if unmet needs exist as a predictor of the success of particular niche offerings and services.

Strategic management of our portfolio of centers. We continue to pursue and investigate opportunities to acquire and lease new centers, focusing primarily on opportunities that can leverage our existing infrastructure. We routinely evaluate the performance of our existing centers within the markets in which we operate in order to determine whether continuing operations within certain centers or markets aligns with our strategic objectives.

Nursing Centers and Services.

Diversicare provides a broad range of post-acute care services to patients and residents including skilled nursing, ancillary health care services and assisted living. In addition to the nursing and social services usually provided in long-term care centers, we offer a variety of rehabilitative, nutritional, respiratory, and other specialized ancillary services. As of December 31, 2019, our continuing operations consist of 62 nursing centers with 7,329 licensed skilled nursing beds. Our nursing centers range in size from 50 to 320 licensed nursing beds. The licensed nursing bed count does not include 397 licensed assisted living beds. Our continuing operations include centers in Alabama, Florida, Indiana, Kansas, Mississippi, Missouri, Ohio, Tennessee, and Texas.

The following table summarizes certain information with respect to the nursing centers we own or lease as of December 31, 2019:

	Number of Centers	Licensed Nursing Beds [1]	Available Nursing Beds [1]
Operating Locations:			
Alabama	20	2,385	2,318
Florida	1	79	79
Indiana	1	158	158
Kansas	6	464	464
Mississippi	9	1,039	1,004
Missouri	3	339	339
Ohio	4	403	393
Tennessee	5	617	551
Texas	13	1,845	1,662
	62	7,329	6,968
Classification:			
Owned	15	1,365	1,250
Leased	47	5,964	5,718
Total	62	7,329	6,968

(1) The number of Licensed Nursing Beds is based on the regulatory licenses for the nursing center. The Company reports its occupancy based on licensed nursing beds. The number of Available Nursing Beds represents Licensed Nursing Beds reduced by beds removed from service. Available Nursing Beds is subject to change based upon the needs of the centers, including configuration of patient rooms, common usage areas and offices, status of beds (private, semi-private, ward, etc.) and renovations. The number of Licensed and Available Nursing Beds does not include 397 Licensed Assisted Living/Residential Beds, all of which are also available. These beds are excluded from the bed counts as our operating statistics such as occupancy are calculated using Nursing Beds only.

Our nursing centers provide skilled nursing health care services, including nutrition services, recreational therapy, social services, housekeeping and laundry services. Skilled nursing care is provided for post-acute patients and residents with comorbidities. This care includes assessment using evidence based tools; individualized care plan development based on identified areas of risk and care needs; and skilled interventions such as IV services. We also provide for the delivery of ancillary medical services at the nursing centers we operate. These specialty services include rehabilitation therapy services, such as audiology, speech, occupational and physical therapies, which are provided through licensed therapists and registered nurses, and the provision of medical supplies, nutritional support, infusion therapies and related clinical services. The majority of these services are provided using our internal resources and clinicians.

Within the framework of a nursing center, we may provide other specialty care, including:

Transitional Care Unit. Many of our nursing centers have units designated as transitional care units, our designation for patients requiring transitional care following an acute stay in the hospital. These units specialize in short-term nursing and rehabilitation with the goal of returning the patient to their highest potential level of functionality. These units provide enhanced services with emphasis on upgraded amenities. The design and programming of the units generally appeal to the clinical and hospitality needs of individuals as they progress to the next appropriate level of care. Specialized therapeutic treatment regimens include orthopedic rehabilitation, neurological rehabilitation and complex medical rehabilitation. While these patients generally have a shorter length of stay, the intensive level of nursing and rehabilitation required by these patients typically results in higher levels of reimbursement.

Memory Care Unit. Like our transitional care units, many of our nursing centers have memory care units, our designation for advanced care for dementia-related disorders including Alzheimer's disease. The goal of the units is to provide a safe, homelike and supportive environment for cognitively impaired patients, utilizing an interdisciplinary team approach. Family and community involvement complement structured programming in the secure environment, which is instrumental in fostering as much resident independence and purposeful quality of life as long as possible despite diminished capacity.

Enhanced Therapy Services. We have complemented our traditional therapy services with programs that provide electrotherapy, vital stimulation, ultrasound and shortwave diathermy therapy treatments that promote pain management, wound healing,

muscle strengthening, and/or contractures management, improving outcomes for our patients and residents receiving therapy treatments.

Other Specialty Programming. We implement other specialty programming based on a center's specific needs. We have developed specialty programming for bariatric patients (generally, patients weighing more than 350 pounds) as these individuals have unique psychosocial and equipment needs.

Quality Assurance and Performance Improvement. We have in place a Quality Assurance and Performance Improvement ("QAPI") program, which is focused on monitoring and improving all aspects of the care provided in a center by identifying outcomes and acting on areas of improvement. The QAPI program in our centers addresses all systems of care and management practices. Key quality indicators are determined and performance goals and benchmarks are established based on industry research standards via a Balanced Scorecard. Gaps and opportunities in performance versus benchmarks are addressed with analysis and performance improvement plans. Outcomes from each center in the areas of quality, employee workplace, customer satisfaction, and stewardship are collected monthly and overseen by regional and company quality committees.

Utilization of Electronic Medical Records. Electronic Medical Records ("EMR") improves our ability to accurately record the care provided to our patients and quickly respond to areas of need. All of our nursing centers utilize EMR to improve Medicaid acuity capture, primarily in our states where the Medicaid payments are acuity based. By using EMR, we have increased our average Medicaid rate despite rate cuts in certain acuity based states by accurate and timely capture of care delivery. We believe the EMR system provides better support, efficiency, and improves the quality of care for our patients.

***Organization*.** Our nursing centers are currently organized into seven regions, each of which is supervised by a regional vice president. The regional vice president is generally supported by specialists in several functions, including clinical, human resources, marketing, revenue cycle management and administration, all of whom are employed by us. The day-to-day operations of each of our nursing centers are led by an on-site, licensed administrator. The administrator of each nursing center is supported by other professional personnel, including a medical director, who assists in the medical management of the nursing center, and a director of nursing, who supervises a team of registered nurses, licensed practical nurses and nurse aides. Other personnel include those providing therapy, dietary, activities and social service, housekeeping, laundry, maintenance and office services. The majority of personnel at our nursing centers, including the administrators, are our employees.

Marketing.

We believe that skilled nursing care is fundamentally a local business in which both patients and their referral sources are typically based in the immediate geographic area in which the nursing center is located. Our marketing plan and related support activities emphasize the role and contributions of the administrators, admissions coordinators and clinical liaisons of each nursing center, all of whom are responsible for developing relationships with various referral sources such as doctors, hospitals, hospital case managers and discharge planners, and various healthcare and community organizations. Training, sales tools and job aids are provided for the sales and marketing teams for the product knowledge, market knowledge, and selling skills necessary to support their efforts in the field. As part of our business strategy, we have dedicated sales and marketing personnel who develop strong partnerships with physicians and hospital executives as well as Accountable Care Organizations ("ACO"), Bundled Payments for Care Improvement ("BPCI"), and Managed Care organizations. We believe these relationships will be mutually beneficial, providing the community with high quality healthcare while helping customers to navigate choices, manage transitions, and control costs.

At the local level, our sales and marketing efforts are designed to:

- Identify and develop strong healthcare partnerships
- Help facilitate smooth transitions between care settings
- Promote collaboration with ACOs, BPCIs, and healthcare organizations
- Educate referral sources and community on our key differentiators and capabilities
- Position ourselves as a valuable resource and healthcare partner
- Enhance the customer experience
- Contribute to a strong community presence
- Promote higher occupancy levels
- Foster optimal payor mix

In addition to soliciting admissions from current and potential referral sources, we emphasize involvement in community and healthcare events and opportunities to promote a public awareness of our nursing centers and services. Activities include ongoing family councils and community based "family night" functions, providing the opportunity to educate the public on various topics such as Medicare benefits, powers of attorney, and other topics of interest. We also promote a positive customer experience, best

practices, strong surveys, and a high Star Rating; we seek feedback through third-party resident and family surveys. We host tour and “open house” opportunities, where members of the local community are invited to visit the center to see any improvements or to better understand our environment and services. We look for ways to offer increased clinical capabilities and services to better meet the needs of the community and referral sources. In addition, we have regional oversight to support the overall marketing strategies in each local center, in order to promote higher occupancy levels and improved payor and case mixes at our nursing centers. We offer the resources and metrics for strong healthcare partnerships with our referral sources, including ACOs and other Managed Care partners. Our support center marketing personnel support regional and local marketing personnel and efforts.

We have monthly marketing programs and ongoing marketing initiatives, developed internally, that focus on educating and meeting the needs of our customers while growing our business. Resources are also available to assist each nursing center administrator in analysis of local demographics and competition with a view toward complementary service development. We consider the primary referral area in long-term care to generally lie within a five-to-fifteen-mile radius of each nursing center depending on population density; consequently, we focus on local marketing efforts rather than broad-based advertising.

Significant Transactions.

Disposals

On December 1, 2018, the Company completed the sale of the assets and transfer of the operations of Diversicare of Fulton, LLC, Diversicare of Clinton, LLC and Diversicare of Glasgow, LLC (the “Kentucky Properties”) to Fulton Nursing and Rehabilitation LLC, Holiday Fulton Propco LLC, Birchwood Nursing and Rehabilitation LLC, Padgett Clinton Propco LLC, Westwood Nursing and Rehabilitation LLC, and Westwood Glasgow Propco for a purchase price of $18.7 million, On August 30, 2019, the Company terminated operations of ten centers in Kentucky and concurrently transferred operations to a new operator. These ten centers are collectively referred to as the "Kentucky Centers." The sale of the Kentucky Properties and the termination of operations at the Kentucky Centers are referred to collectively as the "Kentucky Exit." As a result of the Kentucky Exit, the Company no longer operates any skilled nursing centers in the State of Kentucky. The Kentucky Exit represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results. In accordance with Accounting Standards Codification ("ASC") 205-40, *Presentation of Financial Statements- Discontinued Operations*, the Company's discontinued operating results have been reclassified on the face of the financial statements and the footnotes to reflect the discontinued status of these operations. Refer to Note 3, "Discontinued Operations" to the consolidated financial statements.

Lease Agreements

On October 1, 2018, the Company entered into a new Master Lease Agreement (the "Lease") with Omega Healthcare Investors (the "Lessor") to lease 34 centers currently owned by Omega and operated by Diversicare. The old Master Lease with Omega provided for its operation of 23 skilled nursing centers in Texas, Kentucky, Alabama, Tennessee, Florida, and Ohio. Additionally, Diversicare operated 11 centers owned by Omega under separate leases in Missouri, Kentucky, Indiana, and Ohio. The Lease entered into by Diversicare and Omega consolidated the leases for all 34 centers under one new Maser Lease. The Lease was subsequently amended on August 30, 2019 when the Company terminated operations of the Kentucky Centers and concurrently transferred operations to a new operator. The agreement effectively amended the Lease with the Lessor to remove the ten Kentucky facilities, reduce the annual rent expense, and release the Company from any further obligations arising under the Master Lease Agreement with respect to the Kentucky facilities. The remaining Lease terms remain unchanged with an initial term of twelve years and two optional 10-year extensions. The annual lease fixed escalator remains at 2.15% which began on October 1, 2019.

Nursing Center Industry.

We believe there are a number of significant trends within the post-acute care industry that will support the continued growth of the nursing center profession. These trends are also likely to impact our business. These factors include:

Demographic trends. The primary market for our post-acute health care services is comprised of persons aged 75 and older. This age group is one of the fastest growing segments of the United States population. As the number of persons aged 75 and over continues to grow, we believe that there will be corresponding increases in the number of persons who need skilled nursing care.

Cost containment pressures. In response to rapidly rising health care costs, governmental and other third-party payors have adopted cost-containment measures to reduce admissions and encourage reduced lengths of stays in hospitals and other acute care settings. As a result, hospitals are discharging patients earlier and referring elderly patients, who may be too sick or frail to manage their lives without assistance, to nursing centers where the cost of providing care is typically lower than hospital care.

Limited supply of centers. As the nation's population of seniors continues to grow and life expectancy continues to expand, there continues to be limitations on granting Certificates of Need (“CON”) in most states for new skilled nursing centers. We believe that there will be continued demand for skilled nursing beds in the markets in which we operate. CON laws generally require a state agency to determine public need for any construction or expansion of healthcare facilities. We believe that the CON process tends to restrict the supply and availability of licensed skilled nursing center beds. High construction costs, limitations on state and federal government reimbursement for the full costs of construction, and start-up expenses also act to restrict growth in the supply for such centers.

Reduced reliance on family care. Historically, the family has been the primary provider of care for seniors. We believe that the increase in the percentage of dual income families, the reduction of average family size and the increased mobility in society will reduce the role of the family as the traditional care-giver for aging parents. We believe that this trend will make it necessary for many seniors to look outside the family for assistance as they age.

Competition.

The post-acute care business is highly competitive. We face direct competition for additional centers, and our centers face competition for employees and patients. Some of our present and potential competitors for acquisitions are significantly larger and have or may obtain greater financial and marketing resources. Competing companies may offer new or more modern centers or new or different services that may be more attractive to patients than some of the services we offer.

The nursing centers operated by us compete with other centers in their respective markets, including rehabilitation hospitals and other skilled and personal care residential centers. In the few urban markets in which we operate, some of the long-term care providers with which our centers compete are significantly larger and have or may obtain greater financial and marketing resources than our centers. Some of these providers are not-for-profit organizations with access to sources of funds not available to our centers. Construction of new long-term care centers near our existing centers could adversely affect our business. We believe that the most important competitive factors in the long-term care business are: a nursing center's local reputation with referral sources, such as acute care hospitals, physicians, religious groups, other community organizations, Managed Care organizations, and a patient's family and friends; physical plant condition; the ability to identify and meet particular care needs in the community; the availability of qualified personnel to provide the requisite care; and the rates charged for services. There is limited, if any, price competition with respect to Medicaid and Medicare patients, since revenues for services to such patients are strictly controlled and are based on fixed rates and cost reimbursement principles. Although the degree of success with which our centers compete varies from location to location, we believe that our centers generally compete effectively with respect to these factors.

Revenue Sources

We classify our revenues earned from patients and residents into four major categories: Medicaid, Medicare, managed care, and private pay and other. Medicaid revenues are those received under the traditional Medicaid program, which provides benefits to those in need of financial assistance in the securing of medical services. Medicare revenues include revenues received under both Part A and Part B. Managed Care revenues are received from insurance entities, including third-party plans that administer Medicare benefits, known as Medicare Advantage plans. Private pay and other revenues are composed primarily of individuals or parties who directly pay for their services. Included in the private pay and other category are patients who are hospice beneficiaries as well as the recipients of Veterans Administration benefits. Veterans Administration payments are made pursuant to renewable contracts negotiated with these payors.

The following table set forth net patient revenues related to our continuing operations by payor source for the periods presented (dollar amounts in thousands): The amounts as reported for revenue in 2019 and 2018 differ from the method of accounting in prior years due to the implementation of ASC 606, *Revenues From Contracts with Customers*, the new revenue recognition standard. Refer to Note 4, "Revenue Recognition and Receivables" to the consolidated financial statements.

	Year Ended December 31,					
	2019		2018		2017	
	As reported		As reported		As reported	
Medicaid	$ 222,560	46.9%	$ 215,924	45.4%	$ 249,204	51.6%
Medicare	80,798	17.0%	84,959	17.8%	122,043	25.3%
Managed Care	50,323	10.6%	48,879	10.3%	39,162	8.1%
Private Pay and other	121,339	25.5%	126,360	26.5%	72,402	15.0%
Total	$ 475,020	100.0%	$ 476,122	100.0%	$ 482,811	100.0%

The following table sets forth average daily skilled nursing census, or average number of patients per day, by payor source for our continuing operations for the periods presented:

	Year Ended December 31,					
	2019		2018		2017	
Medicaid	3,912	68.9%	3,909	68.3%	3,954	68.4%
Medicare	529	9.3%	596	10.4%	630	10.9%
Managed Care	264	4.6%	257	4.5%	246	4.3%
Private Pay and other	973	17.2%	961	16.8%	954	16.4%
Total	5,678	100.0%	5,723	100.0%	5,784	100.0%

Consistent with the nursing center industry in general, changes in the mix of a center's patient population among Medicaid, Medicare, Managed Care, and private pay and other can significantly affect the profitability of the center's operations. However, private payors, including managed care payors, are increasingly demanding that providers accept discounted fees or assume all or a portion of the financial risk for the delivery of health care services. Such measures may include capitated payments, which can result in significant losses to health care providers if patients require expensive treatment not adequately covered by the capitated rate.

Medicare and Medicaid Reimbursement

A significant portion of our revenues are derived from government-sponsored health insurance programs, primarily Medicare and Medicaid. We employ third-party specialists in reimbursement and also use these services to monitor regulatory developments to comply with reporting requirements and to ensure that proper payments are made to our operated nursing centers.

Medicare

Medicare is a federally-funded and administered health insurance program for the aged and for certain chronically disabled individuals. Part A of the Medicare program covers certain services furnished by skilled nursing centers and other institutional providers and inpatient hospital services. Part B covers physician services, durable medical equipment, various outpatient services and certain ancillary services. Under the Managed Medicare program, also known as Medicare Part C, or Medicare Advantage, the federal government contracts with private health insurers to provide members with Medicare benefits. The plans may choose to offer supplemental benefits and impose higher premiums and cost-sharing obligations. An executive order issued in October 2019 seeks to accelerate the shift away from traditional fee-for-service Medicare to Managed Medicare plans.

Skilled nursing facilities. Medicare generally covers skilled nursing center services for beneficiaries who require nursing care or rehabilitation services after a qualifying hospital stay. Medicare pays a per diem rate for each beneficiary, adjusted for patient acuity and additional factors such as geographic differences in wage rates. The payment rates are set forth under a prospective payment system that uses nursing and therapy indexes to assign a payment rate to each beneficiary. The Centers for Medicare & Medicaid Services (“CMS”) updates the rates annually. The payment rates cover all services to be provided to a beneficiary, including room and board, skilled nursing care, therapy, and medications.

In a final rule issued in July 2019, CMS set forth Medicare payment rates for skilled nursing facilities (“SNFs”) for federal fiscal year 2020, estimating 2.4% increase in overall payments. This is based on a SNF market basket percentage increase of 2.8% with

a negative 0.4 percentage point productivity adjustment. Effective October 1, 2019, CMS replaced the Resource Utilization Group ("RUG-IV") case-mix classification system with the Patient-Driven Payment Model ("PDPM"). The PDPM classifies residents in Medicare Part A-covered stays into payment groups based on clinically relevant factors using diagnosis codes, rather than by the volume of services. CMS has stated that it does not intend for the new model to change the aggregate amount of Medicare payments to SNFs. Rather, it intends the new model to more accurately reflect resource utilization.

The payment rates described above are reduced pursuant to ongoing sequestration. The Budget Control Act of 2011 ("BCA") requires automatic spending reductions to reduce the federal deficit, including Medicare spending reductions of up to 2% per fiscal year, with a uniform percentage reduction across all Medicare programs. CMS began imposing a 2% reduction on Medicare claims in April 2013, and these reductions have been extended through 2029.

CMS has implemented policies intended to shift Medicare to value-based payment methodologies, tying reimbursement to quality of care rather than quantity. For example, under the Quality Reporting Program, skilled nursing centers are required to report quality data to CMS or be subject to a 2% reduction to the annual market basket update. Beginning in federal fiscal year 2019, the Skilled Nursing Facility Value-Based Purchasing ("SNF VBP") Program makes incentive payments available to skilled nursing centers based on their past performance on a specified quality measure related to hospital readmissions. CMS funds the SNF VPB Program incentive payment pool by withholding 2% of skilled nursing center payments and then redistributing some of the withheld payments. Data collected from each performance period will affect Medicare payments two years later.

CMS publishes rankings based on performance scores on the Nursing Home Compare website, which is intended to assist the public in finding and comparing skilled care providers. The Nursing Home Compare website also publishes for each nursing home a rating between 1 and 5 stars as part of CMS's Five-Star Quality Rating System. An overall star rating is determined based on three components (information from the last three years of health inspections, staffing information, and quality measures), each of which also has its own five-star rating. The ratings are based, in part, on the quality data nursing centers are required to report. For example, nursing centers must report the rate of short-stay residents who are successfully discharged into the community and the percentage who had an outpatient emergency department visit. We remain diligent in continuing to provide outstanding patient care to achieve high rankings for our centers, as well as assuring that our rankings are correct and appropriately reflect our quality results.

Therapy Services. Reimbursement for physical therapy, occupational therapy, and speech-language pathology services covered under Medicare Part B is determined according to the Medicare Physician Fee Schedule ("MPFS"), which is updated annually. For 2020, CMS updated the conversion factor based on a budget neutrality adjustment of 0.14%. If a beneficiary receives multiple therapy treatments in one day, Medicare Part B pays the full rate for the therapy unit of service that has the highest Practice Expense ("PE") component. A multiple procedure payment reduction is applied to the second and subsequent therapy units, reducing reimbursement to 50% of the applicable PE component. Targeted medical reviews are performed when expenses for a beneficiary exceed a threshold of $3,000 for physical and speech therapy services combined or $3,000 for occupational therapy services alone. Deductible and coinsurance amounts paid by the beneficiary for therapy services count toward the amount applied to the limit. Claims above the threshold may be subject to post-payment review of medical necessity documentation by Supplemental Medical Review Contractors.

CMS has implemented value-based programs that affect Medicare payments for physician and other clinician services. Under the Quality Payment Program ("QPP"), a payment methodology intended to reward high-quality patient care, physicians and certain other clinicians, including therapists, are required to participate in one of two QPP tracks. Under both tracks, performance data collected in each performance year will affect Medicare payments two years later. The Advanced Alternative Payment Model ("Advanced APM") track makes incentive payments available for participation in specific innovative payment models approved by CMS. A provider with sufficient participation in an Advanced APM is exempt from the reporting requirements and payment adjustments imposed under the second track, the Merit-Based Incentive Payment System ("MIPS"). Providers electing to participate in MIPS receive either payment incentives or are subject to payment reductions based on their performance with respect to clinical quality, resource use, clinical improvement activities, and meaningful use of electronic health records. MIPS consolidates components of previously established incentive programs, including the Value-Based Payment Modifier program and the Physician Quality Reporting System.

Medicaid

Medicaid is a medical assistance program for the indigent that is funded jointly by the federal and state governments and administered by the states. Federal law requires states to cover certain nursing center services for Medicaid-eligible individuals when other payment options are unavailable. However, Medicaid eligibility requirements and benefits vary by state, and states may impose limitations on nursing services. States may also establish levels of service or payment methodologies by acuity or specialization of a nursing center.

The Affordable Care Act requires states to expand Medicaid coverage by adjusting eligibility requirements such as income thresholds. However, the Presidential administration and certain members of Congress continue to attempt to repeal or significantly

modify the Affordable Care Act, which may result in changes to Medicaid. Further, states may opt out of the Medicaid expansion. 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. CMS administrators have indicated that they intend to increase state flexibility in the administration of Medicaid programs.

Medicaid reimbursement is often less than a skilled nursing center's cost of caring for patients. Some states make supplemental payments to Medicaid providers beyond the base payment for specific claims. Upper payment level ("UPL") supplemental payments are intended to address the difference between Medicaid fee-for-service payments and Medicare reimbursement rates. CMS has made and is considering making changes affecting supplemental payments. The Company receives supplemental payments, including through Indiana's UPL program, which provides supplemental Medicaid payments for skilled nursing centers that are licensed to non-state government entities such as county hospital districts. One skilled nursing center previously operated by the Company entered into a transaction with one such hospital district participating in the UPL program, providing for the transfer of the license from the Company to the hospital district. The Company's operating subsidiary retained the management of the center on behalf of the hospital district. The agreement between the hospital district and the Company is terminable by either party.

We receive the majority of our annual Medicaid rate increases during the third quarter of each year. The rate changes received in 2019 and 2018, along with increased Medicaid acuity in our acuity based states, were the primary contributor to our 1.4% increase in average rate per day for Medicaid patients in 2019 compared to 2018. Based on the rate changes received during the third quarter of 2019, we expect a favorable impact to our rate per day for Medicaid patients as we move into 2020 due to modest rate increases in many of the states in which we operate.

Several states in which we operate face budget shortfalls, which could result in reductions in Medicaid funding for nursing centers. Pressures on state budgets are expected to continue in the future. Certain of the states in which we operate are actively seeking ways to reduce Medicaid spending for nursing center care by such methods as capitated payments and substantial reductions in reimbursement rates. In addition, enrollment in managed Medicaid plans has increased in recent years as states seek to manage costs, utilization, and quality. Managed Medicaid programs enable states to contract with private entities for the delivery of Medicaid health benefits and to handle program responsibilities like care management and claims adjudication. Some states and managed care plans are promoting alternatives to nursing center care, such as community and home-based services.

Legislation and administrative actions at the federal and state levels may significantly alter the funding for, or structure of, Medicaid programs. CMS administrators have also signaled interest in changing Medicaid payment models, including through increased use of value-based care models. We are unable to predict what, if any, reform proposals or reimbursement limitations will be implemented in the future, or the effect such changes would have on our operations. For the year ended December 31, 2019, we derived 17.0% and 46.9% of our total patient revenues related to continuing operations from the Medicare and Medicaid programs, respectively. Any health care reforms that significantly limit rates of reimbursement under these programs could, therefore, have a material adverse effect on our financial position and profitability.

Employees.

As of February 18, 2020, we employed approximately 6,800 employees, referred to as "team members," in connection with our continuing operations, approximately 4,900 of which are considered full-time team members. Approximately 700 of our team members are represented by a labor union.

Although we believe we are able to employ sufficient nurses and therapists to provide our services, a shortage of health care professional personnel in any of the geographic areas in which we operate could affect our ability to recruit and retain qualified team members and could increase our operating costs. We compete with other health care providers for both professional and non-professional team members and with non-health care providers for non-professional team members. This competition continues to contribute to a consistent increase in the salaries that we have to pay to hire and retain these team members. As is common in the health care industry, we expect the salary and wage increases for our skilled healthcare providers will continue to be higher than average salary and wage increases nationally.

Supplies and Equipment.

We purchase drugs, solutions and other materials and lease certain equipment required in connection with our business from many suppliers. We have not experienced, and do not anticipate that we will experience, any significant difficulty in purchasing supplies or leasing equipment from current suppliers. In the event that such suppliers are unable or fail to sell us supplies or lease equipment, we believe that other suppliers are available to adequately meet our needs at comparable prices. National purchasing contracts are in place for all major supplies, such as food, linens and medical supplies. These contracts assist in maintaining quality, consistency and efficient pricing. Based on contract pricing for food and other supplies, we expect cost increases in 2020 to be relatively the same or slightly lower than the increases we experienced in 2019.

Government Regulation.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, quality of patient care and Medicare and Medicaid fraud and abuse. Over the last several years, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of a number of statutes and regulations, including those regulating fraud and abuse, false claims, patient privacy and quality of care issues. Violations of these laws and regulations could result in exclusion from government health care programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations is subject to ongoing government review and interpretation, as well as regulatory actions in which government agencies seek to impose fines and penalties. The Company is involved in regulatory actions of this type from time to time.

Licensure and Certification.

All our nursing centers must be licensed by the state in which they are located in order to accept patients, regardless of payor source. In most states, nursing centers are subject to Certificate of Need ("CON") laws, which require us to obtain government approval for the construction of new nursing centers or the addition of new licensed beds to existing centers. Our nursing centers must comply with detailed statutory and regulatory requirements on an ongoing basis in order to qualify for licensure, as well as for certification as a provider eligible to receive payments from the Medicare and Medicaid programs. Generally, the requirements for licensure and Medicare/Medicaid certification are similar and relate to quality and adequacy of personnel, quality of medical care, record keeping, dietary services, patient rights, and the physical condition of the nursing center and the adequacy of the equipment used therein. Failure to comply with applicable laws and regulations could result in exclusion from the Medicare and Medicaid programs, which could have an adverse impact on our business, financial condition, or results of operations.

In 2016, CMS published a comprehensive update to the health and safety standards applicable to long-term care facilities participating in the Medicare or Medicaid programs. These revisions are aimed at improving quality of life, care and services in long-term care facilities, optimizing resident safety, and reflecting current professional standards. For example, CMS added requirements related to infection prevention and control, compliance and ethics programs, staff training, and QAPI. We believe we have achieved substantial compliance with the requirements now existing and will achieve substantial compliance prior to the deadline for certain aspects of the program. In April 2019, CMS announced a comprehensive overview of regulations, guidelines, and processes related to safety and quality in nursing homes, including plans to enhance enforcement efforts and increase transparency through the Nursing Home Compare website. It is unclear how related initiatives will affect our operations.

Each center is subject to periodic inspections, known as “surveys” by health care regulators, to determine compliance with all applicable licensure and certification standards. Such requirements are both subjective and subject to change. If a survey concludes that there are deficiencies in compliance, the center will be subject to various sanctions, including but not limited to monetary fines and penalties, suspension of new admissions, non-payment for new admissions and loss of licensure or certification. Generally, however, once a center receives written notice of any compliance deficiencies, it may submit a written plan of correction and is given a reasonable opportunity to correct the deficiencies. There can be no assurance that, in the future, we will be able to maintain such licenses and certifications for our centers or that we will not be required to expend significant sums in order to comply with regulatory requirements.

Health care and health insurance reform.

In recent years, the U.S. Congress and some state legislatures have considered and enacted significant legislation concerning health care and health insurance. The most prominent of these efforts, the Affordable Care Act, affects how health care services are covered, delivered and reimbursed. The Affordable Care Act expands coverage through a combination of public program expansion and private sector reforms, provides for reduced growth in Medicare program spending, and promotes initiatives that tie reimbursement to quality and care coordination. Some of the provisions, such as the requirement that large employers provide health insurance benefits to full-time employees, have increased our operating expenses. The Affordable Care Act expands the role of home-based and community services, which may place downward pressure on our sustaining population of Medicaid patients. Reforms that we believe may have a material impact on the long-term care industry and on our business include, among others, possible modifications to the conditions of qualification for payment, bundling of payments to cover both acute and post-acute care and the imposition of enrollment limitations on new providers. However, there is considerable uncertainty regarding the future of the Affordable Care Act. The Presidential administration and certain members of Congress have made significant changes to the law, its implementation or its interpretation. For example, final rules issued in 2018 expand the availability of association health plans and allow the sale of short-term, limited-duration health plans, neither of which are required to cover all of the essential health benefits mandated by the Affordable Care Act. In addition, effective January 1, 2019, Congress eliminated the financial penalty associated with the individual mandate. As a result of this change, a federal judge in Texas ruled in December 2018 that the individual mandate was unconstitutional and determined that the rest of the Affordable Care Act was, therefore,

invalid. In December 2019, the Fifth Circuit Court of Appeals upheld this decision with respect to the individual mandate, but remanded for further consideration of how this affects the rest of the law. The law remains in place pending appeal.

Skilled nursing centers are required to bill Medicare on a consolidated basis for certain items and services that they furnish to patients, regardless of the cost to deliver these services. This consolidated billing requirement essentially makes the skilled nursing center responsible for billing Medicare for all care services delivered to the patient during the length of stay. CMS has instituted a number of test programs designed to extend the reimbursement and financial responsibilities under consolidated billing beyond the traditional discharge date to include a broader set of bundled services. Such examples may include, but are not exclusive to, home health, durable medical equipment, home and community based services, and the cost of re-hospitalizations during a specified bundled period. Currently, these test programs for bundled reimbursement are confined to a small set of clinical conditions, but CMS has indicated that it is developing additional bundled payment models. This bundled form of reimbursement could be extended to a broader range of diagnosis related conditions in the future. The potential impact on skilled nursing center utilization and reimbursement is currently unknown. The process for defining bundled services has not been fully determined by CMS and therefore is subject to change during the rule making process. CMS has indicated that it is working toward a unified payment system for post-acute care services, including those provided by skilled nursing centers.

Health Insurance Portability and Accountability Act of 1996 and Privacy and Security Requirements.

The Health Insurance Portability and Accountability Act of 1996 (“HIPAA”) has mandated an extensive set of regulations to standardize electronic patient health, administrative and financial data transactions and to protect the privacy and security of individually identifiable health information (“protected health information”). We have a HIPAA compliance committee and designated privacy and security officers.

The HIPAA transaction standards are intended to simplify the electronic claims process and other healthcare transactions by encouraging electronic transmission rather than paper submission. These regulations provide for uniform standards for data reporting, formatting and coding that we must use in certain transactions with health plans. The HIPAA security regulations establish requirements for safeguarding protected health information that is electronically transmitted or electronically stored. Some of the security regulations are technical in nature, while others are addressed through policies and procedures.

The HIPAA privacy regulations establish limits on the use and disclosure of protected health information, provide for patients' rights, including rights to access, to request amendment of, and to receive an accounting of certain disclosures of protected health information, and require certain safeguards for protected health information. In addition, each covered entity must contractually bind individuals and entities that furnish services to the covered entity or perform a function on its behalf, and to which the covered entity discloses protected health information, to restrictions on the use and disclosure of that protected health information. Covered entities must report breaches of unsecured protected health information to affected individuals without unreasonable delay, but not to exceed 60 calendar days from the discovery of the breach. Notification must also be made to the Department of Health and Human Services and, in certain cases involving large breaches, to the media.

There are numerous other laws and legislative and regulatory initiatives at the federal and state levels addressing privacy and security concerns. We are subject to any federal and state laws that are more stringent or grant greater privacy rights to individuals. These laws vary and could impose additional penalties. For example, the Federal Trade Commission uses its consumer protection authority to initiate enforcement actions in response to data breaches.

Although we believe that we are in material compliance with the HIPAA regulations and other federal and state laws and regulations related to privacy and security, inadvertent violations may occur in the course of our business. For this and other reasons, the HIPAA regulations and other federal and state laws are expected to continue to impact us operationally and financially and may pose increased regulatory risk.

Self-Referral and Anti-Kickback Legislation.

The health care industry is subject to state and federal laws that regulate the relationships of providers of health care services, physicians and other clinicians. These restrictions include self-referral laws that impose restrictions on physician referrals to any entity with which they have a financial relationship, which is a broadly defined term. We believe our relationships with physicians are in compliance with the self-referral laws. Failure to comply with self-referral laws could subject us to a range of sanctions, including civil monetary penalties and possible exclusion from government reimbursement programs. There are also federal and state laws making it illegal to offer anyone anything of value in return for referral of patients. These laws, generally known as “anti-kickback” laws, are broad and subject to interpretations that are highly fact dependent. Given the lack of clarity of these laws, there can be no absolute assurance that any health care provider, including us, will not be found in violation of the anti-kickback laws in any given factual situation. Strict sanctions, including fines and penalties, exclusion from the Medicare and Medicaid programs and criminal penalties, may be imposed for violation of the anti-kickback laws.

Secondary Coverage Reporting Obligations

As required by the Medicare Secondary Reporting Act and related laws and regulations, we report to CMS specific information regarding all claimants and claim settlements involving Medicare participants so CMS can recover Medicare funds expended to provide healthcare treatment to the claimant. The requirements are to ensure that CMS is notified so that it may recoup the amounts paid for services from the settlement proceeds. The requirements do not result in us making additional payments to CMS for these services provided and does not result in an incremental cost to us. Strict sanctions, including fines and penalties, exclusion from the Medicare and Medicaid programs and criminal penalties, may be imposed for non-compliance with these reporting obligations.

Available Information.

We file reports with the Securities and Exchange Commission (“SEC”), including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K. The SEC maintains electronic versions of the Company's reports on its website at www.sec.gov. We also make available, free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other materials filed with the SEC as soon as reasonably practical after such material is electronically filed with or furnished to the SEC via a link to the SEC's EDGAR system. Our website address is www.dvcr.com. The information provided on our website is not part of this report, and is therefore not incorporated by reference unless such information is otherwise specifically referenced elsewhere in this report.

In addition, copies of the Company's annual report will be made available, free of charge, upon written request.

Corporate Governance Principles.

The Company has adopted Corporate Governance Principles relating to the conduct and operations of the Board of Directors. The Corporate Governance Principles are posted on the Company's website (www.dvcr.com) and are available in print to any stockholder who requests a copy.

Committee Charters.

The Board of Directors has an Audit Committee, Compensation Committee, Corporate Governance Committee, Risk Management Committee, and Executive Committee. The Board of Directors has adopted written charters for each committee, except for the Executive Committee, which are posted on the Company's website (www.dvcr.com) and are available in print to any stockholder who requests a copy.

ITEM 1A. RISK FACTORS

There have been a number of material developments both within the Company and the long-term care industry. These developments have had and are likely to continue to have a material impact on us. This section summarizes these developments, as well as other risks that should be considered by our shareholders and prospective investors.

Risks Related to our Operations

We are substantially self-insured and have significant potential professional liability exposure.

The provision of health care services entails an inherent risk of liability. Participants in the health care industry are subject to an increasing number of lawsuits alleging malpractice, negligence, product liability or related legal theories, many of which involve large claims and significant defense costs. Like many other companies engaged in the long-term care profession in the United States, we have numerous pending liability claims, disputes and legal actions for professional liability and other related issues. We expect to continue to be subject to such suits as a result of the nature of our business. We have professional liability insurance coverage for our nursing centers that, based on historical claims experience, is likely to be substantially less than the amount required to satisfy claims that are expected to be incurred. See “Item 3. Legal Proceedings” for further descriptions of pending claims and see “Item 7. Management's Discussion and Analysis of Financial Condition - Accounting Policies and Judgments - Professional Liability and Other Self-Insurance Reserves” for discussion of our reserve for self-insured claims and of our ability to meet our anticipated cash needs.

We may have substantial adjustments to our accrual for professional liability claims which could cause significant changes in our net earnings.

Each year, we record adjustments to our accrual for self-insured risks associated with professional liability claims. While these adjustments to the accrual result in changes to reported expenses and income, they are not directly related to changes in cash because the accrual is not funded. These self-insurance reserves are assessed on a quarterly basis, with changes in estimated losses being recorded in the consolidated statements of operations in the period identified. Any increase in the accrual decreases income in the period, and any reduction in the accrual increases income during the period. Our actual professional liabilities may vary significantly from the accrual due to an increase in the number of claims asserted or claim costs in excess of estimates, and the amount of the accrual has and may continue to fluctuate by a material amount in any given quarter. For the years ended December 31, 2019, 2018 and 2017, we recorded professional liability expense from continuing operations of $7.0 million, $6.5 million and $8.0 million, respectively.

We continue to have significant potential professional liability exposure related to our discontinued operations.

Effective August 30, 2019, we terminated our operations in Kentucky. Even though we no longer have on-going operations in Kentucky, the Company is required to continue to defend, and make cash payments related to, professional liability claims asserted against our previously operated nursing centers for events occurring prior to August 30, 2019. The Company has approximately 46 pending law suits related to its operations in Kentucky as of December 31, 2019, and the Company expects additional claims to be filed. We also have one remaining action related to our former operations in Arkansas. Our professional liability insurance coverage for these claims is likely to be substantially less than the amount required to satisfy these claims, and the cash expenditures associated with these claims could have a material adverse effect on our on-going business, results of operations and financial condition. See “Item 3. Legal Proceedings” for further descriptions of pending claims and see “Item 7. Management's Discussion and Analysis of Financial Condition - Accounting Policies and Judgments - Professional Liability and Other Self-Insurance Reserves” for discussion of our reserve for self-insured claims and of our ability to meet our anticipated cash needs.

Our outstanding indebtedness is subject to various financial covenants and floating rates of interest which could be subject to fluctuations based on changing interest rates.

We have long-term indebtedness of $74.1 million at December 31, 2019. Certain of our debt agreements contain various financial covenants, the most restrictive of which relate to minimum cash deposits, cash flow and fixed charge coverage ratios. Our failure to comply with those covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of some or all of our debts. Such non-compliance could result in a material adverse impact to our financial position, results of operations and cash flows. We are in compliance with all such covenants, exclusive of the guarantor minimum fixed charge coverage ratio related to the Amended Mortgage Loan and Amended Revolver, which was due to the Kentucky Exit and the related impacts on the Company's financial results. We obtained a waiver of this covenant from our syndicate of banks for the period ending December 31, 2019 in connection with an amendment to the Company's credit facility effective February 25, 2020. See “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources” for additional discussion of our covenants.

In connection with the refinancing transaction in February 2016 discussed in “Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources,” we entered into an interest rate swap with respect to a portion of the mortgage loan to mitigate the floating interest rate risk of such borrowing. The interest rate swap converted the variable rate on our mortgage indebtedness to a fixed interest rate for the five year term of this indebtedness, decreasing our exposure to risks of variable rates of interest. While limiting our risk to increases in interest rates by utilizing the interest rate swap, we forgo benefits that might result from downward fluctuations in interest rates. We also are exposed to the risk that our counterpart to the swap agreement will default on its obligations. The February 2020 amendment to our Credit Facility had no impact on our interest rate swap.

Changes in the method of determining LIBOR, or the replacement of LIBOR with an alternative reference rate, may adversely affect interest rates on our current or future indebtedness and may otherwise adversely affect our financial condition and results of operations.

In 2017, the United Kingdom’s Financial Conduct Authority announced that after 2021 it would no longer compel banks to submit the rates required to calculate the London Interbank Offered Rate ("LIBOR"). This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. We have a significant number of debt instruments with attributes that are dependent on LIBOR. The transition from LIBOR to an alternative reference rate could have a material adverse effect on our liquidity, financial condition and results of operations.

Our accrual for professional liability claims is not funded, and if a material judgment is entered against us in any lawsuit, we may lack adequate cash to pay the judgment.

As of December 31, 2019, we are engaged in 95 professional liability lawsuits, including 46 of which related to centers we no longer operate. Although we work diligently to limit the cash required to settle and defend professional liability claims, a significant judgment entered against us in one or more legal actions could have a material adverse impact on our cash flows and could result in our being unable to meet all of our cash needs as they become due.

We have entered a settlement agreement with the U.S. Department of Justice that requires substantial future payments.

In February 2020, we entered into a settlement agreement with the U.S. Department of Justice and the State of Tennessee of actions alleging violations of the federal False Claims Act in connection with our provision of therapy and the completion of certain resident admission forms. This agreement requires material annual payments for a period of five years ending in February 2025 and also requires a contingent payment in the event the Company sells any of its owned facilities during the five year payment period. Failure to make timely any of these payments could result in rescission of the settlement and result in the government having a very large claim against us, including penalties, and/or make us ineligible to participate in certain government funded healthcare programs, any of which could in turn significantly harm our business and financial condition. See Legal Proceedings for further information regarding this investigation and the terms of the settlement.

We are subject to the terms of a Corporate Integrity Agreement.

In February 2020, in conjunction with the settlement of the government investigation related to our therapy practices, we entered into a corporate integrity agreement ("CIA") with the Office of the Inspector General of CMS. This agreement has a term of five years and imposes material burdens on the Company, its officers and directors to take actions designed to insure compliance with applicable healthcare laws, including requirements to maintain specific compliance positions within the Company, to report any non-compliance with the terms of the agreement, to return any overpayments received, to submit annual reports and for an annual audit of submitted claims by an independent review organization. The CIA sets forth penalties for non-compliance by the Company with the terms of the agreement, including possible exclusion from federally funded healthcare programs for material violations of the agreement.

Our operational and strategic flexibility is limited due to the number of our centers that are leased from third parties.

A substantial majority of our centers are leased from third parties including 24 centers leased from Omega and 20 centers leased from Golden Living. The loss or deterioration of our relationship with either of these landlords may adversely affect our business. The terms of such leases generally require us to operate such centers as skilled nursing centers, and generally do not allow us to assign the lease to a third party without the applicable landlord’s consent. Therefore, our ability to divest such leased properties is limited, and we may be forced to continue operating such centers as skilled nursing centers even if doing so becomes unprofitable.

While we expect to renew or extend our leases in the normal course of business, there can be no assurance that these rights will be exercised in the future or that we will be able to satisfy the conditions precedent to exercising any such renewal or extension, to the extent that such provisions exist in our leases. In addition, if we are unable to renew or extend

any of our master leases, we may lose all of the facilities subject to that master lease agreement. If we are not able to renew or extend our leases at or prior to the end of the existing lease terms, or if the terms of such options are unfavorable or unacceptable to us, our business, financial condition and results of operation could be adversely affected.

Our failure to pay rent or otherwise comply with the provisions of any of our Master Lease Agreements could materially adversely affect our business, financial position, results of operations, and liquidity.

Many of our facilities are under a Master Lease Agreement. Our failure to pay the rent or otherwise comply with the provisions of any of our lease agreements could result in an "event of default" under such lease agreement and also could result in a cross default under other master lease agreements and the agreements for our indebtedness. Upon an event of default, remedies available to our landlords generally include, without limitation, terminating such lease agreement, repossessing and reletting the leased properties and requiring us to remain liable for all obligations under such lease agreement, including the difference between the rent under such lease agreement and the rent payable as a result of reletting the leased properties, or requiring us to pay the net present value of the rent due for the balance of the term of such lease agreement. The exercise of such remedies would have a material adverse effect on our business, financial position, results of operations and liquidity. An event of default under any of our Master Lease Agreements could result in a default under the Credit Facilities and, if repayment of the borrowings under the Credit Facilities were accelerated, the payments under the indentures governing our outstanding notes could also be accelerated. The exercise of remedies by any of our landlords could have a material adverse effect on our business, financial position, results of operations, and liquidity.

We are highly dependent on reimbursement by third-party payors, and we may be negatively impacted by changes to third-party payor programs and any delays in reimbursement.

Substantially all of our nursing center revenues are directly or indirectly dependent upon reimbursement from third-party payors, including the Medicare and Medicaid programs and private insurers. For the year ended December 31, 2019, our patient revenues from continuing operations derived from Medicaid, Medicare, Managed Care and private pay (including private insurers) sources were approximately 46.9%, 17.0%, 10.6%, and 25.5%, respectively. Changes in the mix of our patients among Medicare, Medicaid, Managed Care and private pay categories and among different types of private pay sources may affect our net revenues and profitability. For example, we may be adversely affected by increasing enrollment in Managed Medicare and Managed Medicaid programs. Our net revenues and profitability are also affected by the continuing efforts of all payors to contain or reduce the costs of health care. Efforts to impose reduced payments, greater discounts and more stringent cost controls by government and other payors are expected to continue.

The federal government makes frequent changes to the reimbursement provided under the Medicare program. Effective October 2019, CMS changed the case-mix model used under the SNF prospective payment system. The new model, known as the Patient-Driven Payment Model, shifts the focus to the patient's condition and resulting care needs rather than the amount of care provided in order to determine Medicare reimbursement. Future changes to payment rates or methodology could significantly reduce the reimbursement we receive. For example, CMS has indicated that it is working toward a unified payment system for post-acute care services, including those provided by SNFs, home health agencies, and other long-term care providers.

In addition, there may be changes to Medicaid reimbursement rates and methodologies, supplemental payment programs, or provider assessment programs. CMS is considering Medicaid financing limitations that, if finalized as currently proposed, would negatively impact revenues received in connection with supplemental payment programs, among other effects. Further, a number of state governments, including several of the states in which we operate, face projected budget shortfalls and/or deficit spending situations. Because Medicaid is typically a substantial part of a state's budget, many states are considering or have implemented strategies to reduce Medicaid spending or decrease spending growth. Some states are exploring or implementing alternatives to traditional long-term care, including community and home-based nursing services.

Any changes in reimbursement levels or in the timing of payments under Medicare, Medicaid or private pay programs and any changes in applicable government regulations could have a material adverse effect on our net revenues, net income (loss) and cash flows. We are limited in our ability to reduce the direct costs of providing care. We are unable to predict the nature and success of future financial or delivery system reforms or the effect such changes will have on our operations. No assurance can be given that such reforms will not have a material adverse effect on us. See "Item 1. Business - Government Regulation and Reimbursement."

If we have problems with our information systems that affect payment or if other issues arise with Medicare, Medicaid or other payors that affect the amount or timeliness of reimbursements, we may encounter delays in our payment cycle. Any significant payment timing delay could cause us to experience working capital shortages. Working capital

management, including prompt and diligent billing and collection, is an important factor in our consolidated results of operations and liquidity. Our working capital management procedures may not successfully mitigate the effects of any delays in our receipt of payments or reimbursements. Accordingly, such delays could have an adverse effect on our liquidity and financial condition.

We operate in an industry that is highly competitive.

The long-term care industry generally, and the nursing home business particularly, is highly competitive. We face direct competition for the acquisition of centers, and our centers face competition for patients. Our ability to compete is based on several factors including, but not limited to, building age and appearance, reputation, relationships with referral sources, availability of patients, survey history and CMS rankings. Some of our present and potential competitors are significantly larger and have or may obtain greater financial and marketing resources than we can. In addition, some competitors are implementing vertical alignment strategies. For example, some hospitals provide long-term care services and some providers are aligned or are pursuing alignment strategies with payors. Certain of our competitors are operated by not-for-profit, non-taxpaying or governmental agencies that can finance capital expenditures on a tax exempt basis and receive funds and charitable contributions unavailable to us. In addition, we may encounter substantial competition from new market entrants. Consequently, there can be no assurance that we will not encounter increased competition in the future, which could limit our ability to attract patients or expand our business, and could materially and adversely affect our business or decrease our market share.

We may have difficulty attracting and retaining qualified nurses, therapists, healthcare professionals and other key personnel, which, along with a growing number of minimum wage and compensation related regulations, may increase our costs related to these employees.

Our team members are essential to our business. We rely on our ability to attract and retain qualified nurses, therapists and other healthcare professionals. The market for these key personnel is highly competitive, and we could experience significant increases in our operating costs due to shortages in their availability. Like other healthcare providers, we have at times experienced difficulties in attracting and retaining qualified personnel. We may continue to experience increases in our labor costs, primarily due to higher wages and greater benefits required to attract and retain qualified healthcare personnel, and such increases may adversely affect our profitability. Furthermore, while we attempt to manage overall labor costs in the most efficient way, our efforts to manage them through wage freezes and similar means may have limited effectiveness and may lead to increased turnover and other challenges.

Tight labor markets and high demand for such team members can contribute to high turnover among clinical professional staff. A shortage of qualified personnel at a facility could result in significant increases in labor costs and increased reliance on overtime and expensive temporary staffing agencies, and could otherwise adversely affect operations at the affected centers. If we are unable to attract and retain qualified professionals, our ability to adequately provide services to our residents and patients may decline and our ability to grow may be constrained.

Our cost of labor may be influenced by unanticipated factors in certain markets or, with respect to collective bargaining agreements that we are a party to, we may experience above-market increases. A substantial number of our team members are hourly team members whose wage rates are affected by increases in the federal or state minimum wage rate. As collective bargaining agreements are renegotiated or minimum wage rates increase we may need to increase the wages paid to team members. This may be applicable to not only minimum wage team members but also to team members at wage rates which are currently above the minimum wage.

The Department of Labor issued rule changes to the Fair Labor Standards Act that increased the minimum salary threshold for team members exempt from overtime along with an automatic annual increase to this salary threshold. The future of these rule changes, as well as other potential changes, remains uncertain given the recent change in Presidential administrations. However, these rule changes could increase our cost of services provided.

Because we are largely funded by government programs according to predetermined, nonnegotiable rates, we do not have an ability to pass such wage increases through to revenue sources. Any such mandated wage increases could have a material adverse effect on our results of operations, liquidity and financial condition.

Possible changes in the acuity of residents and patients, as well as payor mix and payment methodologies, may significantly affect our profitability.

The sources and amount of our revenues are determined by a number of factors, including the occupancy rates of our facilities, the length of stay, the payor mix of residents and patients, rates of reimbursement, and patient acuity. These factors may be impacted by continued efforts to shift patients from institutional care settings to home and community-

based services. Changes in patient acuity as well as payor mix among private pay, Medicare, and Medicaid may significantly affect our profitability. In particular, any significant decrease in our population of high-acuity patients or any significant increase in our Medicaid population could have a material adverse effect on our business, financial position, results of operations, and liquidity, especially if state Medicaid programs continue to limit, or more aggressively seek limits on, reimbursement rates or service levels.

The industry trend toward value-based purchasing may negatively impact our revenues.

There is a growing trend in the healthcare industry among both government and commercial payors toward value-based purchasing of healthcare services. Value-based purchasing programs emphasize quality and efficiency of services, rather than volume of services. For example, the SNF VBP program makes incentive payments available based on past performance on specified quality measures related to hospital readmissions. Failure to report quality data or poor performance may negatively impact the amount of reimbursement received.

Other initiatives aimed at improving quality and cost of care include alternative payment models, such as ACOs and bundled payment arrangements. It is unclear whether alternative models will successfully coordinate care and reduce costs or whether they will decrease overall reimbursement. Additionally, commercial payors have expressed intent to shift toward value-based reimbursement arrangements.

We expect value-based purchasing programs, including programs that condition reimbursement on patient outcome measures, to become more common and to involve a higher percentage of reimbursement amounts. While we believe we are adapting our business strategies to compete in a value-based reimbursement environment, we are unable at this time to predict how this trend will affect our results of operations. If we are unable to meet or exceed quality performance standards under any applicable value-based purchasing program, perform at a level below the outcomes demonstrated by our competitors, or otherwise fail to effectively provide or coordinate the efficient delivery of quality healthcare services, our reputation in the industry may be negatively impacted, we may receive reduced reimbursement amounts, and we may owe repayments to payors, causing our revenues to decline.

Our systems are subject to security breaches and other cybersecurity incidents.

While we maintain information technology security and safeguards, complex medical systems have been and may continue to be targeted for cyber-attacks, which may result in unauthorized parties obtaining access to our computer systems and networks. Cyber-attacks could result in the misappropriation of our patient information that is protected by law, private employee information, proprietary business information and technology or result in interruptions to our business. The reliability and security of our information technology infrastructure is critical to our business. To the extent that any disruptions or security breaches result in significant loss or damage to our data, or inappropriate use or disclosure of patient, employee or proprietary information, we could be required to notify affected individuals, state and federal agencies and the media of the breach, could experience damage to our reputation and patient relationships and be subject to civil and/or criminal fines and penalties or related class action litigation, any of which could have a material adverse effect on our business, results of operations and financial condition. In addition, we may be at increased risk because we outsource certain services or functions to, or have systems that interface with, third parties. Some of these third parties may store or have access to our data and may not have effective controls, processes, or practices to protect our information from attack, damage, or unauthorized access. A breach or attack affecting any of these third parties could harm our business.

The success of previous and future acquisitions cannot be guaranteed and such acquisitions may consume substantial capital and other resources and could expose us to unforeseen liabilities and integration risks.

We have in the past and plan to in the future make investments in additional centers, whether by opening new centers or acquiring existing centers. Such acquisitions may involve significant cash expenditures, debt incurrence, operating losses and additional expenses that could have a material adverse effect on our financial position, results of operations and liquidity. Acquisitions involve numerous risks, including:

- difficulties integrating acquired operations, personnel and accounting and information systems, or in realizing projected efficiencies and cost savings;
- diversion of management's attention from other business concerns;
- potential loss of key team members or customers of acquired companies;
- entry into markets in which we may have limited or no experience;
- increased indebtedness and reduced ability to access additional capital when needed;
- assumption of unknown liabilities or regulatory issues of acquired companies, including failure to comply with healthcare regulations or to establish internal financial controls; and

- straining of our resources, including internal controls relating to information and accounting systems, regulatory compliance, logistics and others.

Furthermore, certain of the foregoing risks could be exacerbated when combined with other growth measures that we may pursue.

We have significant participation in the Texas Quality Incentive Payment Program ("QIPP") and changes to the program by the state of Texas could cause changes in our net earnings.

During 2019, the Company expanded its participation in QIPP as administered by the Texas Health and Human Services Commission. QIPP provides supplemental Medicaid payments for skilled nursing centers that achieve certain quality measures. Effective September 1, 2019, twelve of the Company's centers participate in the QIPP and the Company received approximately $1.5 million in additional revenue as a result of the QIPP program in 2019. If the State of Texas should decide to terminate QIPP, reduce the payments pursuant to the program or determine that the Company can no longer participate in QIPP, such action could have a material adverse effect on our business, financial position, results of operations, and liquidity.

Investing in our business initiatives and development could adversely impact our results of operations and financial condition.

We plan to invest in business initiatives and development that could increase our operating expenses. These initiatives may or may not be successful in growing our census or revenues. A part of our business initiative is to emphasize our skilled nursing facilities' care on patients with shorter stays but higher acuities. Shorter stays may result in decreased census during certain periods. In addition, there is typically a time delay between incurring such expenses and the attaining of revenues and cash flows expected from these initiatives and development. As a result, our revenue and operating cash flow may not increase enough during a reporting period to cover these increased expenses. Such additional revenues may not materialize to the level we anticipate, if at all.

We may be unable to reduce costs to offset decreases in our patient census levels or other expenses completely.

We depend on implementing adequate cost management initiatives in response to fluctuations in levels of patient census in our centers in order to maintain our current cash flow and earnings levels. Fluctuation in our patient census levels may become more common as we continue our emphasis in our skilled nursing facilities on patients with shorter stays but higher acuities. With the average length of stay decreasing for a skilled nursing patient, as well as the increased availability of assisted living facilities and home and community-based services, the challenge of maintaining desirable patient census levels has been amplified. A decline in patient census levels would likely result in decreased revenue. If we are unable to put in place corresponding reductions in costs in response to decreases in our patient census or other revenue shortfalls, our financial condition and operating results would be adversely affected. There are limits in our ability to reduce the costs of our centers because we must maintain required staffing levels.

The geographic concentration of our affiliated facilities could leave us vulnerable to an economic downturn, regulatory changes or acts of nature in those areas.

Our affiliated facilities located in Alabama, Mississippi, and Texas account for the majority of our total revenue. As a result of this concentration, the conditions of local economies, changes in governmental rules, regulations and reimbursement rates or criteria, changes in demographics, state funding, acts of nature and other factors that may result in a decrease in demand and/or reimbursement for skilled nursing services in these states could have a disproportionately adverse effect on our revenue, costs and results of operations.

Disasters and similar events may seriously harm our business.

Natural and man-made disasters, pandemics or epidemics, such as the COVID-19 coronavirus outbreak and similar events, including terrorist attacks and acts of nature such as hurricanes, tornados, earthquakes and wildfires, may cause damage or disruption to us, our employees and our centers, which could have an adverse impact on our patients and our business. Our affiliated facilities in Kansas, Missouri, Mississippi, Florida, Alabama and Texas may be more susceptible to damage caused by natural disasters including hurricanes, tornadoes and flooding. In order to provide care for our patients, we are dependent on consistent and reliable delivery of food, pharmaceuticals, utilities and other goods to our centers, and the availability of employees to provide services at our centers. If the delivery of goods or the ability of employees to reach our centers were interrupted in any material respect due to a natural disaster, pandemic or other reasons, it would have a significant impact on our centers and our business. Furthermore, the impact, or impending threat, of a natural disaster has in the past and may in the future require that we evacuate one or more centers, which would be costly and would involve risks, including potentially fatal risks, for the patients. The impact of disasters, pandemics and similar events is inherently uncertain. Such events could harm our patients and employees, severely damage or destroy one or more of

our centers, harm our business, reputation and financial performance, or otherwise cause our business to suffer in ways that we currently cannot predict.

Failure to maintain effective internal control over our financial reporting could have an adverse effect on our ability to report our financial results on a timely and accurate basis.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934 (the "Exchange Act"), and is required to evaluate the effectiveness of these controls and procedures on a periodic basis and publicly disclose the results of these evaluations and related matters in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Effective internal control over financial reporting is necessary for us to provide reliable financial reports, to help mitigate the risk of fraud and to operate successfully. However, testing and maintaining our internal control over financial reporting can be expensive and divert our management's attention from other business matters. Any failure to implement and maintain effective internal controls could result in material weaknesses or material misstatements in our consolidated financial statements.

If we fail to maintain effective internal control over financial reporting, we may be required to take corrective measures or restate the affected historical financial statements. In addition, we may be subjected to investigations and/or sanctions by federal and state securities regulators, and/or civil lawsuits by security holders. Any of the foregoing could also cause investors to lose confidence in our reported financial information and in our company and would likely result in a decline in the market price of our stock and in our ability to raise additional financing if needed in the future.

Certain events or circumstances could result in the impairment of our assets that result in material charges to earnings.

We review the carrying value of certain long-lived assets, finite-lived intangible assets and indefinite-lived intangible assets with respect to any events or circumstances that indicate an impairment or an adjustment to the amortization period may be necessary. If circumstances suggest that the recorded amounts of any of these assets cannot be recovered based upon estimated future cash flows, the carrying values of such assets are reduced to fair value. If the carrying value of any of these assets is impaired, we may incur a material charge to earnings. Any such impairment charges could have a material adverse effect on our business, financial position and results of operations.

Risks Related to Government Regulations

We are subject to significant government regulation.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, protection of patient health information, reimbursement for patient services, quality of patient care, Medicare and Medicaid fraud and abuse, debt collection and communications with consumers. Various federal and state laws regulate relationships among providers of services, including employment or service contracts and investment relationships. The operation of long-term care centers and the provision of services are also subject to extensive federal, state, and local laws relating to, among other things, the adequacy of medical care, distribution of pharmaceuticals, equipment, personnel, operating policies, environmental compliance, compliance with the Americans with Disabilities Act, fire prevention and compliance with building codes.

Long-term care facilities are subject to periodic inspection to assure continued compliance with various standards and licensing requirements under state law, as well as with Medicare and Medicaid conditions of participation. The failure to obtain or renew any required regulatory approvals or licenses could prevent us from offering our existing or additional services, subject us to penalties, and adversely affect our growth. In addition, health care is an area of extensive and frequent regulatory change. Changes in the laws or new interpretations of existing laws can have a significant effect on methods and costs of doing business and amounts of payments received from governmental and other payors. Our operations could be adversely affected by, among other things, regulatory developments such as mandatory increases in the scope and quality of care to be afforded patients and revisions in licensing and certification standards. We attempt at all times to comply with all applicable laws; however, there can be no assurance that we will remain in compliance at all times with all applicable laws and regulations or that new legislation or administrative or judicial interpretation of existing laws or regulations will not have a material adverse effect on our operations or financial condition. Federal or state proceedings seeking to impose fines and penalties for violations of applicable laws and regulations, as well as federal and state changes in these laws and regulations, may negatively impact us. See "Item 1. Business - Government Regulation." See also "Item 3. Legal Proceedings."

We are the subject of governmental audits, investigations, claims and litigation, which could have an adverse effect on our business or financial position.

Healthcare companies are subject to high levels of regulatory scrutiny. Various government agencies and their agents may conduct audits of our operations, including the Department of Health and Human Services ("HHS") Office of Inspector General ("OIG"), which is tasked with combating fraud, waste and abuse within the Medicare and Medicaid programs. The OIG's enforcement priorities are outlined in a work plan that is updated monthly. These priorities include life safety reviews, compliant billing, quality of care, poorly performing nursing facilities, hospitalizations, criminal background checks, Medicare part B services, accuracy of clinical data collected by nursing facilities, transparency of ownership, and civil monetary penalty funds. We cannot predict the likelihood, scope or outcome of any OIG investigations of our centers.

The costs associated with potential litigation or the public announcement that we are being investigated, even if a dispute is resolved in our favor, or any determination that we have violated laws or regulations could have an adverse effect on our business, financial position or results of operations. In particular, government investigations, as well as qui tam lawsuits, may lead to significant penalties, including fines, damages payments or exclusion from government healthcare programs. Settlements of lawsuits involving Medicare and Medicaid issues routinely involve both financial penalties and corporate integrity agreements, either of which could have an adverse effect on our business, financial position or results of operations.

Payments we receive from Medicare and Medicaid are subject to audits. Such audits could result in an obligation to refund amounts previously paid to us.

Payments we receive from Medicare and Medicaid can be retroactively adjusted after examination during the claims settlement process or as a result of post-payment audits. Private pay sources also reserve the right to conduct audits. Payors may disallow our requests for reimbursement, or recoup amounts previously reimbursed, based on determinations by the payors or their third-party audit contractors that certain costs are not reimbursable because either adequate or additional documentation was not provided or because certain services were not covered or deemed to not be medically necessary. We believe that billing and reimbursement errors and disagreements are common in our industry. Significant adjustments, recoupments or repayments of our Medicare or Medicaid revenue could adversely affect our business, financial condition or results of operations.

We are subject to claims under false claims, self-referral and anti-kickback prohibitions.

We are subject to numerous federal and state laws intended to prevent fraud, waste and abuse within the healthcare industry. Violations of these laws may result in substantial damage awards, civil or criminal penalties for individuals or entities, including large civil monetary penalties and exclusion from participation in the Medicare or Medicaid programs. Such awards, exclusion or penalties, if applied to us, could have a material adverse effect on our financial position and profitability.

In the United States, various federal laws regulate the relationships between providers of health care services, physicians, and other clinicians. These laws impose restrictions on physician referrals for designated health services to entities with which they have financial relationships. These laws also prohibit the offering, payment, solicitation or receipt of any form of remuneration in return for the referral of Medicare or Medicaid patients or patient care opportunities for the purchase, lease or order of any item or service that is covered by the Medicare and Medicaid programs. Many states in which we operate have similar anti-kickback and self-referral laws that may apply to all payors or a broader range of services. To the extent that we, any of our centers through which we do business, or any of the owners or directors have a financial relationship with each other or with other health care entities providing services to long-term care patients, such relationships could be subject to increased scrutiny.

Federal and state laws prohibit the submission of false claims for reimbursement and prohibit the making of false claims or statements. The submission of false claims or false statements may lead to the imposition of significant civil monetary penalties, significant criminal fines and imprisonment, and/or exclusion from participation in state and federally-funded healthcare programs, including the Medicare and Medicaid programs. Under the FCA, actions against a provider can be initiated by the federal government or by a private party on behalf of the federal government. These private parties, who are often referred to as "qui tam relators" or "relators," are entitled to share in any amounts recovered by the government. Both direct enforcement activity by the government and qui tam relator actions have increased significantly in recent years.

A FCA violation occurs when a provider knowingly submits a claim for items or services not provided. Liability also arises for the known failure to report and refund an overpayment received from the government. Some courts have held that providers who allegedly have violated other statutes, such as self-referral or kickback laws, have thereby submitted false claims under the FCA. Allegations of poor quality of care can also lead to FCA actions under a theory of worthless services, which contends that care provided was so deficient that it was tantamount to no service at all.

The implied certification theory expands the scope of the FCA. Under the implied certification theory, a violation of the FCA occurs when a provider's request for payment implies a certification of compliance with the applicable statutes, regulations or contract provisions that are preconditions to payment. The recognition of this theory has increased the risk that a healthcare company will have to defend a false claims action, pay fines and treble damages or settlement amounts or be excluded from federal and state healthcare programs as a result of an investigation arising out of the FCA. Many states have enacted similar laws providing for imposition of civil and criminal penalties for the filing of fraudulent claims.

Because we submit thousands of claims to Medicare each year and there is a relatively long statute of limitations under the FCA, there is a risk that intentionally, or even negligently or recklessly submitted claims that prove to be incorrect, or billing errors, cost reporting errors or lapses in statutory or regulatory compliance with regard to the provision of healthcare services (including, without limitation the Anti-Kickback Statue and the self-referral laws discussed above), could result in significant civil or criminal penalties against us. We recently settled one such false claims act case, and there can be no assurance that our operations will not be subject to review, scrutiny, penalties or enforcement actions under these laws, or that these laws will not change in the future. Any penalties or allegations involving false claims, whether valid or not, could have a significant impact on our business.

We are subject to laws governing the confidentiality of patient health information.

Both federal and state laws impose certain requirements regarding maintaining the confidentiality of patient health information and other personal information. In particular, HIPAA regulations require us to protect the medical records and other personal health information of our patients, limit our use of and ability to disclose such information, give patients a right to access and amend their personal health information, and notify affected patients, HHS, and, in the case of large breaches, the media of breaches involving unsecure patient health information. A violation of HIPAA or any other federal or state laws regarding the confidentiality or use of personal information could subject us to civil or criminal penalties, and could in turn damage our reputation, affect our ability to attract or retain patients, and thereby have a material adverse effect on our revenues, financial position, results of operations and cash flows.

We cannot predict the effects that healthcare reform initiatives, including possible repeal or invalidation of or changes to the Affordable Care Act, and other changes in government programs may have on our business, financial condition or results of operations.

In recent years, there have been initiatives on the federal and state levels for comprehensive reforms affecting the availability, payment and reimbursement of healthcare services in the United States. The most prominent of these efforts is the Affordable Care Act, which affects how healthcare services are covered, delivered and reimbursed. However, there is significant uncertainty regarding the future of the Affordable Care Act. The law has been subject to legislative and regulatory changes and court challenges. For example, final rules issued in 2018 expand the availability of association health plans and allow the sale of short-term, limited-duration health plans, neither of which are required to cover all of the essential health benefits mandated by the Affordable Care Act. Effective January 1, 2019, Congress eliminated the penalty associated with the individual mandate to maintain health insurance. As a result of this change, a federal judge in Texas ruled in December 2018 that the individual mandate was unconstitutional and determined that the rest of the Affordable Care Act was, therefore, invalid. In December 2019, the Fifth Circuit Court of Appeals upheld this decision with respect to the individual mandate, but remanded the case for further consideration of how this affects the rest of the law. The law remains in place pending the appeals process. The elimination of the individual mandate penalty and other changes may impact the number of individuals that elect to obtain public or private health insurance or the scope of such coverage, if purchased.

It is difficult to predict the impact of the Affordable Care Act and related regulations or the impact of its modification on our operations in light of the uncertainty regarding whether, when or how the law will be further changed, and the ultimate impact of court challenges. There is also uncertainty regarding whether, when, and what other health reform initiatives will be adopted and the impact of such efforts on providers and other healthcare industry participants. For example, some members of Congress have proposed significantly expanding the coverage of government-funded programs, including single payor proposals. CMS administrators have indicated that they intend to grant states additional flexibility in the administration of state Medicaid programs, including expanding the scope of waivers under which states may impose different eligibility or enrollment restrictions or otherwise implement programs that vary from federal standards. CMS administrators have also signaled interest in changing Medicaid payment models, including adopting value-based care models. We are unable to predict the nature and success of future financial or delivery system reforms that may be implemented by other, non-governmental industry participants, such as private payors. Healthcare reform initiatives, including changes to or repeal or invalidation of the Affordable Care Act, could materially and adversely affect our business, financial condition and results of operations.

State efforts to regulate or deregulate the healthcare services industry or the construction or expansion of healthcare facilities could impair our ability to expand our operations, or could result in increased competition.

Some states require healthcare providers to obtain prior approval, known as a CON, for:

- the purchase, construction or expansion of healthcare facilities;
- capital expenditures exceeding a prescribed amount; or
- changes in services or bed capacity.

In addition, other states that do not require CON approval have effectively barred the expansion of existing facilities and the development of new ones by placing partial or complete moratoria on the number of new Medicaid beds they will certify in certain areas or in the entire state. Other states have established such stringent development standards and approval procedures for constructing new healthcare facilities that the construction of new facilities, or the expansion or renovation of existing facilities, may become cost prohibitive or extremely time-consuming. In addition, in some states, the acquisition of a facility being operated by a non-profit organization requires the approval of the state Attorney General.

Our ability to acquire or construct new facilities or expand or provide new services at existing facilities would be adversely affected if we are unable to obtain the necessary approvals, if there are changes in the standards applicable to those approvals, or if we experience delays and increased expenses associated with obtaining those approvals. We may not be able to obtain licensure, CON approval, Medicaid certification, Attorney General approval or other necessary approvals for future expansion projects. Conversely, the elimination or reduction of state regulations that limit the construction, expansion or renovation of new or existing facilities could result in increased competition to us or result in overbuilding of facilities in some of our markets. If overbuilding in the healthcare industry in the markets in which we operate were to occur, it could reduce the occupancy rates of existing facilities and, in some cases, might reduce the private rates that we charge for our services.

Changes to federal and state income tax laws and regulations as well as accounting guidance could adversely affect our position on income taxes, estimated income liabilities and deferred tax assets.

We are subject to both state and federal income taxes in the U.S. and our operations, plans and results are affected by tax and other initiatives. On December 22, 2017, a law commonly known as the Tax Cuts and Jobs Act (“Tax Act") was enacted in the United States. Among other things, the Tax Act reduced the U.S. corporate income tax rate to 21 percent, which resulted in changes in the valuation of our deferred tax assets and liabilities.

Accounting guidance requires that deferred tax assets be reduced by a valuation allowance, when it is more likely than not that a tax benefit will not be realized. As of December 31, 2019, we had net deferred tax assets of approximately $21.8 million, against which we have applied a full valuation allowance. We continually assess the realizability of our deferred tax assets.

Any such change in valuation could have a material impact on our income tax expense and net deferred tax assets.We are also subject to regular reviews, examinations, and audits by the Internal Revenue Service ("IRS") and other taxing authorities with respect to our taxes. There are uncertainties and ambiguities in the application of the Tax Act and it is possible that the IRS could issue subsequent guidance or take positions on audit that differ from our interpretations and assumptions. Although we believe our tax estimates are reasonable, if a taxing authority disagrees with the positions we have taken, we could face additional tax liability, including interest and penalties. Our effective tax rate could be adversely affected by changes in the mix of earnings in states with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations, changes in our interpretations of tax laws, including the Tax Act. Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability. There can be no assurance that payment of such additional amounts upon final adjudication of any disputes will not have a material impact on our results of operations and financial position.

We may be subject to liability for environmental damages.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real estate may be required to investigate and clean up hazardous or toxic substances or petroleum product releases at the property, and may be held liable to a governmental entity or to third parties for property damage and for investigation and clean-up costs incurred by those parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants, and liability under these laws has been interpreted to be joint and several unless the harm is divisible and there is a reasonable basis for allocation of responsibility. The costs of investigation, remediation or removal of the substances may be substantial. In addition, under our leases with Omega and Golden Living, we have agreed to indemnify the landlord for any such liabilities related to the properties that we lease from them. Persons who arrange for the disposal or treatment of hazardous or toxic substances also may be liable for the costs of removal or remediation of the substances at the disposal or treatment facility, whether or not the facility is owned or operated by the person. Finally, the owner of a site may be subject to common law claims by third parties based on damages and costs resulting from environmental contamination emanating from a site. If we become subject to any of these claims, the costs involved could be significant and could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

The proposed Medicaid Fiscal Accountability Regulation ("MFAR") could adversely impact our federal Medicaid revenue in some of our facilities.

On November 18, 2019, CMS published a proposed rule, MFAR, that could impact our federal Medicaid revenue in some of our facilities. Specifically, some states' Medicaid programs allow for UPL payments to be made to SNFs that are owned and operated by a non-state government ("NSG") provider, such as a city or county hospital. These supplemental UPL payments are paid through federal Medicaid funds, but administered through the state. The Company currently has twelve centers in Texas and one center in Indiana that have entered into UPL arrangements (Texas QIPP). Of these centers five have entered into agreements with a NSG hospital in which operations have been transferred to the NSG hospital, but Diversicare manages these facilities. This has allowed these facilities to obtain supplemental UPL funds from the federal Medicaid program.

The proposed MFAR rule, if enacted as currently written, would institute sweeping changes to the UPL program, including changes to: (i) the calculations related to the UPL payments; (ii) the definition of "public funds" that can be used for intergovernmental transfers ("IGT") (which would negatively impact the available revenue for UPL payments); and (iii) the definition of a "non-state government" provider (making fewer entities eligible to participate). Additionally, the proposed MFAR rule requires additional and detailed reporting by states related to the UPL payments and suggests that CMS will increase scrutiny of hospitals/ facilities that are part of such arrangements.

In addition to changes to the UPL program, the proposed MFAR rule would disallow states from receiving federal funds for provider taxes that impose undue burden on the Medicaid program. Such burdens include: (i) taxing providers that provide less Medicaid services at lower rates than those that provide relatively more Medicaid services; (ii) Medicaid services, in general, being taxed more than non-Medicaid services (except when excluding Medicare/Medicaid revenue); (iii) Not taxing, or taxing at a lower rate, groups of providers with no Medicaid services compared to other groups. States would have three years to comply with the MFAR requirements once a rule is finalized.

If the proposed MFAR rule goes into effect, without change, the number or our facilities participating in the UPL program, and/or the amount of reimbursement we receive through the UPL program, could drastically decrease or even cease. Such would have a significant and adverse effect on our Medicaid revenue, and as a result could have a material and adverse effect on our business, financial condition or results of operations.

Risks Related to our Common Stock

We do not intend to pay dividends on our common stock.

Although we paid cash dividends from the second quarter of 2009 through the third quarter of 2018, we do not anticipate paying cash dividends on our common stock in the foreseeable future. We currently anticipate that we will retain all of our available cash, if any, for use as working capital and for other general purposes, including to service or repay our debt and lease obligations as well as to fund the operations of our business. Any payment of future dividends will be at the discretion of our board of directors and will depend on, among other things, our earnings, financial condition, capital requirements, level of indebtedness, lease obligations, statutory and contractual restrictions applying to the payment of dividends and other considerations that our board of directors deems relevant.

Our common stock is no longer listed on the NASDAQ Capital Market and is quoted only in the Pink Sheets, making them subject to additional "penny stock" rules, which could negatively affect our stock price and liquidity.

On August 27, 2019, the Company was notified by Nasdaq that it denied the Company's appeal and determined to delist the Company's Common Stock from the Nasdaq Capital Market. Accordingly, the trading of the Company's Common Stock was suspended on the Nasdaq Capital Market at the opening of business on August 29, 2019.

On October 11, 2019, Nasdaq filed a Form 25 with the Securities & Exchange Commission to effect the formal delisting of the Company's common stock from the Nasdaq Capital Market, which became effective October 21, 2019. The Form 25 filing did not cause the removal of any shares of the Company's common stock from registration under the Exchange Act and the Company remains subject to the periodic reporting requirements of the Exchange Act. The Company believes that the delisting of its common stock from the Nasdaq Capital Market, as well as the related process leading up to delisting, has had a negative impact on the Company's common stock market price as well as on the liquidity of its common stock.

Delisting from Nasdaq may adversely affect our ability to raise additional financing through the public or private sale of equity securities, may affect the ability of investors to trade our securities and may negatively affect the value and liquidity of our common stock. Delisting also could have other negative results, including the potential loss of employee confidence and the loss of institutional investor interest and business development opportunities.

Since the suspension of trading on Nasdaq on August 29, 2019, the Company's Common stock began trading on the OTCQX under the trading symbol "DVCR." However, there is no assurance that an active market will be maintained for the Company's Common Stock. An investor would likely find it less convenient to sell, or to obtain accurate quotations in seeking to buy, our common stock on an over-the-counter market, and many investors would likely not buy or sell our common stock due to difficulty in accessing over-the-counter markets, policies preventing them from trading in securities not listed on a national exchange or other reasons. In addition, as a delisted security, our common stock is subject to SEC rules as a "penny stock," which impose additional disclosure requirements on broker-dealers. The regulations relating to penny stocks, coupled with the typically higher cost per trade to the investor of penny stocks due to factors such as broker commissions generally representing a higher percentage of the price of a penny stock than of a higher-priced stock, would further limit the ability of investors to trade in our common stock. For these reasons and others, delisting could adversely affect the liquidity, trading volume and price of our common stock, causing the value of an investment in us to decrease and having an adverse effect on our business, financial condition and results of operations, including our ability to attract and retain qualified employees, to raise capital, and execute on a strategic alternative.

Our securities are now and have historically been thinly traded. An active trading market in our equity securities may cease to exist, which would adversely affect the market price and liquidity of our common stock, in addition our stock price has been subject to fluctuating prices.

Shares of our common stock are now and have been thinly traded, meaning that the number of persons interested in purchasing our common stock at or near ask prices at any given time may be relatively small or non-existent. As a consequence, our stock price may not reflect an actual or perceived value of the business. Also, there may be periods of several days or more when trading activity in our shares is minimal or non-existent, as compared to an issuer that has a large and steady volume of trading activity that will generally support continuous sales without an adverse effect on share price. We cannot predict the actions of market makers, investors or other market participants, and can offer no assurances that the market for our securities will be stable. If there is no active trading market in our equity securities, the market price and liquidity of the securities will be adversely affected. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market or the perception that these sales could occur. Due to these conditions, you may not be able to sell your shares at or near ask prices or at all if you need money or otherwise desire to liquidate your shares. These conditions also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

We have a number of policies in place that could be considered anti-takeover protections.

Our Certificate of Incorporation (the "Certificate") requires the approval of the holders of two-thirds of the outstanding shares to amend certain provisions of the Certificate. Section 203 of the Delaware General Corporate Law restricts the ability of a Delaware corporation to engage in any business combination with an interested shareholder. We are also authorized to issue up to 0.8 million shares of preferred stock, the rights of which may be fixed by our Board without shareholder approval. Provisions in certain of our executive officers' employment agreements provide for post-termination compensation, including payment of amounts up to two times their annual salary, following certain changes in control (as defined in such agreements). Our stock incentive plans provide for the acceleration of the vesting of options in the event of certain changes in control (as defined in such plans). Certain changes in control also constitute an event of default

under our bank credit facility. The foregoing matters may, together or separately, have the effect of discouraging or making more difficult an acquisition or change of control of the company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own 15 and lease 47 long-term care centers as discussed in “Item 1 Business - Nursing Centers and Services.” See further details below.

Our current operations include 47 nursing centers subject to operating leases, including 24 owned by Omega Health Investors ("Omega"), 20 owned by Golden Living and three owned by other parties. In our role as lessee, we are responsible for the day-to-day operations of all operated centers. These responsibilities include recruiting, hiring and training all nursing and other personnel, and providing patient care, nutrition services, marketing, quality improvement, accounting, and data processing services for each center. The lease agreements pertaining to our 47 leased centers are “triple net” leases, requiring us to maintain the premises, provide insurance, pay taxes and pay for all utilities. See the table below for a summary of owned and leased beds operated by the Company.

State	Centers	Leased Beds	Owned Beds	Total Operational Beds (1)
Alabama	20	2,079	306	2,385
Florida	1	79	—	79
Indiana	1	172	—	172
Kansas	6	—	483	483
Mississippi	9	1,039	—	1,039
Missouri	3	455	—	455
Ohio	4	651	—	651
Tennessee	5	497	120	617
Texas	13	1,370	475	1,845
Total	62	6,342	1,384	7,726

(1) The number of Operational Beds includes 397 Licensed Assisted Living/Residential Beds.

Brentwood Support Center and Regional Offices

We lease approximately 29,000 square feet of office space in Brentwood, Tennessee that houses our executive offices and centralized management support functions. Lease periods on these centers range up to three years. Regional executives for Kansas work from an office of approximately 922 square feet. We believe that our leased properties are adequate for our present needs and that suitable additional or replacement space will be available as required.

ITEM 3. LEGAL PROCEEDINGS

The provision of health care services entails an inherent risk of liability. Participants in the health care industry are subject to lawsuits alleging malpractice, negligence, violations of false claims acts, product liability, or related legal theories, many of which involve large claims and significant defense costs. Like many other companies engaged in the long-term care profession in the United States, we have numerous pending liability claims, disputes and legal actions for professional liability and other related issues. It is expected that we will continue to be subject to such suits as a result of the nature of our business. Further, as with all health care providers, we are periodically subject to regulatory actions seeking fines and penalties for alleged violations of health care laws and are potentially subject to the increased scrutiny of regulators for issues related to compliance with health care fraud and abuse laws and with respect to the quality of care provided to residents of our center. Like other health care providers, in the ordinary course of our business, we are also subject to claims made by employees and other disputes and litigation arising from the conduct of our business.

As of December 31, 2019, we are engaged in 95 professional liability lawsuits, including those related centers we no longer operate. Twenty-three lawsuits are currently scheduled for trial or arbitration during the next twelve months, and it is expected that additional cases will be set for trial or hearing. The ultimate results of any of our professional liability claims and disputes cannot be predicted. We have limited, and sometimes no, professional liability insurance with regard to most of these claims. A significant judgment entered against us in one or more of these legal actions could have a material adverse impact on our financial position and cash flows.

In February 2020, we entered into a settlement agreement with the U.S. Department of Justice and the State of Tennessee of actions alleging violations of the federal False Claims Act in connection with our provision of therapy and the completion of certain resident admission forms. This settlement resolved an investigation that had begun in 2012 and covers the time period from

January 1, 2010 through December 31, 2015. This agreement requires material annual payments for a period of five years ending in February 2025 and also requires a contingent payment in the event the Company sells any of its owned facilities during the five year payment period. Failure to make timely any of these payments could result in rescission of the settlement and result in the government having a very large claim against us, including penalties, and/or make us ineligible to participate in certain government funded healthcare programs, any of which could in turn significantly harm our business and financial condition.

In conjunction with the settlement of the government investigation related to our therapy practices, we entered into a corporate integrity agreement with the Office of the Inspector General of CMS. This agreement has a term of five years and imposes material burdens on the Company, its officers and directors to take actions designed to insure compliance with applicable healthcare laws, including requirements to maintain specific compliance positions within the Company, to report any non-compliance with the terms of the agreement, to return any overpayments received, to submit annual reports and for an annual audit of submitted claims by an independent review organization. The CIA sets forth penalties for non-compliance by the Company with the terms of the agreement, including possible exclusion from federally funded healthcare programs for material violations of the agreement.

In January 2009, a purported class action complaint was filed in the Circuit Court of Garland County, Arkansas against the Company and certain of its subsidiaries and Garland Nursing & Rehabilitation Center (the “Center”). The Company answered the original complaint in 2009, and there was no other activity in the case until May 2017. At that time, plaintiff filed an amended complaint asserting new causes of action. The amended complaint alleges that the defendants breached their statutory and contractual obligations to the patients of the Center over a multi-year period by failing to meet minimum staffing requirements, failing to otherwise adequately staff the Center and failing to provide a clean and safe living environment in the Center. The Company has filed an answer to the amended complaint denying plaintiffs’ allegations and has asked the Court to dismiss the new causes of action asserted in the amended complaint because the Company was prejudiced by plaintiff’s long delay in filing the amended complaint. The Court has not yet ruled on the motion to dismiss, so the lawsuit remains in its early stages and has not yet been certified by the court as a class action. The Company intends to defend the lawsuit vigorously.

We cannot currently predict with certainty the ultimate impact of any of the above cases on our financial condition, cash flows or results of operations. An unfavorable outcome in any of these lawsuits or any of our professional liability actions, any regulatory action, any investigation or lawsuit alleging violations of fraud and abuse laws or of elderly abuse laws or any state or Federal False Claims Act case could subject us to fines, penalties and damages, including exclusion from the Medicare or Medicaid programs, and could have a material adverse impact on our financial condition, cash flows or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information. Our common stock is traded on the OTCQX Market and began trading there on August 29, 2019. The Company's OTCQX ticker symbol is “DVCR.”

Our common stock has been traded since May 10, 1994. On February 28, 2020, the closing price for our common stock was $2.28, as reported by OTCMarkets.com.

Holders. On February 28, 2020, there were approximately 260 holders of record. Most of our shareholders have their holdings in the street name of their broker/dealer.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

Not applicable.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Diversicare Healthcare Services, Inc. provides long-term care services to nursing center patients in nine states, primarily in the Southeast, Midwest and Southwest. Our centers provide a range of health care services to their patients and residents. In addition to the nursing, personal care and social services usually provided in long-term care centers, we offer a variety of comprehensive rehabilitation services as well as nutritional support services. As of December 31, 2019, our continuing operations consist of 62 nursing centers with 7,329 licensed skilled nursing beds and 397 assisted-living and other residential beds. We own 15 and lease 47 of our nursing centers included in continuing operations. The Company's continuing operations include centers in Alabama, Florida, Indiana, Kansas, Mississippi, Missouri, Ohio, Tennessee, and Texas.

Key Performance Metrics

Skilled mix. Skilled mix represents the number of days our Medicare and Managed Care patients are receiving services at the skilled nursing facilities divided by the total number of days (less days from assisted living patients).

Average rate per day. Average rate per day is the revenue by payor source for a period at the skilled nursing facility divided by actual patient days for the revenue source for a given period.

Average daily skilled nursing census. Average daily skilled nursing census is the average number of patients who are receiving skilled nursing care.

Strategic Operating Initiatives

We identified several key strategic objectives to increase shareholder value through improved operations and business development. These strategic operating initiatives include: improving our facilities' quality metrics, improving skilled mix in our nursing centers, improving our average Medicare rate, maintaining Electronic Medical Records to improve Medicaid capture, and completing strategic acquisitions and divestitures. We have experienced success in these initiatives and expect to continue to build on these improvements.

Improving skilled mix and average Medicare rate:

One of our key performance indicators is skilled mix. We believe that our skilled mix is an important indicator of our success in attracting high-acuity patients because it represents the percentage of our patients who are reimbursed by Medicare, managed care and other skilled payors, for whom we receive higher reimbursement rates. Our strategic operating initiatives of improving our skilled mix and our average Medicare rate required investing in nursing and clinical care to treat more acute patients along with nursing center-based marketing representatives to attract these patients. These initiatives developed referral and Managed Care relationships that have attracted and are expected to continue to attract payor sources for patients covered by Medicare and Managed Care. The Company's skilled mix for the years ended December 31, 2019, 2018 and 2017 was 13.9%, 14.9% and 15.2%, respectively. For the past several years, census and skilled mix trends have been affected by healthcare reforms resulting in lower lengths of stay among our skilled patient population and lower admissions caused by initiatives among acute care providers, managed care payors and conveners to divert certain skilled nursing referrals to home health or other community-based care settings.

Utilizing Electronic Medical Records to improve Medicaid acuity capture:

As another part of our strategic operating initiatives, all of our nursing centers utilize EMR to improve Medicaid acuity capture, primarily in our states where the Medicaid payments are acuity based. By using EMR, we have increased our average Medicaid rate despite rate cuts in certain acuity based states by accurate and timely capture of care delivery.

Completing strategic transactions:

Our strategic operating initiatives include a renewed focus on completing strategic acquisitions and divestitures. We continue to pursue and investigate opportunities to acquire or lease new centers, focusing primarily on opportunities within our existing geographic areas of operation. As part of our strategic efforts, we have also performed thorough analysis on our existing centers in order to determine whether continuing operations within certain markets or regions is in line with the short-term and long-term strategy of the business.

On December 1, 2018, the Company completed the sale of the assets and transfer of the operations of Diversicare of Fulton, LLC, Diversicare of Clinton, LLC and Diversicare of Glasgow, LLC (the "Kentucky Properties") with Fulton Nursing and Rehabilitation LLC, Holiday Fulton Propco LLC, Birchwood Nursing and Rehabilitation LLC, Padgett Clinton Propco LLC, Westwood Nursing and Rehabilitation LLC, and Westwood Glasgow Propco for a purchase price of $18.7 million. On August 30, 2019, the Company terminated operations of ten centers in Kentucky and concurrently transferred operations to a new operator. These ten centers are collectively referred to as the "Kentucky Centers." The sale of the Kentucky Properties and the termination of operations at the Kentucky Centers are referred to collectively as the "Kentucky Exit." As a result of the Kentucky Exit, the Company no longer

operates any skilled nursing centers in the State of Kentucky. The Kentucky Exit represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results. In accordance with Accounting Standards Codification ("ASC 205"), the Company's discontinued operating results have been reclassified on the face of the financial statements and the footnotes to reflect the discontinued status of these operations. Refer to Note 3, "Discontinued Operations" to the consolidated financial statements.

On October 1, 2018, the Company entered into a New Master Lease Agreement (the "Lease") with Omega Healthcare Investors (the "Lessor") to lease 34 centers currently owned by Omega and operated by Diversicare. The old Master Lease with Omega provided for its operation of 23 skilled nursing centers in Texas, Kentucky, Alabama, Tennessee, Florida, and Ohio. Additionally, Diversicare operated 11 centers owned by Omega under separate leases in Missouri, Kentucky, Indiana, and Ohio. The Lease entered into by Diversicare and Omega consolidated the leases for all 34 centers under one New Maser Lease. The Lease was subsequently amended on August 30, 2019 when the Company terminated operations of ten centers in Kentucky and concurrently transferred operations to a new operator. The agreement effectively amended the Master Lease Agreement with the Lessor to remove the ten Kentucky Centers, reduce the annual rent expense, and release the Company from any further obligations arising under the Lease with respect to the Kentucky facilities. The remaining Lease terms remain unchanged with an initial term of twelve years and two optional 10-year extensions. The annual lease fixed escalator remains at 2.15% which began on October 1, 2019.

Basis of Financial Statements.

Our patient revenues consist of the fees charged for the care of patients in the nursing centers we own and lease. Our operating expenses include the costs, other than lease, depreciation and amortization expenses, incurred in the operation of the nursing centers we own and lease. Our general and administrative expenses consist of the costs of the corporate office and regional support functions. Our interest, depreciation and amortization expenses include all such expenses across the range of our operations.

Selected Financial and Operating Data

The following table summarizes the Diversicare statements of continuing operations for the years ended December 31, 2019, 2018 and 2017, and sets forth this data as a percentage of revenues for the same year:

	Year Ended December 31,					
	(Dollars in thousands)					
	2019		2018		2017	
Revenues:						
Patient revenues, net	$ 475,020	100.0 %	$ 476,122	100.0 %	$ 482,811	100.0 %
Expenses:						
Operating	380,870	80.2 %	381,178	80.1 %	389,916	80.8 %
Lease and rent expense	52,990	11.2 %	49,231	10.3 %	48,248	10.0 %
Professional liability	6,996	1.5 %	6,498	1.4 %	7,992	1.7 %
Litigation contingency expense	3,100	0.7 %	6,400	1.3 %	—	— %
General & administrative	28,009	5.9 %	30,237	6.4 %	31,342	6.5 %
Depreciation and amortization	9,122	1.9 %	9,991	2.1 %	9,252	1.9 %
Lease termination receipts	—	— %	—	— %	(180)	— %
	481,087	101.4 %	483,535	101.6 %	486,570	100.9 %
Operating loss	(6,067)	(1.4)%	(7,413)	(1.6)%	(3,759)	(0.9)%
Other income (expense):						
Other income	281	0.1 %	160	— %	472	0.1 %
Gain on bargain purchase	—	— %	—	— %	925	0.2 %
Gain on sale of investment in unconsolidated affiliate	—	— %	308	0.1 %	733	0.2 %
Hurricane costs	—	— %	—	— %	(232)	— %
Interest expense, net	(5,994)	(1.3)%	(5,533)	(1.2)%	(5,353)	(1.1)%
Debt retirement costs	—	— %	(267)	(0.1)%	—	— %
	(5,713)	(1.2)%	(5,332)	(1.2)%	(3,455)	(0.6)%
Loss from continuing operations before income taxes	(11,780)	(2.6)%	(12,745)	(2.8)%	(7,214)	(1.5)%
Benefit (provision) for income taxes	(15,694)	(3.3)%	1,481	0.3 %	(2,534)	(0.5)%
Loss from continuing operations	$ (27,474)	(5.9)%	$ (11,264)	(2.5)%	$ (9,748)	(2.0)%

The following table presents data about the centers we operated as part of our operations as of the dates:

	December 31,		
	2019	2018	2017
Licensed Nursing Center Beds:			
Owned	1,365	1,365	1,607
Leased	5,964	6,849	6,849
Total	7,329	8,214	8,456
Facilities:			
Owned	15	15	18
Leased	47	57	58
Total	62	72	76

Critical Accounting Policies and Judgments

A “critical accounting policy” is one which is both important to the understanding of our financial condition and results of operations and requires management's most difficult, subjective or complex judgments, often of the need to make estimates about the effect of matters that are inherently uncertain. Actual results could differ from those estimates and cause our reported net income (loss) to vary significantly from period to period. Our accounting policies that fit this definition include the following:

Revenues

Patient Revenues, Net

The Company adopted ASC 606, Revenue from Contracts with Customers, effective January 1, 2018, using the modified retrospective transition method. The Company uses an estimate of variable considerations to arrive at the transaction price, including methods and assumptions used to determine settlements with Medicare and Medicaid payors. Results for reporting periods beginning after January 1, 2018 are presented under ASC 606, while comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. See Note 4, “Revenue Recognition and Receivables.”

Professional Liability and Other Self-Insurance Reserves

Accrual for Professional and General Liability Claims

The Company has professional liability insurance coverage for its nursing centers that, based on historical claims experience, is likely to be substantially less than the claims that are expected to be incurred. Effective July 1, 2013, the Company established a wholly-owned, consolidated offshore limited purpose insurance subsidiary, SHC Risk Carriers, Inc. (“SHC”), which has issued a policy insuring claims made against all of the Company's nursing centers in Florida and Tennessee, several of the Company’s nursing centers in Alabama, Ohio, and Texas and several of the Company's prior nursing centers in Kentucky for claims prior to the transfer of such operation. The insurance coverage provided for these centers under the SHC policy include coverage limits of $1.0 million or $3.0 million per medical incident with a sublimit per center of $3.0 million and total annual aggregate policy limits of $5.0 million. All other centers within the Company’s portfolio are covered through various commercial insurance policies which provide coverage limits of $1.0 million per claim and have sublimits of $3.0 million per center, with varying aggregate policy limits and deductibles. The deductibles for these policies vary in amount and are covered through the insurance subsidiary.

Because our actual liability for existing and anticipated professional liability and general liability claims will exceed our limited insurance coverage, we have recorded total liabilities for reported professional liability claims and estimates for incurred but unreported claims of $27.4 million and $1.0 million of estimated insurance recovery receivables as of December 31, 2019, including $2.2 million for settlements that are expected to be paid in 2020, estimates of liability for incurred but not reported claims, estimates of liability for reported but unresolved claims, and estimates of related legal costs incurred and expected to be incurred. All losses are projected on an undiscounted basis. The payments due under the government settlement agreement are not included in this reserve.

The Company evaluates the adequacy of this liability on a quarterly basis. Semi-annually, the Company retains a third-party actuarial firm to assist in the evaluation of this reserve. Since May 2012, the actuary has assisted management in the preparation of the appropriate accrual for incurred but not reported general and professional liability claims based on data furnished as of May 31 and November 30 of each year. The actuary primarily utilizes historical data regarding the frequency and cost of the Company's past claims over a multi-year period, industry data and information regarding the number of occupied beds to develop its estimates of the Company's ultimate professional liability cost for current periods.

On a quarterly basis, we obtain reports of asserted claims and lawsuits from our insurers and a third party claims administrator. These reports contain information relevant to the liability actually incurred to date with that claim as well as the third-party administrator's estimate of the anticipated total cost of the claim. This information is reviewed by us quarterly and provided to the actuary semi-annually. We use this information to determine the timing of claims reporting and the development of reserves and compare the information obtained to our previously recorded estimates of liability. Based on the actual claim information obtained, on the semi-annual estimates received from the actuary and on estimates regarding the number and cost of additional claims anticipated in the future, the reserve estimate for a particular period may be revised upward or downward on a quarterly basis. Final determination of our actual liability for claims incurred in any given period is a process that takes years.

The Company's cash expenditures for self-insured professional liability costs from continuing operations were $4.6 million, $6.5 million and $6.6 million for the years ended December 31, 2019, 2018 and 2017, respectively.

Although we retain a third-party actuarial firm to assist us, professional and general liability claims are inherently uncertain, and the liability associated with anticipated claims is very difficult to estimate. Professional liability cases have a long cycle from the date of an incident to the date a case is resolved, and final determination of our actual liability for claims incurred in any given

period is a process that takes years. As a result, our actual liabilities may vary significantly from the accrual, and the amount of the accrual has and may continue to fluctuate by a material amount in any given quarter due to the significance of judgments and estimates.

Professional liability costs are material to our financial position, and changes in estimates, as well as differences between estimates and the ultimate amount of loss, may cause a material fluctuation in our reported results of operations. Our professional liability expense was $7.0 million, $6.5 million and $8.0 million for the years ended December 31, 2019, 2018 and 2017, respectively. These amounts are material in relation to our reported loss from continuing operations for the related periods of $27.5 million, $11.3 million and $9.7 million, respectively. The total liability recorded at December 31, 2019 was $27.4 million, compared to current assets of $72.3 million and total assets of $440.4 million.

Accrual for Other Self-Insured Claims

With respect to workers' compensation insurance, substantially all of our employees are covered under either a prefunded deductible policy or state-sponsored programs. We have been and remain a non-subscriber to the Texas workers' compensation system and are, therefore, completely self-insured for employee injuries with respect to our Texas operations. From June 30, 2003 until June 30, 2007, our workers' compensation insurance programs provided coverage for claims incurred with premium adjustments depending on incurred losses. For the period from July 1, 2008 through December 31, 2019, we are covered by a prefunded deductible policy. Under this policy, we are self-insured for the first $0.5 million per claim, subject to an aggregate maximum of $3.0 million. We fund a loss fund account with the insurer to pay for claims below the deductible. We account for premium expense under this policy based on its estimate of the level of claims subject to the policy deductibles expected to be incurred.

We are self-insured for health insurance benefits for certain employees and dependents for amounts up to $0.2 million per individual annually. We provide reserves for the settlement of outstanding self-insured health claims at amounts believed to be adequate, based on known claims and estimates of unknown claims based on historical information. The differences between actual settlements and reserves are included in expense in the period finalized. Our reserves for health insurance benefits can fluctuate materially from one year to the next depending on the number of significant health issues of our covered employees and their dependents.

Asset Impairment

We evaluate our property, equipment, right-of-use assets, and other long-lived assets on a quarterly basis to determine if facts and circumstances suggest that the assets may be impaired or that the estimated depreciable life of the asset may need to be changed for significant physical changes in the property, or significant adverse changes in general economic conditions, and significant deteriorations of the underlying cash flows or fair values of the property if impairment indicators exist. The need to recognize impairment is based on estimated undiscounted future cash flows from an asset compared to the carrying value of that asset. If recognition of impairment is necessary, it is measured as the amount by which the carrying amount of the asset exceeds the fair value of the asset.

No impairment of long lived assets was recognized during 2019, 2018, or 2017. If our estimates or assumptions with respect to an asset change in the future, we may be required to record impairment charges for our assets.

Business Combinations

For business combination transactions, we recognize and measure the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree, as well as the goodwill acquired or gain recognized in a bargain purchase, and we make certain valuations to determine the acquisition date fair value of assets acquired and the liabilities assumed. These valuations are subject to adjustments during the measurement period, not to exceed twelve-months from the acquisition date. Such valuations require us to make significant estimates, judgments and assumptions, including projections of future events and operating performance.

Stock-Based Compensation

We recognize compensation cost for all share-based payments granted on a straight-line basis over the vesting period. For restricted shares, we utilize the market price at the grant date in order to calculate the stock-based compensation expense to be recognized during the vesting period. During the years ended December 31, 2019, 2018, and 2017, we recorded charges of approximately $0.6 million, $1.1 million and $1.0 million in stock-based compensation, respectively. Stock-based compensation expense is a non-cash expense and such amounts are included as a component of general and administrative expense or operating expense based upon the classification of cash compensation paid to the related employees.

Income Taxes

Deferred tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at tax rates in effect when such temporary differences are expected to reverse. We generally expect to fully utilize our deferred tax assets; however, when necessary, we record a valuation allowance to reduce our net deferred tax assets to the amount that is more likely than not to be realized.

In determining the need for a valuation allowance or the need for and magnitude of liabilities for uncertain tax positions, we make certain estimates and assumptions. These estimates and assumptions are based on, among other things, knowledge of operations, markets, historical trends and likely future changes and, when appropriate, the opinions of advisors with knowledge and expertise in certain fields. Due to certain risks associated with our estimates and assumptions, actual results could differ.

Contractual Obligations and Commercial Commitments

We have certain contractual obligations of continuing operations as of December 31, 2019, summarized by the period in which payment is due, as follows (dollar amounts in thousands):

Contractual Obligations	Total	Less than 1 year	1 to 3 Years	3 to 5 Years	After 5 Years
Long-term debt obligations [1]	$ 81,239	$ 7,905	$ 73,283	$ 51	$ —
Settlement obligations [2]	2,230	2,230	—	—	—
Operating leases [3]	463,724	50,819	104,600	107,700	200,605
Required capital expenditures under operating leases [4]	18,698	2,081	4,162	4,161	8,294
Total	$ 565,891	$ 63,035	$ 182,045	$ 111,912	$ 208,899

(1) Long-term debt obligations include scheduled future payments of principal and interest of long-term debt and amounts outstanding on our finance lease obligations. Our long-term debt obligations decreased $3.6 million between December 31, 2018 and December 31, 2019. See Note 7, "Long-Term Debt, Interest Rate Swap and Finance Lease Obligations" to the consolidated financial statements included in this report for additional information.

(2) Settlement obligations relate to professional liability cases that are expected to be paid within the next twelve months. The professional liabilities are included in our current portion of self-insurance reserves.

(3) Represents minimum annual lease payments (exclusive of taxes, insurance, and maintenance costs) under our operating lease agreements, which does not include renewals. Our operating lease obligations decreased $161.2 million between December 31, 2018 and December 31, 2019, which was due to scheduled rent payments, as well as the exit from the State of Kentucky. See Note 6, "Leases" to the consolidated financial statements included in this report for additional information.

(4) Includes annual expenditure requirements under operating leases. Our required capital expenditures decreased $7.9 million between December 31, 2018 and December 31, 2019. The decrease is due to the exit from the State of Kentucky.

Employment Agreements

We have employment agreements with certain members of management that provide for the payment to these members of amounts up to two times their annual salary in the event of a termination without cause, a constructive discharge (as defined), or upon a change of control of the Company (as defined). The maximum contingent liability under these agreements is approximately $1.7 million as of December 31, 2019. The terms of such agreements are for one year and automatically renew for one year if not terminated by us or the employee.

Civil Investigative Demand

In February 2020, we entered into a settlement agreement in the amount of $9.5 million with the U.S. Department of Justice and the State of Tennessee of actions alleging violations of the federal False Claims Act in connection with our provision of therapy and the completion of certain resident admission forms. This settlement resolved an investigation that had begun in 2012 and covers the time period from January 1, 2010 through December 31, 2015. This agreement requires material annual payments for a period of five years ending in February 2025 and also requires a contingent payment in the event the Company sells any of its owned facilities during the five year payment period. Failure to make timely any of these payments could result in rescission of the settlement and result in the government having a very large claim against us, including penalties, and/or make us ineligible to participate in certain government funded healthcare programs, any of which could in turn significantly harm our business and financial condition.

In conjunction with the settlement of the government investigation related to our therapy practices, we entered into a corporate integrity agreement with the Office of the Inspector General of CMS. This agreement has a term of five years and imposes material burdens on the Company, its officers and directors to take actions designed to insure compliance with applicable healthcare laws, including requirements to maintain specific compliance positions within the Company, to report any non-compliance with the terms of the agreement, to return any overpayments received, to submit annual reports and for an annual audit of submitted claims by an independent review organization. The CIA sets forth penalties for non-compliance by the Company with the terms of the agreement, including possible exclusion from federally funded healthcare programs for material violations of the agreement.

Results of Operations

As discussed in the overview at the beginning of Management's Discussion and Analysis of Financial Condition and Results of Operations, we have completed certain divestitures, acquisitions and entered several new lease agreements. We have reclassified our Consolidated Financial Statements to present certain divestitures as discontinued operations for all periods presented. The following discussion only relates to our continuing operations.

(in thousands)	Year Ended December 31,			
	2019	2018	Change	%
PATIENT REVENUES, net	$ 475,020	$ 476,122	$ (1,102)	(0.2)%
EXPENSES:				
Operating	380,870	381,178	(308)	(0.1)%
Lease and rent expense	52,990	49,231	3,759	7.6 %
Professional liability	6,996	6,498	498	7.7 %
Litigation contingency expense	3,100	6,400	(3,300)	(51.6)%
General and administrative	28,009	30,237	(2,228)	(7.4)%
Depreciation and amortization	9,122	9,991	(869)	(8.7)%
Total expenses	481,087	483,535	(2,448)	(0.5)%
OPERATING LOSS	(6,067)	(7,413)	1,346	18.2 %
OTHER INCOME (EXPENSE):				
Other income	281	160	121	75.6 %
Gain on sale of investment in unconsolidated affiliate	—	308	(308)	(100.0)%
Interest expense, net	(5,994)	(5,533)	(461)	(8.3)%
Debt retirement costs	—	(267)	267	100.0 %
	(5,713)	(5,332)	(381)	(7.1)%
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(11,780)	(12,745)	965	7.6 %
BENEFIT (PROVISION) FOR INCOME TAXES	(15,694)	1,481	(17,175)	*N/M*
LOSS FROM CONTINUING OPERATIONS	$ (27,474)	$ (11,264)	$ (16,210)	(143.9)%
NET LOSS PER COMMON SHARE:				
Continuing operations per common share - basic	$ (4.25)	$ (1.77)	$ (2.48)	(140.1)%
Continuing operations per common share - dilutive	$ (4.25)	$ (1.77)	$ (2.48)	(140.1)%
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	6,459	6,372		
Dilutive	6,459	6,372		

N/M = Not Meaningful

(in thousands)	Year Ended December 31,			
	2018	2017	Change	%
PATIENT REVENUES, net	$ 476,122	$ 482,811	$ (6,689)	(1.4)%
EXPENSES:				
Operating	381,178	389,916	(8,738)	(2.2)%
Lease and rent expense	49,231	48,248	983	2.0 %
Professional liability	6,498	7,992	(1,494)	(18.7)%
Litigation contingency expense	6,400	—	6,400	100 %
General and administrative	30,237	31,342	(1,105)	(3.5)%
Depreciation and amortization	9,991	9,252	739	8.0 %
Lease termination receipts	—	(180)	180	100.0 %
Total expenses	483,535	486,570	(3,035)	(0.6)%
OPERATING LOSS	(7,413)	(3,759)	(3,654)	(97.2)%
OTHER INCOME (EXPENSE):				
Other income	160	472	(312)	(66.1)%
Gain on bargain purchase	—	925	(925)	(100.0)%
Gain on sale of investment in unconsolidated affiliate	308	733	(425)	(58.0)%
Hurricane costs	—	(232)	232	100.0 %
Interest expense, net	(5,533)	(5,353)	(180)	(3.4)%
Debt retirement costs	(267)	—	(267)	(100.0)%
	(5,332)	(3,455)	(1,877)	(54.3)%
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(12,745)	(7,214)	(5,531)	(76.7)%
BENEFIT (PROVISION) FOR INCOME TAXES	1,481	(2,534)	4,015	158.4 %
LOSS FROM CONTINUING OPERATIONS	$ (11,264)	$ (9,748)	$ (1,516)	(15.6)%
NET LOSS PER COMMON SHARE:				
Continuing operations per common share - basic	$ (1.77)	$ (1.55)	$ (0.22)	(14.2)%
Continuing operations per common share - dilutive	$ (1.77)	$ (1.55)	$ (0.22)	(14.2)%
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	6,372	6,279		
Dilutive	6,372	6,279		

Year Ended December 31, 2019 Compared With Year Ended December 31, 2018

Patient Revenues

Patient revenues were $475.0 million in 2019 and $476.1 million in 2018, a decrease of $1.1 million or 0.2%.

Our average Medicaid, Private and Medicare rates per patient day for the twelve months ended December 31, 2019 increased compared to the twelve months ended December 31, 2018, by 1.4%, 2.3%, and 2.2%, respectively, resulting in increases in revenue of $3.5 million, $0.8 million, and $2.2 million, respectively. Our Hospice and Managed Care average daily census for the twelve months ended December 31, 2019 increased 16.2% and 2.7%, respectively, resulting in $4.5 million and $1.0 million in additional revenue, respectively. Conversely, our Medicare and Private average daily census for the twelve months ended December 31, 2019 decreased 11.1% and 10.9%, respectively, resulting in revenue losses of $10.9 million and $4.0 million, respectively. The QIPP and IGT resulted in $1.2 million in additional revenues for the twelve months ended December 31, 2019

The following table summarizes key revenue and census statistics for continuing operations for each period:

	Year Ended December 31,	
	2019	**2018**
Skilled nursing occupancy	77.5%	78.1%
As a percent of total census:		
Medicaid census	68.9%	68.3%
Medicare census	9.3%	10.4%
Managed Care census	4.6%	4.5%
As a percent of total revenues:		
Medicaid revenues	46.9%	45.4%
Medicare revenues	17.0%	17.8%
Managed Care revenues	10.6%	10.3%
Average rate per day:		
Medicare	$ 462.39	$ 451.21
Medicaid	$ 179.25	$ 176.79
Managed Care	$ 392.94	$ 390.64

Operating Expense

Operating expense decreased to $380.9 million in 2019 from $381.2 million in 2018. Operating expense increased to 80.2% of revenue in 2019, compared to 80.1% of revenue in 2018.

The decrease in operating expenses is mostly attributable to a decrease in nursing and ancillary costs of $2.8 million for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018. This was offset by increases in health insurance costs of $2.4 million for the twelve months ended December 31, 2019 compared to the twelve months ended December 31, 2018.

One of the largest components of operating expenses is wages, which increased from $229.0 million for the twelve months ended December 31, 2018 to $229.3 million for the twelve months ended December 31, 2019.

Lease Expense

Lease expense increased to $53.0 million in 2019 from $49.2 million in 2018, an increase of $3.8 million, or 7.6%. The increase in lease expense was due to rent increases resulting from the New Master Lease Agreement with Omega Healthcare Investors and the impact of straight line rent expense. See Note 11, "Commitments and Contingencies" to the consolidated financial statements for further discussion of the New Master Lease Agreement.

Professional Liability

Professional liability expense was $7.0 million in 2019 compared to $6.5 million in 2018, an increase of $0.5 million, or 7.7%. Our cash expenditures for professional liability costs, including the State of Kentucky, were $4.6 million and $6.5 million for 2019 and 2018, respectively. Professional liability expense and cash expenditures fluctuate from year to year based respectively on the results of our third-party professional liability actuarial studies, the premium costs of purchased insurance, and on the costs incurred

in defending and settling existing claims. See “Liquidity and Capital Resources” for further discussion of the accrual for professional liability.

Litigation Contingency Expense

In June 2019, the Company and the U.S. Department of Justice reached an agreement in principle on the financial terms of a settlement regarding a civil investigative demand. In anticipation of the execution of final agreements and payment of a settlement amount of $9.5 million, the Company recorded an additional contingent liability related to the DOJ investigation of $3.1 million during the twelve months ended December 31, 2019 to increase our previously estimated and recorded liability related to this investigation. Refer to Note 11, "Commitments and Contingencies" to the consolidated financial statements for further discussion.

General and Administrative Expense

General and administrative expenses were approximately $28.0 million in 2019 compared to $30.2 million in 2018, a decrease of $2.2 million, or 7.4%. The decrease in general and administrative expense is mainly attributable to $1.2 million of executive severance expense for the twelve months ended December 31, 2018. The remaining change is due to a decrease in salaries and related taxes of $0.6 million for the twelve months ended December 31, 2019 as compared to the twelve months ended December 31, 2018.

Depreciation and Amortization

Depreciation and amortization expense was approximately $9.1 million in 2019 and $10.0 million in 2018, a decrease of $0.9 million, or 8.7%. The decrease in depreciation and amortization expense relates to a decrease in capital expenditures.

Interest Expense, Net

Interest expense has increased to $6.0 million in 2019 compared to $5.5 million in 2018, an increase of $0.5 million. The increase was primarily attributable to outstanding borrowings on our loan facilities.

Loss from Continuing Operations before Income Taxes; Loss from Continuing Operations per Common Share

As a result of the above, continuing operations reported a loss before taxes of $11.8 million in 2019, as compared to a loss before taxes of $12.7 million in 2018. The provision for income taxes was $15.7 million in 2019, resulting in an effective rate of 133.2%. The benefit for income taxes was $1.5 million in 2018, resulting in an effective rate of 11.6%. The fluctuation is attributable to a full valuation allowance of $21.9 million in 2019. The basic and diluted loss per common share from continuing operations were $4.25 and $4.25 in 2019, respectively, compared to a basic and diluted loss per common share from continuing operations of $1.77 and $1.77 in 2018, respectively.

Year Ended December 31, 2018 Compared With Year Ended December 31, 2017

Patient Revenues

Patient revenues were $476.1 million in 2018 and $482.8 million in 2017, a decrease of $6.7 million or 1.4%. The difference between patient revenues for 2018 is primarily due to the implementation of ASC 606. Refer to Note 4, "Revenue Recognition and Receivables" to the consolidated financial statements. The following table summarizes the revenue fluctuations attributable to our portfolio growth (in thousands):

	Year Ended December 31,		
	2018	2017	
	As reported	As reported	Change
Same-store revenue	$ 466,826	$ 472,910	$ (6,084)
2017 acquisition revenue	9,296	4,553	4,743
2017 disposition revenue	—	5,348	(5,348)
Total revenue	$ 476,122	$ 482,811	$ (6,689)

Revenue increased by $6.7 million, which is primarily attributable to revenue contributions from the acquisition of a center in Alabama ("Park Place") during the third quarter of 2017 of $4.7 million. The increase from the acquisition activity was offset by a decrease in revenues attributable to the 2017 disposition of a center in Mississippi ("Carthage") of $5.3 million. Refer to Note 2, "Business Developments" to the consolidated financial statements. The increase in same store revenue of $6.1 million is explained in more detail below.

The following table summarizes key revenue and census statistics for continuing operations for each period:

	Year Ended December 31,	
	2018	2017
	As reported	As reported
Skilled nursing occupancy	78.1%	78.7%
As a percent of total census:		
Medicaid census	68.3%	68.4%
Medicare census	10.4%	10.9%
Managed Care census	4.5%	4.3%
As a percent of total revenues:		
Medicaid revenues	51.8%	51.6%
Medicare revenues	24.1%	25.3%
Managed Care revenues	8.7%	8.1%
Average rate per day:		
Medicare	$ 451.21	$ 452.52
Medicaid	$ 176.79	$ 172.62
Managed Care	$ 390.64	$ 378.15

The average Medicaid rate per patient day for same-store nursing centers in 2018 increased 2.4% compared to 2017, resulting in an increase in revenue of $5.9 million. This average rate per day for Medicaid patients is the result of rate increases in certain states and increasing patient acuity levels. The average Managed Care, Hospice, and Private rate per patient day for same-store nursing centers in 2018 increased 3.4%, 4.5%, and 3.1%, respectively, compared to 2017, resulting in an increase in revenue of $1.2 million, $1.0 million, and $1.2 million, respectively.

Our total average daily census decreased by approximately 2.6% compared to 2017. On a same-store basis, our Medicare, Medicaid and Private average daily census for 2018 decreased compared to 2017, resulting in decreases in revenue of $5.8 million, $2.9 million and $3.4 million, respectively. Conversely, our Managed Care and Hospice average daily census increased in 2018 compared to 2017 by $1.5 million and $3.7 million, respectively. Additionally, our ancillary revenue increased by $2.3 million in 2018 compared to 2017.

Operating Expense

Operating expense decreased to $381.2 million in 2018 from $389.9 million in 2017. The difference between operating expenses for 2018 is primarily due to the implementation of ASC 606. Refer to Note 4, "Revenue Recognition and Receivables" to the consolidated financial statements. Operating expense decreased from 80.8% of revenue in 2017 to 80.1% of revenue in 2018. The following table summarizes the operating expense fluctuations attributable to our portfolio growth (in thousands):

	Year Ended December 31,		
	2018	2017	
	As reported	As reported	Change
Same-store operating expenses	$ 374,356	$ 382,134	$ (7,778)
2017 acquisition operating expenses	6,822	3,640	$ 3,182
2017 disposition operating expenses	—	4,142	$ (4,142)
Total operating expenses	$ 381,178	$ 389,916	(8,738)

The difference between operating expenses for 2018 is primarily due to the implementation of ASC 606. Refer to Note 4, "Revenue Recognition and Receivables" to the consolidated financial statements. Same-store operating expenses decreased by $7.8 million, which is primarily attributable to the implementation of ASC 606. Same-store operating salaries and related taxes increased by $2.3 million. Our same-store legal and accounting fees increased by $1.1 million.

Lease Expense

Lease expense increased to $49.2 million in 2018 from $48.2 million in 2017, an increase of $1.0 million, or 2.0%. The increase in lease expense was due to rent increases resulting from the New Master Lease Agreement with Omega Healthcare Investors and the impact of straight line rent expense. See Note 11, "Commitments and Contingencies" to the consolidated financial statements for further discussion of the New Master Lease Agreement.

Professional Liability

Professional liability expense was $6.5 million in 2018 compared to $8.0 million in 2017, a decrease of $1.5 million, or 18.7%. Our cash expenditures for professional liability costs, including the State of Kentucky, were $6.5 million and $6.6 million for 2018 and 2017, respectively. Professional liability expense and cash expenditures fluctuate from year to year based respectively on the results of our third-party professional liability actuarial studies, the premium costs of purchased insurance, and on the costs incurred in defending and settling existing claims. See “Liquidity and Capital Resources” for further discussion of the accrual for professional liability.

Litigation Contingency Expense

The Company recorded a contingent liability related to the DOJ investigation for $6.4 million in 2018. In June 2019, the Company and the U.S. Department of Justice reached an agreement in principle on the financial terms of a settlement regarding the civil investigative demand. Refer to Note 11, "Commitments and Contingencies" to the consolidated financial statements for further discussion of the investigation.

General and Administrative Expense

General and administrative expenses were approximately $30.2 million in 2018 compared to $31.3 million in 2017, a decrease of $1.1 million, or 3.5%. The overall decrease in general and administrative expenses was attributable to a $1.1 million decrease in salaries and related expenses.

Depreciation and Amortization

Depreciation and amortization expense was approximately $10.0 million in 2018 and $9.3 million in 2017, an increase of $0.7 million, or 8.0%. The increase in depreciation and amortization expense relates to capital expenditures.

Lease termination receipts

The Company ceased operations at our Carthage, Mississippi, center in September 2017, which resulted in a $0.2 million cash termination receipt, net of legal costs.

Gain on bargain purchase

The Company acquired the operations and assets of a center in Selma, Alabama in July 2017. In connection with the business combination, we recognized $0.9 million gain on bargain purchase.

Gain on sale of investment in unconsolidated affiliate

Gain on the sale of investment in unconsolidated affiliate was $0.3 million and $0.7 million for 2018 and 2017, respectively. The additional gains recognized in 2018 and 2017 are related to the final liquidation of remaining net assets affiliated with the partnership.

Hurricane costs

Hurricane costs of $0.2 million were incurred in 2017, which related to Hurricanes Harvey and Irma.

Interest Expense, Net

Interest expense increased to $5.5 million in 2018 compared to $5.4 million in 2017, an increase of $0.1 million. The increase was primarily attributable to outstanding borrowings on our loan facilities.

Debt retirement costs

Debt retirement costs were $0.3 million in 2018 as a result of a reduction of the debt balances for the Mortgage Loan and Revolver in connection with the latest amendments to our financing agreements. See Note 7, "Long-Term Debt, Interest Rate Swap and Finance Lease Obligations" to the consolidated financial statements for further discussion on the amended debt agreement.

Loss from Continuing Operations before Income Taxes; Loss from Continuing Operations per Common Share

As a result of the above, continuing operations reported a loss before taxes of $12.7 million in 2018, as compared to income before taxes of $7.2 million in 2017. The benefit for income taxes was $1.5 million in 2018, resulting in an effective rate of 11.6%. The provision for income taxes was $2.5 million in 2017, resulting in an effective rate of 35.1%. The higher effective tax rate in 2017 reflects the impact of a revaluation of our net deferred tax assets of $5.5 million as a result of the Tax Act. The basic and diluted loss per common share from continuing operations were $1.77 and $1.77 in 2018, respectively, compared to a basic and diluted loss per common share from continuing operations of $1.55 and $1.55 in 2017, respectively.

Liquidity and Capital Resources

Liquidity

Our primary source of liquidity is the net cash flows provided by the operating activities of our centers. These internally generated cash flows are used to service existing debt obligations, fund required capital expenditures as well as provide cash flows for investing opportunities. In determining priorities for our cash flow, we evaluate alternatives available to us and select the ones that we believe will most benefit us over the long term. Options for our cash include, but are not limited to, capital improvements, acquisitions, and payment of existing debt obligations, as well as initiatives to improve nursing center performance. We review these potential uses and align them to our cash flows with a goal of achieving long-term success.

Net cash provided by operating activities of continuing operations totaled $12.3 million, $5.7 million, and $2.1 million in 2019, 2018, and 2017, respectively. The increase in cash provided by operating activities between 2019 and 2018 is due to increased collections of accounts receivable, which was slightly offset by an increase in accounts payable and accrued expenses. Additionally, we recognized a decrease of $3.3 million in loss contingency expense period over period. The cash provided by continuing operations increased $3.6 million from $5.7 million in 2017 to $2.1 million in 2018. Operating activities of discontinued operations used cash of $7.0 million and $0.1 million in 2019 and 2018, respectively, and provided cash of $10.0 million in 2017.

Our cash expenditures related to professional liability claims were $4.6 million, $6.5 million and $6.6 million for 2019, 2018 and 2017, respectively. Although we work diligently to limit the cash required to settle and defend professional liability claims, a significant judgment entered against us in one or more legal actions could have a material adverse impact on our cash flows and could result in our being unable to meet all of our cash needs as they become due.

Investing activities of continuing operations used cash of $5.0 million, $7.2 million, $16.1 million in 2019, 2018, and 2017, respectively. The decrease in cash used in continuing operations was due to a decrease in capital expenditures. The change in our cash from investing activities between 2018 and 2017 is attributable to the asset purchase of Park Place in Selma, Alabama in July 2017 for $8.8 million. Net cash provided by investing activities of discontinued operations in 2018 totaled $17.7 million and used cash of $1.3 million in 2017. The cash provided by investing activities of discontinued operations during 2018 is due to the sale of Diversicare of Fulton, LLC, Diversicare of Clinton, LLC and Diversicare of Glasgow, LLC (the "Kentucky Properties") on December 1, 2018 for $18.7 million. The proceeds from the sale were immediately applied to our outstanding borrowings on our mortgage and revolver facilities, which is in accordance with our debt agreements. We have used $5.0 million, $7.5 million, and $8.4 million in 2019, 2018 and 2017, respectively, for capital expenditures of continuing operations.

Net cash used in financing activities of continuing operations were $0.3 million and $16.9 million in 2019 and 2018, respectively, compared to net cash provided by financing activities of continuing operations of $4.6 million in 2017. The decrease in cash used in financing activities between 2019 and 2018 is due to the decrease in net repayments of $14.9 million. The significant decrease

in net repayments of debt obligations is due to the proceeds received from the sale of three Kentucky centers of $18.7 million, which was immediately used to relieve debt on our mortgage and revolver facilities in 2018. See Note 7, "Long-Term Debt, Interest Rate Swap and Finance Lease Obligations" to the consolidated financial statements for further discussion on the amended debt agreement related to the sale of the Kentucky centers. Cash provided by financing activities in 2017 is primarily due to draws on the Company's revolving credit facility of $21.0 million, acquisition revolver of $8.5 million and amending our credit facility resulting in proceeds of $7.5 million. The proceeds received were offset by repayments of $30.2 million. Financing activities reflect dividends on common stock of $1.1 million in 2018, and $1.4 million in 2017.

Professional Liability

The Company has professional liability insurance coverage for its nursing centers that, based on historical claims experience, is likely to be substantially less than the claims that are expected to be incurred. Effective July 1, 2013, the Company established a wholly-owned, consolidated offshore limited purpose insurance subsidiary, SHC, which has issued a policy insuring claims made against all of the Company's nursing centers in Florida and Tennessee, and several of the Company’s nursing centers in Alabama, Kentucky, Ohio, and Texas. The insurance coverage provided for these centers under the SHC policy include coverage limits of $1.0 million or $3.0 million per medical incident with a sublimit per center of $3.0 million and total annual aggregate policy limits of $5.0 million. All other centers within the Company’s portfolio are covered through various commercial insurance policies which provide coverage limits of $1.0 million per claim and have sublimits of $3.0 million per center, with varying aggregate policy limits and deductibles. The deductibles for these policies are covered through the insurance subsidiary.

As of December 31, 2019, we have recorded total liabilities for reported professional liability claims and estimates for incurred, but unreported claims of $27.4 million. Our calculation of this estimated liability is based on the Company's best estimates of the likelihood of adverse judgments with respect to any asserted claim; however, a significant judgment could be entered against us in one or more of these legal actions, and such a judgment could have a material adverse impact on our financial position and cash flows.

Capital Resources

As of December 31, 2019, we had $75.0 million of outstanding long-term debt and capital lease obligations. The $75.0 million total includes $0.9 million in capital lease obligations. The balance of the long-term debt is comprised of $49.7 million owed on our collateralized mortgage debt, $14.0 million currently outstanding on a revolving credit facility, $1.0 million on an affiliated revolver, and $9.4 million on the acquisition loan facility.

Under the terms of the agreements, a syndicate of banks provided a mortgage loan with an original balance of $80.0 million with a five year maturity through February 26, 2021, consisting of $67.5 million term and $12.5 million acquisition loan facilities ("Amended Mortgage Loan"), and a $42.3 million revolver through February 26, 2021 ("Amended Revolver"). The Amended Mortgage Loan has a term of five years, with principal and interest payable monthly based on a 25 year amortization. Interest on the term and acquisition loan facilities are based on LIBOR plus 4.0% and 4.75%, respectively. A portion of the Amended Mortgage Loan is effectively fixed at 5.79% pursuant to an interest rate swap with an initial notional amount of $30.0 million. The Amended Mortgage Loan balance was $59.1 million as of December 31, 2019, consisting of $49.7 million on the term loan facility with an interest rate of 5.8% and $9.4 million on the acquisition loan facility with an interest rate of 6.5%. The Amended Mortgage Loan is secured by 15 owned nursing centers, related equipment and a lien on the accounts receivable of these centers. The Amended Mortgage Loan and the revolvers are cross-collateralized and cross-defaulted. The Company's revolvers have an interest rate of LIBOR plus 4.0% and are secured by accounts receivable and are subject to limits on the maximum amount of loans that can be outstanding under the revolvers based on borrowing base restrictions. Eligible accounts receivable are calculated as defined and consider 80% of certain net receivables while excluding receivables from private pay patients, those pending approval by Medicaid and receivables greater than 120 days.

As of December 31, 2019, the Company had $15.0 million in borrowings outstanding under its revolvers compared to $15.0 million outstanding as of December 31, 2018. The interest rate related to the revolvers was 5.75% as of December 31, 2019. The outstanding borrowings on the revolvers were used primarily for temporary working capital requirements. Annual fees for letters of credit issued under the Amended Revolver are 3.0% of the amount outstanding. The Company has 4 letters of credit with a total value of $12.1 million outstanding as of December 31, 2019. Considering the balance of eligible accounts receivable, the letters of credit, the amounts outstanding under the revolvers and the maximum loan amount of $31.6 million, the balance available for borrowing under the revolvers was $5.8 million at December 31, 2019.

Our lending agreements contain various financial covenants, the most restrictive of which relate to debt service coverage ratios. We are in compliance with all such covenants, exclusive of the minimum guarantor fixed charge coverage ratio related to the Amended Revolver and the Amended Mortgage Loan, which was due to the exit from the State of Kentucky and and the related impact on our operating activities. We obtained a waiver of this covenant from our syndicate of banks for the period ending

December 31, 2019 in connection with an amendment to our credit facility effective February 25, 2020. See Note 13, "Subsequent Events" to the consolidated financial statements for further discussion on the amended debt agreement.

Our calculated compliance with financial covenants is presented below:

	Requirement	Level at December 31, 2019
Credit Facility:		
Minimum fixed charge coverage ratio	1.01:1.00	Waived
Minimum adjusted EBITDA	$9.5 million	$10.0 million
Current ratio (as defined in agreement)	1.00:1.00	1.20:1.00
Mortgaged Centers:		
EBITDAR (mortgaged centers)	$10.0 million	$13.9 million
Affiliated Revolver:		
Minimum fixed charge coverage ratio	1:00:1:00	1.30:1:00
Minimum adjusted EBITDA	$0.8 million	$0.9 million

As part of the debt agreements entered into in February 2016, the Company entered into an interest rate swap agreement with a member of the bank syndicate as the counterparty. The interest rate swap agreement has the same effective date and maturity date as the Amended Mortgage Loan, and carries an initial notional amount of $30.0 million. The interest rate swap agreement requires the Company to make fixed rate payments to the bank calculated on the applicable notional amount at an annual fixed rate of 5.79% while the bank is obligated to make payments to us based on LIBOR on the same notional amounts. We entered into the interest rate swap agreement to mitigate the variable interest rate risk on our outstanding mortgage borrowings.

Exchange Listing

As previously disclosed, on June 19, 2019, the Company received written notification from Nasdaq stating that the Company's Common Stock was subject to delisting from Nasdaq, pending the Company's opportunity to request a hearing before the Nasdaq Hearings Panel. The Company appealed the Notification on August 22, 2019. On August 27, 2019, the Company was notified by the Panel that it denied the Company's appeal and determined to delist the Company's Common Stock from the Nasdaq Capital Market. Accordingly, the trading of the Company's Common Stock was suspended on the Nasdaq Capital Market at the opening of business on August 29, 2019 and the Company's Common stock began trading on the OTCQX under the trading symbol "DVCR." On October 11, 2019 Nasdaq filed a Form 25 with the Securities & Exchange Commission to effect the formal delisting of the Company's common stock from the Nasdaq Capital Market, which became effective October 21, 2019. The Form 25 filing did not cause the removal of any shares of the Company's common stock from registration under the Exchange Act. The Company remains subject to the periodic reporting requirements of the Exchange Act. Delisting from Nasdaq may adversely affect our ability to raise additional financing through the public or private sale of equity securities.

Finance Lease Obligations

Upon acquisition of certain centers, we assume certain leases, primarily related to equipment, that constitute capital leases. Additionally, the Company leases certain technology equipment that supports the clinical systems, including electronic medical records, at our nursing centers that constitute capital leases.

As a result of the lease agreements above, we have recorded the underlying lease assets and finance lease obligations of $0.9 million, $0.9 million, and $1.4 million as of December 31, 2019, 2018, and 2017, respectively. These lease agreements provide terms of three to five years.

Receivables

Our operations could be adversely affected if we experience significant delays in reimbursement from Medicare, Medicaid and other third-party revenue sources. Our future liquidity will continue to be dependent upon the relative amounts of current assets (principally cash, accounts receivable and inventories) and current liabilities (principally accounts payable and accrued expenses). In that regard, accounts receivable can have a significant impact on our liquidity. Continued efforts by governmental and third-party payors to contain or reduce the acceleration of costs by monitoring reimbursement rates, by increasing medical review of bills for services, or by negotiating reduced contract rates, as well as any delay by us in the processing of our invoices, could adversely affect our liquidity and financial position.

Net accounts receivable attributable to patient services of continuing operations totaled $60.5 million at December 31, 2019 compared to $66.3 million at December 31, 2018, representing approximately 54 days and 50 days revenue in accounts receivable, respectively. The decrease in net accounts receivable was due to the exit from the State of Kentucky. We continue to evaluate and implement additional procedures to strengthen our collection efforts and reduce the incidence of uncollectible accounts.

Inflation

Based on contract pricing for food and other supplies and recent market conditions, we expect cost increases in 2020 to be relatively the same or slightly lower than the increases in 2019. We expect salary and wage increases for our skilled health care providers to continue to be higher than average salary and wage increases, as is common in the healthcare industry.

Off-Balance Sheet Arrangements

We have four letters of credit outstanding totaling approximately $12.1 million as of December 31, 2019. The letters of credit serve as security deposits for certain center leases. The letters of credit were issued under our revolving credit facility. Our accounts receivable serve as the collateral for this revolving credit facility.

Forward-Looking Statements

The foregoing discussion and analysis provides information deemed by management to be relevant to an assessment and understanding of our consolidated results of operations and financial condition. This discussion and analysis should be read in conjunction with our consolidated financial statements included herein. Certain statements made by or on behalf of us, including those contained in this “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and elsewhere, are forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those contemplated by the forward-looking statements made herein. Forward-looking statements are predictive in nature and are frequently identified by the use of terms such as "may," "will," "should," "expect," "believe," "estimate," "intend," and similar words indicating possible future expectations, events or actions. In addition to any assumptions and other factors referred to specifically in connection with such statements, other factors, many of which are beyond our ability to control or predict, could cause our actual results to differ materially from the results expressed or implied in any forward-looking statements including, but not limited to:

- our ability to successfully operate all of our centers,
- our ability to increase census and occupancy rates at our centers,
- changes in governmental reimbursement, including the new Patient-Driven Payment Model that was implemented in October 2019,
- our ability to comply with the Settlement Agreement entered with the Department of Justice and the State of Tennessee,
- our ability to comply with the Corporate Integrity Agreement entered in conjunction with the Settlement Agreement with the government, including the results of annual claims audits required thereunder.
- government regulation,
- the impact of the Affordable Care Act, efforts to repeal or further modify the Affordable Care Act, and other health care reform initiatives,
- any increases in the cost of borrowing under our credit agreements,
- our ability to comply with covenants contained in those credit agreements,
- our ability to extend or replace our current credit facility,
- our ability to comply with the terms of our master lease agreements,
- our ability to renew or extend our leases at or prior to the end of the existing lease terms,
- the outcome of professional liability lawsuits and claims, including claims related to our discontinued operations,
- our ability to control ultimate professional liability costs,
- the accuracy of our estimate of our anticipated professional liability expense,
- the impact of future licensing surveys,
- laws and regulations governing quality of care or other laws and regulations applicable to our business including HIPAA and laws governing reimbursement from government payors,
- the costs of investing in our business initiatives and development,

- our ability to control costs,
- our ability to attract and retain qualified healthcare professionals,
- changes to our valuation of deferred tax assets,
- changing economic and competitive conditions,
- changes in anticipated revenue and cost growth,
- changes in the anticipated results of operations,
- the effect of changes in accounting policies as well as others.

Investors also should refer to the risks identified in this “Management's Discussion and Analysis of Financial Condition and Results of Operations” as well as risks identified in “Part I. Item 1A. Risk Factors” for a discussion of various risk factors of the Company and that are inherent in the health care industry. 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. These assumptions may not materialize to the extent assumed, and risks and uncertainties may cause actual results to be different from anticipated results. These risks and uncertainties also may result in changes to the Company’s business plans and prospects. Such cautionary statements identify important factors that could cause our actual results to materially differ from those projected in forward-looking statements. In addition, we disclaim any intent or obligation to update these forward-looking statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The chief market risk factor affecting our financial condition and operating results is interest rate risk. As of December 31, 2019, we had outstanding borrowings of approximately $74.1 million, $47.4 million of which were subject to variable interest rates. In connection with February 2016 financing agreement, we entered into an interest rate swap with respect to one half of the Amended Mortgage Loan to mitigate the floating interest rate risk of such borrowing. In the event that interest rates were to change 1%, the impact on future pre-tax cash flows would be approximately $0.5 million annually, representing the impact of increased or decreased interest expense on variable rate debt.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Audited financial statements are contained on pages F-1 through F-35 of this Annual Report on Form 10-K and are incorporated herein by reference. Audited supplemental schedule data is contained on pages S-1 through S-2 of this Annual Report on Form 10-K and is incorporated herein by reference.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Diversicare, with the participation of our principal executive and financial officers, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of December 31, 2019. Based on this evaluation, the principal executive and financial officers have determined that such disclosure controls and procedures are effective to ensure that information required to be disclosed in our filings under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities Exchange Commission's rules and forms.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended). Our management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2019. Management reviewed the results of its assessment with our Audit Committee.

Changes in Internal Control over Financial Reporting

There has been no change (including corrective actions with regard to significant deficiencies or material weaknesses) in our internal control over financial reporting that has occurred during our fiscal quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our management does not expect that our disclosure controls and procedures or our internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information concerning our Directors, Executive Officers and Corporate Governance is incorporated herein by reference to our definitive proxy statement for our 2020 Annual Meeting of Shareholders, which we will file within 120 days of the end of the fiscal year to which this Report relates.

ITEM 11. EXECUTIVE COMPENSATION

Information concerning Executive Compensation is incorporated herein by reference to our definitive proxy statement for our 2020 Annual Meeting of Shareholders, which we will file within 120 days of the end of the fiscal year to which this Report relates.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SHAREHOLDER MATTERS

Information concerning Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters is incorporated herein by reference to our definitive proxy statement for our 2020 Annual Meeting of Shareholders, which we will file within 120 days of the end of the fiscal year to which this Report relates.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information concerning Certain Relationships and Related Transactions, and Director Independence is incorporated herein by reference to our definitive proxy statement for our 2020 Annual Meeting of Shareholders, which we will file within 120 days of the end of the fiscal year to which this Report relates.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information concerning the fees and services provided by our principal accountant is incorporated herein by reference to our definitive proxy statement for our 2020 Annual Meeting of Shareholders, which we will file within 120 days of the end of the fiscal year to which this Report relates.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

The Financial statements and schedule for us and our subsidiaries required to be included in Part II, Item 8 are listed below.

Exhibits

The exhibits filed as part of this Report on Form 10-K are listed in the Exhibit Index below.

ITEM 16. FORM 10-K SUMMARY

None.

Exhibit Number		Description of Exhibits
3.1		Certificate of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement No. 33-76150 on Form S-1, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
3.2		Certificate of Designation of Registrant (incorporated by reference to Exhibit 3.5 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2006).
3.3		Bylaws of the Company (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement No. 33-76150 on Form S-1, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
3.4		Bylaw Amendment adopted November 5, 2007 (incorporated by reference to Exhibit 3.4 to the Company's annual report on Form 10-K for the year ended December 31, 2007).
3.5		Amendment to Certificate of Incorporation dated March 23, 1995 (incorporated by reference to Exhibit A of Exhibit 1 to the Company's Form 8-A filed March 30, 1995, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
3.6		Certificate of Designation of Registrant (incorporated by reference to Exhibit 3.4 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
3.7		Certificate of Ownership and Merger of Diversicare Healthcare Services, Inc. with and into Advocat Inc. (incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K filed March 14, 2013).
3.8		Amendment to Certificate of Incorporation dated June 9, 2016 (incorporated by reference to Exhibit 3.8 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2016).
3.9		Bylaw Second Amendment adopted April 14, 2016 (incorporated by reference to Exhibit 3.9 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2017.
4.1		Form of Common Stock Certificate (incorporated by reference to Exhibit 4 to the Company's Registration Statement No. 33-76150 on Form S-1, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
4.2		Description of each class of securities registered under Section 12 of the Exchange Act.
*10.1		Master Agreement and Supplemental Executive Retirement Plan (incorporated by reference to Exhibit 10.6 to the Company's Registration Statement No. 33-76150 on Form S-1, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
10.2		Form of Director Indemnification Agreement (incorporated by reference to Exhibit 10.8 to the Company's Registration Statement No. 33-76150 on Form S-1, filed in paper - hyperlink is not required pursuant to Rule 105 of Regulation S-T).
10.3		Management Agreement effective October 1, 2000, between Diversicare Leasing Corp. and Diversicare Management Services Co. (incorporated by reference to Exhibit 10.85 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2000).
*10.4		Advocat Inc. 2005 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 20, 2006).
*10.5		First Amendment to the Advocat Inc. 2005 Long-Term Incentive Plan (incorporated by reference to Exhibit 10.63 to the Company's annual report on Form 10-K for the year ended December 31, 2008).
*10.6		Advocat Inc. 2010 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 28, 2010).
*10.7		First Amendment to the Diversicare Healthcare Services, Inc. 2010 Long-Term Incentive Plan (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed on April 26, 2017).

*10.8		Advocat Inc. 2008 Stock Purchase Plan for Key Personnel (incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed May 2, 2008).
*10.9		Employment Agreement effective January 1, 2013, between Leslie Campbell and Advocat Inc. (incorporated by reference to Exhibit 10.49 to the Company's annual report on Form 10-K for the year ended December 31, 2012).
10.10		Second Amended and Restated Term Loan and Security Agreement dated February 26, 2016 (incorporated by reference to exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2016).
10.11		Second Amended and Restated Guaranty (Revolver) dated as of February 26, 2016, by the Company to and for the benefit of The PrivateBank in its capacity as administrative agent (incorporated by reference to Exhibit 10.29 to the Company's Annual Report of Form 10-K for the year ended December 31, 2018).
10.12		Second Amended and Restated Guaranty (Term) dated as of February 26, 2016, by the Company to and for the benefit of The PrivateBank in its capacity as administrative agent(incorporated by reference to Exhibit 10.30 to the Company's Annual Report of Form 10-K for the year ended December 31, 2018).
10.13		Third Amended and Restated Revolving Loan and Security Agreement dated February 26, 2016 (incorporated by reference to exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2016).
*10.14		Amendment to Diversicare Healthcare Services, Inc. 2008 Employee Stock Purchase Plan for Key Personnel (incorporated by reference to exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2016).
10.15		First Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated August 3, 2016 (incorporated by reference to exhibit 10.12 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2016).
10.16		First Amendment to Second Amended and Restated Term Loan and Security Agreement dated August 3, 2016 (incorporated by reference to exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2016).
10.17		Second Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated October 3, 2016 (incorporated by reference to exhibit 10.3 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2016).
10.18		Third Amendment to the Third Amended and Restated Revolving Loan and Security Agreement dated December 29, 2016 (incorporated by reference to Exhibit 10.55 to the Company's Annual Report of Form 10-K for the year ended December 31, 2016).
**10.19		Amended and Restated Golden Living Master Lease Agreement dated November 1, 2016 (incorporated by reference to Exhibit 10.57 to the Company's Annual Report of Form 10-K for the year ended December 31, 2016).
10.20		Fourth Amendment to the Third Amended and Restated Revolving Loan And Security Agreement dated June 30, 2017 (incorporated by reference to exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2017).
10.21		Second Amendment to the Second Amended and Restated Term Loan and Security Agreement dated June 30, 2017 (incorporated by reference to exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2017).
10.22		Fifth Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated February 27, 2018 (incorporated by reference to Exhibit 10.61 to the Company's Annual Report of Form 10-K for the year ended December 31, 2017).
10.23		Third Amendment to Second Amended and Restated Term Loan and Security Agreement dated February 27, 2018 (incorporated by reference to Exhibit 10.62 to the Company's Annual Report on Form 10-K for the year ended December 31, 2017).
*10.24		Kelly Gill Separation Agreement (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018).
*10.25		Employment Agreement effective September 10, 2018, between Kerry D. Massey and Diversicare Healthcare Services, Inc. (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed September 5, 2018).

*10.26		Amended Employment Agreement effective July 6, 2018, between James R. McKnight, Jr. and Diversicare Healthcare Services, Inc. (incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed September 20, 2018).
**10.27		Master Lease Agreement Effective October 1, 2018 by and between the Company and Omega Healthcare Investors (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018).
10.28		Amended and Restated Guaranty in favor of Omega Healthcare Investors, Inc. dated October 1, 2018. (incorporated by reference to Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018).
10.29		Amended and Restated Security Agreement dated October 1, 2018 by and among the Company and a syndicate of financial institutions and banks (incorporated by reference to Exhibit 10.48 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018).
10.30		Asset Purchase Agreement dated October 30, 2018 by and between Diversicare of Fulton, LLC, Diversicare of Fulton Properties, LLC, Diversicare of Clinton, LLC, Diversicare of Clinton Properties, LLC, Diversicare of Glasgow, LLC and Fulton Nursing and Rehabilitation LLC, Holiday Fulton Propco LLC, Birchwood Nursing and Rehabilitation LLC, Padgett Clinton Propco LLC and Westwood Nursing and Rehabilitation LLC (incorporated by reference to Exhibit 10.47 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018).
10.31		Fourth Amendment to Second Amended and Restated Term Loan and Security Agreement dated December 1, 2018 (incorporated by reference to Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018).
10.32		Sixth Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated December 1, 2018 (incorporated by reference to Exhibit 10.50 to the Company's Annual Report on Form 10-K for the year ended December 31, 2018).
10.33		Seventh Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated May 13, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019).
10.34		Fifth Amendment to Second Amended and Restated Term Loan and Security Agreement dated May 13, 2019 (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019).
10.35		First Amendment to Omega Master Lease Agreement dated August 20, 2019 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2019).
10.36		Eighth Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated February 25, 2020.
10.37		Sixth Amendment to Second Amended and Restated Term Loan and Security Agreement dated February 25, 2020.
10.38		First Amendment to Revolving Loan and Security Agreement dated February 25, 2020.
10.39		Settlement Agreement with the U.S. Department of Justice and the State of Tennessee dated February 14, 2020.
10.40		Corporate Integrity Agreement with the Office of the Inspector General of CMS dated February 14, 2020.
21		Subsidiaries of the Registrant.
23.1		Consent of BDO USA, LLP.
31.1		Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31.2		Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a).

32		Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b).
101.INS		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
101.SCH		Inline XBRL Taxonomy Extension Schema Document
101.CAL		Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB		Inline XBRL Taxonomy Extension Labels Linkbase Document
101.PRE		Inline XBRL Taxonomy Extension Presentation Linkbase Document

104		Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101

* Indicates management contract or compensatory plan or arrangement.

** Confidential treatment has been requested for portions of this exhibit

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

DIVERSICARE HEALTHCARE SERVICES, INC.

/s/ Chad A. McCurdy
Chad A. McCurdy
Chairman of the Board
March 5, 2020

/s/ James R. McKnight, Jr.
James R. McKnight, Jr.
President and Chief Executive Officer
(Principal Executive Officer)
March 5, 2020

/s/ Kerry D. Massey
Kerry D. Massey
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)
March 5, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Chad A. McCurdy
Chad A. McCurdy
Chairman of the Board and Director
March 5, 2020

/s/ Robert Z. Hensley
Robert Z. Hensley
Director
March 5, 2020

/s/ James R. McKnight, Jr.
James R. McKnight, Jr.
President and Chief Executive Officer
Director
March 5, 2020

/s/ Leslie K. Morgan
Leslie K. Morgan
Director
March 5, 2020

/s/ Robert A. McCabe, Jr.
Robert A. McCabe, Jr.
Director
March 5, 2020

/s/ Richard M. Brame
Richard M. Brame
Director
March 5, 2020

/s/ Ben R. Leedle, Jr.
Ben R. Leedle, Jr.
Director
March 5, 2020

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES

Consolidated Financial Statements
For the Years Ended December 31, 2019, 2018 and 2017
Together with Report of Independent Registered Public Accounting Firm

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and Board of Directors
Diversicare Healthcare Services, Inc.
Brentwood, Tennessee

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Diversicare Healthcare Services, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive loss, shareholders' equity (deficit), and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the accompanying index (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019**,** in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for leases effective January 1, 2019. The Company adopted FASB Accounting Standards Update 2016-02, *Leases* (ASC 842).

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2002.

Nashville, Tennessee
March 5, 2020

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018

(in thousands, except per share amounts)

ASSETS	2019	2018	LIABILITIES AND SHAREHOLDERS' DEFICIT	2019	2018
CURRENT ASSETS:			**CURRENT LIABILITIES:**		
Cash	$ 2,710	$ 2,685	Current portion of long-term debt and finance lease obligations	$ 3,498	$ 12,449
Receivables	60,521	66,257	Current portion of operating lease liability	23,736	—
Self-insurance receivables	1,011	4,475	Trade accounts payable	14,641	15,659
Other receivables	2,534	1,191	Current liabilities of discontinued operations	—	86
Prepaid expenses and other current assets	5,056	4,659	Accrued expenses:		
Income tax refundable	484	1,115	Payroll and employee benefits	16,780	19,471
Current assets of discontinued operations	—	155	Self-insurance reserves, current portion	13,829	13,158
Total current assets	72,316	80,537	Other current liabilities	11,545	9,522
			Total current liabilities	84,029	70,345
			NONCURRENT LIABILITIES:		
			Long-term debt and finance lease obligations, less current portion and deferred financing costs, net	70,637	60,984
PROPERTY AND EQUIPMENT, at cost	132,775	127,644	Operating lease liability, less current portion	295,636	—
Less accumulated depreciation and amortization	(85,020)	(76,801)	Self-insurance reserves, less current portion	16,291	16,057
Property and equipment, net	47,755	50,843	Litigation contingency	9,000	6,400
			Other noncurrent liabilities	1,691	6,656
			Total noncurrent liabilities	393,255	90,097
OTHER ASSETS:			**COMMITMENTS AND CONTINGENCIES**		
Operating lease right-of-use assets	310,238	—	**SHAREHOLDERS' DEFICIT:**		
Deferred income taxes, net	—	15,851	Common stock, authorized 20,000 shares, $.01 par value, 6,908 and 6,751 shares issued, and 6,676 and 6,519 shares outstanding, respectively	69	68
Deferred leasehold costs	—	206	Treasury stock at cost, 232 shares of common stock	(2,500)	(2,500)
Other noncurrent assets	4,323	3,244	Paid-in capital	24,026	23,413
Acquired leasehold interest, net	5,736	6,307	Accumulated deficit	(59,079)	(23,016)
Noncurrent assets of discontinued operations	—	2,256	Accumulated other comprehensive income	568	837
Total other assets	320,297	27,864	Total shareholders' deficit	(36,916)	(1,198)
	$ 440,368	$ 159,244		$ 440,368	$ 159,244

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

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)

	Years Ended December 31,		
	2019	2018	2017
PATIENT REVENUES, net	$ 475,020	$ 476,122	$ 482,811
EXPENSES:			
Operating	380,870	381,178	389,916
Lease and rent expense	52,990	49,231	48,248
Professional liability	6,996	6,498	7,992
Litigation contingency expense	3,100	6,400	—
General and administrative	28,009	30,237	31,342
Depreciation and amortization	9,122	9,991	9,252
Lease termination receipts	—	—	(180)
Total expenses	481,087	483,535	486,570
OPERATING LOSS	(6,067)	(7,413)	(3,759)
OTHER INCOME (EXPENSE):			
Other income	281	160	472
Gain on bargain purchase	—	—	925
Gain on sale of investment in unconsolidated affiliate	—	308	733
Hurricane costs	—	—	(232)
Interest expense, net	(5,994)	(5,533)	(5,353)
Debt retirement costs	—	(267)	—
Total other income (expense)	(5,713)	(5,332)	(3,455)
LOSS FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	(11,780)	(12,745)	(7,214)
BENEFIT (PROVISION) FOR INCOME TAXES	(15,694)	1,481	(2,534)
LOSS FROM CONTINUING OPERATIONS	(27,474)	(11,264)	(9,748)
INCOME (LOSS) FROM DISCONTINUED OPERATIONS:			
Operating income (loss), net of income tax provision of ($517), ($731) and ($4,209), respectively	(9,322)	(957)	4,921
Gain on lease modification, net of tax	733	—	—
Gain on sale of assets, net of tax	—	4,825	—
INCOME (LOSS) FROM DISCONTINUED OPERATIONS	(8,589)	3,868	4,921
NET LOSS	$ (36,063)	$ (7,396)	$ (4,827)
NET INCOME (LOSS) PER COMMON SHARE:			
Per common share – basic			
Continuing operations	$ (4.25)	$ (1.77)	$ (1.55)
Discontinued operations	(1.33)	0.61	0.78
	$ (5.58)	$ (1.16)	$ (0.77)
Per common share – diluted			
Continuing operations	$ (4.25)	$ (1.77)	$ (1.55)
Discontinued operations	(1.33)	0.61	0.78
	$ (5.58)	$ (1.16)	$ (0.77)
DIVIDENDS DECLARED PER SHARE OF COMMON STOCK	$ —	$ 0.17	$ 0.22
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:			
Basic	6,459	6,372	6,279
Diluted	6,459	6,372	6,279

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

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(in thousands)

	Years Ended December 31,		
	2019	**2018**	**2017**
NET LOSS	$ (36,063)	$ (7,396)	$ (4,827)
OTHER COMPREHENSIVE INCOME (LOSS):			
Change in fair value of cash flow hedge, net of tax	(269)	279	976
Less: reclassification adjustment for amounts recognized in net loss	—	(151)	(462)
Total other comprehensive income (loss)	(269)	128	514
COMPREHENSIVE LOSS	$ (36,332)	$ (7,268)	$ (4,313)

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

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (DEFICIT)
(in thousands)

	Common Stock		Treasury Stock					
	Shares Issued	Amount	Shares	Amount	Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
BALANCE, DECEMBER 31, 2016	6,592	$ 66	232	$ (2,500)	$ 21,935	$ (8,276)	$ 195	$ 11,420
Net loss	—	—	—	—	—	(4,827)	—	(4,827)
Common stock dividends declared	—	—	—	—	47	(1,431)	—	(1,384)
Issuance/redemption of equity grants, net	95	1	—	—	(95)	—	—	(94)
Interest rate cash flow hedge	—	—	—	—	—	—	514	514
Stock based compensation	—	—	—	—	833	—	—	833
BALANCE, DECEMBER 31, 2017	6,687	67	232	(2,500)	22,720	(14,534)	709	6,462
Net loss	—	—	—	—	—	(7,396)	—	(7,396)
Common stock dividends declared	—	—	—	—	31	(1,086)	—	(1,055)
Issuance/redemption of equity grants, net	64	1	—	—	(218)	—	—	(217)
Interest rate cash flow hedge	—	—	—	—	—	—	128	128
Stock based compensation	—	—	—	—	880	—	—	880
BALANCE, DECEMBER 31, 2018	6,751	68	232	(2,500)	23,413	(23,016)	837	(1,198)
Net loss	—	—	—	—	—	(36,063)	—	(36,063)
Issuance/redemption of equity grants, net	157	1	—	—	40	—	—	41
Interest rate cash flow hedge	—	—	—	—	—	—	(269)	(269)
Stock based compensation	—	—	—	—	573	—	—	573
BALANCE, DECEMBER 31, 2019	6,908	$ 69	232	$ (2,500)	$ 24,026	$ (59,079)	$ 568	$ (36,916)

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

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31,		
	2019	**2018**	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (36,063)	$ (7,396)	$ (4,827)
Income (loss) from discontinued operations	(8,589)	3,868	4,921
Loss from continuing operations	(27,474)	(11,264)	(9,748)
Adjustments to reconcile loss from continuing operations to net cash provided by operating activities:			
Depreciation and amortization	9,122	9,991	9,252
Provision for doubtful accounts	—	—	8,202
Deferred income tax provision (benefit)	15,421	(926)	2,040
Provision for self-insured professional liability, net of cash payments	4,739	2,325	1,342
Stock based and deferred compensation	573	1,127	1,027
Debt retirement costs	—	267	—
Provision for leases, net of cash payments	3,897	(106)	(936)
Amortization of right-of-use assets	21,890	—	—
Litigation contingency expense	3,100	6,400	—
Gain on sale of assets and unconsolidated affiliate	—	(308)	(733)
Gain on bargain purchase	—	—	(925)
Deferred bonus	—	—	761
Other	1,507	415	524
Changes in other assets and liabilities affecting operating activities:			
Receivables	9,200	(2,289)	(10,721)
Prepaid expenses and other assets	(6,693)	(5,926)	385
Trade accounts payable and accrued expenses	(1,793)	6,010	1,589
Operating lease liabilities	(21,154)	—	—
Net cash provided by continuing operations	12,335	5,716	2,059
Net cash provided by (used in) discontinued operations	(7,003)	(65)	10,001
Net cash provided by operating activities	5,332	5,651	12,060
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(4,980)	(7,531)	(8,423)
Acquisition of property and equipment through business combination	—	—	(8,750)
Proceeds from unconsolidated affiliate	—	308	1,100
Net cash used in continuing operations	(4,980)	(7,223)	(16,073)
Net cash provided by (used in) discontinued operations	6	17,653	(1,307)
Net cash provided by (used in) investing activities	(4,974)	10,430	(17,380)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repayment of debt and finance lease obligations	(12,541)	(36,684)	(30,154)
Proceeds from issuance of debt	12,500	21,689	37,067
Financing costs	(333)	(146)	(195)
Issuance and redemption of employee equity awards	41	(217)	(94)
Payment of common stock dividends	—	(1,054)	(1,384)
Payment for preferred stock restructuring	—	(508)	(659)
Net cash provided by (used in) continuing operations	(333)	(16,920)	4,581
Net cash provided by (used in) discontinued operations	—	—	—
Net cash provided by (used in) financing activities	(333)	(16,920)	4,581

(Continued)

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(continued)

	Years Ended December 31,		
	2019	**2018**	**2017**
NET INCREASE (DECREASE) IN CASH	$ 25	$ (839)	$ (739)
CASH, beginning of period	2,685	3,524	4,263
CASH, end of period	$ 2,710	$ 2,685	$ 3,524
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash payments of interest, net of amounts capitalized	$ 5,390	$ 6,074	$ 5,404
Cash payments of income taxes	$ 432	$ 498	$ 847
SUPPLEMENTAL INFORMATION ON NON-CASH INVESTING AND FINANCING TRANSACTIONS:			
Acquisition of equipment through finance lease	$ 483	$ 689	$ 507
Acquisition of operating leases through adoption of ASC Topic 842	$ 389,403	$ —	$ —
Lease modification	$ (48,877)	$ —	$ —

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

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Diversicare Healthcare Services, Inc. ("Diversicare" or the "Company") provides a broad range of post-acute care services to patients and residents including skilled nursing, ancillary health care services and assisted living. In addition to the nursing and social services usually provided in long-term care centers, we offer a variety of rehabilitative, nutritional, respiratory, and other specialized ancillary services. The Company operates and reports one reportable operating segment. The Company believes that this structure reflects its current operational and financial management.

As of December 31, 2019, our continuing operations consist of 62 nursing centers with 7,329 licensed skilled nursing beds. Our nursing centers range in size from 50 to 320 licensed nursing beds. The licensed nursing bed count does not include 397 licensed assisted living and other residential beds. Our continuing operations include centers in Alabama, Florida, Indiana, Kansas, Mississippi, Missouri, Ohio, Tennessee, and Texas. The number of centers and beds denoted in these consolidated financial statements are unaudited.

Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the financial position, operations and accounts of Diversicare and its subsidiaries, all wholly-owned. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue Recognition

On January 1, 2018, the Company adopted Accounting Standards Codification 606, *Revenues From Contracts with Customers*, ("ASC 606"), using the modified retrospective method for all contracts as of the date of adoption. The reported results for 2019 and 2018 reflect the application of ASC 606 guidance while the reported results for 2017 were prepared under the guidance in ASC 605, *Revenue Recognition* (ASC 605). The adoption of ASC 606 represents a change in accounting principle that more closely aligns revenue recognition with the delivery of the Company's services. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services.

Performance obligations are promises made in a contract to transfer a distinct good or service to the customer. A contract's transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The Company has concluded that the contracts with patients and residents represent a bundle of distinct services that are substantially the same, with the same pattern of transfer to the customer. Accordingly, the promise to provide quality care is accounted for as a single performance obligation.

The Company performed analyses using the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. These analyses incorporated consideration of reimbursements at varying rates from Medicaid, Medicare, Managed Care, Private Pay, Assisted Living, Hospice, and Veterans for services provided in each corresponding state. It was determined that the contracts are not materially different for the following groups: Medicaid, Medicare, Managed Care and Private Pay and other (Assisted Living, Hospice and Veterans).

In order to determine the transaction price, the Company estimates the amount of variable consideration at the beginning of the contract using the expected value method. The estimates consider (i) payor type, (ii) historical payment trends, (iii) the maturity of the portfolio, and (iv) geographic payment trends throughout a class of similar payors. The Company typically enters into agreements with third-party payors that provide for payments at amounts different from the established charges. These arrangement terms provide for subsequent settlement and cash flows that may occur well after the service is provided. The Company constrains (reduces) the estimates of variable consideration such that it is probable that a significant reversal of previously recognized revenue will not occur throughout the life of the contract. Changes in the Company's expectation of the amount it will receive from the

patient or third-party payors will be recorded in revenue unless there is a specific event that suggests the patient or third-party payor no longer has the ability and intent to pay the amount due and, therefore, the changes in its estimate of variable consideration better represent an impairment, or bad debt. These estimates are re-assessed each reporting period, and any amounts allocated to a satisfied performance obligation are recognized as revenue or a reduction of revenue in the period in which the transaction price changes.

The Company satisfies its performance obligation by providing quality of care services to its patients and residents on a daily basis until termination of the contract. The performance obligation is recognized on a time elapsed basis, by day, for which the services are provided. For these contracts, the Company has the right to consideration from the customer in an amount that directly corresponds with the value to the customer of the Company's performance to date. Therefore, the Company recognizes revenue based on the amount billable to the customer in accordance with the practical expedient in ASC 606-10-55-18. Additionally, because the Company applied ASC 606 using certain practical expedients, the Company elected not to disclose the aggregate amount of the transaction price for unsatisfied, or partially unsatisfied, performance obligations for all contracts with an original expected length of one year or less.

The Company incurs costs related to patient/resident contracts, such as legal and advertising expenses. The contract costs are expensed as incurred. They are not expected to be recovered and are not chargeable to the patient/resident regardless of whether the contract is executed. See Note 4, “Revenue Recognition and Receivables.”

Lease Expense

As of December 31, 2019, the Company operates 47 nursing centers under operating leases, including 24 owned by Omega, 20 owned by Golden Living and three owned by other parties. The Company's operating leases generally require the Company to pay stated rent, subject to increases based on changes in the Consumer Price Index or a minimum percentage increase. The Company's Master Leases with Omega and Golden Living require the Company to pay certain scheduled rent increases. Such scheduled rent increases are recorded as additional lease expense on a straight-line basis recognized over the term of the related leases and the difference between the amounts recorded for rent expense as compared to rent payments is recorded as an accrued liability.

See Note 2, "Business Development and Other Significant Transactions" and Note 11, "Commitments and Contingencies" for a discussion regarding the Company's Master Leases with Omega and Golden Living and the addition of certain leased centers.

Classification of Expenses

The Company classifies all expenses (except lease, interest, depreciation and amortization expenses) that are associated with its corporate and regional management support functions as general and administrative expenses within continuing operations. All other expenses (except lease, professional liability, interest, depreciation and amortization expenses) incurred by the Company at the center level for continuing operations are classified as operating expenses.

Property and Equipment

Property and equipment are recorded at cost or at fair value determined on the respective dates of acquisition for assets obtained in a business combination, with depreciation and amortization being provided over the shorter of the remaining lease term (where applicable) or the assets' estimated useful lives on the straight-line basis as follows:

Buildings and improvements	-	5 to 40 years
Leasehold improvements	-	2 to 10 years
Furniture, fixtures and equipment	-	2 to 15 years

Interest incurred during construction periods for qualifying expenditures is capitalized as part of the building cost. Maintenance and repairs are expensed as incurred, and major betterments and improvements are capitalized.

The Company routinely evaluates the recoverability of the carrying value of its long-lived assets, including property and equipment and right of use assets. The evaluation for recoverability includes when significant adverse changes in the general economic conditions and significant deteriorations of the underlying undiscounted cash flows or fair values of the asset group indicate that the carrying amount of the asset group may not be recoverable. If circumstances suggest that the recorded amounts are not recoverable based upon estimated future undiscounted cash flows, the carrying values of such assets are reduced to fair value.

Cash

Cash and cash equivalents include cash on deposit with banks and all highly liquid investments with original maturities of three months or less when purchased. Our cash on deposit with banks was subject to the Federal Deposit Insurance Corporation ("FDIC") minimum insurance levels.

Deferred Financing and Other Costs

The Company records deferred financing and lease costs for direct and incremental expenditures related to entering into or amending debt and lease agreements. These expenditures include lenders' and attorneys' fees. Financing costs are amortized using the effective interest method over the term of the related debt. The amortization is reflected as interest expense in the accompanying consolidated statements of operations. Deferred lease costs are amortized on a straight-line basis over the term of the related leases. See Note 7, "Long-term Debt, Interest Rate Swap and Finance Lease Obligations" for further discussion.

Acquired Leasehold Interest

The Company has recorded an acquired leasehold interest intangible asset related to an acquisition completed during 2007. The intangible asset is accounted for in accordance with the Financial Accounting Standards Board's ("FASB") guidance on goodwill and other intangible assets, and is amortized on a straight-line basis over the remaining life of the acquired lease. As discussed in Note 2, "Business Developments and Other Significant Transactions," the Company entered into a new Master Lease agreement with Omega Healthcare Investors ("Omega" or the "Lessor") on October 1, 2018, which was subsequently modified on August 30, 2019. The new Master Lease includes the seven centers to which the intangible asset relates. As such, the intangible asset is now being amortized over an adjusted remaining life, consistent with the term of the new Master Lease, which goes through September 30, 2030. Amortization expense of approximately $571, $384 and $384 related to this intangible asset was recorded during each of the years ended December 31, 2019, 2018 and 2017, respectively.

The carrying value of the acquired leasehold interest intangible and the accumulated amortization are as follows:

	December 31,	
	2019	**2018**
Acquired leasehold interest, gross	$ 10,652	$ 10,652
Accumulated amortization	(4,916)	(4,345)
Acquired leasehold interest, net	$ 5,736	$ 6,307

The Company evaluates the recoverability of the carrying value of the acquired leasehold intangible in accordance with the FASB's guidance on accounting for the impairment or disposal of long-lived assets. Included in this evaluation is whether significant adverse changes in general economic conditions, and significant deteriorations of the underlying cash flows or fair values of the intangible asset indicate that the carrying amount of the intangible asset may not be recoverable. The need to recognize an impairment charge is based on estimated future undiscounted cash flows from the asset compared to the carrying value of that asset. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the intangible asset exceeds the fair value of the intangible asset.

The expected amortization expense for the acquired leasehold interest intangible asset is as follows:

2020	$ 534
2021	534
2022	534
2023	534
2024	534
Thereafter	3,066
	$ 5,736

Self-Insurance

Self-insurance liabilities primarily represent the unfunded accrual for self-insured risks associated with general and professional liability claims, employee health insurance and workers' compensation. The Company's health insurance liability is based on known claims incurred and an estimate of incurred but unreported claims determined by an analysis of historical claims paid. The Company's workers' compensation liability relates primarily to periods of self insurance and consists of an estimate of the future costs to be incurred for the known claims.

Final determination of the Company's actual liability for incurred general and professional liability claims is a process that may take years. The Company evaluates the adequacy of this liability on a quarterly basis. Semi-annually, the Company retains a third-party actuarial firm to assist in the evaluation of this unfunded accrual. Since May 2012, Merlinos & Associates, Inc. (“Merlinos”) has assisted management in the preparation of the appropriate accrual for incurred but not reported general and professional liability claims based on data furnished by the Company. Merlinos primarily utilizes historical data regarding the frequency and cost of the Company's past claims over a multi-year period, industry data and information regarding the number of occupied beds to develop its estimates of the Company's ultimate professional liability cost for current periods.

On a quarterly basis, the Company obtains reports of asserted claims and lawsuits incurred. These reports, which are provided by the Company's insurers and a third party claims administrator, contain information relevant to the actual expense already incurred with each claim as well as the third-party administrator's estimate of the anticipated total cost of the claim. This information is reviewed by the Company quarterly and provided to the actuary semi-annually. Based on the Company's evaluation of the actual claim information obtained, the semi-annual estimates received from the third-party actuary, the amounts paid and committed for settlements of claims and on estimates regarding the number and cost of additional claims anticipated in the future, the reserve estimate for a particular period may be revised upward or downward on a quarterly basis. Any increase in the accrual has an unfavorable impact on results of operations in the period and any reduction in the accrual increases results of operations during the period.

All losses are projected on an undiscounted basis. The self-insurance liabilities include estimates of liability for incurred but not reported claims, estimates of liability for reported but unresolved claims, actual liabilities related to settlements, including settlements to be paid over time, and estimates of related legal costs incurred and expected to be incurred.

One of the key assumptions in the actuarial analysis is that historical losses provide an accurate forecast of future losses. Changes in legislation such as tort reform, changes in our financial condition, changes in our risk management practices and other factors may affect the severity and frequency of claims incurred in future periods as compared to historical claims.

The facts and circumstances of each claim vary significantly, and the amount of ultimate liability for an individual claim may vary due to many factors, including whether the case can be settled by agreement, the quality of legal representation, the individual jurisdiction in which the claim is pending, and the views of the particular judge or jury deciding the case.

Although the Company adjusts its unfunded accrual for professional and general liability claims on a quarterly basis and retains a third-party actuarial firm semi-annually to assist management in estimating the appropriate accrual, professional and general liability claims are inherently uncertain, and the liability associated with anticipated claims is very difficult to estimate. Professional liability cases have a long cycle from the date of an incident to the date a case is resolved, and final determination of the Company's actual liability for claims incurred in any given period is a process that takes years. As a result, the Company's actual liabilities may vary significantly from the unfunded accrual, and the amount of the accrual has and may continue to fluctuate by a material amount in any given period. Each change in the amount of this accrual will directly affect the Company's results of operations and financial position for the period in which the change in accrual is made.

Income Taxes

The Company follows the FASB's guidance on Income Taxes, which requires the asset and liability method of accounting for income taxes whereby deferred income taxes are recorded for the future tax consequences attributable to differences between the financial statement and tax bases of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Valuation allowances are provided against any estimated non-realizable deferred tax assets where necessary.

Where the Company believes that a tax position is supportable for income tax purposes, the item is included in its income tax returns. Where treatment of a position is uncertain, liabilities are recorded based upon the Company’s evaluation of the “more likely than not” outcome considering the technical merits of the position. While the judgments and estimates made by the Company are based on management’s evaluation of the technical merits of a matter, historical experience and other assumptions that management believes are appropriate and reasonable under current circumstances, actual resolution of these matters may differ from recorded estimated amounts, resulting in charges or credits that could materially affect future financial statements. See Note 10, "Income Taxes" for additional information related to the provision for income taxes.

Disclosure of Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. In calculating fair value, a company must maximize the use of observable market inputs, minimize the use of unobservable market inputs and disclose in the form of an outlined hierarchy the details of such fair value measurements. The carrying amounts of cash, receivables, trade accounts payable and accrued expenses approximate fair value because of the

short-term nature of these accounts. The Company's self-insurance liabilities are reported on an undiscounted basis as the timing of estimated settlements cannot be determined.

The Company follows the FASB's guidance on *Fair Value Measurements and Disclosures* which provides rules for using fair value to measure assets and liabilities as well as a fair value hierarchy that prioritizes the information used to develop the measurements. It applies whenever other guidance requires (or permits) assets or liabilities to be measured at fair value and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

A summary of the fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels is described below:

Level 1: Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

As further discussed in Note 7, "Long-term Debt, Interest Rate Swap and Finance Lease Obligations", in conjunction with the debt agreements entered into in February 2016, the Company entered into an interest rate swap agreement with a member of the bank syndicate as the counterparty. The applicable guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value in a company's balance sheets.

As the Company's interest rate swap, a cash flow hedge, is not traded on a market exchange, the fair value is determined using a valuation model based on a discounted cash flow analysis. This analysis reflects the contractual terms of the interest rate swap agreement and uses observable market-based inputs, including estimated future LIBOR interest rates. The fair value of the Company's interest rate swap is the net difference in the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates and are observable inputs available to a market participant. The interest rate swap valuation is classified in Level 2 of the fair value hierarchy. The debt balances as presented in the consolidated balance sheets approximate the fair value of the respective instruments as the debt is at a variable rate, the estimates of which are considered Level 2 fair value calculations within the fair value hierarchy.

The following table presents by level, within the fair value hierarchy, assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 and 2018:

December 31, 2019	Fair Value Measurements - Assets (Liabilities)			
	Total	Level 1	Level 2	Level 3
Interest rate swap	$ (57)	$ —	$ (57)	$ —

December 31, 2018	Fair Value Measurements - Assets (Liabilities)			
	Total	Level 1	Level 2	Level 3
Interest rate swap	$ 384	$ —	$ 384	$ —

The change in fair value of the Company's cash flow hedge is detailed in the Company's Consolidated Statements of Comprehensive Loss.

Net Loss per Common Share

The Company follows the FASB's guidance on *Earnings Per Share* for the financial reporting of net loss per common share. Basic earnings per common share excludes dilution and restricted shares and is computed by dividing income available to common shareholders by the weighted-average number of common shares, excluding restricted shares, outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or otherwise resulted in the issuance of common stock that then shared in the earnings of the Company. See Note 9, "Net Loss per Common Share" for additional disclosures about the Company's Net Loss per Common Share.

Stock Based Compensation

The Company follows the FASB's guidance on *Stock Compensation* to account for share-based payments granted to team members and recorded non-cash stock based compensation expense of $573, $1,127 and $1,027 during the years ended December 31, 2019, 2018 and 2017, respectively. Such amounts are included as components of general and administrative expense or operating expense based upon the classification of cash compensation paid to the related employees. See Note 8, "Shareholders' Equity, Stock Plans and Preferred Stock" for additional disclosures about the Company's stock based compensation plans.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of other comprehensive income (loss). Comprehensive income (loss) is a more inclusive financial reporting method that includes disclosure of financial information that historically has not been recognized in the calculation of net income (loss). Currently, the Company's other comprehensive income (loss) consists of the change in fair value of the Company's interest rate swap transaction accounted for as a cash flow hedge.

Recent Accounting Standards Adopted by the Company

In February 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-02, Leases (Topic 842). The standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. For short-term leases (those with a term of 12 months or less and that do not include a lessee purchase option that is reasonably certain to be exercised), a lessee is permitted to make (and the Company chose to utilize) an accounting policy election by asset class not to recognize ROU assets and lease liabilities, which would generally result in lease expense for these short term leases being recognized on a straight-line basis over the lease term. The Company adopted the requirements of this standard effective January 1, 2019. In July 2018, the FASB issued ASU 2018-11, Leases - Targeted Improvements, which allows lessees and lessors to recognize and measure existing leases at the beginning of the period of adoption without modifying the comparative period financial statements (which therefore will remain under prior GAAP, Topic 840, Leases). The Company elected to reflect adoption in the period of adoption (January 1, 2019) rather than the earliest period presented. The Company also elected the package of practical expedients upon transition, which includes retaining the lease classification for any leases that exist prior to adoption of the standard. The adoption of the new standard resulted in the recording of net right-of-use assets and lease liabilities of $384,187 and $389,403, respectively, as of January 1, 2019. The standard did not materially impact our consolidated net earnings and had no impact on cash flows. See Note 6, "Leases" for a discussion regarding leases under the new standard.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which is intended to simplify and amend the application of hedge accounting to more clearly portray the economics of an entity’s risk management strategies in its financial statements. The new guidance will make more financial and nonfinancial hedging strategies eligible for hedge accounting and reduce complexity in fair value hedges of interest rate risk. The new guidance also changes how companies assess effectiveness and amends the presentation and disclosure requirements. The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness and generally the entire change in the fair value of a hedging instrument will be required to be presented in the same income statement line as the hedged item. The new guidance also eases certain documentation and assessment requirements and modifies the accounting for components excluded from the assessment of hedge effectiveness. The Company adopted the requirements of this standard effective January 1, 2019. The adoption did not have a material impact on our consolidated financial statements and related disclosures. In October 2018, the FASB issued ASU No. 2018-16, Derivatives and Hedging (Topic 805): Inclusion of the Secured Overnight Financing Rate ("SOFR") Overnight Index Swap ("OIS") Rate as a Benchmark Interest Rate for Hedge Accounting Purposes. The ASU amends ASC 815 to add the OIS rate based on the SOFR as a fifth US benchmark interest rate. The Company adopted the requirements of this standard effective January 1, 2019. The adoption did not have a material impact on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606), which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. For public companies, Topic 606 is effective for annual and interim reporting periods beginning after December 15, 2017. The Company adopted the requirements of this standard effective January 1, 2018. The Company elected to apply the modified retrospective approach with the cumulative transition effect recognized in beginning retained earnings as of the date of adoption. The impact of the implementation to the consolidated financial statements for periods subsequent to the adoption is not material. See Note 4, "Revenue Recognition and Receivables" for a discussion regarding revenue recognition under the new standard.

Accounting Standards Recently Issued But Not Yet Adopted by the Company

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Loses on Financial Instruments. This update is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other such commitments.

This update requires that financial statement assets measured at an amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. This standard is effective for the fiscal year beginning after December 15, 2022 with early adoption permitted. The Company is in the initial stages of evaluating the impact from the adoption of this new standard on the consolidated financial statements and related notes.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurements (Topic 820): Disclosure Framework — Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this update modify the disclosure requirements on fair value measurements in Topic 820. The standard is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. The Company does not expect the adoption of this standard to have a material impact on the consolidated financial statements.

2. BUSINESS DEVELOPMENTS AND OTHER SIGNIFICANT TRANSACTIONS

2018 New Master Lease Agreement

On October 1, 2018, the Company entered into a New Master Lease Agreement (the "Lease") with Omega to lease 34 centers currently owned by the Lessor and operated by Diversicare. The old Master Lease with the Lessor provided for its operation of 23 skilled nursing centers in Texas, Kentucky, Alabama, Tennessee, Florida, and Ohio. Additionally, Diversicare operated 11 centers owned by the Lessor under separate leases in Missouri, Kentucky, Indiana, and Ohio. The Lease entered into by Diversicare and the Lessor consolidated the leases for all 34 centers under one New Master Lease. The Lease has an initial term of twelve years with two optional 10-year extensions. The Lease has a common date of annual lease fixed escalators of 2.15% beginning on October 1, 2019.

On August 30, 2019, the Company terminated operations of ten centers in Kentucky and concurrently transferred operations to a new operator. The agreement effectively amended the Lease with the Lessor to remove the ten Kentucky facilities, reduce the annual rent expense, and release the Company from any further obligations arising under the Master Lease Agreement with respect to the Kentucky facilities. The remaining Lease terms remain unchanged with an initial term of twelve years and two optional 10-year extensions. The annual lease fixed escalator remains at 2.15% beginning on October 1, 2019.

Quality Incentive Payment Program

The Company recently expanded its participation in a Quality Incentive Payment Program ("QIPP ") as administered by the Texas Health and Human Services Commission. QIPP provides supplemental Medicaid payments for skilled nursing centers that achieve certain quality measures. The Company previously had one of its Texas skilled nursing centers participating in the QIPP. During April 2019, the Company enrolled an additional eleven of its Texas skilled nursing centers in the program, such that twelve of the Company’s centers participate in the QIPP effective September 1, 2019. To allow four of these centers to meet the QIPP participation requirements, the Company entered into a transaction with a Texas medical district already participating in the QIPP, providing for the transfer of the provider license from the Company to the medical district. The Company’s operating subsidiary retained the management of the centers on behalf of the medical district.

3. DISCONTINUED OPERATIONS

Kentucky Disposition

On October 30, 2018, the Company entered into an Asset Purchase Agreement (the "Agreement") with Fulton Nursing and Rehabilitation, LLC, Holiday Fulton Propco LLC, Birchwood Nursing and Rehabilitation LLC, Padgett Clinton Propco LLC, Westwood Nursing and Rehabilitation LLC, and Westwood Glasgow Propco (the "Buyers") to sell the assets and transfer the operations of Diversicare of Fulton, LLC, Diversicare of Clinton, LLC and Diversicare of Glasgow, LLC (the "Kentucky Properties"). On December 1, 2018, the Company completed the sale of the Kentucky Properties with the Buyers for a purchase price of $18,700. The carrying value of these centers' assets was $13,331, resulting in a gain net of miscellaneous closing costs of $4,825. The proceeds were used to relieve debt, as required under the terms of the Company's Amended Mortgage Loan and Amended Revolver. Refer to Note 7, "Long-term Debt, Interest Rate Swap and Finance Lease Obligations" for more information on this transaction.

On May 22, 2019, the Company announced that it entered into an agreement with Omega to amend its master lease to terminate operations of ten nursing facilities, totaling approximately 885 skilled nursing beds, located in Kentucky and to concurrently transfer operations to an operator selected by Omega. These ten centers are collectively referred to as the "Kentucky Centers." The sale of the Kentucky Properties and the termination of operations at the Kentucky Centers are referred to collectively as the "Kentucky Exit." On August 30, 2019, the Company completed the transaction and no longer operates any skilled nursing centers in the State of Kentucky. The Company's exit from the state represents a strategic shift that has (or will have) a major effect on the Company's operations and financial results. In accordance with ASC 205-40, *Presentation of Financial Statements- Discontinued Operations*, the Company's discontinued financial position, results of operations and cash flows have been reclassified on the face of the financial statements and footnotes for all periods presented to reflect the discontinued status of these operations.

The transaction resulted in a gain on the modification of the Lease, which is presented within Discontinued Operations on the Consolidated Statements of Operations. The net gain on the transaction was $733.

These centers contributed revenues of $46,019, $87,338 and $91,727 and net income (loss) of $(8,589), $3,868 and $4,921 during the years ended December 31, 2019, 2018 and 2017, respectively. The net income or loss for the nursing centers included in discontinued operations does not reflect any allocation of corporate general and administrative expense. The Company considered these additional costs along with the centers' future prospects based upon operating history when determining the contribution of the skilled nursing centers to its operations.

The Company did not transfer the accounts receivable or liabilities, inclusive of the reserves for professional liability and workers' compensation, to the new operator. The Company expects to collect the balance of the accounts receivable and pay the remaining liabilities in the ordinary course of business through its future operating cash flows.

4. REVENUE RECOGNITION AND RECEIVABLES

The Company's revenue is derived from providing quality healthcare services to its patients. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled to receive in exchange for these services. The promise to provide quality care is accounted for as a single performance obligation satisfied at a point in time, when those services are rendered.

The Company performed analyses using the application of the portfolio approach as a practical expedient to group patient contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. These analyses incorporated consideration of reimbursements at varying rates from Medicaid, Medicare, Managed Care, Private Pay, Assisted Living, Hospice, and Veterans for services provided in each corresponding state. It was determined that the contracts are not materially different for the following groups: Medicaid, Medicare, Managed Care and Private Pay and other (Assisted Living, Hospice and Veterans).

Disaggregation of Revenue and Accounts Receivable

The following table set forth net patient revenues related to our continuing operations by payor source for the periods presented (dollar amounts in thousands): The amounts as reported for revenue in 2019 and 2018 differ from the method of accounting in prior years due to the implementation of ASC 606.

	Twelve Months Ended December 31,					
	2019		2018		2017	
	As reported		As reported		As reported	
Medicaid	$ 222,560	46.9%	$ 215,924	45.4%	$ 249,204	51.6%
Medicare	80,798	17.0%	84,959	17.8%	122,043	25.3%
Managed Care	50,323	10.6%	48,879	10.3%	39,162	8.1%
Private Pay and other	121,339	25.5%	126,360	26.5%	72,402	15.0%
Total	$ 475,020	100.0%	$ 476,122	100.0%	$ 482,811	100.0%

Accounts receivable as of December 31, 2019 and 2018 is summarized in the following table:

	December 31,	
	2019	2018
Medicaid	$ 21,998	$ 27,532
Medicare	11,811	15,706
Managed Care	9,103	8,126
Private Pay and other	17,609	14,893
Total accounts receivable	$ 60,521	$ 66,257

5. PROPERTY AND EQUIPMENT

Property and equipment, at cost, consists of the following:

	December 31,	
	2019	2018
Land	$ 5,265	$ 5,283
Buildings and leasehold improvements	84,544	82,111
Furniture, fixtures and equipment	42,966	40,250
	132,775	127,644
Less: accumulated depreciation	(85,020)	(76,801)
Net property and equipment	$ 47,755	$ 50,843

As discussed further in Note 7, "Long-term Debt, Interest Rate Swap and Finance Lease Obligations", the property and equipment of certain skilled nursing centers are pledged as collateral for mortgage debt obligations. In addition, the Company has assets recorded as finance leased assets purchased through finance lease obligations. The Company capitalizes leasehold improvements which will revert back to the lessor of the property at the expiration or termination of the lease, and depreciates these improvements over the shorter of the remaining lease term or the assets' estimated useful lives.

6. LEASES

The Company has operating and finance leases for facilities, corporate offices, and certain equipment. The Company recognizes lease expense for these operating leases on a straight-line basis over the lease term. Leases with an initial term of one year or less are not recorded on the consolidated balance sheet. The Company's other leases have original lease terms of one to twelve years, some of which include options to extend the lease for up to twenty years, and some of which include options to terminate the leases within one year. The exercise of lease renewal options is at our sole discretion. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Upon adoption of Topic 842, the Company elected the practical expedient to not separate lease and non-lease components for all of its leases as the non-lease components are not significant to the overall lease costs.

Leases

	Classification	December 31, 2019
Assets		
Operating lease assets	Operating lease right-of-use assets	$ 310,238
Finance lease assets	Property and equipment, net [(a)]	906
Total leased assets		$ 311,144
Liabilities		
Current		
Operating	Current portion of operating lease liability	$ 23,736
Finance	Current portion of long-term debt and finance lease obligations, net	231
Noncurrent		
Operating	Operating lease liability, less current portion	295,636
Finance	Long-term debt and finance lease obligations, less current portion and deferred financing costs, net	445
Total lease liabilities		$ 320,048

[(a)] Finance lease assets are recorded net of accumulated amortization of $1,522 as of December 31, 2019.

Lease Cost

	Classification	Year Ended December 31, 2019
Operating lease cost [(a)]	Lease and rent expense	$ 52,990
Finance lease cost:		
Amortization of finance lease assets	Depreciation and amortization	263
Interest on finance lease liabilities	Interest expense, net	48
Short term lease cost	Operating expense	649
Net lease cost		$ 53,950

[(a)] Includes variable lease costs, which are immaterial

Maturity of Lease Liabilities

	As of December 31, 2019		
	Operating Leases [(a)]	Finance Leases [(a)]	Total
2020	$ 50,819	$ 269	$ 51,088
2021	51,788	242	52,030
2022	52,812	179	52,991
2023	53,857	37	53,894
2024	53,843	14	53,857
After 2024	200,605	—	200,605
Total lease payments	$ 463,724	$ 741	$ 464,465
Less: Interest	(144,352)	(65)	(144,417)
Present value of lease liabilities	$ 319,372	$ 676	$ 320,048

[(a)] Operating and Finance lease payments exclude options to extend lease terms that are not reasonably certain of being exercised.

The Company's future minimum lease commitments for continuing operations as of December 31, 2018, under Topic 840, predecessor to Topic 842, are as follows:

	As of December 31, 2018		
	Operating Leases [(a)]	Finance Leases [(a)]	Total
2019	$ 48,701	$ 454	$ 49,155
2020	49,595	174	49,769
2021	50,570	173	50,743
2022	51,587	127	51,714
2023	52,624	—	52,624
After 2023	245,225	—	245,225
Total lease payments	$ 498,302	$ 928	$ 499,230

[(a)] Operating and Finance lease payments exclude option to extend lease terms that are not reasonably certain of being exercised.

The measurement of right-of-use assets and lease liabilities requires the Company to estimate appropriate discount rates. To the extent the rate implicit in the lease is readily determinable, such rate is utilized. However, based on information available at lease commencement for the majority of our leases, the rate implicit in the lease is not known. In these instances, the Company utilizes an incremental borrowing rate, which represents the rate of interest that it would pay to borrow on a fully collateralized basis over a similar term.

Lease Term and Discount Rate

	December 31, 2019
Weighted-average remaining lease term (years)	
Operating leases	8.81
Finance leases	3.00
Weighted-average discount rate	
Operating leases	8.9%
Finance leases	6.1%

Other Information

	Year Ended December 31, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows for operating leases	$ 55,485
Operating cash flows for finance leases	48
Financing cash flows for finance leases	471
Acquisition of operating leases though adoption of Topic 842	389,403
Lease modification	$ (48,877)

7. LONG-TERM DEBT, INTEREST RATE SWAP AND FINANCE LEASE OBLIGATIONS

Long-term debt consists of the following:

	December 31,	
	2019	2018
Mortgage loan	$ 49,743	$ 51,730
Acquisition loan	9,400	6,900
Revolver	14,000	15,000
Affiliated revolver	1,000	—
	74,143	73,630
Plus finance lease obligations	857	928
Less current portion	(3,498)	(12,449)
	71,502	62,109
Less deferred financing costs, net	(865)	(1,125)
Long-term debt and finance lease obligation, net	$ 70,637	$ 60,984

On February 26, 2016, the Company executed an Amended and Restated Credit Agreement (the "Credit Agreement") with a syndicate of banks, which consists of a $80,000 mortgage loan subsequently amended ("Amended Mortgage Loan") and a $52,250 revolver subsequently amended ("Amended Revolver"). The Amended Mortgage Loan and Amended Revolver both have a five-year maturity through February 26, 2021. The Amended Mortgage Loan consists of $67,500 term and $12,500 acquisition loan facilities. The Amended Mortgage Loan has a term of five years, with principal and interest payable monthly based on a 25-year amortization. Interest on the term and acquisition loan facilities are based on LIBOR plus 4.0% and 4.75%, respectively. A portion of the Amended Mortgage Loan is effectively fixed at 5.79% pursuant to an interest rate swap with an initial notional amount of $30,000. The Amended Mortgage Loan balance was $59,143 as of December 31, 2019, consisting of $49,743 on the term loan facility with an interest rate of 5.75% and $9,400 on the acquisition loan facility with an interest rate of 6.5%. The Amended Mortgage Loan is secured by 15 owned nursing centers, related equipment and a lien on the accounts receivable of these centers. The Amended Mortgage Loan and the Amended Revolver are cross-collateralized and cross-defaulted. The Company’s Amended Revolver has an interest rate of LIBOR plus 4.0% and is secured by accounts receivable and is subject to limits on the maximum amount of loans that can be outstanding under the revolver based on borrowing base restrictions.

As of December 31, 2019, the Company's weighted average interest rate on long-term debt, including the impact of the interest rate swap, was approximately 5.86%.

In connection with the sale of the Kentucky Properties the Company entered into the Sixth Amendment ("Sixth Revolver Amendment") to amend the Amended Revolver effective December 1, 2018. The Sixth Amendment decreased the Amended Revolver capacity from $52,250 to $42,250. The Company also applied $4,947 of net proceeds from the sale of the Kentucky Properties to the outstanding borrowings under the Amended Revolver.

Also effective December 1, 2018, the Company executed a Fourth Amendment (the "Fourth Term Amendment") to amend the Amended Mortgage Loan. The Company applied $11,100 and $2,100 of net proceeds from the sale of the Kentucky Properties to the term and acquisition loans, respectively. Additionally, the related acquisition loan availability was reduced by a reserve of $2,100, and therefore, our borrowing capacity is $10,400. For further discussion of the sale of the Kentucky centers, refer to Note 3, "Discontinued Operations."

The Company is participating in the Texas Quality Incentive Payment Program ("QIPP"). Effective May 13, 2019, the Company entered into a Fifth Amendment (the “Fifth Term Amendment”) to amend the Amended Mortgage Loan to release the operators of three of the QIPP centers in Texas from the Amended Mortgage Loan and a Seventh Amendment (the “Seventh Revolver Amendment”) to amend the Amended Revolver to remove the operators of four of the QIPP centers in Texas from the Amended Revolver and to permanently reduce the amount available under the Amended Revolver by $2,000. At the same time, the operators of these four facilities entered into a separate revolving loan (the "affiliated revolver") with the same syndicate of banks to provide for the temporary working capital requirements of the four QIPP centers. The affiliated revolver, which is guaranteed by the Company, has an initial capacity of $5,000, which amount is reduced by $1,000 on each of January 1, 2020, April 1, 2020 and July 1, 2020. The affiliated revolver has the same maturity date as the Amended Revolver and the Amended Mortgage Loan of February 26, 2021. The affiliated revolver is cross-defaulted with the Amended Revolver and the Amended Mortgage Loan. For further discussion of the QIPP centers in Texas, refer to Note 2, "Business Development and Other Significant Transactions." As of December 31, 2019, the Company had $1,000 borrowings outstanding under the affiliated revolver. The interest rate related to the affiliated revolver was 5.75% as of December 31, 2019. The balance available for borrowing under the affiliated revolver was $339 at December 31, 2019.

As of December 31, 2019, the Company had $15,000 in borrowings outstanding under its revolvers compared to $15,000 outstanding as of December 31, 2018. The interest rate related to the revolvers was 5.75% as of December 31, 2019. The outstanding borrowings on the revolvers were used primarily for temporary working capital requirements. Annual fees for letters of credit issued under the Amended Revolver are 3.0% of the amount outstanding. The Company has 4 letters of credit with a total value of $12,143 outstanding as of December 31, 2019. Considering the balance of eligible accounts receivable, the letter of credit, the amounts outstanding under the revolvers and the maximum loan amount of $31,579, the balance available for borrowing under the revolvers was $5,774 at December 31, 2019.

Our lending agreements contain various financial covenants, the most restrictive of which relate to fixed charge coverage ratios. We are in compliance with all such covenants at December 31, 2019, exclusive of the minimum guarantor fixed charge coverage ratio related to the Amended Mortgage Loan and Amended Revolver, which was due to the exit from the State of Kentucky and the related impact on our operating activities. The Company obtained a waiver of this covenant from our syndicate of banks in connection with an amendment to its credit facility that was effective February 25, 2020. See Note 13, "Subsequent Events" to the consolidated financial statements for further discussion on the amended debt agreement.

In connection with the Company's loan agreements, the Company recorded the following amounts related to deferred loan costs, with such costs classified as a reduction of the debt balances discussed above:

	2019	2018
Write-off of deferred financing costs	$ —	$ 267
Deferred financing costs capitalized	$ 333	$ 146

The deferred financing costs included in the long-term debt balances were $865 at December 31, 2019 and $1,125 at December 31, 2018.

Scheduled principal payments of long-term debt are as follows:

2020	$ 3,085
2021	71,058
Total	$ 74,143

Interest Rate Swap Cash Flow Hedge

As part of the debt agreements entered into in April 2013, the Company entered into an interest rate swap agreement with a member of the bank syndicate as the counterparty. The Company entered into the interest rate swap agreement to mitigate the variable interest rate risk on its outstanding mortgage borrowings. The Company designated its interest rate swap as a cash flow hedge and the effective portion of the hedge, net of taxes, is reflected as a component of other comprehensive income (loss). In conjunction with the aforementioned amendment to the Credit Agreement that occurred in February 2016, the Company retained the previously agreed upon interest rate swap modifying the terms of the swap to reflect the amended Credit Agreement. The Company redesignated the interest rate swap as a cash flow hedge. The interest rate swap agreement has the same effective date and maturity date as the Amended Mortgage Loan, and has an amortizing notional amount that was $26,785 as of December 31, 2019. The interest rate swap agreement requires the Company to make fixed rate payments to the bank calculated on the applicable notional amount at an annual fixed rate of 5.79% while the bank is obligated to make payments to the Company based on LIBOR on the same notional amounts. The applicable guidance requires companies to recognize all derivative instruments as either assets or liabilities at fair value in a company's balance sheets.

The Company assesses the effectiveness of its interest rate swap on a quarterly basis and at December 31, 2019, the Company determined that the interest rate swap was effective. The interest rate swap valuation model indicated a net liability of $57 at December 31, 2019. The fair value of the interest rate swap is included in “other noncurrent liabilities” on the Company's consolidated balance sheets. The liability related to the change in the interest rate swap included in accumulated other comprehensive income at December 31, 2019 is $44, net of income tax benefit of $13. As the Company's interest rate swap is not traded on a market exchange, the fair value is determined using a valuation model based on a discounted cash flow analysis. This analysis reflects the contractual terms of the interest rate swap agreement and uses observable market-based inputs, including estimated future LIBOR interest rates. The fair value of the Company's interest rate swap is the net difference in the discounted future fixed cash payments and the discounted expected variable cash receipts. The variable cash receipts are based on the expectation of future interest rates and are observable inputs available to a market participant. The interest rate swap valuation is classified in Level 2 of the fair value hierarchy, in accordance with the FASB's guidance on *Fair Value Measurements and Disclosures*.

Finance Lease Obligations

Upon acquisition of some centers, we assumed certain leases, primarily related to equipment, that constitute finance leases. As a result, we have recorded the underlying lease liabilities and financed lease obligations of $857 and $928 as of December 31, 2019 and 2018, respectively. These lease agreements provide three to five year terms.

Scheduled payments of the financed lease obligations are as follows:

2020	$	461
2021		242
2022		178
2023		37
2024		15
Total		933
Amounts related to interest		(76)
Principal payments on finance lease obligation	$	857

8. SHAREHOLDERS' EQUITY, STOCK PLANS AND PREFERRED STOCK

Stock Based Compensation Plans

The Company follows the FASB's guidance on *Stock Compensation* to account for stock-based payments granted to employees and non-employee directors.

Overview of Plans

In June 2008, the Company adopted the Advocat Inc. 2008 Stock Purchase Plan for Key Personnel (“Stock Purchase Plan”). The Stock Purchase Plan provides for the granting of rights to purchase shares of the Company's common stock to directors and officers and 150 shares of the Company's common stock has been reserved for issuance under the Stock Purchase Plan. The Stock Purchase Plan allows participants to elect to utilize a specified portion of base salary, annual cash bonus, or director compensation to purchase

restricted shares or restricted share units (“RSU's”) at 85% of the quoted market price of a share of the Company's common stock on the date of purchase. The restriction period under the Stock Purchase Plan is generally two years from the date of purchase and during which the shares will have the rights to receive dividends, however, the restricted share certificates will not be delivered to the shareholder and the shares cannot be sold, assigned or disposed of during the restriction period and are subject to forfeiture. In June 2016, our shareholders approved an amendment to the Stock Purchase Plan to increase the number of shares of our common stock authorized under the Plan from 150 shares to 350 shares. No grants can be made under the Stock Purchase Plan after April 25, 2028.

In April 2010, the Compensation Committee of the Board of Directors adopted the 2010 Long-Term Incentive Plan (“2010 Plan”), followed by approval by the Company's shareholders in June 2010. The 2010 Plan allows the Company to issue stock appreciation rights, stock options and other share and cash based awards. In June 2017, our shareholders approved an amendment to the Long-Term Incentive Plan to increase the number of shares of our common stock authorized under the Plan from 380 shares to 680 shares. No grants can be made under the 2010 Plan after May 31, 2027.

Equity Grants and Valuations

During 2019 and 2018, the Compensation Committee of the Board of Directors approved grants totaling approximately 151 and 90, respectively, shares of restricted common stock to certain employees and members of the Board of Directors. These restricted shares vest one-third on the first, second and third anniversaries of the grant date. Unvested shares may not be sold or transferred. During the vesting period, dividends accrue on the restricted shares, but are paid in additional shares of common stock upon vesting, subject to the vesting provisions of the underlying restricted shares. The restricted shares are entitled to the same voting rights as other common shares. Upon vesting, all restrictions are removed. Our policy is to account for forfeitures of share-based compensation awards as they occur.

The Company recorded non-cash stock-based compensation expense from continuing operations for equity grants and RSU's issued under the Plans of $573, $1,127, and $1,027 during the years ended December 31, 2019, 2018, and 2017, respectively. Such amounts are included as components of general and administrative expense or operating expense based upon the classification of cash compensation paid to the related employees. As of December 31, 2019, there was $406 in unrecognized compensation costs related to stock-based compensation to be recognized over the applicable remaining vesting periods. The Company estimated the total recognized and unrecognized compensation for all options and SOSARs using the Black-Scholes-Merton equity grant valuation model. Restricted stock awards are valued using the market price on the grant date.

The table below shows the weighted average assumptions the Company used to develop the fair value estimates under its option valuation model:

	Year Ended December 31,		
	2019	**2018**	**2017**
Expected volatility (range)	N/A[(1)]	47%-49%	N/A[(1)]
Risk free interest rate (range)	N/A[(1)]	2.68%-2.75%	N/A[(1)]
Expected dividends	N/A[(1)]	2.70%	N/A[(1)]
Weighted average expected term (years)	N/A[(1)]	6	N/A[(1)]

(1) The Company did not issue any options or other equity grants that would require application of the Black-Scholes-Merton equity grant valuation model during the years ended December 31, 2019 and 2017. All equity grants during these periods were restricted common shares which are valued using an intrinsic valuation method based on market price.

In computing the fair value estimates using the Black-Scholes-Merton valuation model, the Company took into consideration the exercise price of the equity grants and the market price of the Company's stock on the date of grant. The Company used an expected volatility that equals the historical volatility over the most recent period equal to the expected life of the equity grants. The risk free interest rate is based on the U.S. treasury yield curve in effect at the time of grant. The Company used the expected dividend yield at the date of grant, reflecting the level of annual cash dividends currently being paid on its common stock.

In computing the fair value of these equity grants, the Company estimated the equity grants' expected term based on the average of the vesting term and the original contractual terms of the grants.

The table below describes the resulting weighted average grant date fair values calculated as well as the intrinsic value of options exercised under the Company's equity awards during each of the following years:

	Year Ended December 31,		
	2019[1]	2018	2017[1]
Weighted average grant date fair value	$ —	$ 3.05	$ —
Total intrinsic value of exercises	$ 3	$ 115	$ 2

(1) The Company did not issue any options or other equity grants that would require application of the Black-Scholes-Merton equity grant valuation model during the years ended December 31, 2019 and 2017. All equity grants during this period were restricted common shares which are valued using an intrinsic valuation method based on market price.

The following table summarizes information regarding stock options and SOSAR grants outstanding as of December 31, 2019:

Range of Exercise Prices	Weighted Average Exercise Prices	Grants Outstanding	Intrinsic Value-Grants Outstanding	Grants Exercisable	Intrinsic Value-Grants Exercisable
$8.14 to $10.21	$ 8.83	45	$ —	35	$ —
$5.45 to $5.86	$ 5.71	31	$ —	31	$ —
		76		66	

As of December 31, 2019, the outstanding equity grants have a weighted average remaining life of 5.14 years and those outstanding equity grants that are exercisable have a weighted average remaining life of 4.7 years. During the year ended December 31, 2019, approximately 2 stock option and SOSAR grants were exercised under these plans. All of the equity grants exercised were net settled. The net payments from equity grants exercised in 2019 was $41.

Summarized activity of the equity compensation plans is presented below:

	SOSARs/ Options	Weighted Average Exercise Price
Outstanding, December 31, 2018	122	$ 7.29
Granted	—	—
Exercised	(2)	2.37
Expired or cancelled	(44)	7.06
Outstanding, December 31, 2019	76	$ 7.55
Exercisable, December 31, 2019	66	$ 7.46

	Restricted Shares	Weighted Average Grant Date Fair Value
Outstanding, December 31, 2018	120	$ 8.77
Granted	151	3.93
Dividend Equivalents	—	—
Vested	(57)	8.91
Cancelled	(7)	5.97
Outstanding, December 31, 2019	207	$ 5.28

Summarized activity of the Restricted Share Units for the Stock Purchase Plan is as follows:

	Restricted Share Units	Weighted Average Grant Date Fair Value
Outstanding, December 31, 2018	43	$ 9.26
Granted	36	3.93
Dividend Equivalents	—	—
Vested	(31)	9.54
Cancelled	—	—
Outstanding December 31, 2019	48	$ 5.08

Preferred Stock

The Company is authorized to issue up to 195 shares of Preferred Stock. The Company's Board of Directors is authorized to establish the terms and rights of each series, including the voting powers, designations, preferences, and other special rights, qualifications, limitations, or restrictions thereof.

9. NET LOSS PER COMMON SHARE

Information with respect to the calculation of basic and diluted net income (loss) per common share is presented below:

	Years Ended December 31,		
	2019	2018	2017
Numerator: Loss:			
Loss from continuing operations	$ (27,474)	$ (11,264)	$ (9,748)
Income (loss) from discontinued operations, net of income taxes	(8,589)	3,868	4,921
Net loss	$ (36,063)	$ (7,396)	$ (4,827)
Denominator: Basic Weighted Average Common Shares Outstanding:	6,459	6,372	6,279
Basic net loss per common share			
Loss from continuing operations	$ (4.25)	$ (1.77)	$ (1.55)
Income (loss) from discontinued operations			
Operating income (loss), net of taxes	(1.33)	0.61	0.78
Discontinued operations, net of taxes	(1.33)	0.61	0.78
Basic net loss per common share	$ (5.58)	$ (1.16)	$ (0.77)

	2019	2018	2017
Numerator: Loss from continuing operations	$ (27,474)	$ (11,264)	$ (9,748)
Income (loss) from discontinued operations, net of income taxes	(8,589)	3,868	4,921
Net loss	$ (36,063)	$ (7,396)	$ (4,827)
Basic weighted average common shares outstanding	6,459	6,372	6,279
Denominator: Diluted Weighted Average Common Shares Outstanding:	6,459	6,372	6,279
Diluted net loss per common share			
Loss from continuing operations	$ (4.25)	$ (1.77)	$ (1.55)
Income (loss) from discontinued operations			
Operating income (loss), net of taxes	(1.33)	0.61	0.78
Discontinued operations, net of taxes	(1.33)	0.61	0.78
Diluted net loss per common share	$ (5.58)	$ (1.16)	$ (0.77)

The dilutive effects of the Company's stock options, SOSARs, Restricted Shares and Restricted Share Units are included in the computation of diluted income per common share during the periods they are considered dilutive.

The following table reflects the weighted average outstanding SOSARs and Options that were excluded from the computation of diluted earnings per share, as they would have been anti-dilutive:

	2019	2018	2017
SOSARs/Options Excluded	76,000	114,000	45,000

The weighted average common shares for basic and diluted earnings for common shares was the same due to the losses in 2019, 2018 and 2017.

10. INCOME TAXES

Overview

Effective January 1, 2018, the Tax Act reduced the corporate rate from 35% to 21%. The Company has adopted ASU No. 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraph Pursuant to SEC Staff Accounting Bulletin No. 118 (SAB 118), which allows the Company to record provisional amounts during the period of enactment. Any change to the provisional amounts are recorded as an adjustment to the provision for income taxes in the period the amounts are determined. During the year ended December 31, 2017, the company recognized a provisional net deferred income tax expense of $5,476 to reflect the revaluation of the Company's net deferred tax assets based on the U.S. federal tax rate of 21%. In accordance with SAB 118, the Tax Act related income tax effects that were initially reported as provisional estimates were refined as additional analysis was performed.

The provision (benefit) for income taxes on continuing operations for the years ended December 31, 2019, 2018 and 2017 is summarized as follows:

	Year Ended December 31,		
	2019	**2018**	**2017**
Current provision (benefit) :			
Federal	$ 197	$ (143)	$ 272
State	76	(412)	222
	273	(555)	494
Deferred provision (benefit):			
Federal	12,439	(529)	2,544
State	2,982	(397)	(504)
	15,421	(926)	2,040
Provision (benefit) for income taxes of continuing operations	$ 15,694	$ (1,481)	$ 2,534

A reconciliation of taxes computed at statutory income tax rates on income (loss) from continuing operations is as follows:

	Year Ended December 31,		
	2019	**2018**	**2017**
Provision (benefit) for federal income taxes at statutory rates	$ (2,469)	$ (2,676)	$ (2,453)
Provision (benefit) for state income taxes, net of federal benefit	(106)	(564)	322
Valuation allowance changes affecting the provision for income taxes	19,002	(147)	(498)
Employment tax credits	(210)	(49)	(173)
Nondeductible expenses	122	1,899	401
Stock based compensation expense	80	15	(29)
Effect of Tax Cuts and Jobs Creation Act	—	—	4,514
Rate actualization	(1,349)	—	(36)
Other	624	41	486
Provision (benefit) for income taxes of continuing operations	$ 15,694	$ (1,481)	$ 2,534

Deferred Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax assets are reduced by a valuation allowance if, based upon the weight of available evidence, it is more likely than not that we will realize only some portion of the deferred tax assets. The net deferred tax assets and liabilities, at the respective income tax rates, are as follows:

	December 31,	
	2019	2018
Deferred tax assets (liabilities):		
Net operating loss and other carryforwards	$ 859	$ 324
Credit carryforwards	3,118	2,878
Accounts receivable	4,852	4,570
Prepaid expenses	(1,015)	(1,022)
Interest rate limitation	971	148
Right-of-use lease	2,351	—
Depreciation	1,863	1,318
Tax goodwill and intangibles	(1,066)	(1,079)
Stock-based compensation	183	197
Accrued liabilities	504	896
Accrued rent	380	1,914
Kentucky and Kansas acquisition costs	—	3
Impairment of long-lived assets	176	191
Interest rate swap	(4)	(152)
Hedge Ineffectiveness	(155)	(168)
Noncurrent self-insurance liabilities	6,363	5,997
Restitution	2,445	—
Other	30	64
	21,855	16,079
Less valuation allowance	(21,855)	(228)
	$ —	$ 15,851

Deferred Tax Valuation Allowance

The assessment of the amount of value assigned to our deferred tax assets under the applicable accounting standards is highly judgmental. We are required to consider all available positive and negative evidence in evaluating the likelihood that we will be able to realize the benefit of our deferred tax assets in the future. Such evidence includes scheduled reversals of deferred tax assets and liabilities, projected future taxable income, tax-planning strategies, and the results of recent operations. Since this evaluation requires consideration of historical and future events, there is significant judgment involved, and our conclusion could be materially different should certain of our expectations not transpire.

When assessing all available evidence, we consider the weight of the evidence, both positive and negative, based on the objectivity of the underlying evidence and the extent to which it can be verified. For the three-year period ended December 31, 2019, the Company has a cumulative pre-tax loss from continuing operations of $31,739, which includes $11,780 of loss attributable to the year ended December 31, 2019. Additionally, the Company recognized governmental and regulatory changes have put downward revenue pressure on the long-term care industry as a piece of negative evidence in the analysis. In 2019 and 2018 combined, the Company recognized a total expense of $9.5 million related to the CID settlement. Additionally, in 2017 it recorded an additional $5.5 million of income tax expense related to the revaluation of deferred tax assets in accordance with the Tax Cuts and Jobs Act. Because of these items and other financial results, the Company entered a cumulative loss for the 36 preceding months ended June 30, 2019 and performed a thorough assessment of the available positive and negative evidence in order to ascertain whether it is more likely than not that in future periods the Company will generate sufficient pre-tax income to utilize all of its federal deferred tax assets and its net operating loss and other carryforwards and credits.

The Company also identified several pieces of positive evidence that were considered and weighed in the analysis performed regarding the valuation of deferred tax assets. The evidence included the termination of operations for 10 nursing facilities in Kentucky completed in the third quarter of 2019, the related corporate and regional restructuring and other cost saving initiatives already in process. The evidence also included consideration of participation in revenue incentive programs that are expected to generate additional revenue, the long-term expiration dates of a majority of the net operating losses and credits, and the Company's history of not having carryforwards or credits expire unutilized.

In performing the analysis, the Company contemplated utilization of the recorded deferred tax assets under multiple scenarios. After consideration of these factors, the Company determined that a full valuation allowance of $20.0 million was necessary as

of June 30, 2019. As of December 31, 2019, the Company has a valuation allowance in the amount of $21.9 million. The Company will continue to periodically assess the realizability of its future deferred tax assets.

At December 31, 2019, the Company had $8,655 of federal net operating losses, which expire at various dates beginning in 2020. The use of a portion of these loss carryforwards is limited by change in ownership provisions of the Federal tax code to a maximum of approximately $3,336. The Company has reduced the deferred tax asset and the corresponding valuation allowances for net operating loss deductions permanently lost as a result of the change in ownership provisions.

Under the Work Opportunity Tax Credit ("WOTC") program, the Company recorded $210, $64 and $210 in Work Opportunity Tax Credits during 2019, 2018 and 2017, respectively.

The Company is not currently under examination by any major income tax jurisdiction. During 2019, the statutes of limitations lapsed on the Company's 2015 Federal tax year and certain 2014 and 2015 state tax years. The Company does not believe the Federal or state statute lapses or any other event will significantly impact the balance of unrecognized tax benefits in the next twelve months.

11. COMMITMENTS AND CONTINGENCIES

Lease Commitments

The Company is committed under long-term operating leases with various expiration dates and varying renewal options. Under these lease agreements, the Company's lease payments are subject to periodic annual escalations as described below and in Note 1, "Business and Summary of Significant Accounting Policies". Total lease expense for continuing operations was $52,990, $49,231 and $48,248 for 2019, 2018 and 2017, respectively. The accrued liability related to straight line rent was $9,325 and $6,877 at December 31, 2019 and 2018, respectively, and is recorded as an offset to the right-of-use asset on the accompanying consolidated balance sheets.

Omega Master Lease

On October 1, 2018, the Company entered into a New Master Lease Agreement (the "Omega Master Lease") with Omega Healthcare Investors (the "Lessor") to lease 34 centers currently owned by Omega and operated by Diversicare. The old Master Lease with Omega provided for its operation of 23 skilled nursing centers in Texas, Kentucky, Alabama, Tennessee, Florida, and Ohio. Additionally, Diversicare operates 11 centers owned by Omega, previously under separate leases in Missouri, Kentucky, Indiana, and Ohio. The Omega Master Lease entered into by Diversicare and Omega consolidated the leases for all 34 centers under one New Master Lease. The Omega Master Lease has an initial term of twelve years with the option of two ten year extensions at the Company's election. The Omega Master Lease has annual rent escalators of 2.15% beginning on October 1, 2019.

On August 30, 2019, the Company terminated operations of 10 centers in Kentucky and concurrently transferred operations to a new operator. The agreement effectively amended the Master Lease Agreement with Omega Healthcare Investors to remove the 10 Kentucky facilities, reduce the annual rent expense, and release the Company from any further obligations arising under the Master Lease Agreement with respect to the Kentucky facilities. The remaining Lease terms remain unchanged with an initial term of twelve years and two optional 10-year extensions. The annual lease fixed escalator remains at 2.15% beginning on October 1, 2019.

Under generally accepted accounting principles, the Company is required to report these scheduled rent increases on a straight line basis over the term of the lease. These scheduled increases had no effect on cash rent payments at the start of the lease term and only result in additional cash outlay as the annual increases take effect each year.

The Omega Master Lease requires the Company to fund annual capital expenditures related to the leased centers at an amount currently equal to four-hundred dollars per licensed bed. These amounts are subject to adjustment for increases in the Consumer Price Index. The Company is in compliance with the capital expenditure requirements. Total required capital expenditures during the remaining lease term are $12,294. These capital expenditures are being depreciated on a straight-line basis over the shorter of the asset life or the appropriate lease term.

Upon expiration of the Omega Master Lease or in the event of a default under the Omega Master Lease, the Company is required to transfer all of the leasehold improvements, equipment, furniture and fixtures of the leased centers to Omega. The assets to be transferred to Omega are being amortized on a straight-line basis over the shorter of the remaining lease term, excluding the renewal options, or estimated useful life, and will be fully depreciated upon the expiration of the lease. All of the equipment, inventory and other related assets of the centers leased pursuant to the Omega Master Lease have been pledged as security under the Omega Master Lease. In addition, the Company has a letter of credit of $5,332 as a security deposit for the Company's leases with Omega, as described in Note 7, "Long-term Debt, Interest Rate Swap and Finance Lease Obligations".

Golden Living Master Lease

The Company leases 20 nursing centers from Golden Living. On October 1, 2016, the Company and Golden Living entered into a Master Lease ("Golden Living Lease") agreement to lease eight centers located in Mississippi. On November 1, 2016, the Company and Golden Living entered into an Amended and Restated Master Lease ("Amended Lease") to extend the term of its centers leased from Golden Living and lease an additional twelve centers located in Alabama. The Amended Lease is triple net and has an initial term of ten years with two separate five year options to extend the term. Base rent for the amended lease is $24,675 for the first year and escalates 2% annually thereafter. Under generally accepted accounting principles, the Company is required to report these scheduled rent increases on a straight line basis over the term of the lease including the 10 year term of the renewal period. These scheduled increases had no effect on cash rent payments at the start of the lease term and only result in additional cash outlay as the annual increases take effect each year.

The Golden Living Lease requires the Company to fund annual capital expenditures related to the leased centers at an amount currently equal to five hundred and twenty dollars per licensed bed. These amounts are subject to adjustment for increases in the Consumer Price Index. The Company is in compliance with the capital expenditure requirements. Total required capital expenditures during the remaining lease term and renewal options are $6,404. These capital expenditures are being depreciated on a straight-line basis over the shorter of the asset life or the appropriate lease term.

Upon expiration of the Golden Living Lease or in the event of a default under the Golden Living Lease , the Company is required to transfer all of the leasehold improvements, equipment, furniture and fixtures of the leased centers to Golden Living. The assets to be transferred to Golden Living are being amortized on a straight-line basis over the shorter of the remaining lease term or estimated useful life, and will be fully depreciated upon the expiration of the lease. All of the equipment, inventory and other related assets of the center leased pursuant to the Golden Living Lease have been pledged as security under the Golden Living Lease. In addition, the Company has a letter of credit of $6,481 as a security deposit for the Company's leases with Golden Living, as described in Note 7, "Long-term Debt, Interest Rate Swap and Finance Lease Obligations".

Insurance Matters

Professional Liability and Other Liability Insurance

The Company has professional liability insurance coverage for its nursing centers that, based on historical claims experience, is likely to be substantially less than the claims that are expected to be incurred. Effective July 1, 2013, the Company established a wholly-owned, offshore limited purpose insurance subsidiary, SHC Risk Carriers, Inc. (“SHC”), to replace some of the expiring commercial policies. SHC covers losses up to specified limits per occurrence. All of the Company's nursing centers in Florida and Tennessee are now covered under the captive insurance policies along with most of the nursing centers in Alabama, Kentucky, and Texas. The insurance coverage provided for these centers under the SHC policy includes coverage limits of at least $1,000 per medical incident with a sublimit per center of $3,000 and total annual aggregate policy limits of $5,000. All other centers within the Company’s portfolio are covered through various commercial insurance policies which provide similar coverage limits per medical incident, per location, and on an aggregate basis for covered centers. The deductibles for these policies vary in amount are covered through the insurance subsidiary.

The Company follows the FASB Accounting Standards Update, “Presentation of Insurance Claims and Related Insurance Recoveries,” that clarifies that a health care entity should not net insurance recoveries against a related professional liability claim and that the amount of the claim liability should be determined without consideration of insurance recoveries. Accordingly, the estimated insurance recovery receivables are included within "Other Current Assets" on the Consolidated Balance Sheet. As of December 31, 2019 and 2018, there are $1,011 and $5,478, respectively, estimated insurance recovery receivables.

Reserve for Estimated Self-Insured Professional Liability Claims

Because the Company’s actual liability for existing and anticipated professional liability and general liability claims will likely exceed the Company’s limited insurance coverage, the Company has recorded total liabilities for reported and estimated future claims of $27,390 and $27,201 as of December 31, 2019 and 2018, respectively. This accrual includes estimates of liability for incurred but not reported claims, estimates of liability for reported but unresolved claims, actual liabilities related to settlements, including settlements to be paid over time, and estimates of legal costs related to these claims. All losses are projected on an undiscounted basis and are presented without regard to any potential insurance recoveries. Amounts are added to the accrual for estimates of anticipated liability for claims incurred during each period, and amounts are deducted from the accrual for settlements paid on existing claims during each period.

The Company evaluates the adequacy of this liability on a quarterly basis. Semi-annually, the Company retains a third-party actuarial firm to assist in the evaluation of this reserve. Since May 2012, the actuary has assisted management in the preparation of the appropriate accrual for incurred but not reported general and professional liability claims based on data furnished as of May 31 and November 30 of each year. The actuary primarily utilizes historical data regarding the frequency and cost of the Company’s

past claims over a multi-year period, industry data and information regarding the number of occupied beds to develop its estimates of the Company's ultimate professional liability cost for current periods.

On a quarterly basis, the Company obtains reports of asserted claims and lawsuits incurred. These reports, which are provided by the Company's insurers and a third party claims administrator, contain information relevant to the actual expense already incurred with each claim as well as the third-party administrator's estimate of the anticipated total cost of the claim. This information is reviewed by the Company quarterly and provided to the actuary semi-annually. Based on the Company's evaluation of the actual claim information obtained, the semi-annual estimates received from the third-party actuary, the amounts paid and committed for settlements of claims and on estimates regarding the number and cost of additional claims anticipated in the future, the reserve estimate for a particular period may be revised upward or downward on a quarterly basis. Any increase in the accrual decreases results of operations in the period and any reduction in the accrual increases results of operations during the period.

The Company's cash expenditures for self-insured professional liability costs were $4,578, $6,540, and $6,593 for the years ended December 31, 2019, 2018 and 2017, respectively.

Although the Company adjusts its accrual for professional and general liability claims on a quarterly basis and retains a third-party actuarial firm semi-annually to assist management in estimating the appropriate accrual, professional and general liability claims are inherently uncertain, and the liability associated with anticipated claims is very difficult to estimate. Professional liability cases have a long cycle from the date of an incident to the date a case is resolved, and final determination of the Company's actual liability for claims incurred in any given period is a process that takes years. As a result, the Company's actual liabilities may vary significantly from the accrual, and the amount of the accrual has and may continue to fluctuate by a material amount in any given period. Each change in the amount of this accrual will directly affect the Company's reported earnings and financial position for the period in which the change in accrual is made.

Other Insurance

With respect to workers' compensation insurance, substantially all of our employees are covered under either a prefunded deductible policy or state-sponsored program. The Company has been and remains a non-subscriber to the Texas workers' compensation system and is, therefore, completely self-insured for employee injuries with respect to its Texas operations. From June 30, 2003 until June 30, 2007, the Company's workers' compensation insurance programs provided coverage for claims incurred with premium adjustments depending on incurred losses. For the period from July 1, 2008 through December 31, 2019, the Company is covered by a prefunded deductible policy. Under this policy, the Company is self-insured for the first $500 per claim, subject to an aggregate maximum of $3,000. The Company funds a loss fund account with the insurer to pay for claims below the deductible. The Company accounts for premium expense under this policy based on its estimate of the level of claims subject to the policy deductibles expected to be incurred. The liability for workers' compensation claims is $921 and $618 at December 31, 2019 and 2018, respectively. The Company has a non-current receivable for workers' compensation policies covering previous years of $1,575 and $1,258 as of December 31, 2019 and 2018, respectively. The non-current receivable is a function of payments paid to the Company's insurance carrier in excess of the estimated level of claims expected to be incurred.

As of December 31, 2019, the Company is self-insured for health insurance benefits for certain employees and dependents for amounts up to $200 per individual annually. The Company provides reserves for the settlement of outstanding self-insured health claims at amounts believed to be adequate. The liability for reported claims and estimates for incurred but unreported claims is $1,810 and $1,396 at December 31, 2019 and 2018, respectively. The differences between actual settlements and reserves are included in expense in the period finalized.

Employment Agreements

The Company has employment agreements with certain members of management that provide for the payment to these members of amounts up to 2.0 times their annual salary in the event of a termination without cause, a constructive discharge (as defined in each employee agreement), or upon a change in control of the Company (as defined in each employee agreement). The maximum contingent liability under these agreements is $1,692 as of December 31, 2019. The terms of such agreements are from 1 to 3 years and automatically renew for 1 year if not terminated by the employee or the Company.

No amounts have been accrued for these contingent liabilities for members of management the Company currently employs.

Health Care Industry and Legal Proceedings

The provision of health care services entails an inherent risk of liability. Participants in the health care industry are subject to lawsuits alleging malpractice, violations of false claims acts, product liability, or related legal theories, many of which involve large claims and significant defense costs. Like many other companies engaged in the long-term care profession in the United States, we have numerous pending liability claims, disputes and legal actions for professional liability and other related issues. Further, as with all health care providers, we are periodically subject to regulatory actions seeking fines and penalties for alleged

violations of health care laws and are potentially subject to the increased scrutiny of regulators for issues related to compliance with health care fraud and abuse laws and with respect to the quality of care provided to residents of our center. Like other health care providers, in the ordinary course of our business, we are also subject to claims made by employees and other disputes and litigation arising from the conduct of our business.

As of December 31, 2019, we are engaged in 95 professional liability lawsuits, of which 46 relate to centers we no longer operate, which are reserved for as discussed above. Twenty-three lawsuits are currently scheduled for trial or arbitration during the next twelve months, and it is expected that additional cases will be set for trial or hearing. The ultimate results of any of our professional liability claims and disputes cannot be predicted. We have limited, and sometimes no, professional liability insurance with regard to most of these claims. A significant judgment entered against us in one or more of these legal actions could have a material adverse impact on our financial position and cash flows.

In February 2020, the Company entered into a settlement agreement with the U.S. Department of Justice and the State of Tennessee of actions alleging violations of the federal False Claims Act in connection with our provision of therapy and the completion of certain resident admission forms. This settlement of $9,500 resolved an investigation that had begun in 2012 and covers the time period from January 1, 2010 through December 31, 2015. This agreement requires an initial payment of $500 within ten days of the effective date, which was February 14, 2020, and material annual payments for a period of five years thereafter ending in February 2025, and also requires a contingent payment in the event the Company sells any of its owned facilities during the five year payment period. Failure to make timely any of these payments could result in rescission of the settlement and result in the government having a very large claim against us, including penalties, and/or make us ineligible to participate in certain government funded healthcare programs, any of which could in turn significantly harm our business and financial condition.

In conjunction with the settlement of the government investigation related to our therapy practices, the Company entered into a corporate integrity agreement with the Office of the Inspector General of CMS. This agreement has a term of five years and imposes material burdens on the Company, its officers and directors to take actions designed to insure compliance with applicable healthcare laws, including requirements to maintain specific compliance positions within the Company, to report any non-compliance with the terms of the agreement, to return any overpayments received, to submit annual reports and for an annual audit of submitted claims by an independent review organization. The CIA sets forth penalties for non-compliance by the Company with the terms of the agreement, including possible exclusion from federally funded healthcare programs for material violations of the agreement.

In January 2009, a purported class action complaint was filed in the Circuit Court of Garland County, Arkansas against the Company and certain of its subsidiaries and Garland Nursing & Rehabilitation Center (the “Center”). The complaint alleges that the defendants breached their statutory and contractual obligations to the patients of the Center over the five-year period prior to the filing of the complaints. The lawsuit remains in its early stages and has not yet been certified by the court as a class action. The Company intends to defend the lawsuit vigorously.

We cannot currently predict with certainty the ultimate impact of any of the above cases on our financial condition, cash flows or results of operations. Our reserve for professional liability expenses does not include the amounts that will be owed under the settlement agreement with the DOJ and State of Tennessee or the purported class action against the Arkansas centers. An unfavorable outcome in any of these lawsuits or any of our professional liability actions, any regulatory action, any investigation or lawsuit alleging violations of fraud and abuse laws or of elderly abuse laws or any state or Federal False Claims Act case could subject us to fines, penalties and damages, including exclusion from the Medicare or Medicaid programs, and could have a material adverse impact on our financial condition, cash flows or results of operations.

12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Selected quarterly financial information for each of the quarters in the years ended December 31, 2019 and 2018 is as follows:

	Quarter			
2019	**First**	**Second**	**Third**	**Fourth**
Patient revenues, net	$ 117,550	$ 117,967	$ 118,630	$ 120,873
Professional liability expense [(1)]	1,851	1,594	1,737	1,814
Loss from continuing operations	(1,574)	(22,616)	(1,916)	(1,368)
Loss from discontinued operations	(1,772)	(1,980)	(2,958)	(1,879)
Net loss [(2)]	$ (3,346)	$ (24,596)	$ (4,874)	$ (3,247)
Basic net loss per common share:				
Loss from continuing operations	$ (0.24)	$ (3.49)	$ (0.30)	$ (0.22)
Loss from discontinued operations	(0.28)	(0.31)	(0.45)	(0.29)
Net loss per common share	$ (0.52)	$ (3.80)	$ (0.75)	$ (0.51)
Diluted net loss per common share:				
Loss from continuing operations	$ (0.24)	$ (3.49)	$ (0.30)	$ (0.22)
Loss from discontinued operations	(0.28)	(0.31)	(0.45)	(0.29)
Net loss per common share	$ (0.52)	$ (3.80)	$ (0.75)	$ (0.51)

(1) The Company's quarterly results are significantly affected by the amounts recorded for professional liability expense, as discussed further in Note 11, "Commitments and Contingencies". The amount of expense recorded for professional liability in each quarter of 2019 is set forth in the table above.

(2) The loss in the second quarter of 2019 is inclusive of a full valuation allowance of $20.0 million.

2018	Quarter			
	First	Second	Third	Fourth
Patient revenues, net	$ 119,043	$ 119,327	$ 119,036	$ 118,716
Professional liability expense [1]	1,539	1,755	1,604	1,600
Loss from continuing operations	(738)	(327)	(7,512)	(2,687)
Income from discontinued operations	635	17	114	3,102
Net income (loss)	$ (103)	$ (310)	$ (7,398)	$ 415
Basic net income (loss) per common share:				
Loss from continuing operations	$ (0.12)	$ (0.05)	$ (1.18)	$ (0.42)
Income from discontinued operations	0.11	—	0.02	0.48
Net income (loss) per common share	$ (0.01)	$ (0.05)	$ (1.16)	$ 0.06
Diluted net income (loss) per common share:				
Loss from continuing operations	$ (0.12)	$ (0.05)	$ (1.18)	$ (0.42)
Income from discontinued operations	0.11	—	0.02	0.48
Net income (loss) per common share	$ (0.01)	$ (0.05)	$ (1.16)	$ 0.06

(1) The Company's quarterly results are significantly affected by the amounts recorded for professional liability expense, as discussed further in Note 11, "Commitments and Contingencies". The amount of expense recorded for professional liability in each quarter of 2018 is set forth in the table above.

13. SUBSEQUENT EVENTS

Debt Amendment

Effective February 25, 2020, the Company entered into a Sixth Amendment to amend the Amended Mortgage Loan, an Eighth Amendment to amend the Amended Revolver and a First Amendment to the affiliated revolver. The amendments extend the maturity date of the facilities to September 30, 2021. Also, in connection with these amendments, the Company obtained a waiver from our syndicate of banks for the minimum guarantor fixed charge coverage ratio covenant applicable to the Amended Mortgage Loan and the Amended Revolver for the period ending December 31, 2019 and made certain changes to the financial covenants of these loan agreements, as follows.

Pursuant to the amendments, the Company's Fixed Charge Coverage Ratio, as defined under the Amended Mortgage Loan and the Amended Revolver, should not be less than 1.01 to 1.00, for the Fiscal Quarter (i) ending March 31, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing three month basis, (ii) ending June 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing six month basis, (iii) ending September 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing nine month basis, and (iv) ending December 31, 2020 and for each Fiscal Quarter thereafter, each measured on the last day of the applicable Fiscal Quarter on a trailing twelve month basis.

The minimum Adjusted EBITDA should not be less than (i) $9,500,000 for the Fiscal Quarter ending December 31, 2019 on a trailing Twelve month basis, (ii) $3,250,000 for the Fiscal Quarter ending March 31, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing three month basis, (iii) $6,500,000 for the Fiscal Quarter ending June 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing six month basis, (iv) $9,750,000 for the Fiscal Quarter ending September 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing nine month basis, and (v) $13,000,000 for the Fiscal Quarter ending December 31, 2020 and for each Fiscal Quarter thereafter, each measured on the last day of the applicable Fiscal Quarter on a trailing twelve month basis.

Civil Investigative Demand

Effective February 14, 2020, the Company entered into a settlement agreement in the amount of $9.5 million with the U.S. Department of Justice and the State of Tennessee of actions alleging violations of the federal False Claims Act in connection with our provision of therapy and the completion of certain resident admission forms. This settlement resolved an investigation that had begun in 2012 and covers the time period from January 1, 2010 through December 31, 2015. This agreement requires material annual payments for a period of five years ending in February 2025 and also requires a contingent payment in the event the Company sells any of its owned facilities during the five year payment period. Failure to make timely any of these payments could result in rescission of the settlement and result in the government having a very large claim against us, including penalties, and/or make us ineligible to participate in certain government funded healthcare programs, any of which could in turn significantly harm our business and financial condition.

In conjunction with the settlement of the government investigation related to our therapy practices, we entered into a corporate integrity agreement with the Office of the Inspector General of CMS. This agreement has a term of five years and imposes material burdens on the Company, its officers and directors to take actions designed to insure compliance with applicable healthcare laws, including requirements to maintain specific compliance positions within the Company, to report any non-compliance with the terms of the agreement, to return any overpayments received, to submit annual reports and for an annual audit of submitted claims by an independent review organization. The CIA sets forth penalties for non-compliance by the Company with the terms of the agreement, including possible exclusion from federally funded healthcare programs for material violations of the agreement.

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
OF CONTINUING OPERATIONS
(in thousands)

Description	Balance at Beginning of Period	Impact of ASC 606 Adoption [1]	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
Year ended December 31, 2019: Allowance for doubtful accounts	$—	$—	$—	$—	$—
Year ended December 31, 2018: Allowance for doubtful accounts	$14,235	$(14,235)	$—	$—	$—
Year ended December 31, 2017: Allowance for doubtful accounts	$10,326	$—	$8,958	$(5,049)	$14,235

(1) Subsequent to the adoption of ASC 606 on January 1 2018, the allowance for doubtful accounts related to bad debt expense has been incorporated as an implicit price concession factored into net revenue and accounts receivable.

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

Column A	Column B	Column C			Column D	Column E
		Additions			Deductions	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts [2]	Other	Payments [1]	Balance at End of Period
Year ended December 31, 2019:						
Professional Liability Reserve	$27,201	$10,435	$—	$(3,020)	$(7,226)	$27,390
Workers Compensation Reserve	$618	$400	$—	$—	$(97)	$921
Health Insurance Reserve	$1,396	$16,733	$—	$—	$(16,319)	$1,810
Year ended December 31, 2018:						
Professional Liability Reserve	$20,057	$8,865	$—	$5,475	$(7,196)	$27,201
Workers Compensation Reserve	$867	$(18)	$—	$—	$(231)	$618
Health Insurance Reserve	$1,326	$14,369	$—	$—	$(14,299)	$1,396
Year ended December 31, 2017:						
Professional Liability Reserve	$19,977	$7,935	$—	$—	$(7,855)	$20,057
Workers Compensation Reserve	$171	$995	$—	$—	$(299)	$867
Health Insurance Reserve	$1,019	$13,769	$—	$—	$(13,462)	$1,326

(1) Payments for the Professional Liability Reserve include amounts paid for claims settled during the period as well as payments made under structured arrangements for claims settled in earlier periods.
(2) The Company has presented the results of certain divestiture and lease termination transactions as discontinued operations. The amounts charged to Other Accounts represent the amounts charged to discontinued operations.

DIVERSICARE HEALTHCARE SERVICES, INC. AND SUBSIDIARIES
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
OF CONTINUING OPERATIONS
(in thousands)

Description	Balance at Beginning of Period	Additions Charged to Costs and Expenses (1)	Deductions	Balance at End of Period
Year ended December 31, 2019: Deferred Tax Valuation Allowance	$228	$21,657	$—	$21,885
Year ended December 31, 2018: Deferred Tax Valuation Allowance	$377	$—	$(149)	$228
Year ended December 31, 2017: Deferred Tax Valuation Allowance	$732	$—	$(355)	$377

(1) The Company initially recorded a full valuation allowance of $20.0 million during the second quarter of 2019.

EIGHTH AMENDMENT TO THIRD AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT

THIS EIGHTH AMENDMENT TO THIRD AMENDED AND RESTATED REVOLVING LOAN AND SECURITY AGREEMENT (this "Amendment") dated as of February 25, 2020, is by and among **CIBC BANK USA**, formerly known as The PrivateBank and Trust Company, an Illinois banking corporation (together with its successors and assigns, "Administrative Agent") in its capacity as administrative agent for the Lenders (as defined below), the Lenders, **DIVERSICARE MANAGEMENT SERVICES CO.**, a Tennessee corporation, and certain of its affiliates parties hereto identified on the signature pages as "Borrower" (individually and collectively, "Borrower").

RECITALS:

WHEREAS, Borrower, Administrative Agent, and the financial institutions signatories thereto (the "Lenders") are parties to that certain Third Amended and Restated Revolving Loan and Security Agreement dated as of February 26, 2016 (as the same has been, and may hereafter be, amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"; all capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Loan Agreement as amended by this Amendment);

WHEREAS, Borrower, Administrative Agent and Lenders desire to amend the Loan Agreement as provided in and subject to the terms and conditions of this Amendment;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto (intending to be legally bound) hereby agree as follows:

1. **Amendments to Loan Agreement**. Subject to the satisfaction of the conditions set forth in Section 4 below and in reliance upon the representations and warranties set forth in Section 3 below, Borrower, Administrative Agent and Lenders hereby amend the Loan Agreement as follows:

(a) Section 1.1 of the Loan Agreement is hereby amended by adding the following new definitions in proper alphabetical order therein to read as follows:

"Benchmark Replacement" means the sum of: (a) the alternate benchmark rate (which may include Term SOFR) that has been selected by Administrative Agent giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the Libor Base Rate for U.S. dollar-denominated syndicated credit facilities and (b) the Benchmark Replacement Adjustment.

"Benchmark Replacement Adjustment" means, with respect to any replacement of the Libor Base Rate with an Unadjusted Benchmark Replacement for each applicable Interest Period, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected to by Administrative Agent giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the Libor Base Rate with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the Libor Base Rate with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated syndicated credit facilities at such time.

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Interest Period," timing and frequency of determining rates and making payments of interest and other administrative matters) that Administrative Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Administrative Agent in a manner substantially consistent with market practice (or, if Administrative Agent decides that adoption of any portion of such market practice is not administratively feasible or if Administrative Agent determines that no market practice for the administration of the Benchmark Replacement exists, in such other manner of administration as Administrative Agent decides is reasonably necessary in connection with the administration of this Agreement).

"Benchmark Replacement Date" means the earlier to occur of the following events with respect to the Libor Base Rate:

(1) in the case of clause (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Libor Base Rate permanently or indefinitely ceases to provide the Libor Base Rate; or

(2) in the case of clause (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the Libor Base Rate:

(1) a public statement or publication of information by or on behalf of the administrator of the Libor Base Rate announcing that such administrator has ceased or will cease to provide the Libor Base Rate, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Libor Base Rate;

(2) a public statement or publication of information by the regulatory supervisor for the administrator of the Libor Base Rate, the U.S. Federal Reserve System, an insolvency official with jurisdiction over the administrator for the Libor Base Rate, a resolution authority with jurisdiction over the administrator for the Libor Base Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the Libor Base Rate, which states that the administrator of the Libor Base Rate has ceased or will cease to provide the Libor Base Rate permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Libor Base Rate; or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of the Libor Base Rate announcing that the Libor Base Rate is no longer representative.

"Benchmark Transition Start Date" means (a) in the case of a Benchmark Transition Event, the earlier of (i) the applicable Benchmark Replacement Date and (ii) if such Benchmark Transition Event is a public statement or publication of information of a prospective event, the 90th day prior to the expected date of such event as of such public statement or publication of information (or if the expected date of such prospective event is fewer than 90 days after such statement or publication, the date of such statement or publication) and (b) in the case of an Early Opt-in Election, the date specified by Administrative Agent or Required Lenders, as applicable, by notice to Borrower, Administrative Agent (in the case of such notice by Required Lenders) and Lenders.

"Benchmark Unavailability Period" means, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the Libor Base Rate and solely to the extent that the Libor Base Rate has not been replaced with a Benchmark Replacement, the period (x) beginning at the time that such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the Libor Base Rate for all purposes hereunder in accordance with Section 3.11 and (y) ending at the time that a Benchmark Replacement has replaced the Libor Base Rate for all purposes hereunder pursuant to Section 3.11.

"Early Opt-in Election" means the occurrence of:

(1) a determination by Administrative Agent or (ii) a notification by Required Lenders to Administrative Agent (with a copy to Borrower) that Required Lenders have determined, that U.S. dollar-denominated syndicated credit facilities being executed at such time, or that include language similar to that contained in this Section 3.11, are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace the Libor Base Rate, and

(2) (i) the election by Administrative Agent or (ii) the election by Required Lenders to declare that an Early Opt-in Election has occurred and the provision, as applicable, by Administrative Agent of written notice of such election to Borrower and Lenders or by Required Lenders of written notice of such election to Administrative Agent.

"Federal Reserve Bank of New York's Website" means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source.

"Relevant Governmental Body" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

"SOFR" with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's Website.

"Term SOFR" means the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"Unadjusted Benchmark Replacement" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(b) Section 1.1 of the Loan Agreement is hereby amended by amending and restating the following definition therein in its entirety to read as follows:

"Stated Maturity Date" means September 30, 2021.

(c) The definition of "Adjusted EBITDAR" in Section 1.1 of the Loan Agreement is hereby deleted in its entirety.

(d) Article 3 is hereby amended by adding a new Section 3.11 therein to read as follows:

3.11 Effect of Benchmark Transition Event.

(a) Benchmark Replacement. Notwithstanding anything to the contrary herein or in any other Financing Agreement, upon the occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, Administrative Agent (without, except as specifically provided in the two following sentences, any action or consent by any other party to this Agreement) may amend this Agreement to replace the Libor Base Rate with a Benchmark Replacement. Any such amendment with respect to a Benchmark Transition Event will become effective at 5:00 p.m. (Chicago time) on the fifth (5th) Business Day after Administrative Agent has posted such proposed amendment to all Lenders and Borrower so long as Administrative Agent has not received, by such time, written notice of objection to such amendment from Lenders comprising Required Lenders. Any such amendment with respect to an Early Opt-in Election will become effective on the date that Borrower and Lenders comprising Required Lenders have delivered to Administrative Agent written notice that Borrower and such Required Lenders accept such amendment. No replacement of Libor Base Rate with a Benchmark Replacement pursuant to this Section 3.11 will occur prior to the applicable Benchmark Transition Start Date.

(b) Benchmark Replacement Conforming Changes. In connection with the implementation of a Benchmark Replacement, Administrative Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Financing Agreement, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(c) Notices; Standards for Decisions and Determinations. Administrative Agent will promptly notify Borrower and Lenders of (i) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date and Benchmark Transition Start Date, (ii) the implementation of any Benchmark Replacement, (iii) the effectiveness of any Benchmark Replacement Conforming Changes and (iv) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by Administrative Agent or Lenders pursuant to this Section 3.11 including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 3.11.

(d) Benchmark Unavailability Period. Upon Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, Borrower will be deemed to have converted any pending request for a Libor Loan, and any conversion to or continuation of any Libor Loans to be made, converted or continued during any Benchmark Unavailability Period into a request for a borrowing of or conversion to Base Rate Loans.

(e) Effective December 31, 2019, Section 9.12 (a) is hereby amended and restated in its entirety to read as follows:

(a) Minimum Fixed Charge Coverage Ratio. The Parent and Borrowers and Affiliate Revolving Borrowers, taken as a whole, shall not permit their Fixed Charge Coverage Ratio to be less than 1.01 to 1.00, for the Fiscal Quarter (i) ending March 31, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing three (3) month basis, (ii) ending June 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing six (6) month basis, (iii) ending September 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing

nine (9) month basis, and (iv) ending December 31, 2020 and for each Fiscal Quarter thereafter, each measured on the last day of the applicable Fiscal Quarter on a trailing twelve (12) month basis. The Minimum Fixed Charge Converge Ratio shall not be tested for the Fiscal Quarter ending December 31, 2019.

(f) Effective December 31, 2019, Section 9.12 (b) is hereby amended and restated in its entirety to read as follows:

(b) Minimum Adjusted EBITDA (QIPP Funds). The Parent and Borrowers and Affiliate Revolving Borrowers, taken as a whole, shall not permit their Adjusted EBITDA (QIPP Funds) to be less than (i) $9,500,000 for the Fiscal Quarter ending December 31, 2019 on a trailing Twelve (12) month basis, (ii) $3,250,000 for the Fiscal Quarter ending March 31, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing three (3) month basis, (iii) $6,500,000 for the Fiscal Quarter ending June 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing six (6) month basis, (iv) $9,750,000 for the Fiscal Quarter ending September 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing nine (9) month basis, and (v) $13,000,000 for the Fiscal Quarter ending December 31, 2020 and for each Fiscal Quarter thereafter, each measured on the last day of the applicable Fiscal Quarter on a trailing twelve (12) month basis.

(g) The last paragraph of Section 9.12 is hereby amended to add the following new sentence at the end thereof:

Notwithstanding anything to the contrary contained herein, Borrower, Administrative Agent and the Lenders hereby agree that, for purposes of determining whether Borrower is in compliance with Section 9.12(a) (Minimum Fixed Charge Coverage Ratio) and Section 9.12(b) (Minimum Adjusted EBITDA (QIPP Funds)) herein, the Borrower may, solely for the Fiscal Year ending December 31, 2020, add back the amount of Cash Cost of Self-Insured Professional and General Liability for such period that were previously deducted, in an amount not to exceed $1,500,000 during such 12 month period, solely to the extent such claims are associated with those facilities located in the State of Kentucky which were previously owned or leased by Borrower or Borrower's affiliates.

(h) Section 12.1 is hereby amended by amending the second paragraph therein by replacing "Except as otherwise set forth herein" at the beginning thereof with "Except as otherwise set forth herein (including, without limitation, Section 3.11)".

2. **No Other Amendments**. Borrower acknowledges and expressly agrees that this Amendment is limited to the extent expressly set forth herein and shall not constitute a modification or amendment of the Loan Agreement or any other Financing Agreements or a course of dealing at variance with the terms or conditions of the Loan Agreement or any other Financing Agreements (other than as expressly set forth in this Amendment and the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith).

3. **Representations and Warranties.** In order to induce Administrative Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Administrative Agent and Lenders (which representations and warranties shall survive the execution and delivery hereof), both before and after giving effect to this Amendment that:

(a) Each of the representations and warranties of each Borrower contained in the Loan Agreement and the other Financing Agreements to which Borrower is a party are true and correct in all material respects (without duplication of any materiality carve out already provided therein) on and as of the date hereof, in each case as if made on and as of such date, other than representations and warranties that expressly relate solely to an earlier date (in which case such representations and warranties were true and correct on and as of such earlier date);

(b) Borrower has the corporate or limited liability company (as applicable) power and authority (i) to enter into the Loan Agreement as amended by this Amendment and (ii) to do all acts and things as are required or contemplated hereunder to be done, observed and performed by Borrower;

(c) This Amendment has been duly authorized, validly executed and delivered by one or more Duly Authorized Officers of Borrower, and each of this Amendment, the Loan Agreement as amended hereby, and each of the other Financing Agreements to which Borrower is a party, constitutes the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, subject to bankruptcy, insolvency or other similar laws affecting the enforcement of creditor's rights and remedies generally;

(d) The execution and delivery of this Amendment and performance by Borrower under this Amendment, the Loan Agreement and each of the other Financing Agreements to which Borrower is a party do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over Borrower that has not already

been obtained, nor be in contravention of or in conflict with the organizational documents of Borrower, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking, to which Borrower is party or by which Borrower's respective assets or properties are bound; and

(e) No Default or Event of Default will result after giving effect to this Amendment, and no event has occurred that has had or could reasonably be expected to have a Material Adverse Effect after giving effect to this Amendment.

4. **Conditions Precedent to Effectiveness of this Amendment.** The amendments contained in Section 1 of this Amendment shall become effective on the date hereof as long as each of the following conditions precedent is satisfied as determined by Administrative Agent:

(a) all of the representations and warranties of Borrower under Section 3 hereof, which are made as of the date hereof, are true and correct;

(b) Administrative Agent shall have received duly executed signature pages to this Amendment from Borrower and Lenders;

(c) Administrative Agent shall have received a duly executed Reaffirmation of Second Amended and Restated Guaranty in the form attached hereto;

(d) Administrative Agent shall have received a duly executed Reaffirmation of Pledge Agreements in the form attached hereto;

(e) Administrative Agent shall have received duly executed copies of modifications to the Notes;

(f) Administrative Agent shall have received the amount of reasonable fees and out-of-pocket costs and expenses of counsel to Administrative Agent in connection with the Amendment pursuant to Section 7 hereof and otherwise due and owing pursuant to the Loan Agreement; and

(g) Administrative Agent shall have received such other certificates, schedules, exhibits, documents, opinions, instruments, reaffirmations, amendments or consents that Administrative Agent may reasonably require, if any.

5. **Reaffirmation; References to Loan Agreement; Additional Agreements and Covenants; Etc.**

(a) Borrower acknowledges and agrees that all of Borrower's obligations and Liabilities under the Loan Agreement and the other Financing Agreements, as amended hereby, are and shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. The first priority perfected security interests and Liens and rights in the Collateral securing payment of the Liabilities are hereby ratified and confirmed by Borrower in all respects.

(b) Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement, as amended by this Amendment.

(c) The failure by Administrative Agent, at any time or times hereafter, to require strict performance by any Borrower of any provision or term of the Loan Agreement, this Amendment or any of the Financing Agreements shall not waive, affect or diminish any right of Administrative Agent hereafter to demand strict compliance and performance herewith or therewith. Any suspension or waiver by Administrative Agent of a breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement shall not, except as expressly set forth in a writing signed by Administrative Agent, suspend, waive or affect any other breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character. None of the undertakings, agreements, warranties, covenants and representations of any Borrower contained in this Amendment, shall be deemed to have been suspended or waived by Administrative Agent unless such suspension or waiver is (i) in writing and signed by Administrative Agent (and, if applicable, the Required Lenders) and (ii) delivered to Borrower by Administrative Agent or its counsel.

(d) In no event shall Administrative Agent's execution and delivery of this Amendment establish a course of dealing among Administrative Agent, any Borrower, pledgor or Guarantor or any other obligor, or in any other way obligate Administrative Agent to hereafter provide any amendments or modifications or, if at any time applicable, consents or waivers with respect to the Loan Agreement or any other Financing Agreement. The terms and provisions of this Amendment shall be limited precisely as written and shall not be deemed (x) to be a consent to any amendment or modification of any other term or condition of

the Loan Agreement or of any of the Financing Agreements (except as expressly provided herein or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith); or (y) to prejudice any right or remedy which Administrative Agent or the Lenders may now have under or in connection with the Loan Agreement or any of the other Financing Agreements. In the event an ambiguity or question of intent or interpretation arises, this Amendment shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Amendment.

(e) Except as expressly provided herein (or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith), the Loan Agreement and all of the other Financing Agreements shall remain unaltered, and the Loan Agreement and all of the other Financing Agreements shall remain in full force and effect and are hereby ratified and confirmed in all respects.

6. **Release.**

(a) In consideration of, among other things, the consent and amendments provided for herein, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Borrower and Guarantor (on behalf of themselves and their respective subsidiaries, Affiliates, successors and assigns), and, to the extent permitted by applicable law and the same is claimed by right of, through or under the above, for their past, present and future employees, directors, members, managers, partners, agents, representatives, officers, directors, and equity holders (all collectively, with Borrower and Guarantor, the "Releasing Parties"), do hereby unconditionally, irrevocably, fully, and forever remise, satisfy, acquit, release and discharge Administrative Agent, Issuing Lender, and Lenders and each of Administrative Agent's, Issuing Lender's and Lender's past, present and future officers, directors, agents, employees, attorneys, parent, shareholders, successors, assigns, subsidiaries and Affiliates and all other persons and entities to whom Administrative Agent or Lenders would be liable if such persons or entities were found in any way to be liable to any of the Releasing Parties (collectively, the "Lender Parties"), of and from any and all manner of action and actions, cause and causes of action, claims, cross-claims, charges, demands, counterclaims, suits, proceedings, disputes, debts, dues, sums of money, accounts, bonds, covenants, contracts, controversies, damages, judgments, liabilities, damages, costs, expenses, executions, liens, claims of liens, claims of costs, penalties, attorneys' fees, or any other compensation, recovery or relief on account of any liability, obligation, demand, proceedings or cause of action of whatever nature, whether in law, equity or otherwise (including, without limitation, those arising under 11 U.S.C. §§ 541-550 and interest or other carrying costs, penalties, legal, accounting and other professional fees and expenses, and incidental, consequential and punitive damages payable to third parties), whether known or unknown, fixed or contingent, joint and/or several, secured or unsecured, due or not due, primary or secondary, liquidated or unliquidated, contractual or tortious, direct, indirect, or derivative, asserted or unasserted, foreseen or unforeseen, suspected or unsuspected, now existing, heretofore existing or which may have heretofore accrued against any or all of Lender Parties, whether held in a personal or representative capacity, that the Releasing Parties (or any of them) have or may have against the Lender Parties or any of them (whether directly or indirectly) and which are based on any act, fact, event, action or omission or any other matter, condition, cause or thing occurring at or from any time prior to and including the date hereof in any way, directly or indirectly arising out of, connected with or relating to this Amendment, the Loan Agreement or any other Financing Agreement and the transactions contemplated hereby and thereby, the Collateral or the Liabilities, and all other agreements, certificates, instruments and other documents and statements (whether written or oral) related to any of the foregoing, other than any applicable good faith claim as to which a final determination is made in a judicial proceeding (in which Administrative Agent and any of the Lender Parties have had an opportunity to be heard) which determination includes a specific finding that Administrative Agent acted in a grossly negligent manner or with actual willful misconduct or illegal activity. Borrower and Guarantor each acknowledges that Administrative Agent and Lenders are specifically relying upon the representations, warranties and agreements contained herein and that such representations, warranties and agreements constitute a material inducement to Administrative Agent and Lenders in entering into this Amendment.

(b) Borrower and Guarantor each understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) To the furthest extent permitted by law, Borrower and Guarantor each hereby knowingly, voluntarily, intentionally and expressly waives and relinquishes any and all rights and benefits that it respectively may have as against Lender Parties under any law, rule or regulation of any jurisdiction that would or could have the effect of limiting the extent to which a general release extends to claims which a Lender Party or Releasing Party does not know or suspect to exist as of the date hereof. Borrower and Guarantor each hereby acknowledges that the waiver set forth in the prior sentence was separately bargained for and that such waiver is an essential term and condition of this Amendment (and without which the amendment in Section 1 hereof would not have been agreed to by Administrative Agent and Lenders).

7. **Costs and Expenses**. Without limiting the obligation of Borrower to reimburse Administrative Agent for all costs, fees, disbursements and expenses incurred by Administrative Agent as specified in the Loan Agreement, Borrower agrees to and shall pay on demand all reasonable costs, fees, disbursements and expenses of Administrative Agent in connection with the preparation, negotiation, revision, execution and delivery of this Amendment and the other agreements, amendments, modifications, reaffirmations, instruments and documents contemplated hereby, including, without limitation, reasonable attorneys' fees and out-of-pocket expenses. All obligations provided herein shall survive any termination of this Amendment and the Loan Agreement as amended hereby.

8. **Financing Agreement**. This Amendment shall constitute a Financing Agreement.

9. **Titles.** Titles and section headings herein shall be without substantive meaning and are provided solely for the convenience of the parties.

10. **Severability; Etc.** Whenever possible, each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Amendment. The parties hereto have participated jointly in the negotiation and drafting of this Amendment. In the event an ambiguity or question of intent or interpretation arises, this Amendment shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Amendment.

11. **Successors and Assigns**. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, no Borrower may assign any of its respective rights or obligations under this Amendment without the prior written consent of Administrative Agent.

12. **Further Assurances**. Borrower shall, at its own cost and expense, cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, certificates, instruments, reaffirmations, amendments, documents and assurances as may from time to time be necessary or as Administrative Agent may from time to time reasonably request in order to more fully carry out the intent and purposes of this Amendment or any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith.

13. **Counterparts; Faxes.** This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes.

14. **Governing Law.** This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Eighth Amendment to Third Amended and Restated Revolving Loan and Security Agreement as of the day and year first above written.

BORROWER:

ADVOCAT FINANCE, INC.
DIVERSICARE MANAGEMENT SERVICES CO.
DIVERSICARE LEASING CORP.
STERLING HEALTH CARE MANAGEMENT, INC.
DIVERSICARE TEXAS I, LLC
DIVERSICARE HOLDING COMPANY, LLC
DIVERSICARE KANSAS, LLC
DIVERSICARE LEASING COMPANY II, LLC
DIVERSICARE PROPERTY CO., LLC

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

SENIOR CARE CEDAR HILLS, LLC
SENIOR CARE GOLFCREST, LLC
SENIOR CARE GOLFVIEW, LLC
SENIOR CARE SOUTHERN PINES, LLC

BY: **SENIOR CARE FLORIDA LEASING, LLC**, its sole member

BY: **DIVERSICARE LEASING CORP.**, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

SENIOR CARE FLORIDA LEASING, LLC
DIVERSICARE AFTON OAKS, LLC
DIVERSICARE BRIARCLIFF, LLC
DIVERSICARE CHISOLM, LLC
DIVERSICARE HARTFORD, LLC
DIVERSICARE PINEDALE, LLC
DIVERSICARE WINDSOR HOUSE, LLC
DIVERSICARE ROSE TERRACE, LLC
DIVERSICARE THERAPY SERVICES, LLC
DIVERSICARE CLINTON, LLC
DIVERSICARE HIGHLANDS, LLC

BY: **DIVERSICARE LEASING CORP.**, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE BALLINGER, LLC
DIVERSICARE DOCTORS, LLC
DIVERSICARE ESTATES, LLC
DIVERSICARE KATY, LLC
DIVERSICARE NORMANDY TERRACE, LLC
DIVERSICARE TREEMONT, LLC
DIVERSICARE PARIS, LLC

BY: **DIVERSICARE TEXAS I, LLC**, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE OF CHANUTE, LLC
DIVERSICARE OF COUNCIL GROVE, LLC
DIVERSICARE OF HAYSVILLE, LLC
DIVERSICARE OF SEDGWICK, LLC
DIVERSICARE OF HUTCHINSON, LLC
DIVERSICARE OF LARNED, LLC

BY: **DIVERSICARE KANSAS, LLC**
its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE OF SENECA PLACE, LLC
DIVERSICARE OF BRADFORD PLACE, LLC
DIVERSICARE OF PROVIDENCE, LLC
DIVERSICARE OF SIENA WOODS, LLC
DIVERSICARE OF ST. THERESA, LLC
DIVERSICARE OF BIG SPRINGS, LLC
DIVERSICARE OF NICHOLASVILLE, LLC
DIVERSICARE OF AVON, LLC
DIVERSICARE OF RIVERSIDE, LLC
DIVERSICARE OF CHATEAU, LLC
DIVERSICARE OF ST. JOSEPH, LLC
DIVERSICARE OF GREENVILLE, LLC

By: **DIVERSICARE LEASING COMPANY II, LLC,** its sole member

By: /s/Kerry D. Massey

Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE AFTON OAKS PROPERTY, LLC
DIVERSICARE BRIARCLIFF PROPERTY, LLC
DIVERSICARE CHANUTE PROPERTY, LLC
DIVERSICARE CHISOLM PROPERTY, LLC
DIVERSICARE COUNCIL GROVE PROPERTY, LLC
DIVERSICARE HAYSVILLE PROPERTY, LLC
DIVERSICARE HARTFORD PROPERTY, LLC
DIVERSICARE HILLCREST PROPERTY, LLC
DIVERSICARE HUTCHINSON PROPERTY, LLC
DIVERSICARE LAMPASAS PROPERTY, LLC
DIVERSICARE LARNED PROPERTY, LLC
DIVERSICARE SEDGWICK PROPERTY, LLC
DIVERSICARE WINDSOR HOUSE PROPERTY, LLC
DIVERSICARE YORKTOWN PROPERTY, LLC
DIVERSICARE GLASGOW PROPERTY, LLC
DIVERSICARE CLINTON PROPERTY, LLC
DIVERSICARE FULTON PROPERTY, LLC
DIVERSICARE SELMA PROPERTY, LLC

By: **DIVERSICARE PROPERTY CO., LLC**, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey

Its: Executive Vice President and Chief Financial Officer

DIVERSICARE OF GLASGOW, LLC
DIVERSICARE OF FULTON, LLC
DIVERSICARE OF SELMA, LLC

By: **DIVERSICARE HOLDING COMPANY, LLC**, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE LEASING COMPANY III, LLC

By: /s/Kerry D. Massey

Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE OF ARAB, LLC
DIVERSICARE OF BOAZ, LLC
DIVERSICARE OF FOLEY, LLC
DIVERSICARE OF HUEYTOWN, LLC
DIVERSICARE OF LANETT, LLC
DIVERSICARE OF BESSEMER, LLC
DIVERSICARE OF MONTGOMERY, LLC
DIVERSICARE OF ONEONTA, LLC
DIVERSICARE OF OXFORD, LLC
DIVERSICARE OF PELL CITY, LLC
DIVERSICARE OF RIVERCHASE, LLC
DIVERSICARE OF WINFIELD, LLC
DIVERSICARE OF AMORY, LLC
DIVERSICARE OF BATESVILLE, LLC
DIVERSICARE OF BROOKHAVEN, LLC
DIVERSICARE OF CARTHAGE, LLC
DIVERSICARE OF EUPORA, LLC
DIVERSICARE OF MERIDIAN, LLC
DIVERSICARE OF RIPLEY, LLC
DIVERSICARE OF SOUTHAVEN, LLC
DIVERSICARE OF TUPELO, LLC
DIVERSICARE OF TYLERTOWN, LLC

By: DIVERSICARE LEASING COMPANY III, LLC, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

Acknowledged and Agreed:

DIVERSICARE HEALTHCARE SERVICES, INC.

By: /s/James R. McKnight, Jr.

Name: James R. McKnight, Jr.
Its: President and Chief Executive Officer

ADMINISTRATIVE AGENT:

CIBC BANK USA, formerly known as The PrivateBank and Trust Company, in its capacity as administrative agent

By: /s/Adam D. Panos
Name: Adam D. Panos
Its: Managing Director

LENDER:

CIBC BANK USA, formerly known as The PrivateBank and Trust Company

By: /s/Adam D. Panos
Name: Adam D. Panos
Its: Managing Director

LENDER:

BANKERS TRUST COMPANY

By: /s/Jon M. Doll

Name: Jon M. Doll

Its: Vice President

LENDER:

BOKF, NA D/B/A BANK OF OKLAHOMA

By: /s/Brian Puckett

Name: Brian Puckett

Its: Senior Vice President

LENDER:

CIT BANK, N.A.

By: /s/Richard Reynoso

Name: Richard Reynoso

Its: Vice President

LENDER:

OPUS BANK,
a California commercial bank

By: /s/Sangjin Na

Name: Sangjin Na

Its: Vice President

LENDER:

FRANKLIN SYNERGY BANK

By: /s/Lisa Fletcher

Name: Lisa Fletcher

Its: Senior Vice President

REAFFIRMATION OF SECOND AMENDED AND RESTATED GUARANTY

Dated as of February 25, 2020

The undersigned ("Guarantor") hereby: (i) confirms and agrees with CIBC BANK USA, formerly known as CIBC BANK USA, formerly known as The PrivateBank and Trust Company, an Illinois banking corporation, in its capacity as administrative agent (together with its successors and assigns, "Administrative Agent") that Guarantor's Second Amended and Restated Guaranty dated as of February 26, 2016 made in favor of Administrative Agent (as amended or modified, "Guaranty"), remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Third Amended and Restated Revolving Loan and Security Agreement dated as of February 26, 2016, as amended prior to the date hereof and as further amended by the foregoing Eighth Amendment to Third Amended and Restated Revolving Loan and Security Agreement ("Amendment"), and each reference to the "Loan Agreement" shall refer to the Loan Agreement as amended by the Amendment; (ii) represents and warrants to Administrative Agent, which representations and warranties shall survive the execution and delivery hereof, that Guarantor's representations and warranties contained in the Guaranty are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date (and except for the representations in Section 10(b) thereof which were true and correct on and as of the date when made); (iii) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Guaranty; and (iv) agrees that neither such ratification and confirmation, nor Administrative Agent's solicitation of such ratification and confirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement, as amended by the Amendment). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent under or pursuant to the Guaranty. Guarantor acknowledges and agrees that Guarantor has received and reviewed a fully-executed copy of the Amendment (and any other instrument, document or agreement executed or delivered in connection therewith) and understands the contents thereof. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes. This instrument shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Page Follows]

DIVERSICARE HEALTHCARE SERVICES, INC.

By:/s/ James R. McKnight, Jr.
Name: James R. McKnight, Jr.
Its: President and Chief Executive Officer

REAFFIRMATION OF PLEDGE AGREEMENTS

Dated as of February 25, 2020

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the undersigned, respectively and as applicable hereby (a) confirms and agrees with CIBC BANK USA, formerly known as The PrivateBank and Trust Company, an Illinois banking corporation, in its capacity as administrative agent (together with its successors and assigns, "Administrative Agent"), that (i) Second Amended and Restated Pledge Agreement by and between Diversicare Management Services Co. and Administrative Agent dated as of February 26, 2016, (ii) Second Amended and Restated Pledge Agreement by and between Advocat Finance, Inc. and Administrative Agent dated as of February 26, 2016, (iii) Second Amended and Restated Pledge Agreement by and between Diversicare Leasing Corp. and Administrative Agent dated as of February 26, 2016, (iv) Second Amended and Restated Pledge Agreement by and between Senior Care Florida Leasing Corp. and Administrative Agent dated as of February 26, 2016, (v) Amended and Restated Pledge Agreement by and between Diversicare Leasing Company II, LLC and Administrative Agent dated as of February 26, 2016, (vi) Amended and Restated Pledge Agreement by and between Diversicare Kansas, LLC and Administrative Agent dated as of February 26, 2016, (vii) Second Amended and Restated Pledge Agreement by and between Diversicare Healthcare Services, Inc. (f/k/a Advocat Inc.) and Administrative Agent dated as of February 26, 2016, (viii) Pledge Agreement by and between Diversicare Leasing Company III, LLC and Administrative Agent dated as of October 1, 2016 and effective as of October 3, 2016, (ix) Amended and Restated Pledge Agreement by and between Diversicare Property Co., LLC and Administrative Agent dated as of February 26, 2016 and (x) Amended and Restated Pledge Agreement by and between Diversicare Holding Company, LLC and Administrative Agent dated as of February 26, 2016 (the foregoing, as the same may be amended, restated, supplemented or otherwise modified from time to time, individually, "Pledge Agreement" and, collectively, "Pledge Agreements"), each remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Third Amended and Restated Revolving Loan and Security Agreement dated as of February 26, 2016 by and among Diversicare Management Services Co., a Tennessee corporation, and those certain affiliates of Diversicare Management Services Co. that are signatories thereto as borrowers, Administrative Agent and the Lenders, as the same has been amended prior to the date hereof and as amended by the foregoing Eighth Amendment to Third Amended and Restated Revolving Loan and Security Agreement dated of even date herewith ("Amendment"), and each reference to the "Loan Agreement" shall refer to the Loan Agreement as amended by the Amendment, and all of the undersigned's respective liabilities and obligations under and pursuant to the respective Pledge Agreement, as modified by the Amendment (if and as applicable), are and shall be valid and enforceable and shall not be impaired or limited in any way by the execution, delivery or effectiveness of the Amendment; (b) represents and warrants to Administrative Agent and Lenders, which representations and warranties shall survive the execution and delivery hereof, that each of the undersigned's representations and warranties contained in the Pledge Agreement are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date, each of the undersigned has the full right, authority and power to enter into this Reaffirmation and this Reaffirmation constitutes the legal, valid and binding obligation of each of the undersigned, enforceable against each of the undersigned in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar law affecting creditor's rights generally and general principles of equity; (c) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Pledge Agreement; and (d) agrees that neither such ratification and confirmation, nor the solicitation of such ratification and confirmation by Administrative Agent and Lenders, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent or Lenders under the Pledge Agreements. Each of the undersigned acknowledges and agrees that it has received and reviewed a fully-executed copy of the Amendment and understands the contents thereof. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes. Illinois law shall govern the construction, interpretation and enforcement of this instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the undersigned has duly executed this Reaffirmation of Pledge Agreements on and as of the date above.

DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

ADVOCAT FINANCE INC., a Delaware corporation

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE LEASING CORP.,
a Tennessee corporation

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

SENIOR CARE FLORIDA LEASING, LLC, a Delaware limited liability company

By: **Diversicare Leasing Corp.**, its sole member

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE LEASING COMPANY II, LLC, a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE KANSAS, LLC, a Delaware limited liability company

By: **DIVERSICARE HOLDING COMPANY, LLC**, its sole member

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE LEASING COMPANY III, LLC,
a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE HEALTHCARE SERVICES, INC., a Delaware corporation

By: /s/ James R. McKnight, Jr.
Name: James R. McKnight, Jr.
Its: President and Chief Executive Officer

DIVERSICARE PROPERTY CO., LLC,
a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE HOLDING COMPANY, LLC, a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

SIXTH AMENDMENT TO
SECOND AMENDED AND RESTATED TERM LOAN AND SECURITY AGREEMENT

THIS SIXTH AMENDMENT TO SECOND AMENDED AND RESTATED TERM LOAN AND SECURITY AGREEMENT (this "Amendment") dated as of February 25, 2020, by and among **CIBC BANK USA**, formerly known as The PrivateBank and Trust Company, an Illinois banking corporation (together with its successors and assigns, "Administrative Agent") in its capacity as administrative agent for the Lenders (as defined below), the Lenders, and the Affiliates of **DIVERSICARE HEALTHCARE SERVICES, INC.** identified on the signature pages as "Borrower" (individually and collectively, "Borrower").

WHEREAS, Borrower, Administrative Agent, and the financial institutions signatories thereto (the "Lenders") are parties to that certain Second Amended and Restated Term Loan and Security Agreement dated as of February 26, 2016 (as the same has been, and may hereafter be, amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"; all capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Loan Agreement as amended by this Amendment);

WHEREAS, Borrower, Administrative Agent and Lenders desire to amend the Loan Agreement as provided in and subject to the terms and conditions of this Amendment;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto (intending to be legally bound) hereby agree as follows:

1. **Amendments to Loan Agreement**. Subject to the satisfaction of the conditions set forth in Section 4 below and in reliance upon the representations and warranties set forth in Section 3 below, Borrower, Administrative Agent and Lenders hereby amend the Loan Agreement as follows:

(a) Section 1.1 of the Loan Agreement is hereby amended by adding the following new definitions in proper alphabetical order therein to read as follows:

"Benchmark Replacement" means the sum of: (a) the alternate benchmark rate (which may include Term SOFR) that has been selected by Administrative Agent giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the Libor Base Rate for U.S. dollar-denominated syndicated credit facilities and (b) the Benchmark Replacement Adjustment.

"Benchmark Replacement Adjustment" means, with respect to any replacement of the Libor Base Rate with an Unadjusted Benchmark Replacement for each applicable Interest Period, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected to by Administrative Agent giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the Libor Base Rate with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the Libor Base Rate with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated syndicated credit facilities at such time.

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Interest Period," timing and frequency of determining rates and making payments of interest and other administrative matters) that Administrative Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Administrative Agent in a manner substantially consistent with market practice (or, if Administrative Agent decides that adoption of any portion of such market practice is not administratively feasible or if Administrative Agent determines that no market practice for the administration of the Benchmark Replacement exists, in such other manner of administration as Administrative Agent decides is reasonably necessary in connection with the administration of this Agreement).

"Benchmark Replacement Date" means the earlier to occur of the following events with respect to the Libor Base Rate:

(1) in the case of clause (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the

administrator of the Libor Base Rate permanently or indefinitely ceases to provide the Libor Base Rate; or

(2) in the case of clause (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the Libor Base Rate:

(1) a public statement or publication of information by or on behalf of the administrator of the Libor Base Rate announcing that such administrator has ceased or will cease to provide the Libor Base Rate, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Libor Base Rate;

(2) a public statement or publication of information by the regulatory supervisor for the administrator of the Libor Base Rate, the U.S. Federal Reserve System, an insolvency official with jurisdiction over the administrator for the Libor Base Rate, a resolution authority with jurisdiction over the administrator for the Libor Base Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the Libor Base Rate, which states that the administrator of the Libor Base Rate has ceased or will cease to provide the Libor Base Rate permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Libor Base Rate; or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of the Libor Base Rate announcing that the Libor Base Rate is no longer representative.

"Benchmark Transition Start Date" means (a) in the case of a Benchmark Transition Event, the earlier of (i) the applicable Benchmark Replacement Date and (ii) if such Benchmark Transition Event is a public statement or publication of information of a prospective event, the 90th day prior to the expected date of such event as of such public statement or publication of information (or if the expected date of such prospective event is fewer than 90 days after such statement or publication, the date of such statement or publication) and (b) in the case of an Early Opt-in Election, the date specified by Administrative Agent or Required Lenders, as applicable, by notice to Borrower, Administrative Agent (in the case of such notice by Required Lenders) and Lenders.

"Benchmark Unavailability Period" means, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the Libor Base Rate and solely to the extent that the Libor Base Rate has not been replaced with a Benchmark Replacement, the period (x) beginning at the time that such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the Libor Base Rate for all purposes hereunder in accordance with Section 3.11 and (y) ending at the time that a Benchmark Replacement has replaced the Libor Base Rate for all purposes hereunder pursuant to Section 3.11.

"Early Opt-in Election" means the occurrence of:

(1) a determination by Administrative Agent or (ii) a notification by Required Lenders to Administrative Agent (with a copy to Borrower) that Required Lenders have determined, that U.S. dollar-denominated syndicated credit facilities being executed at such time, or that include language similar to that contained in this Section 3.11, are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace the Libor Base Rate, and

(2) (i) the election by Administrative Agent or (ii) the election by Required Lenders to declare that an Early Opt-in Election has occurred and the provision, as applicable, by Administrative Agent of written notice of such election to Borrower and Lenders or by Required Lenders of written notice of such election to Administrative Agent.

"Federal Reserve Bank of New York's Website" means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source.

"Relevant Governmental Body" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

"SOFR" with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's Website.

"Term SOFR" means the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"Unadjusted Benchmark Replacement" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(b) The following definition in Section 1.1 of the Loan Agreement is hereby amended and restated in its entirety to read as follows:

"EBITDAR" means with respect to the Borrower and the Affiliate Revolving Borrowers (QIPP), for any period of determination, the sum of the net earnings of the consolidated Borrower and Affiliate Revolving Borrowers (QIPP) (which calculation shall not include or extend to Hospital District (as defined in the Affiliate Revolving Loan Agreement (QIPP)) or any QIPP Funds (as defined in the Affiliate Revolving Loan Agreement (QIPP))) before nonrecurring items (in accordance with GAAP and as reasonably agreed to by the Administrative Agent), interest, taxes, depreciation, amortization (including amortized transaction expense) and rent, in each case without duplication and all as determined in accordance with GAAP, consistently applied.

"Stated Maturity Date" means September 30, 2021.

(c) The definition of "EBITDA" in Section 1.1 of the Loan Agreement is hereby deleted in its entirety.

(d) The table in Section 2.1 (b) is hereby amended and restated in its entirety as follows:

Year 1:	$1,610,000 ($134,167/month)
Year 2 (on or prior to June 1, 2017):	$1,680,000 ($140,000/month)
Year 2 (on and after July 1, 2017):	$1,830,000 ($152,500/month)
Year 3:	$1,920,000 ($160,000/month)
Year 4:	$2,010,000 ($167,500/month)
Year 5:	$2,110,000 ($175,833/month)
Year 6:	$2,220,000 ($185,000/month)

(e) Article 3 is hereby amended by adding a new Section 3.11 therein to read as follows:

3.11 Effect of Benchmark Transition Event.

(a) Benchmark Replacement. Notwithstanding anything to the contrary herein or in any other Financing Agreement, upon the occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, Administrative Agent (without, except as specifically provided in the two following sentences, any action or consent by any other party to this Agreement) may amend this Agreement to replace the Libor Base Rate with a Benchmark Replacement. Any such amendment with respect to a Benchmark Transition Event will become effective at 5:00 p.m. (Chicago time) on the fifth (5th) Business Day after Administrative Agent has posted such proposed amendment to all Lenders and Borrower so long as Administrative Agent has not received, by such time, written notice of objection to such amendment from Lenders comprising Required Lenders. Any such amendment with respect to an Early Opt-in Election will become effective on the date that Borrower and Lenders comprising Required Lenders have delivered to Administrative Agent written notice that Borrower and such Required Lenders accept such amendment. No replacement of Libor Base Rate with a Benchmark Replacement pursuant to this Section 3.11 will occur prior to the applicable Benchmark Transition Start Date.

(b) Benchmark Replacement Conforming Changes. In connection with the implementation of a Benchmark Replacement, Administrative Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Financing Agreement, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(c) Notices; Standards for Decisions and Determinations. Administrative Agent will promptly notify Borrower and Lenders of (i) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date and Benchmark Transition Start Date, (ii) the implementation of any Benchmark Replacement, (iii) the effectiveness of any Benchmark Replacement Conforming Changes and (iv) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by Administrative Agent or Lenders pursuant to this Section 3.11 including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding

absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 3.11.

(d) Benchmark Unavailability Period. Upon Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, Borrower will be deemed to have converted any pending request for a Libor Loan, and any conversion to or continuation of any Libor Loans to be made, converted or continued during any Benchmark Unavailability Period into a request for a borrowing of or conversion to Base Rate Loans.

(f) Effective December 31, 2019, Section 9.12 (b) is hereby amended and restated in its entirety to read as follows:

(b) Minimum Fixed Charge Coverage Ratio. The Guarantor shall not permit its Fixed Charge Coverage Ratio to be less than 1.01 to 1.00 for the Fiscal Quarter (i) ending March 31, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing three (3) month basis, (ii) ending June 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing six (6) month basis, (iii) ending September 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing nine (9) month basis, and (iv) ending December 31, 2020 and for each Fiscal Quarter thereafter, each measured on the last day of the applicable Fiscal Quarter on a trailing twelve (12) month basis. The Minimum Fixed Charge Converge Ratio shall not be tested for the Fiscal Quarter ending December 31, 2019.

(g) Effective December 31, 2019, Section 9.12 (c) is hereby amended and restated in its entirety to read as follows:

(c) Minimum Adjusted EBITDA (QIPP Funds). The Guarantor shall not permit its Adjusted EBITDA (QIPP Funds) to be less than (i) $9,500,000 for the Fiscal Quarter ending December 31, 2019 on a trailing Twelve (12) month basis, (ii) $3,250,000 for the Fiscal Quarter ending March 31, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing three (3) month basis, (iii) $6,500,000 for the Fiscal Quarter ending June 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing six (6) month basis, (iv) $9,750,000 for the Fiscal Quarter ending September 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing nine (9) month basis, and (v) $13,000,000 for the Fiscal Quarter ending December 31, 2020 and for each Fiscal Quarter thereafter, each measured on the last day of the applicable Fiscal Quarter on a trailing twelve (12) month basis.

(h) The last unnumbered paragraph of Section 9.12 is hereby amended to replace "Adjusted EBITDA" therein with "Adjusted EBITDA (QIPP Funds)".

(i) The following new paragraph shall be added to the end of Section 9.12 at the end thereof:

Notwithstanding anything to the contrary contained herein, Borrower, Administrative Agent and the Lenders hereby agree that, for purposes of determining whether Borrower is in compliance with Section 9.12(b) (Minimum Fixed Charge Coverage Ratio) and Section 9.12(c) (Minimum Adjusted EBITDA (QIPP Funds)) herein, the Borrower may, solely for the Fiscal Year ending December 31, 2020, add back the amount of Cash Cost of Self-Insured Professional and General Liability for such period that were previously deducted, in an amount not to exceed $1,500,000 during such 12 month period, solely to the extent such claims are associated with those facilities located in the State of Kentucky which were previously owned or leased by Borrower or Borrower's affiliates.

(j) Section 12.1 is hereby amended by amending the second paragraph therein by replacing "Except as otherwise set forth herein" at the beginning thereof with "Except as otherwise set forth herein (including, without limitation, Section 3.11)".

2. **No Other Amendments**. Borrower acknowledges and expressly agrees that this Amendment is limited to the extent expressly set forth herein and shall not constitute a modification or amendment of the Loan Agreement or any other Financing Agreements or a course of dealing at variance with the terms or conditions of the Loan Agreement or any other Financing Agreements (other than as expressly set forth in this Amendment and the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith).

3. **Representations and Warranties**. In order to induce Administrative Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Administrative Agent and Lenders (which representations and warranties shall survive the execution and delivery hereof), both before and after giving effect to this Amendment that:

(a) Each of the representations and warranties of each Borrower contained in the Loan Agreement and the other Financing Agreements to which Borrower is a party are true and correct in all material respects (without duplication of any materiality carve out already provided therein) on and as of the date hereof, in each case as if made on and as of such date, other than representations and warranties that expressly relate solely to an earlier date (in which case such representations and warranties were true and correct on and as of such earlier date);

(b) Borrower has the corporate or limited liability company (as applicable) power and authority (i) to enter into the Loan Agreement as amended by this Amendment and (ii) to do all acts and things as are required or contemplated hereunder to be done, observed and performed by Borrower;

(c) This Amendment has been duly authorized, validly executed and delivered by one or more duly authorized officers of Borrower, and each of this Amendment, the Loan Agreement as amended hereby, and each of the other Financing Agreements to which Borrower is a party, constitutes the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, subject to bankruptcy, insolvency or other similar laws affecting the enforcement of creditor's rights and remedies generally;

(d) The execution and delivery of this Amendment and performance by Borrower under this Amendment, the Loan Agreement and each of the other Financing Agreements to which Borrower is a party do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over Borrower that has not already been obtained, nor be in contravention of or in conflict with the organizational documents of Borrower, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking, to which Borrower is party or by which Borrower's respective assets or properties are bound; and

(e) No Default or Event of Default will result after giving effect to this Amendment, and no event has occurred that has had or could reasonably be expected to have a Material Adverse Effect after giving effect to this Amendment.

4. **Conditions Precedent to Effectiveness of this Amendment**. The amendments contained in Section 1 of this Amendment shall become effective on the date hereof as long as each of the following conditions precedent is satisfied as determined by Administrative Agent:

(a) all of the representations and warranties of Borrower under Section 3 hereof, which are made as of the date hereof, are true and correct;

(b) Administrative Agent shall have received duly executed signature pages to this Amendment from Borrower and Lenders;

(c) Administrative Agent shall have received a duly executed Reaffirmation of Second Amended and Restated Guaranty in the form attached hereto;

(d) Administrative Agent shall have received a duly executed Reaffirmation of Pledge Agreements in the form attached hereto;

(e) Administrative Agent shall have received duly executed copies of modifications to the Notes;

(f) Administrative Agent shall have received the amount of reasonable fees and out-of-pocket costs and expenses of counsel to Administrative Agent in connection with the Amendment pursuant to Section 7 hereof and otherwise due and owing pursuant to the Loan Agreement; and

(g) Administrative Agent shall have received such other certificates, schedules, exhibits, documents, opinions, affidavits, instruments, reaffirmations, amendments, or consents that Administrative Agent may reasonably require, if any.

1. **Reaffirmation; References to Loan Agreement; Additional Agreements and Covenants; Etc.**

(a) Borrower acknowledges and agrees that all of Borrower's obligations and Liabilities under the Loan Agreement and the other Financing Agreements, as amended hereby, are and shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. The first priority perfected security interests and Liens and rights in the Collateral securing payment of the Liabilities are hereby ratified and confirmed by Borrower in all respects.

(b) Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement, as amended by this Amendment.

(c) The failure by Administrative Agent, at any time or times hereafter, to require strict performance by any Borrower of any provision or term of the Loan Agreement, this Amendment or any of the Financing Agreements shall not waive, affect or diminish any right of Administrative Agent hereafter to demand strict compliance and performance herewith or therewith. Any suspension or waiver by Administrative Agent of a breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement shall not, except as expressly set forth in a writing signed by Administrative Agent, suspend, waive or affect any other breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character. None of the undertakings, agreements, warranties, covenants and representations of any Borrower contained in this Amendment, shall be deemed to have been suspended or waived by Administrative Agent unless such suspension or waiver is (i) in writing and signed by Administrative Agent (and, if applicable, the Required Lenders) and (ii) delivered to Borrower by Administrative Agent or its counsel.

(d) In no event shall Administrative Agent's execution and delivery of this Amendment establish a course of dealing among Administrative Agent, any Borrower, pledgor or Guarantor or any other obligor, or in any other way obligate Administrative Agent to hereafter provide any amendments or modifications or, if at any time applicable, consents or waivers with respect to the Loan Agreement or any other Financing Agreement. The terms and provisions of this Amendment shall be limited precisely as written and shall not be deemed (x) to be a consent to any amendment or modification of any other term or condition of the Loan Agreement or of any of the Financing Agreements (except as expressly provided herein or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith); or (y) to prejudice any right or remedy which Administrative Agent or the Lenders may now have under or in connection with the Loan Agreement or any of the other Financing Agreements. In the event an ambiguity or question of intent or interpretation arises, this Amendment shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Amendment.

(e) Except as expressly provided herein (or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith), the Loan Agreement and all of the other Financing Agreements shall remain unaltered, and the Loan Agreement and all of the other Financing Agreements shall remain in full force and effect and are hereby ratified and confirmed in all respects.

2. **Release**.

(a) In consideration of, among other things, the consent and amendments provided for herein, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Borrower and Guarantor (on behalf of themselves and their respective subsidiaries, Affiliates, successors and assigns), and, to the extent permitted by applicable law and the same is claimed by right of, through or under the above, for their past, present and future employees, directors, members, managers, partners, agents, representatives, officers, directors, and equity holders (all collectively, with Borrower and Guarantor, the "Releasing Parties"), do hereby unconditionally, irrevocably, fully, and forever remise, satisfy, acquit, release and discharge Administrative Agent and Lenders and each of Administrative Agent's and Lender's past, present and future officers, directors, agents, employees, attorneys, parent, shareholders, successors, assigns, subsidiaries and Affiliates and all other persons and entities to whom Administrative Agent or Lenders would be liable if such persons or entities were found in any way to be liable to any of the Releasing Parties (collectively, the "Lender Parties"), of and from any and all manner of action and actions, cause and causes of action, claims, cross-claims, charges, demands, counterclaims, suits, proceedings, disputes, debts, dues, sums of money, accounts, bonds, covenants, contracts, controversies, damages, judgments, liabilities, damages, costs, expenses, executions, liens, claims of liens, claims of costs, penalties, attorneys' fees, or any other compensation, recovery or relief on account of any liability, obligation, demand, proceedings or cause of action of whatever nature, whether in law, equity or otherwise (including, without limitation, those arising under 11 U.S.C. §§ 541-550 and interest or other carrying costs, penalties, legal, accounting and other professional fees and expenses, and incidental, consequential and punitive damages payable to third parties), whether known or unknown, fixed or contingent, joint and/or several, secured or unsecured, due or not due, primary or secondary, liquidated or unliquidated, contractual or tortious, direct, indirect, or derivative, asserted or unasserted, foreseen or unforeseen, suspected or unsuspected, now existing, heretofore existing or which may have heretofore accrued against any or all of Lender Parties, whether held in a personal or representative capacity, that the Releasing Parties (or any of them) have or may have against the Lender Parties or any of them (whether directly or indirectly) and which are based on any act, fact, event, action or omission or any other matter, condition, cause or thing occurring at or from any time prior to and including the date hereof in any way, directly or indirectly arising out of,

connected with or relating to this Amendment, the Loan Agreement or any other Financing Agreement and the transactions contemplated hereby and thereby, the Collateral or the Liabilities, and all other agreements, certificates, instruments and other documents and statements (whether written or oral) related to any of the foregoing, other than any applicable good faith claim as to which a final determination is made in a judicial proceeding (in which Administrative Agent and any of the Lender Parties have had an opportunity to be heard) which determination includes a specific finding that Administrative Agent acted in a grossly negligent manner or with actual willful misconduct or illegal activity. Borrower and Guarantor each acknowledges that Administrative Agent and Lenders are specifically relying upon the representations, warranties and agreements contained herein and that such representations, warranties and agreements constitute a material inducement to Administrative Agent and Lenders in entering into this Amendment.

(b) Borrower and Guarantor each understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) To the furthest extent permitted by law, Borrower and Guarantor each hereby knowingly, voluntarily, intentionally and expressly waives and relinquishes any and all rights and benefits that it respectively may have as against Lender Parties under any law, rule or regulation of any jurisdiction that would or could have the effect of limiting the extent to which a general release extends to claims which a Lender Party or Releasing Party does not know or suspect to exist as of the date hereof. Borrower and Guarantor each hereby acknowledges that the waiver set forth in the prior sentence was separately bargained for and that such waiver is an essential term and condition of this Amendment (and without which the amendment in Section 1 hereof would not have been agreed to by Administrative Agent and Lenders).

3. **Costs and Expenses**. Without limiting the obligation of Borrower to reimburse Administrative Agent for all costs, fees, disbursements and expenses incurred by Administrative Agent as specified in the Loan Agreement, Borrower agrees to and shall pay on demand all reasonable costs, fees, disbursements and expenses of Administrative Agent in connection with the preparation, negotiation, revision, execution and delivery of this Amendment and the other agreements, amendments, modifications, reaffirmations, instruments and documents contemplated hereby, including, without limitation, reasonable attorneys' fees and out-of-pocket expenses. All obligations provided herein shall survive any termination of this Amendment and the Loan Agreement as amended hereby.

4. **Financing Agreement**. This Amendment shall constitute a Financing Agreement.

5. **Titles.** Titles and section headings herein shall be without substantive meaning and are provided solely for the convenience of the parties.

6. **Severability; Etc.** Whenever possible, each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Amendment. The parties hereto have participated jointly in the negotiation and drafting of this Amendment. In the event an ambiguity or question of intent or interpretation arises, this Amendment shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Amendment.

7. **Successors and Assigns**. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, no Borrower may assign any of its respective rights or obligations under this Amendment without the prior written consent of Administrative Agent.

8. **Further Assurances**. Borrower shall, at its own cost and expense, cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, certificates, instruments, reaffirmations, amendments, documents and assurances as may from time to time be necessary or as Administrative Agent may from time to time reasonably request in order to more fully carry out the intent and purposes of this Amendment or any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith.

9. **Counterparts; Faxes.** This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes.

10. **Governing Law.** This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this Sixth Amendment to Second Amended and Restated Term Loan and Security Agreement as of the day and year first above written.

BORROWER:

DIVERSICARE AFTON OAKS, LLC

DIVERSICARE BRIARCLIFF, LLC

DIVERSICARE CHISOLM, LLC

DIVERSICARE HARTFORD, LLC

DIVERSICARE WINDSOR HOUSE, LLC

By: **Diversicare Leasing Corp.**, its sole member

By: /s/Kerry D. Massey

Name: Kerry D. Massey

Its: Executive Vice President and Chief Financial Officer

DIVERSICARE OF CHANUTE, LLC

DIVERSICARE OF COUNCIL GROVE, LLC

DIVERSICARE OF HAYSVILLE, LLC

DIVERSICARE OF SEDGWICK, LLC

DIVERSICARE OF HUTCHINSON, LLC

DIVERSICARE OF LARNED, LLC

By: **Diversicare Kansas, LLC**, its sole member

By: /s/Kerry D. Massey

Name: Kerry D. Massey

Its: Executive Vice President and Chief Financial Officer

DIVERSICARE PROPERTY CO., LLC

By: /s/Kerry D. Massey

Name: Kerry D. Massey

Its: Executive Vice President and Chief Financial Officer

DIVERSICARE AFTON OAKS PROPERTY, LLC

DIVERSICARE BRIARCLIFF PROPERTY, LLC

DIVERSICARE CHANUTE PROPERTY, LLC

DIVERSICARE CHISOLM PROPERTY, LLC

DIVERSICARE COUNCIL GROVE PROPERTY, LLC

DIVERSICARE HAYSVILLE PROPERTY, LLC

DIVERSICARE HARTFORD PROPERTY, LLC

DIVERSICARE HILLCREST PROPERTY, LLC

DIVERSICARE LAMPASAS PROPERTY, LLC

DIVERSICARE LARNED PROPERTY, LLC

DIVERSICARE SEDGWICK PROPERTY, LLC

DIVERSICARE WINDSOR HOUSE PROPERTY, LLC

DIVERSICARE YORKTOWN PROPERTY, LLC

DIVERSICARE HUTCHINSON PROPERTY, LLC

DIVERSICARE SELMA PROPERTY, LLC

By: **Diversicare Property Co., LLC**, its sole member

By: /s/Kerry D. Massey

Name: Kerry D. Massey

Its: Executive Vice President and Chief Financial Officer

DIVERSICARE OF SELMA, LLC

By: **Diversicare Holding Company, LLC**, its sole member

By: /s/Kerry D. Massey

Name: Kerry D. Massey

Its: Executive Vice President and Chief Financial Officer

Acknowledged and Agreed:

DIVERSICARE HEALTHCARE SERVICES, INC.

By: /s/James R. McKnight, Jr.
Name: James R. McKnight, Jr.
Its: President and Chief Executive Officer

ADMINISTRATIVE AGENT:

CIBC BANK USA, formerly known as The PrivateBank and Trust Company, in its capacity as administrative agent

By: /s/Adam D. Panos
Name: Adam D. Panos

Its: Managing Director

LENDER:

CIBC BANK USA, formerly known as The PrivateBank and Trust Company

By: /s/Adam D. Panos
Name: Adam D. Panos
Its: Managing Director

LENDER:

BANKERS TRUST COMPANY

By: /s/Jon M. Doll
Name: Jon M. Doll
Its: Vice President

LENDER:

BOKF, NA D/B/A BANK OF OKLAHOMA

By: /s/Brian Puckett
Name: Brian Puckett
Its: Senior Vice President

LENDER:

CIT BANK, N.A.

By: /s/Richard Reynoso
Name: Richard Reynoso
Its: Vice President

LENDER:

OPUS BANK,
a California commercial bank

By: /s/Sangjin Na
Name: Sangjin Na
Its: Vice President

LENDER:

FRANKLIN SYNERGY BANK

By: /s/Lisa Fletcher
Name: Lisa Fletcher
Its: Senior Vice President

REAFFIRMATION OF SECOND AMENDED AND RESTATED GUARANTY

Dated as of February 25, 2020

The undersigned ("Guarantor") hereby (i) confirms and agrees with CIBC BANK USA, formerly known as The PrivateBank and Trust Company, an Illinois banking corporation, in its capacity as administrative agent (together with its successors and assigns, "Administrative Agent") that Guarantor's Second Amended and Restated Guaranty dated as of February 26, 2016 made in favor of Administrative Agent (as amended or modified, "Guaranty"), remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Second Amended and Restated Term Loan and Security Agreement dated as of February 26, 2016, as amended prior to the date hereof and as further amended by the foregoing Sixth Amendment to Second Amended and Restated Term Loan and Security Agreement ("Amendment"), and each reference to the "Loan Agreement" shall refer to the Loan Agreement as amended by the Amendment; (ii) represents and warrants to Administrative Agent, which representations and warranties shall survive the execution and delivery hereof, that Guarantor's representations and warranties contained in the Guaranty are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date (and except for the representations in Section 10(b) thereof which were true and correct on and as of the date when made); (iii) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Guaranty; and (iv) agrees that neither such ratification and confirmation, nor Administrative Agent's solicitation of such ratification and confirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement, as amended by the Amendment). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent under or pursuant to the Guaranty. Guarantor acknowledges and agrees that Guarantor has received and reviewed a fully-executed copy of the Amendment (and any other instrument, document or agreement executed or delivered in connection therewith) and understands the contents thereof. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes. This instrument shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Page Follows]

IN WITNESS WHEREOF, the undersigned has duly executed this Reaffirmation of Second Amended and Restated Guaranty on and as of the date above.

DIVERSICARE HEALTHCARE SERVICES, INC. (F/K/A ADVOCAT INC.)

By: /s/ James R. McKnight, Jr.
Name: James R. McKnight, Jr.
Its: President and Chief Executive Officer

REAFFIRMATION OF PLEDGE AGREEMENTS

Dated as of February 25, 2020

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the undersigned, respectively and as applicable hereby (a) confirms and agrees with CIBC BANK USA, formerly known as The PrivateBank and Trust Company, an Illinois banking corporation, in its capacity as administrative agent (together with its successors and assigns, "Administrative Agent"), that (i) Second Amended and Restated Pledge Agreement by and between Diversicare Management Services Co. and Administrative Agent dated as of February 26, 2016, (ii) Second Amended and Restated Pledge Agreement by and between Advocat Finance, Inc. and Administrative Agent dated as of February 26, 2016, (iii) Second Amended and Restated Pledge Agreement by and between Diversicare Leasing Corp. and Administrative Agent dated as of February 26, 2016, (iv) Second Amended and Restated Pledge Agreement by and between Senior Care Florida Leasing Corp. and Administrative Agent dated as of February 26, 2016, (v) Amended and Restated Pledge Agreement by and between Diversicare Leasing Company II, LLC and Administrative Agent dated as of February 26, 2016, (vi) Amended and Restated Pledge Agreement by and between Diversicare

Kansas, LLC and Administrative Agent dated as of February 26, 2016, (vii) Second Amended and Restated Pledge Agreement by and between Diversicare Healthcare Services, Inc. (f/k/a Advocat Inc.) and Administrative Agent dated as of February 26, 2016, (viii) Pledge Agreement by and between Diversicare Leasing Company III, LLC and Administrative Agent dated as of October 1, 2016 and effective as of October 3, 2016, (ix) Amended and Restated Pledge Agreement by and between Diversicare Property Co., LLC and Administrative Agent dated as of February 26, 2016 and (x) Amended and Restated Pledge Agreement by and between Diversicare Holding Company, LLC and Administrative Agent dated as of February 26, 2016 (the foregoing, as the same may be amended, restated, supplemented or otherwise modified from time to time, individually, "Pledge Agreement" and, collectively, "Pledge Agreements"), each remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Second Amended and Restated Term Loan and Security Agreement dated as of February 26, 2016 by and among those certain affiliates of Diversicare Healthcare Services, Inc. that are signatories thereto as borrowers, Administrative Agent and the Lenders, as the same has been amended prior to the date hereof and as amended by the foregoing Sixth Amendment to Second Amended and Restated Term Loan and Security Agreement dated of even date herewith ("Amendment"), and each reference to the "Loan Agreement" shall refer to the Loan Agreement as amended by the Amendment, and all of the undersigned's respective liabilities and obligations under and pursuant to the respective Pledge Agreement, as modified by the Amendment (if and as applicable), are and shall be valid and enforceable and shall not be impaired or limited in any way by the execution, delivery or effectiveness of the Amendment; (b) represents and warrants to Administrative Agent and Lenders, which representations and warranties shall survive the execution and delivery hereof, that each of the undersigned's representations and warranties contained in the Pledge Agreement are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date, each of the undersigned has the full right, authority and power to enter into this Reaffirmation and this Reaffirmation constitutes the legal, valid and binding obligation of each of the undersigned, enforceable against each of the undersigned in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar law affecting creditor's rights generally and general principles of equity; (c) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Pledge Agreement; and (d) agrees that neither such ratification and confirmation, nor the solicitation of such ratification and confirmation by Administrative Agent and Lenders, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent or Lenders under the Pledge Agreements. Each of the undersigned acknowledges and agrees that it has received and reviewed a fully-executed copy of the Amendment and understands the contents thereof. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes. Illinois law shall govern the construction, interpretation and enforcement of this instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the undersigned has duly executed this Reaffirmation of Pledge Agreements on and as of the date above.

DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

ADVOCAT FINANCE INC., a Delaware corporation

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE LEASING CORP.,
a Tennessee corporation

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

SENIOR CARE FLORIDA LEASING, LLC, a Delaware limited liability company

By: **Diversicare Leasing Corp.**, its sole member

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE LEASING COMPANY II, LLC, a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE KANSAS, LLC, a Delaware limited liability company

By: **DIVERSICARE HOLDING COMPANY, LLC**, its sole member

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE LEASING COMPANY III, LLC,
a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE HEALTHCARE SERVICES, INC., a Delaware corporation

By: /s/ James R. McKnight, Jr.
Name: James R. McKnight, Jr.
Its:President and Chief Executive Officer

DIVERSICARE PROPERTY CO., LLC,
a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE HOLDING COMPANY, LLC, a Delaware limited liability company

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

FIRST AMENDMENT TO
REVOLVING LOAN AND SECURITY AGREEMENT

THIS FIRST AMENDMENT TO REVOLVING LOAN AND SECURITY AGREEMENT (this "Amendment") dated as of February 25, 2020, is by and among **CIBC BANK USA**, an Illinois banking corporation (together with its successors and assigns, "Administrative Agent") in its capacity as administrative agent for the Lenders (as defined below), the Lenders, **DIVERSICARE MANAGEMENT SERVICES CO.**, a Tennessee corporation in its capacity as borrowing agent for the Borrowers ("Borrower Agent"), **DIVERSICARE HILLCREST, LLC**, **DIVERSICARE LAMPASAS, LLC**, **DIVERSICARE YORKTOWN, LLC** and **DIVERSICARE HUMBLE, LLC**, each a Delaware limited liability company (individually and collectively, "Borrower").

RECITALS:

WHEREAS, Borrower, Administrative Agent, and the financial institutions signatories thereto (the "Lenders") are parties to that certain Revolving Loan and Security Agreement dated as of May 13, 2019 (as the same has been, and may hereafter be, amended, restated, supplemented or otherwise modified from time to time, the "Loan Agreement"; all capitalized terms used but not defined herein shall have the meanings ascribed thereto in the Loan Agreement as amended by this Amendment);

WHEREAS, Borrower, Administrative Agent and Lenders desire to amend the Loan Agreement as provided in and subject to the terms and conditions of this Amendment;

NOW, THEREFORE, for and in consideration of the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto (intending to be legally bound) hereby agree as follows:

1. **Amendments to Loan Agreement**. Subject to the satisfaction of the conditions set forth in Section 4 below and in reliance upon the representations and warranties set forth in Section 3 below, Borrower, Administrative Agent and Lenders hereby amend the Loan Agreement as follows:

(a) Section 1.1 of the Loan Agreement is hereby amended by adding the following new definitions in proper alphabetical order therein to read as follows:

"Benchmark Replacement" means the sum of: (a) the alternate benchmark rate (which may include Term SOFR) that has been selected by Administrative Agent giving due consideration to (i) any selection or recommendation of a replacement rate or the mechanism for determining such a rate by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a rate of interest as a replacement to the Libor Base Rate for U.S. dollar-denominated syndicated credit facilities and (b) the Benchmark Replacement Adjustment.

"Benchmark Replacement Adjustment" means, with respect to any replacement of the Libor Base Rate with an Unadjusted Benchmark Replacement for each applicable Interest Period, the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected to by Administrative Agent giving due consideration to (i) any selection or recommendation of a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the Libor Base Rate with the applicable Unadjusted Benchmark Replacement by the Relevant Governmental Body or (ii) any evolving or then-prevailing market convention for determining a spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the Libor Base Rate with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated syndicated credit facilities at such time.

"Benchmark Replacement Conforming Changes" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the definition of "Interest Period," timing and frequency of determining rates and making payments of interest and other administrative matters) that Administrative Agent decides may be appropriate to reflect the adoption and implementation of such Benchmark Replacement and to permit the administration thereof by Administrative Agent in a manner substantially consistent with market practice (or, if Administrative Agent decides that adoption of any portion of such market practice is not administratively feasible or if Administrative Agent determines that no market practice for the administration of the Benchmark Replacement exists, in such other manner of administration as Administrative Agent decides is reasonably necessary in connection with the administration of this Agreement).

"Benchmark Replacement Date" means the earlier to occur of the following events with respect to the Libor Base Rate:

(1) in the case of clause (1) or (2) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Libor Base Rate permanently or indefinitely ceases to provide the Libor Base Rate; or

(2) in the case of clause (3) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

"Benchmark Transition Event" means the occurrence of one or more of the following events with respect to the Libor Base Rate:

(1) a public statement or publication of information by or on behalf of the administrator of the Libor Base Rate announcing that such administrator has ceased or will cease to provide the Libor Base Rate, permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Libor Base Rate;

(2) a public statement or publication of information by the regulatory supervisor for the administrator of the Libor Base Rate, the U.S. Federal Reserve System, an insolvency official with jurisdiction over the administrator for the Libor Base Rate, a resolution authority with jurisdiction over the administrator for the Libor Base Rate or a court or an entity with similar insolvency or resolution authority over the administrator for the Libor Base Rate, which states that the administrator of the Libor Base Rate has ceased or will cease to provide the Libor Base Rate permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Libor Base Rate; or

(3) a public statement or publication of information by the regulatory supervisor for the administrator of the Libor Base Rate announcing that the Libor Base Rate is no longer representative.

"Benchmark Transition Start Date" means (a) in the case of a Benchmark Transition Event, the earlier of (i) the applicable Benchmark Replacement Date and (ii) if such Benchmark Transition Event is a public statement or publication of information of a prospective event, the 90th day prior to the expected date of such event as of such public statement or publication of information (or if the expected date of such prospective event is fewer than 90 days after such statement or publication, the date of such statement or publication) and (b) in the case of an Early Opt-in Election, the date specified by Administrative Agent or Required Lenders, as applicable, by notice to Borrower, Administrative Agent (in the case of such notice by Required Lenders) and Lenders.

"Benchmark Unavailability Period" means, if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the Libor Base Rate and solely to the extent that the Libor Base Rate has not been replaced with a Benchmark Replacement, the period (x) beginning at the time that such Benchmark Replacement Date has occurred if, at such time, no Benchmark Replacement has replaced the Libor Base Rate for all purposes hereunder in accordance with Section 3.11 and (y) ending at the time that a Benchmark Replacement has replaced the Libor Base Rate for all purposes hereunder pursuant to Section 3.11.

"Early Opt-in Election" means the occurrence of:

(1) a determination by Administrative Agent or (ii) a notification by Required Lenders to Administrative Agent (with a copy to Borrower) that Required Lenders have determined, that U.S. dollar-denominated syndicated credit facilities being executed at such time, or that include language similar to that contained in this Section 3.11, are being executed or amended, as applicable, to incorporate or adopt a new benchmark interest rate to replace the Libor Base Rate, and

(2) (i) the election by Administrative Agent or (ii) the election by Required Lenders to declare that an Early Opt-in Election has occurred and the provision, as applicable, by Administrative Agent of written notice of such election to Borrower and Lenders or by Required Lenders of written notice of such election to Administrative Agent.

"Federal Reserve Bank of New York's Website" means the website of the Federal Reserve Bank of New York at http://www.newyorkfed.org, or any successor source.

"Relevant Governmental Body" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto.

"SOFR" with respect to any day means the secured overnight financing rate published for such day by the Federal Reserve Bank of New York, as the administrator of the benchmark, (or a successor administrator) on the Federal Reserve Bank of New York's Website.

"Term SOFR" means the forward-looking term rate based on SOFR that has been selected or recommended by the Relevant Governmental Body.

"Unadjusted Benchmark Replacement" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(b) Section 1.1 of the Loan Agreement is hereby amended by amending and restating the following definitions therein in their entirety to read as follows:

"Fixed Charge Coverage Ratio" means, on any date of determination, the ratio of (a) Adjusted EBITDAR (QIPP Funds), to (b) Fixed Charges, all as determined for the Borrower on a consolidated basis, all as determined in accordance with GAAP, consistently applied.

"Stated Maturity Date" means September 30, 2021.

(c) The definition of "Adjusted EBITDAR" in Section 1.1 of the Loan Agreement is hereby retitled "Adjusted EBITDAR (QIPP Funds)".

(d) The definitions of "Adjusted EBITDA" and "EBITDAR" in Section 1.1 of the Loan Agreement are hereby deleted in their entirety.

(e) Article 3 is hereby amended by adding a new Section 3.11 therein to read as follows:

3.11 Effect of Benchmark Transition Event.

(a) Benchmark Replacement. Notwithstanding anything to the contrary herein or in any other Financing Agreement, upon the occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, Administrative Agent (without, except as specifically provided in the two following sentences, any action or consent by any other party to this Agreement) may amend this Agreement to replace the Libor Base Rate with a Benchmark Replacement. Any such amendment with respect to a Benchmark Transition Event will become effective at 5:00 p.m. (Chicago time) on the fifth (5th) Business Day after Administrative Agent has posted such proposed amendment to all Lenders and Borrower so long as Administrative Agent has not received, by such time, written notice of objection to such amendment from Lenders comprising Required Lenders. Any such amendment with respect to an Early Opt-in Election will become effective on the date that Borrower and Lenders comprising Required Lenders have delivered to Administrative Agent written notice that Borrower and such Required Lenders accept such amendment. No replacement of Libor Base Rate with a Benchmark Replacement pursuant to this Section 3.11 will occur prior to the applicable Benchmark Transition Start Date.

(b) Benchmark Replacement Conforming Changes. In connection with the implementation of a Benchmark Replacement, Administrative Agent will have the right to make Benchmark Replacement Conforming Changes from time to time and, notwithstanding anything to the contrary herein or in any other Financing Agreement, any amendments implementing such Benchmark Replacement Conforming Changes will become effective without any further action or consent of any other party to this Agreement.

(c) Notices; Standards for Decisions and Determinations. Administrative Agent will promptly notify Borrower and Lenders of (i) any occurrence of a Benchmark Transition Event or an Early Opt-in Election, as applicable, and its related Benchmark Replacement Date and Benchmark Transition Start Date, (ii) the implementation of any Benchmark Replacement, (iii) the effectiveness of any Benchmark Replacement Conforming Changes and (iv) the commencement or conclusion of any Benchmark Unavailability Period. Any determination, decision or election that may be made by Administrative Agent or Lenders pursuant to this Section 3.11 including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action, will be conclusive and binding absent manifest error and may be made in its or their sole discretion and without consent from any other party hereto, except, in each case, as expressly required pursuant to this Section 3.11.

(d) Benchmark Unavailability Period. Upon Borrower's receipt of notice of the commencement of a Benchmark Unavailability Period, Borrower will be deemed to have converted any pending request for a Libor

Loan, and any conversion to or continuation of any Libor Loans to be made, converted or continued during any Benchmark Unavailability Period into a request for a borrowing of or conversion to Base Rate Loans.

(f) Section 9.12 (a) is hereby amended and restated in its entirety to read as follows:

(a) Minimum Fixed Charge Coverage Ratio. Borrowers, taken as a whole, shall not permit their Fixed Charge Coverage Ratio to be less than 1.00 to 1.00, for the Fiscal Quarter (i) ending March 31, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing three (3) month basis, (ii) ending June 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing six (6) month basis, (iii) ending September 30, 2020, measured on the last day of the applicable Fiscal Quarter on a trailing nine (9) month basis, and (iv) ending December 31, 2020 and for each Fiscal Quarter thereafter, measured on the last day of the applicable Fiscal Quarter on a trailing twelve (12) month basis.

(g) Section 9.12 (b) is hereby amended and restated in its entirety to read as follows:

(b) Minimum Adjusted EBITDA (QIPP Funds). Borrowers, taken as a whole, shall not permit their Adjusted EBITDA (QIPP Funds) to be less than $825,000 for the Fiscal Quarter ending June 30, 2019 and for each Fiscal Quarter thereafter, each measured on the last day of the applicable Fiscal Quarter on a trailing twelve (12) month basis.

(h) Section 12.1 is hereby amended by amending the second paragraph therein by replacing "Except as otherwise set forth herein" at the beginning thereof with "Except as otherwise set forth herein (including, without limitation, Section 3.11)".

2. **No Other Amendments**. Borrower acknowledges and expressly agrees that this Amendment is limited to the extent expressly set forth herein and shall not constitute a modification or amendment of the Loan Agreement or any other Financing Agreements or a course of dealing at variance with the terms or conditions of the Loan Agreement or any other Financing Agreements (other than as expressly set forth in this Amendment and the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith).

3. **Representations and Warranties.** In order to induce Administrative Agent and Lenders to enter into this Amendment, Borrower hereby represents and warrants to Administrative Agent and Lenders (which representations and warranties shall survive the execution and delivery hereof), both before and after giving effect to this Amendment that:

(a) Each of the representations and warranties of each Borrower contained in the Loan Agreement and the other Financing Agreements to which Borrower is a party are true and correct in all material respects (without duplication of any materiality carve out already provided therein) on and as of the date hereof, in each case as if made on and as of such date, other than representations and warranties that expressly relate solely to an earlier date (in which case such representations and warranties were true and correct on and as of such earlier date);

(b) Borrower has the corporate or limited liability company (as applicable) power and authority (i) to enter into the Loan Agreement as amended by this Amendment and (ii) to do all acts and things as are required or contemplated hereunder to be done, observed and performed by Borrower;

(c) This Amendment has been duly authorized, validly executed and delivered by one or more Duly Authorized Officers of Borrower, and each of this Amendment, the Loan Agreement as amended hereby, and each of the other Financing Agreements to which Borrower is a party, constitutes the legal, valid and binding obligations of Borrower, enforceable against Borrower in accordance with their respective terms, subject to bankruptcy, insolvency or other similar laws affecting the enforcement of creditor's rights and remedies generally;

(d) The execution and delivery of this Amendment and performance by Borrower under this Amendment, the Loan Agreement and each of the other Financing Agreements to which Borrower is a party do not and will not require the consent or approval of any regulatory authority or governmental authority or agency having jurisdiction over Borrower that has not already been obtained, nor be in contravention of or in conflict with the organizational documents of Borrower, or any provision of any statute, judgment, order, indenture, instrument, agreement, or undertaking, to which Borrower is party or by which Borrower's respective assets or properties are bound; and

(e) No Default or Event of Default will result after giving effect to this Amendment, and no event has occurred that has had or could reasonably be expected to have a Material Adverse Effect after giving effect to this Amendment.

4. **Conditions Precedent to Effectiveness of this Amendment.** The amendments contained in Section 1 of this Amendment shall become effective on the date hereof as long as each of the following conditions precedent is satisfied as determined by Administrative Agent:

(a) all of the representations and warranties of Borrower under Section 3 hereof, which are made as of the date hereof, are true and correct;

(b) Administrative Agent shall have received duly executed signature pages to this Amendment from Borrower and Lenders;

(c) Administrative Agent shall have received a duly executed Reaffirmation of Guaranty in the form attached hereto;

(d) Administrative Agent shall have received a duly executed Reaffirmation of Pledge Agreement in the form attached hereto;

(e) Administrative Agent shall have received duly executed copies of modifications to the Notes;

(f) Administrative Agent shall have received the amount of reasonable fees and out-of-pocket costs and expenses of counsel to Administrative Agent in connection with the Amendment pursuant to Section 7 hereof and otherwise due and owing pursuant to the Loan Agreement; and

(g) Administrative Agent shall have received such other certificates, schedules, exhibits, documents, opinions, instruments, reaffirmations, amendments or consents that Administrative Agent may reasonably require, if any.

5. **Reaffirmation; References to Loan Agreement; Additional Agreements and Covenants; Etc.**

(a) Borrower acknowledges and agrees that all of Borrower's obligations and Liabilities under the Loan Agreement and the other Financing Agreements, as amended hereby, are and shall be valid and enforceable and shall not be impaired or limited by the execution or effectiveness of this Amendment. The first priority perfected security interests and Liens and rights in the Collateral securing payment of the Liabilities are hereby ratified and confirmed by Borrower in all respects.

(b) Upon the effectiveness of this Amendment, each reference in the Loan Agreement to "this Agreement," "hereunder," "hereof," "herein" or words of like import shall mean and be a reference to the Loan Agreement, as amended by this Amendment.

(c) The failure by Administrative Agent, at any time or times hereafter, to require strict performance by any Borrower of any provision or term of the Loan Agreement, this Amendment or any of the Financing Agreements shall not waive, affect or diminish any right of Administrative Agent hereafter to demand strict compliance and performance herewith or therewith. Any suspension or waiver by Administrative Agent of a breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement shall not, except as expressly set forth in a writing signed by Administrative Agent, suspend, waive or affect any other breach of this Amendment or any Event of Default under or pursuant to the Loan Agreement, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character. None of the undertakings, agreements, warranties, covenants and representations of any Borrower contained in this Amendment, shall be deemed to have been suspended or waived by Administrative Agent unless such suspension or waiver is (i) in writing and signed by Administrative Agent (and, if applicable, the Required Lenders) and (ii) delivered to Borrower by Administrative Agent or its counsel.

(d) In no event shall Administrative Agent's execution and delivery of this Amendment establish a course of dealing among Administrative Agent, any Borrower, pledgor or Guarantor or any other obligor, or in any other way obligate Administrative Agent to hereafter provide any amendments or modifications or, if at any time applicable, consents or waivers with respect to the Loan Agreement or any other Financing Agreement. The terms and provisions of this Amendment shall be limited precisely as written and shall not be deemed (x) to be a consent to any amendment or modification of any other term or condition of the Loan Agreement or of any of the Financing Agreements (except as expressly provided herein or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith); or (y) to prejudice any right or remedy which Administrative Agent or the Lenders may now have under or in connection with the Loan Agreement or any of the other Financing Agreements. In the event an ambiguity or question of intent or interpretation arises, this Amendment shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Amendment.

(e) Except as expressly provided herein (or in any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith), the Loan Agreement and all of the other Financing Agreements shall remain unaltered, and the Loan Agreement and all of the other Financing Agreements shall remain in full force and effect and are hereby ratified and confirmed in all respects.

6. **Release.**

(a) In consideration of, among other things, the consent and amendments provided for herein, and for other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, Borrower and Guarantor (on behalf of themselves and their respective subsidiaries, Affiliates, successors and assigns), and, to the extent permitted by applicable law and the same is claimed by right of, through or under the above, for their past, present and future employees, directors, members, managers, partners, agents, representatives, officers, directors, and equity holders (all collectively, with Borrower and Guarantor, the "Releasing Parties"), do hereby unconditionally, irrevocably, fully, and forever remise, satisfy, acquit, release and discharge Administrative Agent, Issuing Lender, and Lenders and each of Administrative Agent's, Issuing Lender's and Lender's past, present and future officers, directors, agents, employees, attorneys, parent, shareholders, successors, assigns, subsidiaries and Affiliates and all other persons and entities to whom Administrative Agent or Lenders would be liable if such persons or entities were found in any way to be liable to any of the Releasing Parties (collectively, the "Lender Parties"), of and from any and all manner of action and actions, cause and causes of action, claims, cross-claims, charges, demands, counterclaims, suits, proceedings, disputes, debts, dues, sums of money, accounts, bonds, covenants, contracts, controversies, damages, judgments, liabilities, damages, costs, expenses, executions, liens, claims of liens, claims of costs, penalties, attorneys' fees, or any other compensation, recovery or relief on account of any liability, obligation, demand, proceedings or cause of action of whatever nature, whether in law, equity or otherwise (including, without limitation, those arising under 11 U.S.C. §§ 541-550 and interest or other carrying costs, penalties, legal, accounting and other professional fees and expenses, and incidental, consequential and punitive damages payable to third parties), whether known or unknown, fixed or contingent, joint and/or several, secured or unsecured, due or not due, primary or secondary, liquidated or unliquidated, contractual or tortious, direct, indirect, or derivative, asserted or unasserted, foreseen or unforeseen, suspected or unsuspected, now existing, heretofore existing or which may have heretofore accrued against any or all of Lender Parties, whether held in a personal or representative capacity, that the Releasing Parties (or any of them) have or may have against the Lender Parties or any of them (whether directly or indirectly) and which are based on any act, fact, event, action or omission or any other matter, condition, cause or thing occurring at or from any time prior to and including the date hereof in any way, directly or indirectly arising out of, connected with or relating to this Amendment, the Loan Agreement or any other Financing Agreement and the transactions contemplated hereby and thereby, the Collateral or the Liabilities, and all other agreements, certificates, instruments and other documents and statements (whether written or oral) related to any of the foregoing, other than any applicable good faith claim as to which a final determination is made in a judicial proceeding (in which Administrative Agent and any of the Lender Parties have had an opportunity to be heard) which determination includes a specific finding that Administrative Agent acted in a grossly negligent manner or with actual willful misconduct or illegal activity. Borrower and Guarantor each acknowledges that Administrative Agent and Lenders are specifically relying upon the representations, warranties and agreements contained herein and that such representations, warranties and agreements constitute a material inducement to Administrative Agent and Lenders in entering into this Amendment.

(b) Borrower and Guarantor each understands, acknowledges and agrees that the release set forth above may be pleaded as a full and complete defense and may be used as a basis for an injunction against any action, suit or other proceeding which may be instituted, prosecuted or attempted in breach of the provisions of such release.

(c) To the furthest extent permitted by law, Borrower and Guarantor each hereby knowingly, voluntarily, intentionally and expressly waives and relinquishes any and all rights and benefits that it respectively may have as against Lender Parties under any law, rule or regulation of any jurisdiction that would or could have the effect of limiting the extent to which a general release extends to claims which a Lender Party or Releasing Party does not know or suspect to exist as of the date hereof. Borrower and Guarantor each hereby acknowledges that the waiver set forth in the prior sentence was separately bargained for and that such waiver is an essential term and condition of this Amendment (and without which the amendment in Section 1 hereof would not have been agreed to by Administrative Agent and Lenders).

7. **Costs and Expenses**. Without limiting the obligation of Borrower to reimburse Administrative Agent for all costs, fees, disbursements and expenses incurred by Administrative Agent as specified in the Loan Agreement, Borrower agrees to and shall pay on demand all reasonable costs, fees, disbursements and expenses of Administrative Agent in connection with the preparation, negotiation, revision, execution and delivery of this Amendment and the other agreements, amendments, modifications, reaffirmations, instruments and documents contemplated hereby, including, without limitation, reasonable attorneys' fees and out-

of-pocket expenses. All obligations provided herein shall survive any termination of this Amendment and the Loan Agreement as amended hereby.

8. **Financing Agreement**. This Amendment shall constitute a Financing Agreement.

9. **Titles.** Titles and section headings herein shall be without substantive meaning and are provided solely for the convenience of the parties.

10. **Severability; Etc.** Whenever possible, each provision of this Amendment shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Amendment shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Amendment. The parties hereto have participated jointly in the negotiation and drafting of this Amendment. In the event an ambiguity or question of intent or interpretation arises, this Amendment shall be construed as if drafted jointly by the parties hereto, and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Amendment.

11. **Successors and Assigns**. This Amendment shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns; provided, however, no Borrower may assign any of its respective rights or obligations under this Amendment without the prior written consent of Administrative Agent.

12. **Further Assurances**. Borrower shall, at its own cost and expense, cause to be promptly and duly taken, executed, acknowledged and delivered all such further acts, certificates, instruments, reaffirmations, amendments, documents and assurances as may from time to time be necessary or as Administrative Agent may from time to time reasonably request in order to more fully carry out the intent and purposes of this Amendment or any of the other instruments, agreements, certificates and documents required to be executed and delivered in connection herewith.

13. **Counterparts; Faxes.** This Amendment may be executed in multiple counterparts, each of which shall be deemed to be an original and all of which when taken together shall constitute one and the same agreement. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes.

14. **Governing Law.** This Amendment shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have duly executed this First Amendment to Revolving Loan and Security Agreement as of the day and year first above written.

BORROWER AGENT:

DIVERSICARE MANAGEMENT SERVICES CO.

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

BORROWER:

DIVERSICARE HILLCREST, LLC
DIVERSICARE LAMPASAS, LLC
DIVERSICARE YORKTOWN, LLC

BY: **DIVERSICARE LEASING CORP.**, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

DIVERSICARE HUMBLE, LLC

BY: **DIVERSICARE TEXAS I, LLC**, its sole member

By: /s/Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

Acknowledged and Agreed:

DIVERSICARE HEALTHCARE SERVICES, INC.

By: /s/James R. McKnight, Jr.
Name: James R. McKnight, Jr.
Its: President and Chief Executive Officer

ADMINISTRATIVE AGENT:

CIBC BANK USA, in its capacity as administrative agent

By: /s/Adam D. Panos
Name: Adam D. Panos
Its: Managing Director

LENDER:

CIBC BANK USA

By: /s/Adam D. Panos
Name: Adam D. Panos
Its: Managing Director

LENDER:

BANKERS TRUST COMPANY

By: /s/Jon M. Doll
Name: Jon M. Doll
Its: Vice President

LENDER:

BOKF, NA D/B/A BANK OF OKLAHOMA

By: /s/Brian Puckett
Name: Brian Puckett
Its: Senior Vice President

LENDER:

CIT BANK, N.A.

By: /s/Richard Reynoso
Name: Richard Reynoso
Its: Vice President

LENDER:

OPUS BANK,
a California commercial bank

By: /s/Sangjin Na
Name: Sangjin Na
Its: Vice President

LENDER:

FRANKLIN SYNERGY BANK

By: /s/Lisa Fletcher
Name: Lisa Fletcher
Its: Senior Vice President

REAFFIRMATION OF GUARANTY

Dated as of February 25, 2020

The undersigned ("Guarantor") hereby: (i) confirms and agrees with CIBC BANK USA, formerly known as CIBC BANK USA, an Illinois banking corporation, in its capacity as administrative agent (together with its successors and assigns, "Administrative Agent") that Guarantor's Guaranty dated as of May 13, 2019 made in favor of Administrative Agent (as amended or modified, "Guaranty"), remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Revolving Loan and Security Agreement dated as of May 13, 2019 by and among Diversicare Management Services Co., a Tennessee corporation, as Borrower Agent, and Diversicare Hillcrest, LLC, Diversicare Lampasas, LLC, Diversicare Yorktown, LLC and Diversicare Humble, LLC, each a Delaware limited liability company, as amended by the foregoing First Amendment to Revolving Loan and Security Agreement ("Amendment"), and each reference to the "Loan Agreement" shall refer to the Loan Agreement as amended by the Amendment; (ii) represents and warrants to Administrative Agent, which representations and warranties shall survive the execution and delivery hereof, that Guarantor's representations and warranties contained in the Guaranty are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date (and except for the representations in Section 10(b) thereof which were true and correct on and as of the date when made); (iii) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Guaranty; and (iv) agrees that neither such ratification and confirmation, nor Administrative Agent's solicitation of such ratification and confirmation, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement, as amended by the Amendment). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent under or pursuant to the Guaranty. Guarantor acknowledges and agrees that Guarantor has received and reviewed a fully-executed copy of the Amendment (and any other instrument, document or agreement executed or delivered in connection therewith) and understands the contents thereof. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes. This instrument shall be governed by and construed and enforced in accordance with the internal laws of the State of Illinois, without regard to conflict of law principles that would require the application of any other laws.

[Signature Page Follows]

DIVERSICARE HEALTHCARE SERVICES, INC.

By:/s/ James R. McKnight, Jr.
Name: James R. McKnight, Jr.
Its: President and Chief Executive Officer

REAFFIRMATION OF PLEDGE AGREEMENT

Dated as of February 25, 2020

For good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the undersigned, respectively and as applicable hereby (a) confirms and agrees with CIBC BANK USA, an Illinois banking corporation, in its capacity as administrative agent (together with its successors and assigns, "Administrative Agent"), that the Pledge Agreement by and between Diversicare Leasing Corp. and Administrative Agent dated as of May 13, 2019 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the "Pledge Agreement"), remains in full force and effect and is hereby ratified and confirmed in all respects, including with regard to the Revolving Loan and Security Agreement dated as of May 13, 2019 by and among Diversicare Management Services Co., a Tennessee corporation, as Borrower Agent, and Diversicare Hillcrest, LLC, Diversicare Lampasas, LLC, Diversicare Yorktown, LLC and Diversicare Humble, LLC, each a Delaware limited liability company, Administrative Agent and the Lenders, as the same has been amended prior to the date hereof and as amended by the foregoing First Amendment to Revolving Loan and Security Agreement dated of even date herewith ("Amendment"), and each reference to the "Loan Agreement" shall refer to the Loan Agreement as amended by the Amendment, and all of the undersigned's respective liabilities and obligations under and pursuant to the Pledge Agreement, as modified by the Amendment (if and as applicable), are and shall be valid and enforceable and shall not be impaired or limited in any way by the execution, delivery or effectiveness of the Amendment; (b) represents and warrants to Administrative Agent and Lenders, which representations and warranties shall survive the execution and delivery hereof, that each of the undersigned's representations and warranties contained in the Pledge Agreement are true and correct as of the date hereof, with the same effect as though made on the date hereof, except to the extent that such representations expressly related solely to an earlier date, in which case such representations were true and correct on and as of such earlier date, each of the undersigned has the full right, authority and power to enter into this Reaffirmation and this Reaffirmation constitutes the legal, valid and binding obligation of each of the undersigned, enforceable against each of the undersigned in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar law affecting creditor's rights generally and general principles of equity; (c) agrees and acknowledges that such ratification and confirmation is not a condition to the continued effectiveness of the Amendment or the Pledge Agreement; and (d) agrees that neither such ratification and confirmation, nor the solicitation of such ratification and confirmation by Administrative Agent and Lenders, constitutes a course of dealing giving rise to any obligation or condition requiring a similar or any other ratification or confirmation from the undersigned with respect to subsequent amendments or modifications, if any, to the Loan Agreement, as amended by the Amendment or any other Financing Agreement (as defined in the Loan Agreement). The execution, delivery and effectiveness of this instrument shall not operate as a waiver of any right, power or remedy of Administrative Agent or Lenders under the Pledge Agreement. Each of the undersigned acknowledges and agrees that it has received and reviewed a fully-executed copy of the Amendment and understands the contents thereof. A signature hereto sent or delivered by facsimile or other electronic transmission shall be as legally binding and enforceable as a signed original for all purposes. Illinois law shall govern the construction, interpretation and enforcement of this instrument.

[Signature Page Follows]

IN WITNESS WHEREOF, each of the undersigned has duly executed this Reaffirmation of Pledge Agreement on and as of the date above.

DIVERSICARE LEASING CORP.,
a Tennessee corporation

By: /s/ Kerry D. Massey
Name: Kerry D. Massey
Its: Executive Vice President and Chief Financial Officer

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SETTLEMENT AGREEMENT

This Settlement Agreement (Agreement) is entered into among the United States of America, acting through the United States Department of Justice and on behalf of the Office of Inspector General (OIG-HHS) of the Department of Health and Human Services (HHS), (collectively, the "United States"), the State of Tennessee, acting through the Tennessee Attorney General and Reporter and on behalf of its Medicaid program (Tennessee), Diversicare Healthcare Services, Inc. (Diversicare), and Mary Haggard and Bryant Fitzmorris (collectively, "Relators") (hereafter collectively referred to as "the Parties"), through their authorized representatives.

RECITALS

A. Diversicare, a group of affiliated entities based in Franklin, Tennessee, currently operates or formerly operated approximately 74 skilled nursing facilities (SNFs) in Tennessee, Kentucky, Florida, Kansas, Missouri, Alabama, Indiana, Ohio, Texas, Arkansas, and West Virginia. These SNFs are included in the list of entities in Attachment A. Diversicare submits claims to Medicare and Medicaid for the medical services provided at its SNFs to residents who are beneficiaries of these federal healthcare programs. Diversicare's claims to Medicare were based, in part, on the rehabilitation therapy it provided to beneficiaries, while claims to Tennessee's Medicaid program, TennCare, required physicians to certify on pre-admission evaluations (PAEs) that patients needed care at a skilled nursing facility.

B. On July 3, 2012, Mary Haggard filed a *qui tam* action in the United States District Court for the Middle District of Tennessee captioned *United States ex rel. Mary Haggard v. Diversicare Management Services Co., et. al.*, Civil Action No. 3:12-cv-00669, pursuant to the *qui tam* provisions of the False Claims Act, 31 U.S.C. § 3730(b) (the "Haggard Action"). On or about August 9, 2016, Bryant Fitzmorris filed a *qui tam* action in the United States District Court for the Western District of Texas captioned *United States ex rel. Bryant Fitzmorris v. Diversicare Health Services, Inc.*, Civil Action No. 5:16-cv-00813 (the "Fitzmorris Action"). On November 28, 2016, the Fitzmorris Action was transferred to the United States District Court for the Middle District of Tennessee and assigned Civil Action No. 3:16-cv-03037. Among other things, the Relators' *qui tam* complaints alleged that Diversicare violated the False Claims Act by submitting false claims and statements to Medicare, TRICARE, and Medicaid for payment of services pursuant to the skilled nursing facility benefit that were not reasonable or medically necessary. Concurrent with this Agreement, the United States is intervening for settlement purposes in the Haggard Action and Fitzmorris Action with regard to the Medicare Covered Conduct described below.

C. The United States contends that Diversicare submitted or caused to be submitted claims for payment to the Medicare Program, Title XVIII of the Social Security Act, 42 U.S.C. §§ 1395-1395kkk-1 (Medicare), and the United States and Tennessee contend that Diversicare submitted or caused to be submitted claims for payment to TennCare, which is part of the Medicaid Program, 42 U.S.C. §§ 1396-1396w-5 (TennCare).

D. The United States contends that it has certain civil claims against Diversicare arising from its alleged submission of false claims to Medicare Part A during the time period from January 1, 2010 through December 31, 2015 for unreasonable, unnecessary, and/or unskilled rehabilitation therapy provided to patients at Diversicare skilled nursing facilities where Medicare Part A was billed for the patient's stay at the highest reimbursement levels, namely, the Ultra High Resource Utilization Group (RUG). The United States contends that Diversicare's corporate policies and practices encouraged the provision of such unnecessary therapy untethered to the individual clinical needs of patients, and caused false claims to be submitted. This conduct included submitting claims for Ultra High therapy levels despite evidence that (1) the frequency and duration of physical or occupational therapy were not reasonable or necessary for the patient, (2) the intensity of the physical or occupational therapy was inappropriate for the patient and not reasonable or necessary, (3) services did not require the skills of a therapist to perform them, and (4) speech therapy was medically unnecessary. This included specific instances of improper co-treatment in order to achieve minute thresholds, repetitive and unskilled exercises that did not match plan of care goals to obtain additional minutes, engaging patients in activities contraindicated by underlying medical conditions, inflating ADL scores and extending patient lengths of stay beyond what was medically indicated, billing for services that were not provided, using budgets, goals, and quotas to ensure Ultra High therapy was maximized, and threatening or undertaking adverse actions against employees if they failed to meet the budgets, goals, or quotas. The conduct described heretofore in this Paragraph is hereafter referred to as the "Medicare Covered Conduct."

The United States and Tennessee further contend that they have certain civil claims against Diversicare arising from Diversicare's alleged submission to TennCare of PAEs with photocopied or forged physician signatures on certifications required in the submission of claims for nursing facility services rendered to TennCare beneficiaries in Tennessee Diversicare skilled nursing facilities between January 1, 2010 and December 31, 2015 (the "TennCare Covered Conduct"). The conduct in the entirety of Recital D (i.e., the Medicare Covered Conduct and the TennCare Covered Conduct) is referred to collectively below as the "Covered Conduct."

E. This Agreement is neither an admission of liability by Diversicare nor a concession by the United States or Tennessee that their respective claims are not well founded.

F. Relators claim entitlement under 31 U.S.C. § 3730(d) to a share of the proceeds of this Settlement Agreement and to Relators' reasonable expenses, attorneys' fees and costs.

To avoid the delay, uncertainty, inconvenience, and expense of protracted litigation of the above claims, and in consideration of the mutual promises and obligations of this Settlement Agreement, the Parties agree and covenant as follows:

TERMS AND CONDITIONS

1. Pursuant to the Terms and Conditions outlined herein, Diversicare will pay the United States $9.5 million (Settlement Amount), plus interest at 2.25 percent from June 20, 2019. Within ten days after the Effective Date of this Agreement, Diversicare will pay the United States its first payment of $500,000, plus interest that has accrued at 2.25 percent from June 20, 2019, until the date of payment. Subsequent payments will be made to the United States in accordance with the payment plan set forth in

Attachment B (Settlement Payment Schedule), and with other provisions set forth in this Agreement (e.g., provisions setting forth requirements for contingency payments and payments upon default). All payments by Diversicare to the United States under this Agreement will be made by electronic funds transfer pursuant to written instructions to be provided to Diversicare by the United States Department of Justice. Diversicare's restitution, as described in Internal Revenue Code Section 162(f)(2), to the United States in this matter is $9,079,150, and Diversicare's restitution, as described in Internal Revenue Code Section 162(f)(2), to Tennessee in this matter is $420,850. Further, any interest and any portion of the Contingency Payments paid pursuant to this Agreement are restitution, as described in Internal Revenue Code Section 162(f)(2), allocated in the same proportions between the United States and Tennessee. The period between the Effective Date of this Agreement and the date of Diversicare's final payment under this Agreement shall be known as the Settlement Payment Period.

a. Contingency Payments. Diversicare agrees to provide sixty (60) days advance, written notice to the United States of the sale by any of the entities listed on Attachment C of any of the real estate interests they own during the Settlement Payment Period (Sale Event).

i. The United States, at its sole discretion, may terminate this Agreement if Diversicare fails to provide sixty (60) days advanced, written notice of a Sale Event.

ii. Upon the occurrence of a Sale Event, Diversicare shall make an additional payment of fifty percent (50%) of the total net proceeds (Net Sale Proceeds) from the Sale Event, to the United States by electronic funds transfer, pursuant to written instructions to be provided to Diversicare by the United States Department of Justice, within seven days of the closing on the Sale Event. Net Sale Proceeds is defined as the gross sale price less any outstanding mortgage balance, applicable federal, state, and local taxes or fees, real estate commissions and closing costs owed by Diversicare and/or any of the entities listed on Attachment C.

iii. Any Contingency Payment made pursuant to this Paragraph 1(a) will be divisible and payable by the United States to Tennessee and Relators pursuant to the terms described in Paragraphs 2 and 3 below.

2. Conditioned upon the United States receiving the required payments from Diversicare under this Agreement, the United States agrees that it shall pay to the State of Tennessee by electronic funds transfer 44.3 percent of the Medicaid Share as soon as feasible after receipt of each payment. The Medicaid Share is based on the TennCare Covered Conduct and is defined as 10 percent of each payment received by the United States from Diversicare under this Agreement. Diversicare shall have no responsibility or liability as to payment, or remission of payments, between the United States and Tennessee.

3. Conditioned upon the United States receiving the required payments from Diversicare under this Agreement for the Medicare Covered Conduct, the United States agrees that it shall pay to Relator Mary Haggard by electronic funds transfer 18.5 percent of 90 percent of each such payment received under the Settlement Agreement related to the Medicare Covered Conduct (Haggard Relator's Share), and the United States shall pay to Relator Bryant Fitzmorris by electronic funds transfer 17 percent of 10 percent of each such payment received under the Settlement Agreement related to the Medicare Covered Conduct (Fitzmorris

Relator's Share), as soon as feasible after receipt of each payment. Diversicare shall have no responsibility or liability as to payment, or remission of payments, between the United States and either Relator.

4. The terms of any payments by Diversicare to Relators or their counsel for expenses and attorneys' fees and costs due under 31 U.S.C. § 3730(d) shall be made in accordance with a separate agreement between Diversicare, Relators, and their counsel.

5. Subject to the exceptions in Paragraph 8 and 9 (concerning reserved claims) below, and subject to Paragraph 12 (concerning disclosure of assets), Paragraph 21 (concerning default), and Paragraph 22 (concerning bankruptcy) below, and conditioned upon the United States' receipt of the full Settlement Amount plus all accrued interest, the United States releases Diversicare from any civil or administrative monetary claim the United States has for the Covered Conduct under the False Claims Act, 31 U.S.C. §§ 3729-3733; the Civil Monetary Penalties Law, 42 U.S.C. § 1320a-7a; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812; or the common law theories of payment by mistake, unjust enrichment, and fraud, and Tennessee releases Diversicare from any administrative action seeking exclusion under applicable TennCare rules or regulations and from any civil or administrative monetary claim Tennessee has for the TennCare Covered Conduct under the Tennessee Medicaid False Claims Act, Tenn. Code Ann. §§ 71-5-181, to -185, or the common law theories of payment by mistake, unjust enrichment, and fraud.

6. Subject to the exceptions in Paragraph 8 and 9 (concerning reserved claims) below, and subject to Paragraph 12 (concerning disclosure of assets), Paragraph 21 (concerning default), and Paragraph 22 (concerning bankruptcy) below, and conditioned upon the United States' receipt of full payment of the Settlement Amount related to the Medicare Covered Conduct plus all accrued interest, Relators, for themselves and for their heirs, successors, attorneys, agents, and assigns, release Diversicare from any civil monetary claim Relators have on behalf of the United States for the Medicare Covered Conduct under the False Claims Act, 31 U.S.C. §§ 3729-3733 and from any and all claims either may have personally against Diversicare, its officers, employees or agents as of the date hereof.

7. In consideration of the obligations of Diversicare in this Agreement and the Corporate Integrity Agreement ("CIA"), entered into between OIG-HHS and Diversicare, and conditioned upon the United States' receipt of full payment of the Settlement Amount, the OIG-HHS agrees to release and refrain from instituting, directing, or maintaining any administrative action seeking exclusion from Medicare, Medicaid, and other Federal health care programs (as defined in 42 U.S.C. § 1320a-7b(f)) against Diversicare under 42 U.S.C. § 1320a-7a (Civil Monetary Penalties Law), 42 U.S.C. § 1320a-7(b)(6)(B) (permissive exclusion for unnecessary services), 42 U.S.C. § 1320a-7(b)(7) (permissive exclusion for fraud, kickbacks, and other prohibited activities), for the Covered Conduct, except as reserved in this paragraph and in Paragraph 8 (concerning reserved claims), below. The OIG-HHS expressly reserves all rights to comply with any statutory obligations to exclude Diversicare from Medicare, Medicaid, and other Federal health care programs under 42 U.S.C. § 1320a-7(a) (mandatory exclusion) based upon the Covered Conduct. Nothing in this paragraph precludes the OIG-HHS from taking action against entities or persons, or for conduct and practices, for which claims have been reserved in Paragraph 8, below.

8. Notwithstanding the releases given in Paragraphs 5, 6, and 7 of this Agreement, or any other term of this Agreement, the following claims and rights of the United States are specifically reserved and are not released:

a. Any liability arising under Title 26, U.S. Code (Internal Revenue Code);

b. Any criminal liability;

c. Except as explicitly stated in this Agreement, any administrative liability, including mandatory exclusion from Federal health care programs;

d. Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct;

e. Any liability based upon obligations created by this Agreement;

f. Any liability of individuals;

g. Any liability for express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods and services;

h. Any liability for failure to deliver goods or services due; and

i. Any liability for personal injury or property damage or for other consequential damages arising from the Covered Conduct.

9. Notwithstanding the releases given in Paragraphs 5, 6, and 7 of this Agreement, or any other term of this Agreement, the following claims of Tennessee are specifically reserved and are not released:

a. Any criminal, civil, or administrative liability arising under the State of Tennessee's revenue codes;

b. Any criminal liability;

c. Any liability to Tennessee for any conduct other than the TennCare Covered Conduct;

d. Any liability based upon obligations created by this Agreement;

e. Any liability for express or implied warranty claims or other claims for defective or deficient products or services, including quality of goods and services;

f. Any liability for failure to deliver goods or services due;

g. Any liability for personal injury or property damage or for other consequential damages arising from the TennCare Covered Conduct;

h. Any liability of individuals; or

i. Any liability to the State of Tennessee individual consumers or state program payers for claims involving unfair and/or deceptive acts or practices and/or violations of consumer protection laws.

10. Relators and their heirs, successors, attorneys, agents, and assigns shall not object to this Agreement but agree and confirm that this Agreement is fair, adequate, and reasonable under all the circumstances, pursuant to 31 U.S.C. § 3730(c)(2)(B). Conditioned upon Relators' receipt of the Relators' Share, Relators and their heirs, successors, attorneys, agents, and assigns fully and finally release, waive, and forever discharge the United States and Tennessee, their agencies, officers, agents, employees, and

servants, from any claims arising from the filing of the Haggard Action and/or Fitzmorris Action or under 31 U.S.C. § 3730, and from any claims to a share of the proceeds of this Agreement and/or the Haggard Action and/or Fitzmorris Action.

11. Relators, for themselves, and for their heirs, successors, attorneys, agents, and assigns, release Diversicare, and its officers, agents, and employees, from any liability to Relators arising from the filing of the Haggard Action and/or Fitzmorris Action. Relators' claims for expenses or attorneys' fees and costs pursuant to 31 U.S.C. § 3730(d) are the subject of a separate agreement between each Relator and Diversicare, and are not released by this Agreement.

12. Diversicare has provided sworn financial disclosure statements (Financial Statements) to the United States and the United States has relied on the accuracy and completeness of those Financial Statements in reaching this Agreement. Diversicare warrants that the Financial Statements were complete, accurate, and current as of the date provided. If the United States learns of asset(s) in which Diversicare had an interest of any kind at the time of this Agreement that were not disclosed in the Financial Statements, or if the United States learns of any false statement or misrepresentation by Diversicare on, or in connection with, the Financial Statements, and if such nondisclosure, false statement, or misrepresentation increases the estimated net worth set forth in the Financial Statements by $1,000,000.00 or more, the United States or Tennessee may at its option: (a) rescind this Agreement and reinstate its suit or file suit based on the Covered Conduct or (b) collect the full Settlement Amount in accordance with the Agreement plus one hundred percent (100%) of the value of the net worth of Diversicare's previously undisclosed assets. Diversicare agrees not to contest any collection action undertaken by the United States pursuant to this provision, and agrees that it will immediately pay the United States the greater of (i) a ten-percent (10%) surcharge of the amount collected, as allowed by 28 U.S.C. § 3011(a), or (ii) the United States' reasonable attorneys' fees and expenses incurred in such an action. In the event that the United States or Tennessee, pursuant to this paragraph, rescinds this Agreement, Diversicare waives and agrees not to plead, argue, or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel, or similar theories, to any civil or administrative claims that (a) are filed by the United States or Tennessee within 120 calendar days of written notification to Diversicare that this Agreement has been rescinded, and (b) relate to the Covered Conduct, except to the extent these defenses were available as of July 3, 2012 with respect to the Haggard Action and as of August 9, 2016 with respect to the Fitzmorris Action.

13. Diversicare waives and shall not assert any defenses Diversicare may have to any criminal prosecution or administrative action relating to the Covered Conduct that may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action.

14. Diversicare fully and finally releases the United States and Tennessee, their respective agencies, officers, agents, employees, and servants, from any claims (including attorneys' fees, costs, and expenses of every kind and however denominated) that Diversicare has asserted, could have asserted, or may assert in the future against the United States and/or Tennessee, their respective agencies, officers, agents, employees, and servants, related to the Covered Conduct and the United States' and Tennessee's investigation and prosecution thereof.

15. Diversicare fully and finally releases Relators and their attorneys from any claims (including attorneys' fees, costs, and expenses of every kind and however denominated) that Diversicare has asserted, could have asserted, or may assert in the future against Relators, related to the Haggard Action and/or the Fitzmorris Action and Relators' investigation and prosecution thereof, and from any and all claims Diversicare may have personally against Relators as of the date hereof.

16. The Settlement Amount shall not be decreased as a result of the denial of claims for payment now being withheld from payment by any Medicare contractor (e.g., Medicare Administrative Contractor, fiscal intermediary, carrier) or any state payer, related to the Covered Conduct; and Diversicare agrees not to resubmit to any Medicare contractor or any state payer any previously denied claims related to the Covered Conduct, agrees not to appeal any such denials of claims, and agrees to withdraw any such pending appeals.

17. Diversicare agrees to the following:

a. Unallowable Costs Defined: All costs (as defined in the Federal Acquisition Regulation, 48 C.F.R. § 31.205-47; and in Titles XVIII and XIX of the Social Security Act, 42 U.S.C. §§ 1395-1395kkk-1 and 1396-1396w-5; and the regulations and official program directives promulgated thereunder) incurred by or on behalf of Diversicare, its present or former officers, directors, employees, shareholders, and agents in connection with:

(1) the matters covered by this Agreement;

(2) the United States' audit(s) and civil and any criminal investigation(s) of the matters covered by this Agreement;

(3) Diversicare's investigation, defense, and corrective actions undertaken in response to the United States' audit(s) and civil and any criminal investigation(s) in connection with the matters covered by this Agreement (including attorneys' fees);

(4) the negotiation and performance of this Agreement;

(5) the payment Diversicare makes to the United States pursuant to this Agreement and any payments that Diversicare may make to Relators, including costs and attorneys' fees; and

(6) the negotiation of, and obligations undertaken pursuant to the CIA to: (i) retain an independent review organization to perform annual reviews as described in Section III of the CIA; and (ii) prepare and submit reports to the OIG-HHS

are unallowable costs for government contracting purposes and under the Medicare Program, Medicaid Program, TRICARE Program, and Federal Employees Health Benefits Program (FEHBP) (hereinafter referred to as Unallowable Costs). However, nothing in paragraph 17.a.(6) that may apply to the obligations undertaken pursuant to the CIA affects the status of costs that are not allowable based on any other authority applicable to Diversicare.

b. Future Treatment of Unallowable Costs: Unallowable Costs shall be separately determined and accounted for by Diversicare, and Diversicare shall not charge such Unallowable Costs directly or indirectly to any contracts with the United States

or any State Medicaid program, or seek payment for such Unallowable Costs through any cost report, cost statement, information statement, or payment request submitted by Diversicare or any of its subsidiaries or affiliates to the Medicare, Medicaid, TRICARE, or FEHBP Programs.

c. Treatment of Unallowable Costs Previously Submitted for Payment: Diversicare further agrees that within 90 days of the Effective Date of this Agreement it shall identify to applicable Medicare and TRICARE fiscal intermediaries, carriers, and/or contractors, and Medicaid and FEHBP fiscal agents, any Unallowable Costs (as defined in this paragraph) included in payments previously sought from the United States, or any State Medicaid program, including, but not limited to, payments sought in any cost reports, cost statements, information reports, or payment requests already submitted by Diversicare or any of its subsidiaries or affiliates, and shall request, and agree, that such cost reports, cost statements, information reports, or payment requests, even if already settled, be adjusted to account for the effect of the inclusion of the Unallowable Costs. Diversicare agrees that the United States, at a minimum, shall be entitled to recoup from Diversicare any overpayment plus applicable interest and penalties as a result of the inclusion of such Unallowable Costs on previously-submitted cost reports, information reports, cost statements, or requests for payment.

Any payments due after the adjustments have been made shall be paid to the United States pursuant to the direction of the Department of Justice and/or the affected agencies. The United States and Tennessee reserves their rights to disagree with any calculations submitted by Diversicare or any of its subsidiaries or affiliates on the effect of inclusion of Unallowable Costs (as defined in this paragraph) on Diversicare or any of its subsidiaries or affiliates' cost reports, cost statements, or information reports.

d. Nothing in this Agreement shall constitute a waiver of the rights of the United States and Tennessee to audit, examine, or re-examine Diversicare's books and records to determine that no Unallowable Costs have been claimed in accordance with the provisions of this paragraph.

18. Diversicare agrees to cooperate fully and truthfully with the United States' and Tennessee's investigation of individuals and entities not released in this Agreement. Upon reasonable notice, Diversicare shall encourage, and agrees not to impair, the cooperation of its directors, officers, and employees, and shall use its best efforts to make available, and encourage, the cooperation of former directors, officers, and employees for interviews and testimony, consistent with the rights and privileges of such individuals. Diversicare further agrees to furnish to the United States and Tennessee, upon request, complete and unredacted copies of all non-privileged documents, reports, memoranda of interviews, and records in its possession, custody, or control concerning any investigation of the Covered Conduct that it has undertaken, or that has been performed by another on its behalf.

19. This Agreement is intended to be for the benefit of the Parties only. The Parties do not release any claims against any other person or entity, except to the extent provided for in Paragraph 20 (waiver for beneficiaries paragraph), below.

20. Diversicare agrees that it waives and shall not seek payment for any of the health care billings covered by this Agreement from any health care beneficiaries or their parents, sponsors, legally responsible individuals, or third party payors based upon the claims defined as Covered Conduct.

21. The Settlement Amount represents the amount the United States and Tennessee are willing to accept in compromise of their civil claims arising from the Covered Conduct due solely to Diversicare's financial condition as reflected in the Financial Statements referenced in Paragraph 12.

a. In the event that Diversicare fails to pay the Settlement Amount as provided in the payment schedule set forth in Paragraph 1 above, Diversicare shall be in Default of Diversicare's payment obligations ("Default"). The United States will provide a written Notice of Default, and Diversicare shall have an opportunity to cure such Default within seven (7) business days from the date of receipt of the Notice of Default by making the payment due under the payment schedule and paying any additional interest accruing under the Settlement Agreement up to the date of payment. Notice of Default will be delivered to (1) Diversicare, c/o CEO, 1621 Galleria Blvd, Brentwood, Tennessee 37027 and (2) Bass Berry & Sims PLC, c/o Mark Manner, Glenn Rose, and Jeff Gibson, 150 Third Avenue South, Suite 2800, Nashville, Tennessee 37201. If Diversicare fails to cure the Default within seven (7) business days of receiving the Notice of Default, and in the absence of an agreement with the United States to a modified payment schedule ("Uncured Default"), the remaining unpaid balance of the Settlement Amount shall become immediately due and payable, and interest on the remaining unpaid balance shall thereafter accrue at the rate of 12% per annum, compounded daily from the date of Default, on the remaining unpaid total (principal and interest balance).

b. In the event of Uncured Default, Diversicare agrees that the United States, at its sole discretion, may (i) declare this Agreement breached and proceed against Diversicare for any claims, including those to be released by this agreement; (ii) take any action to enforce this Agreement in a new action or by reinstating the Haggard Action or Fitzmorris Action; (iii) offset the remaining unpaid balance from any amounts due and owing to Diversicare and/or affiliated companies by any department, agency, or agent of the United States at the time of Default or subsequently; and/or (iv) exercise any other right granted by law, or under the terms of this Agreement, or recognizable at common law or in equity. At its sole option, the United States may retain any payments previously made, rescind this Agreement and pursue the Haggard Action and/or the Fitzmorris Action or bring any civil and/or administrative claim, action, or proceeding against Diversicare for the claims that would otherwise be covered by the releases provided in Paragraphs 5, 6, and 7 above, with any recovery reduced by the amount of any payments previously made by Diversicare to the United States under this Agreement. The United States shall be entitled to any other rights granted by law or in equity by reason of Default, including referral of this matter for private collection. In the event the United States pursues a collection action, Diversicare agrees immediately to pay the United States the greater of (i) a ten-percent (10%) surcharge of the amount collected, as allowed by 28 U.S.C. § 3011(a), or (ii) the United States' reasonable attorneys' fees and expenses incurred in such an actions. In the event that the United States opts to rescind this Agreement pursuant to this Paragraph, Diversicare waives and agrees not to plead, argue, or otherwise raise any defenses of statute of limitations, laches, estoppel or similar theories, to any civil or administrative claims that are (i) filed by the United States against Diversicare within 120 days of written notification that this Agreement has been rescinded, and (ii) relate to the Covered Conduct, except to the extent these defenses were available on July 3, 2012 with respect to the Haggard Action and August 9, 2016 with respect to the Fitzmorris Action. Diversicare agrees not to

contest any offset, recoupment, and/or collection action undertaken by the United States pursuant to this Paragraph, either administratively or in any state or federal court, except on the grounds of actual payment to the United States.

c. In the event of Uncured Default, OIG-HHS may exclude Diversicare from participating in all Federal health care programs until Diversicare pays the Settlement Amount, with interest, and reasonable costs as set forth above. OIG-HHS will provide written notice of any such exclusion to Diversicare. Diversicare waives any further notice of the exclusion under 42 U.S.C. § 1320a-7(b)(7), and agrees not to contest such exclusion either administratively or in any state or federal court. Reinstatement to program participation is not automatic. If at the end of the period of exclusion, Diversicare wishes to apply for reinstatement, it must submit a written request for reinstatement to OIG-HHS in accordance with the provisions of 42 C.F.R. §§ 1001.3001-.3005. Diversicare will not be reinstated unless and until OIG-HHS approves such request for reinstatement. The option for Exclusion for Default as defined in this paragraph is in addition to, and not in lieu of, the options identified in this Agreement or otherwise available.

22. In exchange for valuable consideration provided in this Agreement, Diversicare acknowledges the following.

a. In evaluating whether to execute this Agreement, the Parties intend that the mutual promises, covenants, and obligations set forth herein constitute a contemporaneous exchange for new value given to Diversicare, within the meaning of 11 U.S.C. § 547(c)(1), and the Parties conclude that these mutual promises, covenants, and obligations do, in fact, constitute such a contemporaneous exchange.

b. The mutual promises, covenants, and obligations set forth herein are intended by the Parties to, and do in fact, constitute a reasonably equivalent exchange of value.

c. The Parties do not intend to hinder, delay, or defraud any entity to which Diversicare was or became indebted to on or after the date of any transfer contemplated in this Agreement, within the meaning of 11 U.S.C. § 548(a)(1).

d. If Diversicare's obligations under this Agreement are avoided for any reason, including, but not limited to, through the exercise of a trustee's avoidance powers under the Bankruptcy Code, or if, before the Settlement Amount is paid in full, Diversicare or a third party commences a case, proceeding, or other action under any law relating to bankruptcy, insolvency, reorganization, or relief of debtors (i) seeking any order for relief of Diversicare's debts, or to adjudicate Diversicare as bankrupt or insolvent; or (ii) seeking appointment of a receiver, trustee, custodian, or other similar official for Diversicare or for all or any substantial part of Diversicare's assets, the United States (a) may rescind the releases in this Agreement and bring any civil and/or administrative claim, action, or proceeding against Diversicare for the claims that would otherwise be covered by the releases provided in Paragraphs 5, 6 and 7**;** and (b) the United States has an undisputed, noncontingent, and liquidated allowed claim against Diversicare in the amount of Fifty-Six Million dollars ($56 million), less any payments received pursuant to this agreement, provided, however, that such payments are not otherwise avoided and recovered by Diversicare, a receiver, trustee, custodian, or other similar official for Diversicare. Notwithstanding any bankruptcy or other insolvency proceeding by or against Diversicare, however, if Diversicare fully complies with the payment obligations set forth in Paragraph 1 of this agreement and if no payment

made under Paragraph 1 is avoided or otherwise recovered from the United States within the applicable statutes of limitations for such avoidance and/or recovery actions, including without limitation the statutes of limitations set forth in 11 U.S.C. §§ 546(a), 549(d) and 550(f), and as extended by any court of competent jurisdiction, the United States shall not rescind the releases provided in Paragraphs 5, 6, and 7 pursuant to this Paragraph.

e. Diversicare agrees that any such civil and/or administrative claim, action, or proceeding brought by the United States is not subject to an "automatic stay" pursuant to 11 U.S.C. § 362(a) because it would be an exercise of the United States' police and regulatory power. Diversicare shall not argue or otherwise contend that the United States' claim, action, or proceeding is subject to an automatic stay and, to the extent necessary, consents to relief from the automatic stay for cause under 11 U.S.C. § 362(d)(1). Diversicare waives and shall not plead, argue, or otherwise raise any defenses under the theories of statute of limitations, laches, estoppel, or similar theories, to any such civil or administrative claim, action, or proceeding brought by the United States within 120 days of written notification to Diversicare that the releases have been rescinded pursuant to this Paragraph, except to the extent such defenses were available on July 3, 2012 with respect to the Haggard Action and August 9, 2016 with respect to the Fitzmorris Action.

23. Upon receipt of the first payment described in Paragraph 1, above, the United States and Relators shall promptly sign and file in the Civil Action a Joint Stipulation of Dismissal of the Civil Action pursuant to Rule 41(a)(1): (1) dismissing with prejudice all claims asserted on behalf of the United States against Diversicare in the Haggard Action and Fitzmorris Action for the Medicare Covered Conduct as set forth in this Agreement, and (2) dismissing with prejudice to the Relators and without prejudice to the United States any remaining claims asserted on behalf of the United States against Diversicare in the Haggard Action and Fitzmorris Action.

24. Except as provided in Paragraph 4 of the Terms and Conditions, above, each Party shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

25. Each Party and signatory to this Agreement represents that it freely and voluntarily enters into this Agreement without any degree of duress or compulsion.

26. This Agreement is governed by the laws of the United States. The exclusive venue for any dispute relating to this Agreement is the United States District Court for the Middle District of Tennessee, Nashville Division. For purposes of construing this Agreement, this Agreement shall be deemed to have been drafted by all Parties to this Agreement and shall not, therefore, be construed against any Party for that reason in any subsequent dispute.

27. This Agreement constitutes the complete agreement between the Parties. This Agreement may not be amended except by written consent of the Parties. Forbearance by the United States from pursuing any remedy or relief available to it under this Agreement shall not constitute a waiver of rights under this Agreement.

28. The undersigned counsel represent and warrant that they are fully authorized to execute this Agreement on behalf of the persons and entities indicated below.

29. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same Agreement.

30. This Agreement is binding on Diversicare's successors, transferees, heirs, and assigns.

31. This Agreement is binding on Relators' successors, transferees, heirs, and assigns.

32. All Parties consent to the United States' and Tennessee's disclosure of this Agreement, and information about this Agreement, to the public.

33. This Agreement is effective on the date of signature of the last signatory to the Agreement (Effective Date of this Agreement). Facsimiles and electronic transmissions of signatures shall constitute acceptable, binding signatures for purposes of this Agreement.

THE UNITED STATES OF AMERICA

DATED: 2/7/2020 BY: /s/ Yolonda Campbell
Yolonda Campbell
Trial Attorney
Commercial Litigation Branch
Civil Division
United States Department of Justice

DATED: 2/14/2020 BY: /s/ Sarah K. Bogni
Sarah K. Bogni
Assistant United States Attorney
United States Attorney's Office
Middle District of Tennessee

DATED: 2/5/2020 BY: /s/ Lisa M. Re
Lisa M. Re
Assistant Inspector General for Legal Affairs
Office of Counsel to the Inspector General
Office of Inspector General
U.S. Department of Health and Human Services

TENNESSEE

DATED: 2/14/2020 BY: /s/ Herbert H. Slatery III
Herbert H. Slatery III
Attorney General and Reporter

DIVERSICARE ENTITIES

DATED: 1/31/2020 BY: /s/ James R. McKnight, Jr.
James R. McKnight, Jr.
Chief Executive Officer,
Diversicare Healthcare Services, Inc.

DATED: 1/31/2020 BY: /s/ Jeff Gibson
Glenn Rose
Jeff Gibson
Bass, Berry & Sims, PLC
Counsel for Diversicare Healthcare Services, Inc.

RELATORS

DATED: 2/3/2020 BY: /s/ Mary Haggard
Mary Haggard

DATED: 1/31/2020 BY: /s/ Anna Dover
Anna Dover
Kreindler & Associates
Counsel for Relator Mary Haggard

DATED: 1/31/2020 BY: /s/ William Michael Hamilton, Esq
William Michael Hamilton, Esq.
Provost, Umphrey Law Firm, LLP
Counsel for Relator Mary Haggard

DATED: 2/3/2020 BY: /s/ Bryant Fitzmorris
Bryant Fitzmorris

DATED: 2/3/2020 BY: /s/ William Hurlock
William Hurlock
Christopher Furlong
Mueller Law LLC
Counsel for Relator Fitzmorris

DATED: 2/3/2020 BY: /s/ Edmund J. Schmidt, III
Edmund J. Schmidt, III
Law Office of Eddie Schmidt
Counsel for Relator Fitzmorris

ATTACHMENT A

Diversicare Skilled Nursing Facility List

	Entity Legal Name	Street Address	City, State
1	Brookshire Healthcare Center	4320 Judith Ln.	Huntsville, AL 35805
2	Canterbury Healthcare Facility	1720 Knowles Rd.	Phenix City, AL 36869
3	Diversicare of Big Springs	500 St. Clair Ave. SW	Huntsville, AL 35801
4	Hartford Health Care	217 Toro Rd.	Hartford, AL 36344
5	Lynwood Nursing Home	4164 Halls Mill Rd.	Mobile, AL 36693
6	Northside Healthcare	700 Hutchins Ave.	Gadsden, AL 35901
7	Windsor House	4411 McAllister Dr.	Huntsville, AL 35805
8	Hardee Manor Healthcare Center	401 Orange Pl.	Wauchula, FL 33873
9	Cedar Hills Healthcare Center	2061 Hyde Park Rd.	Jacksonville, FL 32210
10	Golfcrest Healthcare Center	600 North 17th Avenue	Hollywood, FL 33020
11	Golfview Healthcare Center	3636 10th Avenue North	St. Petersburg, FL 33713
12	Southern Pines Healthcare Center	6140 Congress Street	New Port Richey, FL 34653
13	Diversicare of Chanute	530 West 14th Street	Chanute, KS 66720
14	Diversicare of Council Grove	400 Sunset Drive	Council Grove, KS 66846
15	Diversicare of Haysville	215 North Lamar Avenue	Haysville, KS 67060
16	Diversicare of Hutchinson	1202 East 23rd Avenue	Hutchinson, KS 67502
17	Diversicare of Larned	1114 West 11th Street	Larned, KS 67550
18	Diversicare of Sedgwick	712 Monroe Avenue	Sedgwick, KS 67135
19	Clinton Place	106 Padgett Dr.	Clinton, KY 42031
20	Boyd Nursing & Rehab Center	12100 Princeland Spur	Ashland, KY 41102
21	Carter Nursing & Rehab Center	P. O. Box 904 (250 McDavid Blvd.)	Grayson, KY 41143
22	Diversicare of Fulton	1004 Holiday Lane	Fulton, KY 42041
23	Diversicare of Glasgow	300 Westwood Street	Glasgow, KY 42141
24	Diversicare of Greenville	521 Greene Drive	Greenville, KY 42345
25	Diversicare of Nicholasville	100 Sparks Avenue	Nicholasville, KY 40356
26	Elliott Nursing & Rehab Center	20 Howards Creek Rd. (P.O. Box 694)	Sandy Hook, KY 41171

27	Highlands Health & Rehab Center	1705 Stevens Avenue	Louisville, KY 40205
28	Diversicare of Seneca Place	3526 Dutchmans Lane	Louisville, KY 40205
29	South Shore Nursing & Rehab Center	P.O. Box 489 (405 S.M. Roberson Dr.)	South Shore, KY 41175
30	West Liberty Nursing & Rehab Center	P.O. Box 219 (774 Liberty Rd.)	West Liberty, KY 41472
31	Wurtland Nursing & Rehab Center	P.O. Box 677 (100 Wurtland Ave.)	Wurtland, KY 41144
32	Diversicare of St. Joseph	3002 North 18th St.	St. Joseph, MO 64505
33	Riverside Place	1616 Weisenborn Rd.	St. Joseph, MO 64507
34	St. Joseph Chateau	811 North 9th St.	St. Joseph, MO 64501
35	Best Care Nursing & Rehab Center	2159 Dogwood Ridge	Wheelersburg, OH 45694
36	Diversicare of Bradford Place	1302 Millville Avenue	Hamilton, OH 45013
37	Diversicare of Siena Woods	6125 North Main Street	Dayton, OH 45415
38	Diversicare of St. Theresa	7010 Rowan Hill Drive	Cincinnati, OH 45227
39	Avon Place	32900 Detroit Road	Avon, OH 44011
40	Ontario Pointe	2124 Park Avenue, West	Ontario, OH 44906
41	Diversicare of Providence	4915 Charlestown Road	New Albany, IN 47150
42	Diversicare of Oak Ridge	100 Elmhurst Dr.	Oak Ridge, TN 37830
43	Diversicare of Claiborne	902 Buchanan Rd.	New Tazewell, TN 37825
44	Diversicare of Dover	P.O. Box 339 (537 Spring St.)	Dover, TN 37058
45	Diversicare of Martin	158 Mount Pelia Rd.	Martin, TN 38237
46	Diversicare of Smyrna	200 Mayfield Dr.	Smyrna, TN 37167
47	Afton Oaks Nursing & Rehab Center	7514 Kingsley	Houston, TX 77087
48	Ballinger Healthcare & Rehab Center	2001 6th Street	Ballinger, TX 76821
49	Brentwood Terrace Healthcare & Rehab Center	2885 Stillhouse Rd.	Paris, TX 75462
50	Chisolm Trail Nursing & Rehab Center	107 N. Medina	Lockhart, TX 78644
51	Diversicare of Lake Highlands	9009 White Rock Trail	Dallas, TX 75238
52	Estates Healthcare & Rehab Center	201 Sycamore School Rd.	Fort Worth, TX 76134
53	Diversicare of Luling	208 Maple Street	Luling, TX 78648
54	Lampasas Nursing & Rehab Center	611 N. Broad	Lampasas, TX 76550

55	Normandy Terrace Healthcare & Rehab Center	841 Rice Rd.	San Antonio, TX 78220
56	Oakmont Healthcare & Rehab Center of Humble	8450 Will Clayton Pkwy.	Humble, TX 77338
57	Oakmont Healthcare & Rehab Center of Katy	1525 Tull Dr.	Katy, TX 77449
58	Treemont Healthcare & Rehab Center	5550 Harvest Hill Rd. Suite 500	Dallas, TX 75230
59	Yorktown Nursing & Rehab Center	670 West 4th St. (P.O. Box 805)	Yorktown, TX 78164
60	Arbor Oaks Healthcare & Rehab Center	105 Russellville Rd.	Malvern, AR 72104
61	Ash Flat Healthcare & Rehab Center	66 Ozbirn Ln.	Ash Flat, AR 72513
62	Conway Healthcare & Rehab Center	2603 Dave Ward Dr.	Conway, AR 72034
63	Des Arc Nursing & Rehab Center	2216 West Main St.	Des Arc, AR 72040
64	Garland Nursing & Rehab Center	610 Carpenter Dam Rd.	Hot Springs, AR 71901
65	Newport Healthcare & Rehab Center	1311 N. Pecan St.	Newport, AR 72112
66	Ouachita Nursing & Rehab Center	1411 Country Club Rd.	Camden, AR 71701
67	Pocahontas Healthcare & Rehab Center	105 Country Club Rd.	Pocahontas, AR 72455
68	Rich Mountain Nursing & Rehab Center	306 Hornbeck	Mena, AR 71953
69	Sheridan Healthcare & Rehab Center	113 South Briarwood Rd.	Sheridan, AR 72150
70	The Pines Nursing & Rehab Center	524 Carpenter Dam Rd.	Hot Springs, AR 71901
71	Walnut Ridge Nursing & Rehab Center	1500 West Main	Walnut Ridge, AR 72476
72	Boone Nursing & Rehab Center	P.O. Box 605 (462 Kenmore Dr.)	Danville, WV 25053
73	Laurel Nursing & Rehab Center	1053 Clinic Dr.	Ivydale, WV 25113
74	Rose Terrace Health & Rehab Center	30 Hidden Brook Way	Culloden, WV 25510

ATTACHMENT B

DIVERSICARE PAYMENT SCHEDULE

Annual Payment	Payment Date	Payment Amount	2.25% Interest	Principal	Balance
Settlement Amount					$9,500,000.00
Initial payment	2/24/2020	$500,000.00 plus handshake interest	handshake interest (accrued at 2.25 percent per anum from June 20, 2019)	$500,000.00	$9,000,000.00
Year 1	2/24/2021	$1,202,500.00	$202,500.00	$1,000,000.00	$8,000,000.00
Year 2	2/24/2022	$1,180,000.00	$180,000.00	$1,000,000.00	$7,000,000.00
Year 3	2/24/2023	$1,657,500.00	$157,500.00	$1,500,000.00	$5,500,000.00
Year 4	2/23/2024	$2,623,750.00	$123,750.00	$2,500,000.00	$3,000,000.00
Year 5	2/23/2025	$3,067,500.00	$67,500.00	$3,000,000.00	$0.00
Total		$10,231,250.00 plus handshake interest	$731,250.00 plus handshake interest	$9,500,000.00	

Attachment C

1. Diversicare Selma Property, LLC
2. Diversicare Hartford Property, LLC
3. Diversicare Windsor House Property, LLC
4. Diversicare Chanute Property, LLC
5. Diversicare Council Grove Property, LLC
6. Diversicare Haysville Property, LLC
7. Diversicare Hutchinson Property, LLC
8. Diversicare Larned Property, LLC
9. Diversicare Sedgwick Property, LLC
10. Diversicare Briarcliff Property, LLC
11. Diversicare Afton Oaks Property, LLC
12. Diversicare Chisolm Property, LLC
13. Diversicare Hillcrest Property, LLC
14. Diversicare Lampasas Property, LLC
15. Diversicare Yorktown Property, LLC

CORPORATE INTEGRITY AGREEMENT
BETWEEN THE
OFFICE OF INSPECTOR GENERAL
OF THE
DEPARTMENT OF HEALTH AND HUMAN SERVICES
AND
DIVERSICARE HEALTHCARE SERVICES, INC.

I. PREAMBLE

Diversicare Healthcare Services, Inc. (Diversicare) hereby enters into this Corporate Integrity Agreement (CIA) with the Office of Inspector General (OIG) of the United States Department of Health and Human Services (HHS) to promote compliance with the statutes, regulations, and written directives of Medicare, Medicaid, and all other Federal health care programs (as defined in 42 U.S.C. § 1320a-7b(f)) (Federal health care program requirements). Contemporaneously with this CIA, Diversicare is entering into a Settlement Agreement with the United States.

II. TERM AND SCOPE OF THE CIA

A. The period of the compliance obligations assumed by Diversicare under this CIA shall be five years from the effective date of this CIA. The "Effective Date" shall be the date on which the final signatory of this CIA executes this CIA. Each one-year period, beginning with the one-year period following the Effective Date, shall be referred to as a "Reporting Period."

B. Sections VII, X, and XI shall expire no later than 120 days after OIG's receipt of: (1) Diversicare's final Annual Report or (2) any additional materials submitted by Diversicare pursuant to OIG's request, whichever is later.

C. For purposes of this CIA, the term "Covered Persons" includes: (1) all owners who are natural persons (other than shareholders who: (1) have an ownership interest of less than 5% and (2) acquired the ownership interest through public trading), officers, directors, and employees of Diversicare; (2) all contractors, subcontractors, agents, and other persons who furnish patient care items or services or who perform billing or coding functions on behalf of Diversicare, excluding vendors whose sole connection with Diversicare is selling or otherwise providing medical supplies or equipment to Diversicare; and (3) all physicians and other non-physician practitioners who are members of Diversicare's active medical staff. Notwithstanding the above, the term "Covered Persons" does not include part-time or per diem employees, contractors, subcontractors, agents, and other persons who are not reasonably expected to work more than 160 hours during a Reporting Period, except that any such individuals shall become "Covered Persons" at the point when the work more than 160 hours during a Reporting Period.

III. CORPORATE INTEGRITY OBLIGATIONS

Diversicare shall establish and maintain a Compliance Program that includes the following elements:

A. Compliance Officer and Committee, Board of Directors, and Management Compliance Obligations

1. *Compliance Officer*. Within 90 days after the Effective Date, Diversicare shall appoint a Compliance Officer and shall maintain a Compliance Officer for the term of the CIA. The Compliance Officer shall be an employee and a member of senior management of Diversicare, shall report directly to the Chief Executive Officer of Diversicare, and shall not be or be subordinate to the General Counsel or Chief Financial Officer or have any responsibilities that involve acting in any capacity as legal counsel or supervising legal counsel functions for Diversicare. The Compliance Officer shall be responsible for, without limitation:

a. developing and implementing policies, procedures, and practices designed to ensure compliance with the requirements set forth in this CIA and with Federal health care program requirements;

b. making periodic (at least quarterly) reports regarding compliance matters in person to the Board of Directors of Diversicare (Board) and shall be authorized to report on such matters to the Board at any time. Written documentation of the Compliance Officer's reports to the Board shall be made available to OIG upon request; and

c. monitoring the day-to-day compliance activities engaged in by Diversicare as well as any

reporting obligations created under this CIA.

Any noncompliance job responsibilities of the Compliance Officer shall be limited and must not interfere with the Compliance Officer's ability to perform the duties outlined in this CIA.

Diversicare shall report to OIG, in writing, any changes in the identity of the Compliance Officer, or any actions or changes that would affect the Compliance Officer's ability to perform the duties necessary to meet the obligations in this CIA, within five business days after such a change.

2. *Compliance Directors*. Within 90 days after the Effective Date, Diversicare shall appoint two individuals to serve as Compliance Directors. Diversicare shall maintain the Compliance Directors for the duration of the CIA. The Compliance Directors shall be responsible for implementing policies, procedures, and practices designed to ensure compliance with the requirements set forth in this CIA and with Federal health care program requirements for their assigned facilities of the Company, and shall monitor the day-to-day compliance activities for their assigned facilities. The Compliance Directors shall report to the Compliance Officer, and shall be members of the Compliance Committee. The Compliance Directors shall make periodic (at least quarterly) written reports regarding compliance matters directly to the Compliance Officer, and shall be authorized to report on such matters directly to the Compliance Committee and the Board of Directors at any time. Diversicare shall report to OIG, in writing, any actions or changes that would affect any Compliance Director's ability to perform the duties necessary to meet the obligations in this CIA, within 30 days after such a change.

3. *Compliance Committee*. Within 90 days after the Effective Date, Diversicare shall appoint a Compliance Committee. The Compliance Committee shall, at a minimum, include the Compliance Officer, Compliance Directors, and other members of senior management necessary to meet the requirements of this CIA (e.g., senior executives of relevant departments, such as billing, clinical, human resources, audit, and operations). The Compliance Officer shall chair the Compliance Committee and the Compliance Committee shall support the Compliance Officer in fulfilling his/her responsibilities (e.g., shall assist in the analysis of Diversicare's risk areas and shall oversee monitoring of internal and external audits and investigations). The Compliance Committee shall meet at least quarterly. The minutes of the Compliance Committee meetings shall be made available to OIG upon request.

Diversicare shall report to OIG, in writing, any actions or changes that would affect the Compliance Committee's ability to perform the duties necessary to meet the obligations in this CIA, within 15 business days after such a change.

4. *Board Compliance Obligations.* The Board of Diversicare shall be responsible for the review and oversight of matters related to compliance with Federal health care program requirements and the obligations of this CIA. The Board must include independent (i.e., non-employee and non-executive) members.

The Board shall, at a minimum, be responsible for the following:

a. meeting at least quarterly to review and oversee Diversicare's compliance program, including but not limited to the performance of the Compliance Officer and Compliance Committee;

b. submitting to OIG a description of the documents and other materials it reviewed, as well as any additional steps taken, such as the engagement of an independent advisor or other third-party resources, in its oversight of the compliance program and in support of making the resolution below during each Reporting Period; and

c. for each Reporting Period of the CIA, adopting a resolution, signed by each member of the Board summarizing its review and oversight of Diversicare's compliance with Federal health care program requirements and the obligations of this CIA.

d. for the first and third Reporting Periods of the CIA, the Board shall retain an individual or entity with expertise in compliance with Federal health care program requirements (Compliance Expert) to perform a review of the effectiveness of Diversicare's Compliance Program (Compliance Program Review). The Compliance Expert shall create a work plan for the Compliance Program Review and prepare a written report about the Compliance Program Review. The written report (Compliance Program Review Report) shall include a description of the Compliance Program Review and any recommendations with respect to Diversicare's compliance program. The Board shall review the Compliance Program Review Report as part of its review and oversight of Diversicare's compliance program. A copy of the Compliance Program Review report shall be provided to OIG in each Annual Report submitted by Diversicare. In addition, copies of any materials provided to the Board by the Compliance Expert, along with minutes of any meetings between the Compliance Expert and the Board, shall be made available to OIG upon request.

At minimum, the resolution shall include the following language:

> "The Board has made a reasonable inquiry into the operations of Diversicare's Compliance Program, including the performance of the Compliance Officer and the Compliance Committee. Based on its inquiry and review, the Board has concluded that, to the best of its knowledge, Diversicare has implemented an effective Compliance Program to meet Federal health care program requirements and the obligations of the CIA."

If the Board is unable to provide such a conclusion in the resolution, the Board shall include in the resolution a written explanation of the reasons why it is unable to provide the conclusion and the steps it is taking to implement an effective Compliance Program at Diversicare.

Diversicare shall report to OIG, in writing, any changes in the composition of the Board, or any actions or changes that would affect the Board's ability to perform the duties necessary to meet the obligations in this CIA, within 15 business days after such a change.

5. *Management Certifications.* In addition to the responsibilities set forth in this CIA for all Covered Persons, certain Diversicare employees (Certifying Employees) are expected to monitor and oversee activities within their areas of authority and shall annually certify that the applicable Diversicare department is in compliance with applicable Federal health care program requirements and the obligations of this CIA. These Certifying Employees shall include, at a minimum, the following: Chief Executive Officer; Chief Financial Officer; Chief Operating Officer; Senior Vice President of Clinical Ops; Senior Vice President of Human Resources; Senior Vice President of Finance; Senior Vice President, Chief Legal Officer; Senior Vice President, Chief Information Officer; Vice President – Revenue Cycle; or equivalent positions. For each Reporting Period, each Certifying Employee shall sign a certification that states:

> "I have been trained on and understand the compliance requirements and responsibilities as they relate to [insert name of department], an area under my supervision. My job responsibilities include ensuring compliance with regard to the [insert name of department] with all applicable Federal health care program requirements, obligations of the Corporate Integrity Agreement, and Diversicare policies, and I have taken steps to promote such compliance. To the best of my knowledge, the [insert name of department] of Diversicare is in compliance with all applicable Federal health care program requirements and the obligations of the Corporate Integrity Agreement. I understand that this certification is being provided to and relied upon by the United States."

If any Certifying Employee is unable to provide such a certification, the Certifying Employee shall provide a written explanation of the reasons why he or she is unable to provide the certification outlined above.

Within 90 days after the Effective Date, Diversicare shall develop and implement a written process for Certifying Employees to follow for the purpose of completing the certification required by this section (e.g., reports that must be reviewed, assessments that must be completed, sub-certifications that must be obtained, etc. prior to the Certifying Employee making the required certification).

B. Written Standards

Within 90 days after the Effective Date, Diversicare shall develop and implement written policies and procedures regarding the operation of its compliance program, including the compliance program requirements outlined in this CIA and Diversicare's compliance with Federal health care program requirements (Policies and Procedures). Throughout the term of this CIA, Diversicare shall enforce its Policies and Procedures and shall make compliance with its Policies and Procedures an element of evaluating the performance of all employees. The Policies and Procedures shall be made available to all Covered Persons.

At least annually (and more frequently, if appropriate), Diversicare shall assess and update, as necessary, the Policies and Procedures. Any new or revised Policies and Procedures shall be made available to all Covered Persons.

All Policies and Procedures shall be made available to OIG upon request.

C. Training and Education

1. *Covered Persons Training.* Within 90 days after the Effective Date, Diversicare shall develop a written plan (Training Plan) that outlines the steps Diversicare will take to ensure that all Covered Persons receive at least annual training regarding Diversicare's CIA requirements and Compliance Program and the applicable Federal health care program requirements, including the requirements of the Anti-Kickback Statute and the Stark Law. The Training Plan shall include information regarding the following: training topics, categories of Covered Persons required to attend each

training session, length of the training session(s), schedule for training, and format of the training. Diversicare shall furnish training to its Covered Persons pursuant to the Training Plan during each Reporting Period.

2. *Board Training*. In addition to the training described in Section III.C.1, within 90 days after the Effective Date, each member of the Board shall receive training regarding the corporate governance responsibilities of board members and the responsibilities of board members with respect to review and oversight of the Compliance Program. Specifically, the training shall address the unique responsibilities of health care Board members, including the risks, oversight areas, and strategic approaches to conducting oversight of a health care entity. This training may be conducted by an outside compliance expert hired by the Board and should include a discussion of the OIG's guidance on Board member responsibilities.

New members of the Board shall receive the Board training described above within 30 days after becoming a member or within 90 days after the Effective Date, whichever is later.

3. *Training Records*. Diversicare shall make available to OIG, upon request, training materials and records verifying that the training described in Sections III.C.1 and III.C.2 has been provided as required.

D. Review Procedures

1. *General Description*

a. *Engagement of Independent Review Organization*. Within 90 days after the Effective Date, Diversicare shall engage an entity (or entities), such as an accounting, auditing, or consulting firm (hereinafter "Independent Review Organization" or "IRO"), to perform the reviews listed in this Section III.D. The applicable requirements relating to the IRO are outlined in Appendix A to this CIA, which is incorporated by reference.

b. *Retention of Records*. The IRO and Diversicare shall retain and make available to OIG, upon request, all work papers, supporting documentation, correspondence, and draft reports (those exchanged between the IRO and Diversicare) related to the reviews.

c. *Access to Records and Personnel*. Diversicare shall ensure that the IRO has access to all records and personnel necessary to complete the reviews listed in this Section III.D and that all records furnished to the IRO are accurate and complete.

2. *Claims Review.* The IRO shall review claims submitted by Diversicare and reimbursed by the Medicare program, to determine whether the items and services furnished were medically necessary and appropriately documented and whether the claims were correctly coded, submitted and reimbursed (Claims Review) and shall prepare the Claims Review Reports, as outlined in Appendix B to this CIA, which is incorporated by reference.

3. *Independence and Objectivity Certification*. The IRO shall include in its report(s) to Diversicare a certification that the IRO has (a) evaluated its professional independence and objectivity with respect to the reviews required under this Section III.D and (b) concluded that it is, in fact, independent and objective, in accordance with the requirements specified in Appendix A to this CIA. The IRO's certification shall include a summary of all current and prior engagements between Diversicare and the IRO.

E. Risk Assessment and Internal Review Process

Within 90 days after the Effective Date, Diversicare shall develop and implement a centralized annual risk assessment and internal review process to identify and address risks associated with Diversicare's participation in the Federal health care programs, including but not limited to the risks associated with the submission of claims for items and services furnished to Medicare and Medicaid program beneficiaries. The Compliance Committee shall be responsible for implementation and oversight of the risk assessment and internal review process. The risk assessment and internal review process shall be conducted at least annually and shall require Diversicare to: (1) identify and prioritize risks, (2) develop internal audit work plans related to the identified risk areas, (3) implement the internal audit work plans, (4) develop corrective action plans in response to the results of any internal audits performed, and (5) track the implementation of the corrective action plans in order to assess the effectiveness of such plans. Diversicare shall maintain the risk assessment and internal review process for the term of the CIA.

F. Disclosure Program

Within 90 days after the Effective Date, Diversicare shall establish a Disclosure Program that includes a mechanism (e.g., a toll-free compliance telephone line) to enable individuals to disclose, to the Compliance Officer or some other person who is not in the disclosing individual's chain of command, any identified issues or questions

associated with Diversicare's policies, conduct, practices, or procedures with respect to a Federal health care program believed by the individual to be a potential violation of criminal, civil, or administrative law. Diversicare shall appropriately publicize the existence of the disclosure mechanism (e.g., via periodic e-mails to employees or by posting the information in prominent common areas).

The Disclosure Program shall emphasize a nonretribution, nonretaliation policy and shall include a reporting mechanism for anonymous communications for which appropriate confidentiality shall be maintained. The Disclosure Program also shall include a requirement that all of Diversicare's Covered Persons shall be expected to report suspected violations of any Federal health care program requirements to the Compliance Officer or other appropriate individual designated by Diversicare. Upon receipt of a disclosure, the Compliance Officer (or designee) shall gather all relevant information from the disclosing individual. The Compliance Officer (or designee) shall make a preliminary, good faith inquiry into the allegations set forth in every disclosure to ensure that he or she has obtained all of the information necessary to determine whether a further review should be conducted. For any disclosure that is sufficiently specific so that it reasonably: (1) permits a determination of the appropriateness of the alleged improper practice; and (2) provides an opportunity for taking corrective action, Diversicare shall conduct an internal review of the allegations set forth in the disclosure and ensure that proper follow-up is conducted.

The Compliance Officer (or designee) shall maintain a disclosure log and shall record all disclosures, whether or not related to a potential violation of criminal, civil, or administrative law related to the Federal health care programs, in the disclosure log within two business days of receipt of the disclosure. The disclosure log shall include a summary of each disclosure received (whether anonymous or not), the individual or department responsible for reviewing the disclosure, the status of the review, and any corrective action taken in response to the review.

G. Ineligible Persons

1. *Definitions*. For purposes of this CIA:

a. an "Ineligible Person" shall include an individual or entity who:

i. is currently excluded from participation in any Federal health care program; or

ii. has been convicted of a criminal offense that falls within the scope of 42 U.S.C. § 1320a-7(a) but has not yet been excluded.

b. "Exclusion List" means the HHS/OIG List of Excluded Individuals/Entities (LEIE) (available through the Internet at http://www.oig.hhs.gov).

2. *Screening Requirements.* Diversicare shall ensure that all prospective and current Covered Persons are not Ineligible Persons, by implementing the following screening requirements.

a. Diversicare shall screen all prospective Covered Persons against the Exclusion List prior to engaging their services and, as part of the hiring or contracting process or medical staff credentialing process, shall require such Covered Persons to disclose whether they are Ineligible Persons.

b. Diversicare shall screen all current Covered Persons against the Exclusion List within 90 days after the Effective Date and on a monthly basis thereafter.

c. Diversicare shall implement a policy requiring all Covered Persons to disclose immediately if they become an Ineligible Person.

Nothing in this Section III.G affects Diversicare's responsibility to refrain from (and liability for) billing Federal health care programs for items or services furnished, ordered, or prescribed by an excluded person. Diversicare understands that items or services furnished, ordered, or prescribed by excluded persons are not payable by Federal health care programs and that Diversicare may be liable for overpayments and/or criminal, civil, and administrative sanctions for employing or contracting with an excluded person regardless of whether Diversicare meets the requirements of Section III.G.

3. *Removal Requirement*. If Diversicare has actual notice that a Covered Person has become an Ineligible Person, Diversicare shall remove such Covered Person from responsibility for, or involvement with, Diversicare's business operations related to the Federal health care program(s) from which such Covered Person has been excluded and shall remove such Covered Person from any position for which the Covered Person's compensation or the items or services furnished, ordered, or prescribed by the Covered Person are paid in whole or part, directly or indirectly, by any

Federal health care program(s) from which the Covered Person has been excluded at least until such time as the Covered Person is reinstated into participation in such Federal health care program(s).

4. *Pending Charges and Proposed Exclusions*. If Diversicare has actual notice that a Covered Person is charged with a criminal offense that falls within the scope of 42 U.S.C. §§ 1320a-7(a), 1320a-7(b)(1)-(3), or is proposed for exclusion during the Covered Person's employment or contract term or during the term of a physician's or other practitioner's medical staff privileges, Diversicare shall take all appropriate actions to ensure that the responsibilities of that Covered Person have not and shall not adversely affect the quality of care rendered to any beneficiary or the accuracy of any claims submitted to any Federal health care program.

H. Notification of Government Investigation or Legal Proceeding

Within 30 days after discovery, Diversicare shall notify OIG, in writing, of any ongoing investigation or legal proceeding known to Diversicare conducted or brought by a governmental entity or its agents involving an allegation that Diversicare has committed a crime or has engaged in fraudulent activities. This notification shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation or legal proceeding. Diversicare also shall provide written notice to OIG within 30 days after the resolution of the matter and a description of the findings and/or results of the investigation or proceeding, if any.

I. Overpayments

1. *Definition of Overpayment*. An "Overpayment" means any funds that Diversicare receives or retains under any Federal health care program to which Diversicare, after applicable reconciliation, is not entitled under such Federal health care program.

2. *Overpayment Policies and Procedures.* Within 90 days after the Effective Date, Diversicare shall develop and implement written policies and procedures regarding the identification, quantification, and repayment of Overpayments received from any Federal health care program.

J. Reportable Events

1. *Definition of Reportable Event*. For purposes of this CIA, a "Reportable Event" means anything that involves:

a. a substantial Overpayment;

b. a matter that a reasonable person would consider a probable violation of criminal, civil, or administrative laws applicable to any Federal health care program for which penalties or exclusion may be authorized;

c. the employment of or contracting with or having as a member of the active medical staff a Covered Person who is an Ineligible Person as defined by Section III.G.1.a; or

d. the filing of a bankruptcy petition by Diversicare.

A Reportable Event may be the result of an isolated event or a series of occurrences.

2. *Reporting of Reportable Events*. If Diversicare determines (after a reasonable opportunity to conduct an appropriate review or investigation of the allegations) through any means that there is a Reportable Event, Diversicare shall notify OIG, in writing, within 30 days after making the determination that the Reportable Event exists.

3. *Reportable Events under Section III.J.1.a. and III.J.1.b.* For Reportable Events under Section III.J.1.a and b, the report to OIG shall include:

a. a complete description of all details relevant to the Reportable Event, including, at a minimum, the types of claims, transactions or other conduct giving rise to the Reportable Event; the period during which the conduct occurred; and the names of individuals and entities believed to be implicated, including an explanation of their roles in the Reportable Event;

b. a statement of the Federal criminal, civil or administrative laws that are probably violated by the Reportable Event, if any;

c. the Federal health care programs affected by the Reportable Event;
d. a description of the steps taken by Diversicare to identify and quantify any Overpayments; and

e. a description of Diversicare's actions taken to correct the Reportable Event and prevent it from recurring.

If the Reportable Event involves an Overpayment, within 60 days of identification of the Overpayment, Diversicare shall repay the Overpayment, in accordance with the requirements of 42 U.S.C. § 1320a-7k(d) and any applicable regulations and Centers for Medicare and Medicaid Services (CMS) guidance and provide OIG with a copy of the notification and repayment.

4. *Reportable Events under Section III.J.1.c.* For Reportable Events under Section III.J.1.c, the report to OIG shall include:

a. the identity of the Ineligible Person and the job duties performed by that individual;

b. the dates of the Ineligible Person's employment or contractual relationship or medical staff membership;

c. a description of the Exclusion List screening that Diversicare completed before and/or during the Ineligible Person's employment or contract or medical staff membership and any flaw or breakdown in the screening process that led to the hiring or contracting with or credentialing the Ineligible Person;

d. a description of how the Ineligible Person was identified; and

e. a description of any corrective action implemented to prevent future employment or contracting with or credentialing an Ineligible Person.

5. *Reportable Events under Section III.J.1.d*. For Reportable Events under Section III.J.1.d, the report to OIG shall include documentation of the bankruptcy filing and a description of any Federal health care program requirements implicated.

6. *Reportable Events Involving the Stark Law*. Notwithstanding the reporting requirements outlined above, any Reportable Event that involves solely a probable violation of section 1877 of the Social Security Act, 42 U.S.C. §1395nn (the Stark Law) should be submitted by Diversicare to CMS through the self-referral disclosure protocol (SRDP), with a copy to the OIG. If Diversicare identifies a probable violation of the Stark Law and repays the applicable Overpayment directly to the CMS contractor, then Diversicare is not required by this Section III.J to submit the Reportable Event to CMS through the SRDP.

IV. SUCCESSOR LIABILITY

In the event that, after the Effective Date, Diversicare proposes to (a) sell any or all of its business, business units, or locations (whether through a sale of assets, sale of stock, or other type of transaction) relating to the furnishing of items or services that may be reimbursed by a Federal health care program; or (b) purchase or establish a new business, business unit, or location relating to the furnishing of items or services that may be reimbursed by a Federal health care program, the CIA shall be binding on the purchaser of any business, business unit, or location and any new business, business unit, or location (and all Covered Persons at each new business, business unit, or location) shall be subject to the applicable requirements of this CIA, unless otherwise determined and agreed to in writing by OIG. Diversicare shall give notice of such sale or purchase to OIG within 30 days following the closing of the transaction.

If, in advance of a proposed sale or a proposed purchase, Diversicare wishes to obtain a determination by OIG that the proposed purchaser or the proposed acquisition will not be subject to the requirements of the CIA, Diversicare must notify OIG in writing of the proposed sale or purchase at least 30 days in advance. This notification shall include a description of the business, business unit, or location to be sold or purchased, a brief description of the terms of the transaction and, in the case of a proposed sale, the name and contact information of the prospective purchaser.

V. IMPLEMENTATION AND ANNUAL REPORTS

A. Implementation Report

Within 120 days after the Effective Date, Diversicare shall submit a written report to OIG summarizing the status of its implementation of the requirements of this CIA (Implementation Report). The Implementation Report shall, at a minimum, include:

1. the name, business address, business phone number, and position description of the Compliance Officer required by Section III.A.1, and a summary of other noncompliance job responsibilities the Compliance Officer may have;

2. the name, address, phone number, and position description of the Compliance Directors required by Section III.A.2, and a summary of other noncompliance job responsibilities the Compliance Directors may have;

3. the names and positions of the members of the Compliance Committee required by Section III.A.3;

4. the names of the Board members who are responsible for satisfying the Board compliance obligations described in Section III.A.4;

5. the names and positions of the Certifying Employees required by Section III.A.5 and a copy of the written process for Certifying Employees to follow in order to complete the certification required by Section III.A.5;

6. a list of the Policies and Procedures required by Section III.B;

7. the Training Plan required by Section III.C.1 and a description of the Board training required by Section III.C.2 (including a summary of the topics covered, the length of the training, and when the training was provided);

8. the following information regarding the IRO(s): (a) identity, address, and phone number; (b) a copy of the engagement letter; (c) information to demonstrate that the IRO has the qualifications outlined in Appendix A to this CIA; and (d) a certification from the IRO regarding its professional independence and objectivity with respect to Diversicare that includes a summary of all current and prior engagements between Diversicare and the IRO;

9. a description of the risk assessment and internal review process required by Section III.E;

10. a description of the Disclosure Program required by Section III.F;

11. a description of the Ineligible Persons screening and removal process required by Section III.G;

12. a copy of Diversicare's policies and procedures regarding the identification, quantification and repayment of Overpayments required by Section III.I;

13. a description of Diversicare's corporate structure, including identification of any parent and sister companies, subsidiaries, and their respective lines of business;

14. a list of all of Diversicare's locations (including locations and mailing addresses), the corresponding name under which each location is doing business, and the location's Medicare and state Medicaid program provider number and/or supplier number(s); and

15. the certifications required by Section V.C.

B. Annual Reports

Diversicare shall submit to OIG a written report on its compliance with the CIA requirements for each of the five Reporting Periods (Annual Report). Each Annual Report shall include, at a minimum, the following information:

1. any change in the identity, position description, or other noncompliance job responsibilities of the Compliance Officer and Compliance Directors; a current list of the Compliance Committee members, a current list of the Board members who are responsible for satisfying the Board compliance obligations, and a current list of the Certifying Employees, along with the identification of any changes made during the Reporting Period to the Compliance Committee, Board, and Certifying Employees;

2. a description of any changes to the written process for Certifying Employees to follow in order to complete the certification required by Section III.A.5;

3. the dates of each report made by the Compliance Officer to the Board (written documentation of such reports shall be made available to OIG upon request);

4. the Board resolution required by Section III.A.4 and a description of the documents and other materials reviewed by the Board, as well as any additional steps taken, in its oversight of the compliance program and in support of making the resolution;

5. a copy of the Compliance Program Review Report prepared by the Compliance Expert as required by Section III.A.4;

6. a list of any new or revised Policies and Procedures developed during the Reporting Period;

7. a description of any changes to Diversicare's Training Plan developed pursuant to Section III.C, and a summary of any Board training provided during the Reporting Period;

8. a complete copy of all reports prepared pursuant to Section III.D and Diversicare's response to the reports, along with corrective action plan(s) related to any issues raised by the reports, including Diversicare's determination of whether the CMS overpayment rule requires the repayment of an extrapolated Overpayment (as defined in Appendices B and C);

9. a certification from the IRO regarding its professional independence and objectivity with respect to Diversicare, including a summary of all current and prior engagements between Diversicare and the IRO;

10. a description of any changes to the risk assessment and internal review process required by Section III.E, including the reasons for such changes;

11. a summary of the following components of the risk assessment and internal review process during the Reporting Period: (a) work plans developed, (b) internal audits performed, (c) corrective action plans developed in response to internal audits, and (d) steps taken to track the implementation of the corrective action plans. Copies of any work plans, internal audit reports, and corrective action plans shall be made available to OIG upon request;

12. a summary of the disclosures in the disclosure log required by Section III.F that relate to Federal health care programs, including at least the following information: (a) a description of the disclosure, (b) the date the disclosure was received, (c) the resolution of the disclosure, and (d) the date the disclosure was resolved (if applicable). The complete disclosure log shall be made available to OIG upon request;

13. a description of any changes to the Ineligible Persons screening and removal process required by Section III.G, including the reasons for such changes;

14. a summary describing any ongoing investigation or legal proceeding required to have been reported pursuant to Section III.H. The summary shall include a description of the allegation, the identity of the investigating or prosecuting agency, and the status of such investigation or legal proceeding;

15. a description of any changes to the Overpayment policies and procedures required by Section III.I, including the reasons for such changes;

16. a summary of Reportable Events (as defined in Section III.J) identified during the Reporting Period;

17. a summary of any audits conducted during the applicable Reporting Period by any Medicare or state Medicaid program contractor or any government entity or contractor, involving a review of Federal health care program claims, and Diversicare's response/corrective action plan (including information regarding any Federal health care program refunds) relating to the audit findings;

18. a description of all changes to the most recently provided list of Diversicare's locations as required by Section V.A.14;

19. a description of any changes to Diversicare's corporate structure, including any parent and sister companies, subsidiaries, and their respective lines of business; and

20. the certifications required by Section V.C.

The first Annual Report shall be received by OIG no later than 60 days after the end of the first Reporting Period. Subsequent Annual Reports shall be received by OIG no later than the anniversary date of the due date of the first Annual Report.

C. Certifications

1. *Certifying Employees.* In each Annual Report, Diversicare shall include the certifications of Certifying Employees required by Section III.A.5;

2. *Compliance Officer and Chief Executive Officer.* The Implementation Report and each Annual Report shall include a certification by the Compliance Officer and Chief Executive Officer that:

a. to the best of his or her knowledge, except as otherwise described in the report, Diversicare has implemented and is in compliance with all of the requirements of this CIA;

b. he or she has reviewed the report and has made reasonable inquiry regarding its content and believes that the information in the report is accurate and truthful; and

c. he or she understands that the certification is being provided to and relied upon by the United States

3. *Chief Financial Officer.* The first Annual Report shall include a certification by the Chief Financial Officer that, to the best of his or her knowledge, Diversicare has complied with its obligations under the Settlement Agreement: (a) not to resubmit to any Federal health care program payors any previously denied claims related to the Covered Conduct addressed in the Settlement Agreement, and not to appeal any such denials of claims; (b) not to charge to or otherwise seek payment from federal or state payors for unallowable costs (as defined in the Settlement Agreement); and (c) to identify and adjust any past charges or claims for unallowable costs; and (d) he or she understands that the certification is being provided to and relied upon by the United States.

D. Designation of Information

Diversicare shall clearly identify any portions of its submissions that it believes are trade secrets, or information that is commercial or financial and privileged or confidential, and therefore potentially exempt from disclosure under the Freedom of Information Act (FOIA), 5 U.S.C. § 552. Diversicare shall refrain from identifying any information as exempt from disclosure if that information does not meet the criteria for exemption from disclosure under FOIA.

VI. NOTIFICATIONS AND SUBMISSION OF REPORTS

Unless otherwise stated in writing after the Effective Date, all notifications and reports required under this CIA shall be submitted to the following entities:

OIG:

Administrative and Civil Remedies Branch
Office of Counsel to the Inspector General
Office of Inspector General
U.S. Department of Health and Human Services
Cohen Building, Room 5527
330 Independence Avenue, S.W.
Washington, DC 20201
Telephone: 202.619.2078
Facsimile: 202.205.0604

Diversicare:

Angie Mulder
Chief Compliance Offier
Diversicare Healthcare Services, Inc.
1621 Galleria Blvd.
Brentwood, TN 37027
Telephone: 615.771.7575
Email: amulder@dvcr.com

Unless otherwise specified, all notifications and reports required by this CIA may be made by electronic mail, overnight mail, hand delivery, or other means, provided that there is proof that such notification was received. Upon request by OIG, Diversicare may be required to provide OIG with an additional copy of each notification or report required by this CIA in OIG's requested format (electronic or paper).

VII. OIG INSPECTION, AUDIT, AND REVIEW RIGHTS

In addition to any other rights OIG may have by statute, regulation, or contract, OIG or its duly authorized representative(s) may conduct interviews, examine and/or request copies of or copy Diversicare's books, records, and other documents and supporting materials, and conduct on-site reviews of any of Diversicare's locations, for the purpose of verifying and evaluating: (a) Diversicare's compliance with the terms of this CIA and (b) Diversicare's compliance with the requirements of the Federal health care programs. The documentation described above shall be made available by Diversicare to OIG or its duly authorized representative(s) at all reasonable times for inspection, audit, and/or reproduction. Furthermore, for purposes of this provision, OIG or its duly authorized representative(s) may interview any of Diversicare's owners, employees, contractors, and directors who consent to be interviewed at the individual's place of business during normal business hours or at such other place and time as may be mutually agreed upon between the individual and OIG. Diversicare shall assist OIG or its duly authorized representative(s) in contacting and arranging interviews with such individuals upon OIG's request. Diversicare's owners, employees, contractors, and directors may elect to be interviewed with or without a representative of Diversicare present.

VIII. DOCUMENT AND RECORD RETENTION

Diversicare shall maintain for inspection all documents and records relating to reimbursement from the Federal health care programs and to compliance with this CIA for six years (or longer if otherwise required by law) from the Effective Date.

IX. DISCLOSURES

Consistent with HHS's FOIA procedures, set forth in 45 C.F.R. Part 5, OIG shall make a reasonable effort to notify Diversicare prior to any release by OIG of information submitted by Diversicare pursuant to its obligations under this CIA and identified upon submission by Diversicare as trade secrets, or information that is commercial or financial and privileged or confidential, under the FOIA rules. With respect to such releases, Diversicare shall have the rights set forth at 45 C.F.R. § 5.42(a).

X. BREACH AND DEFAULT PROVISIONS

Diversicare is expected to fully and timely comply with all of its CIA obligations.

A. Stipulated Penalties for Failure to Comply with Certain Obligations

As a contractual remedy, Diversicare and OIG hereby agree that failure to comply with certain obligations as set forth in this CIA may lead to the imposition of the following monetary penalties (hereinafter referred to as "Stipulated Penalties") in accordance with the following provisions.

1. A Stipulated Penalty of $2,500 (which shall begin to accrue on the day after the date the obligation became due) per obligation for each day Diversicare fails to establish, implement or comply with any of the following obligations as described in Section III:

   a. a Compliance Officer;

   b. Compliance Directors

   c. a Compliance Committee;

   d. the Board compliance obligations and the engagement of a Compliance Expert, the performance of a Compliance Program Review and the preparation of a Compliance Program Review Report, as required by Section III.A.4;

   e. the management certification obligations and the development and implementation of a written process for Certifying Employees, as required by Section III.A.5;

   f. written Policies and Procedures;

   g. the development of a written training plan and the training and education of Covered Persons and Board members;

   h. a risk assessment and internal review process;

   i. a Disclosure Program;

j. Ineligible Persons screening and removal requirements;

k. notification of Government investigations or legal proceedings;

l. policies and procedures regarding the repayment of Overpayments; and

m. reporting of Reportable Events.

2. A Stipulated Penalty of $2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day Diversicare fails to engage and use an IRO, as required by Section III.D, and Appendices A through C.

3. A Stipulated Penalty of $2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day Diversicare fails to timely submit (a) a complete Implementation Report or Annual Report, (b) a certification to OIG in accordance with the requirements of Section V, or (c) a complete response to any request for information from OIG.

4. A Stipulated Penalty of $2,500 (which shall begin to accrue on the day after the date the obligation became due) for each day Diversicare fails to submit any Claims Review Report in accordance with the requirements of Section III.D and Appendices B and C or fails to repay any Overpayment identified by the IRO, as required by Appendices B and C.

5. A Stipulated Penalty of $1,500 for each day Diversicare fails to grant access as required in Section VII (This Stipulated Penalty shall begin to accrue on the date Diversicare fails to grant access.).

6. A Stipulated Penalty of $50,000 for each false certification submitted by or on behalf of Diversicare as part of its Implementation Report, any Annual Report, additional documentation to a report (as requested by OIG), or otherwise required by this CIA.

7. A Stipulated Penalty of $2,500 for each day Diversicare fails to grant the IRO access to all records and personnel necessary to complete the reviews listed in Section III.D, and for each day Diversicare fails to furnish accurate and complete records to the IRO, as required by Section III.D and Appendix A.

8. A Stipulated Penalty of $1,000 for each day Diversicare fails to comply fully and adequately with any obligation of this CIA. OIG shall provide notice to Diversicare stating the specific grounds for its determination that Diversicare has failed to comply fully and adequately with the CIA obligation(s) at issue and steps Diversicare shall take to comply with the CIA. (This Stipulated Penalty shall begin to accrue 10 business days after the date Diversicare receives this notice from OIG of the failure to comply.) A Stipulated Penalty as described in this Subsection shall not be demanded for any violation for which OIG has sought a Stipulated Penalty under Subsections 1-7 of this Section.

B. Timely Written Requests for Extensions

Diversicare may, in advance of the due date, submit a timely written request for an extension of time to perform any act or file any notification or report required by this CIA. Notwithstanding any other provision in this Section, if OIG grants the timely written request with respect to an act, notification, or report, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until one day after Diversicare fails to meet the revised deadline set by OIG. Notwithstanding any other provision in this Section, if OIG denies such a timely written request, Stipulated Penalties for failure to perform the act or file the notification or report shall not begin to accrue until three business days after Diversicare receives OIG's written denial of such request or the original due date, whichever is later. A "timely written request" is defined as a request in writing received by OIG at least five business days prior to the date by which any act is due to be performed or any notification or report is due to be filed.

C. Payment of Stipulated Penalties

1. *Demand Letter*. Upon a finding that Diversicare has failed to comply with any of the obligations described in Section X.A and after determining that Stipulated Penalties are appropriate, OIG shall notify Diversicare of: (a) Diversicare's failure to comply; and (b) OIG's exercise of its contractual right to demand payment of the Stipulated Penalties. (This notification shall be referred to as the "Demand Letter.")

2. *Response to Demand Letter.* Within 10 business days after the receipt of the Demand Letter, Diversicare shall either: (a) cure the breach to OIG's satisfaction and pay the applicable Stipulated Penalties or (b) request a hearing before an HHS administrative law judge (ALJ) to dispute OIG's determination of noncompliance,

pursuant to the agreed upon provisions set forth below in Section X.E. In the event Diversicare elects to request an ALJ hearing, the Stipulated Penalties shall continue to accrue until Diversicare cures, to OIG's satisfaction, the alleged breach in dispute. Failure to respond to the Demand Letter in one of these two manners within the allowed time period shall be considered a material breach of this CIA and shall be grounds for exclusion under Section X.D.

3. *Form of Payment*. Payment of the Stipulated Penalties shall be made by electronic funds transfer to an account specified by OIG in the Demand Letter.

4. *Independence from Material Breach Determination*. Except as set forth in Section X.D.1.c, these provisions for payment of Stipulated Penalties shall not affect or otherwise set a standard for OIG's decision that Diversicare has materially breached this CIA, which decision shall be made at OIG's discretion and shall be governed by the provisions in Section X.D, below.

D. Exclusion for Material Breach of this CIA

1. *Definition of Material Breach*. A material breach of this CIA means:

a. repeated violations or a flagrant violation of any of the obligations under this CIA, including, but not limited to, the obligations addressed in Section X.A;

b. a failure by Diversicare to report a Reportable Event, take corrective action, or make the appropriate refunds, as required in Section III.J;

c. a failure to respond to a Demand Letter concerning the payment of Stipulated Penalties in accordance with Section X.C; or

d. a failure to engage and use an IRO in accordance with Section III.D, Appendix A, or Appendix B.

2. *Notice of Material Breach and Intent to Exclude*. The parties agree that a material breach of this CIA by Diversicare constitutes an independent basis for Diversicare's exclusion from participation in the Federal health care programs. The length of the exclusion shall be in the OIG's discretion, but not more than five years per material breach. Upon a determination by OIG that Diversicare has materially breached this CIA and that exclusion is the appropriate remedy, OIG shall notify Diversicare of: (a) Diversicare's material breach; and (b) OIG's intent to exercise its contractual right to impose exclusion. (This notification shall be referred to as the "Notice of Material Breach and Intent to Exclude.")

3. *Opportunity to Cure*. Diversicare shall have 30 days from the date of receipt of the Notice of Material Breach and Intent to Exclude to demonstrate that:

a. the alleged material breach has been cured; or

b. the alleged material breach cannot be cured within the 30 day period, but that: (i) Diversicare has begun to take action to cure the material breach; (ii) Diversicare is pursuing such action with due diligence; and (iii) Diversicare has provided to OIG a reasonable timetable for curing the material breach.

4. *Exclusion Letter*. If, at the conclusion of the 30-day period, Diversicare fails to satisfy the requirements of Section X.D.3, OIG may exclude Diversicare from participation in the Federal health care programs. OIG shall notify Diversicare in writing of its determination to exclude Diversicare. (This letter shall be referred to as the "Exclusion Letter.") Subject to the Dispute Resolution provisions in Section X.E, below, the exclusion shall go into effect 30 days after the date of Diversicare's receipt of the Exclusion Letter. The exclusion shall have national effect. Reinstatement to program participation is not automatic. At the end of the period of exclusion, Diversicare may apply for reinstatement by submitting a written request for reinstatement in accordance with the provisions at 42 C.F.R. §§ 1001.3001-.3004.

E. Dispute Resolution

1. *Review Rights*. Upon OIG's delivery to Diversicare of its Demand Letter or of its Exclusion Letter, and as an agreed-upon contractual remedy for the resolution of disputes arising under this CIA, Diversicare shall be afforded certain review rights comparable to the ones that are provided in 42 U.S.C. § 1320a-7(f) and 42 C.F.R. Part 1005 as if they applied to the Stipulated Penalties or exclusion sought pursuant to this CIA. Specifically, OIG's determination to demand payment of Stipulated Penalties or to seek exclusion shall be subject to review by an HHS ALJ and, in the event of an appeal, the HHS Departmental Appeals Board (DAB), in a manner consistent with the provisions in 42 C.F.R. §

1005.2-1005.21. Notwithstanding the language in 42 C.F.R. § 1005.2(c), the request for a hearing involving Stipulated Penalties shall be made within 10 days after receipt of the Demand Letter and the request for a hearing involving exclusion shall be made within 25 days after receipt of the Exclusion Letter. The procedures relating to the filing of a request for a hearing can be found at http://www.hhs.gov/dab/divisions/civil/procedures/divisionprocedures.html

2. *Stipulated Penalties Review*. Notwithstanding any provision of Title 42 of the United States Code or Title 42 of the Code of Federal Regulations, the only issues in a proceeding for Stipulated Penalties under this CIA shall be: (a) whether Diversicare was in full and timely compliance with the obligations of this CIA for which OIG demands payment; and (b) the period of noncompliance. Diversicare shall have the burden of proving its full and timely compliance and the steps taken to cure the noncompliance, if any. OIG shall not have the right to appeal to the DAB an adverse ALJ decision related to Stipulated Penalties. If the ALJ agrees with OIG with regard to a finding of a breach of this CIA and orders Diversicare to pay Stipulated Penalties, such Stipulated Penalties shall become due and payable 20 days after the ALJ issues such a decision unless Diversicare requests review of the ALJ decision by the DAB. If the ALJ decision is properly appealed to the DAB and the DAB upholds the determination of OIG, the Stipulated Penalties shall become due and payable 20 days after the DAB issues its decision.

3. *Exclusion Review*. Notwithstanding any provision of Title 42 of the United States Code or Title 42 of the Code of Federal Regulations, the only issues in a proceeding for exclusion based on a material breach of this CIA shall be whether Diversicare was in material breach of this CIA and, if so, whether:

a. Diversicare cured such breach within 30 days of its receipt of the Notice of Material Breach; or

b. the alleged material breach could not have been cured within the 30 day period, but that, during the 30 day period following Diversicare's receipt of the Notice of Material Breach: (i) Diversicare had begun to take action to cure the material breach; (ii) Diversicare pursued such action with due diligence; and (iii) Diversicare provided to OIG a reasonable timetable for curing the material breach.

For purposes of the exclusion herein, exclusion shall take effect only after an ALJ decision favorable to OIG, or, if the ALJ rules for Diversicare, only after a DAB decision in favor of OIG. Diversicare's election of its contractual right to appeal to the DAB shall not abrogate OIG's authority to exclude Diversicare upon the issuance of an ALJ's decision in favor of OIG. If the ALJ sustains the determination of OIG and determines that exclusion is authorized, such exclusion shall take effect 20 days after the ALJ issues such a decision, notwithstanding that Diversicare may request review of the ALJ decision by the DAB. If the DAB finds in favor of OIG after an ALJ decision adverse to OIG, the exclusion shall take effect 20 days after the DAB decision. Diversicare shall waive its right to any notice of such an exclusion if a decision upholding the exclusion is rendered by the ALJ or DAB. If the DAB finds in favor of Diversicare, Diversicare shall be reinstated effective on the date of the original exclusion.

4. *Finality of Decision.* The review by an ALJ or DAB provided for above shall not be considered to be an appeal right arising under any statutes or regulations. Consequently, the parties to this CIA agree that the DAB's decision (or the ALJ's decision if not appealed) shall be considered final for all purposes under this CIA.

XI. EFFECTIVE AND BINDING AGREEMENT

Diversicare and OIG agree as follows:

A. This CIA shall become final and binding on the date the final signature is obtained on the CIA.

B. This CIA constitutes the complete agreement between the parties and may not be amended except by written consent of the parties to this CIA.

C. OIG may agree to a suspension of Diversicare's obligations under this CIA based on a certification by Diversicare that it is no longer providing health care items or services that will be billed to any Federal health care program and it does not have any ownership or control interest, as defined in 42 U.S.C. §1320a-3, in any entity that bills any Federal health care program. If Diversicare is relieved of its CIA obligations, Diversicare shall be required to notify OIG in writing at least 30 days in advance if Diversicare plans to resume providing health care items or services that are billed to any Federal health care program or to obtain an ownership or control interest in any entity that bills any Federal health care program. At such time, OIG shall evaluate whether the CIA will be reactivated or modified.

D. All requirements and remedies set forth in this CIA are in addition to and do not affect (1) Diversicare's responsibility to follow all applicable Federal health care program requirements or (2) the government's right to impose appropriate remedies for failure to follow applicable Federal health care program requirements.

E. The undersigned Diversicare signatories represent and warrant that they are authorized to execute this CIA. The undersigned OIG signatories represent that they are signing this CIA in their official capacities and that they are authorized to execute this CIA.

F. This CIA may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same CIA. Electronically transmitted copies of signatures shall constitute acceptable, binding signatures for purposes of this CIA.

ON BEHALF OF DIVERSICARE

/s/ James R. McKnight, Jr 1/31/2020
JAMES R. McKNIGHT, JR. DATE
Chief Executive Officer
Diversicare Healthcare Services, Inc.

/s/ Jeff H. Gibson 1/31/2020
JEFF H. GIBSON DATE
Bass, Berry & Sims PLC
Counsel for Diversicare

ON BEHALF OF THE OFFICE OF INSPECTOR GENERAL OF THE DEPARTMENT OF HEALTH AND HUMAN SERVICES

/s/ Lisa M. Re 2/5/2020
LISA M. RE DATE
Assistant Inspector General for Legal Affairs
Office of Inspector General
U.S. Department of Health and Human Services

/s/ Lisa G.Veigel 2/14/2020
LISA G. VEIGEL DATE
Senior Counsel
Office of Inspector General
U.S. Department of Health and Human Services

APPENDIX A

INDEPENDENT REVIEW ORGANIZATION

This Appendix contains the requirements relating to the Independent Review Organization (IRO) required by Section III.D of the CIA.

A. IRO Engagement

1. Diversicare shall engage an IRO that possesses the qualifications set forth in Paragraph B, below, to perform the responsibilities in Paragraph C, below. The IRO shall conduct the review in a professionally independent and objective fashion, as set forth in Paragraph E. Within 30 days after OIG receives the information identified in Section V.A.8 of the CIA or any additional information submitted by Diversicare in response to a request by OIG, whichever is later, OIG will notify Diversicare if the IRO is unacceptable. Absent notification from OIG that the IRO is unacceptable, Diversicare may continue to engage the IRO.

2. If Diversicare engages a new IRO during the term of the CIA, that IRO must also meet the requirements of this Appendix. If a new IRO is engaged, Diversicare shall submit the information identified in Section V.A.8 of the CIA to OIG within 30 days of engagement of the IRO. Within 30 days after OIG receives this information or any additional information submitted by Diversicare at the request of OIG, whichever is later, OIG will notify Diversicare if the IRO is unacceptable. Absent notification from OIG that the IRO is unacceptable, Diversicare may continue to engage the IRO.

B. IRO Qualifications

The IRO shall:

1. assign individuals to conduct the Claims Review who have expertise in the Medicare and state Medicaid program requirements applicable to the claims being reviewed;

2. assign individuals to design and select the Claims Review sample who are knowledgeable about the appropriate statistical sampling techniques;

3. assign individuals to conduct the coding review portions of the Claims Review who have a nationally recognized coding certification and who have maintained this certification (e.g., completed applicable continuing education requirements);

4. assign licensed nurses or physicians with relevant education, training and specialized expertise (or other licensed health care professionals acting within their scope of practice and specialized expertise) to make the medical necessity determinations required by the Claims Review; and

5. have sufficient staff and resources to conduct the reviews required by the CIA on a timely basis.

C. IRO Responsibilities

The IRO shall:

1. perform each Claims Review in accordance with the specific requirements of the CIA;

2. follow all applicable Medicare and state Medicaid program rules and reimbursement guidelines in making assessments in the Claims Review;

3. request clarification from the appropriate authority (e.g., Medicare contractor), if in doubt of the application of a particular Medicare or state Medicaid program policy or regulation;

4. respond to all OIG inquires in a prompt, objective, and factual manner; and

5. prepare timely, clear, well-written reports that include all the information required by Appendix B to the CIA.

D. Diversicare Responsibilities

Diversicare shall ensure that the IRO has access to all records and personnel necessary to complete the reviews listed in III.D of this CIA and that all records furnished to the IRO are accurate and complete.

E. IRO Independence and Objectivity

The IRO must perform the Claims Review in a professionally independent and objective fashion, as defined in the most recent Government Auditing Standards issued by the U.S. Government Accountability Office.

F. IRO Removal/Termination

1. Diversicare and IRO. If Diversicare terminates its IRO or if the IRO withdraws from the engagement during the term of the CIA, Diversicare must submit a notice explaining (a) its reasons for termination of the IRO or (b) the IRO's reasons for its withdrawal to OIG, no later than 30 days after termination or withdrawal. Diversicare must engage a new IRO in accordance with Paragraph A of this Appendix and within 60 days of termination or withdrawal of the IRO.

2. OIG Removal of IRO. In the event OIG has reason to believe the IRO does not possess the qualifications described in Paragraph B, is not independent and objective as set forth in Paragraph E, or has failed to carry out its responsibilities as described in Paragraph C, OIG shall notify Diversicare in writing regarding OIG's basis for determining that the IRO has not met the requirements of this Appendix. Diversicare shall have 30 days from the date of OIG's written notice to provide information regarding the IRO's qualifications, independence or performance of its responsibilities in order to resolve the concerns identified by OIG. If, following OIG's review of any information provided by Diversicare regarding the IRO, OIG determines that the IRO has not met the requirements of this Appendix, OIG shall notify Diversicare in writing that Diversicare shall be required to engage a new IRO in accordance with Paragraph A of this Appendix. Diversicare must engage a new IRO within 60 days of its receipt of OIG's written notice. The final determination as to whether or not to require Diversicare to engage a new IRO shall be made at the sole discretion of OIG.

APPENDIX B

SKILLED NURSING FACILITY CLAIMS REVIEW

A. Claims Review. The IRO shall perform the Skilled Nursing Facility Claims Review (Claims Review) annually to cover each of the five Reporting Periods. The Claims Review shall be conducted at 8% of Diversicare's facilities or at least 5 facilities, whichever is greater ("Subject Facilities"), for each Reporting Period. The IRO shall perform all components of each Claims Review.

1. *Definitions*. For the purposes of the Claims Review, the following definitions shall be used:

a. Overpayment: The amount of money Diversicare has received in excess of the amount due and payable under Medicare program requirements, as determined by the IRO in connection with the Claims Review performed under this Appendix B.

b. Patient Stay: A covered Medicare Part A stay in a Subject Facility during the Reporting Period under review.

c. Paid Claim: A claim submitted by Diversicare and for which Diversicare has received reimbursement from the Medicare Part A program.

d. Population: The Population shall be defined as all Patient Stays for which at least one Paid Claim was submitted during the 12-month period covered by the Claims Review.

2. *Selection of Subject Facilities*. OIG shall select the Subject Facilities and provide the identities of those facilities to the IRO at least 30 days before the end of each Reporting Period. In order to facilitate the OIG's selection of the Subject Facilities, at least 90 days prior to the end of the Reporting Period, Diversicare shall furnish to OIG the most recent Program for Evaluating Payment Patterns Electronic Report ("PEPPER") and the following data for each Diversicare facility for the prior calendar year: (1) geographic location, (2) Federal health care program patient census, (3) Medicare revenues, (4) average patient lengths of stay, and (5) other data determined by the OIG in its discretion.

3. *Claims Review Sample*. The IRO shall randomly select and review a sample of 30 Patient Stays in the Population at each Subject Facility (each selection of Patient Stays at a Subject Facility shall be referred to as a "Claims Review Sample").

The IRO shall review the Patient Stay and all Paid Claims associated with each selected Patient Stay. The Patient Stay and associated Paid Claims shall be reviewed based on the supporting documentation available at Diversicare's office or under Diversicare's control, and applicable Medicare program requirements and practice guidelines endorsed by the American Physical Therapy Association, the American Occupational Therapy Association, and the American Speech-Language-Hearing Association to determine whether the items and services furnished were (a) medically necessary and reasonable, (b) appropriate and sufficient to meet the needs of a patient in the assigned Case-Mix Groups, (c) appropriately documented, and (d) whether the associated Paid Claims were correctly coded, submitted, and reimbursed. The IRO's review shall include a review of the following:

a. eligibility for skilled nursing, rehabilitation therapy services, and non-therapy ancillary services

b. required physician orders;

c. comprehensive assessments to determine the individual needs of the patient;

d. comprehensive care planning;

e. provision of nursing, therapy, and non-therapy ancillary services according to the individualized care plans;

f. provision of rehabilitation therapy services that are medically necessary and reasonable given the patient's condition to improve, maintain, or slow deterioration of the patient's condition, or restore his or her prior levels of function;

g. discharge planning; and

h. whether the information in the Minimum Data Set (MDS) associated with a Patient Stay that affects reimbursement is supported by the medical record.

For each Paid Claim associated with a Patient Stay in the Claims Review Sample that results in an Overpayment, the IRO shall review the system(s) and process(es) that generated the Paid Claim and identify any problems or weaknesses that may have resulted in the identified Overpayments. The IRO shall provide its observations and recommendations on suggested improvements to the system(s) and process(es) that generated the Paid Claim.

5. *Other Requirements.*

a. Supplemental Materials. The IRO shall request all documentation and materials required for its review of each Paid Claims associated with each Patient Stay selected as part of the Claims Review Sample

and Diversicare shall furnish such documentation and materials for each Paid Claim associated with each Patient Stay selected as part of the Claims Review Sample to the IRO prior to the IRO initiating its review of a specific Patient Stay in the Claims Review Sample. If the IRO accepts any supplemental documentation or materials from Diversicare after the IRO has completed its initial review of a Patient Stay selected as part of the Claims Review Samples (Supplemental Materials), the IRO shall identify in the Claims Review Report the Supplemental Materials, the date the Supplemental Materials were accepted, and the relative weight the IRO gave to the Supplemental Materials in its review. In addition, the IRO shall include a narrative in the Claims Review Report describing the process by which the Supplemental Materials were accepted and the IRO's reasons for accepting the Supplemental Materials.

b. Paid Claims without Supporting Documentation. Any Paid Claim for which Diversicare cannot produce documentation shall be considered an error and the total reimbursement received by Diversicare for such Paid Claim shall be deemed an Overpayment. Replacement sampling for Paid Claims with missing documentation is not permitted.

c. Use of First Samples Drawn. For the purposes of the Claims Review Sample discussed in this Appendix, the first set of Patient Stays selected for the Subject Facility shall be used (i.e., it is not permissible to generate more than one list of random samples and then select one for use with a Claims Review Sample).

6. *Repayment of Identified Overpayments*. Diversicare shall repay within 60 days any Overpayment(s) identified by the IRO in the Claims Review Sample, in accordance with the requirements of 42 U.S.C. § 1320a-7k(d) and 42 C.F.R. § 401.301-305 (and any applicable CMS guidance) (the "CMS overpayment rule"). If Diversicare determines that the CMS overpayment rule requires that an extrapolated Overpayment be repaid for any of the Subject Facilities, Diversicare shall repay that amount at the mean point estimate as calculated by the IRO. Diversicare shall make available to OIG all documentation that reflects the refund of the Overpayment(s) to the payor. OIG, in its sole discretion, may refer the findings of the Claims Review (and any related work papers) received from Diversicare to the appropriate Medicare contractor for appropriate follow up by the payor.

B. Claims Review Report. The IRO shall prepare a Claims Review Report as described in this Appendix for each Claims Review performed. The following information shall be included in the Claims Review Report for each Claims Review Sample.

1. *Claims Review Methodology*.

a. Review Population. A description of the Population subject to the Claims Review.

b. Review Objective. A clear statement of the objective intended to be achieved by the Claims Review.

c. Source of Data. A description of (1) the process used to identify the Patient Stays in the Population and (2) the specific documentation and other information sources relied upon by the IRO when performing the Claims Review (e.g., patient medical records, Diversicare policies and procedures; Medicare carrier or intermediary manual or bulletins (including issue and date); practice guidelines endorsed by the American Physical Therapy Association, the American Occupational Therapy Association, and the American Speech-Language-Hearing Association; and other policies,

regulations, or directives).

d. Review Protocol. A narrative description of how the Claims Review was conducted and what was evaluated.

e. Supplemental Materials. A description of any Supplemental Materials as required by A.5.a., above.

2. *Statistical Sampling Documentation*.

a. A copy of the printout of the random numbers generated by the "Random Numbers" function of the statistical sampling software used by the IRO.

b. A description or identification of the statistical sampling software package used by the IRO.

3. *Claims Review Findings*.

a. Narrative Results.

i. A description of Diversicare's billing and coding system(s), including the identification, by position description, of the personnel involved in the coding and billing.

ii. A description of the controls in place at Diversicare to ensure that all items and services billed to Medicare Part A are medically necessary and reasonable, appropriate and sufficient to meet the needs of a patient in the assigned Case Mix Groups, and appropriately documented.

iii. A narrative explanation of the IRO's findings and supporting rationale (including reasons for errors, patterns noted, etc.) regarding the Claims Review, including the results of the Claims Review Sample and the IRO's findings regarding items A.3.a-h above.

b. Quantitative Results.

i. Total number and percentage of instances in which the IRO determined that the coding of the Paid Claims submitted by Diversicare differed from what should have been the correct coding and in which such difference resulted in an Overpayment to Diversicare.

ii. Total number and percentage of instances in which the IRO determined that a Paid Claim was not appropriately documented and in which such documentation errors resulted in an Overpayment to Diversicare.

iii. Total number and percentage of instances in which the IRO determined that a Paid Claim was for items or services that were not medically necessary and resulted in an Overpayment to Diversicare.

iv. Total number and percentage of instances in which the IRO determined that a Paid Claim was for items and services that were not appropriate and sufficient to meet the needs of a patient in the assigned Case Mix Groups and resulted in an Overpayment to Diversicare.

v. Total dollar amount of all Overpayments in the Claims

Review Sample.

vi. Total dollar amount of Paid Claims in the Claims Review Sample.

vii. Error Rate in the Claims Review Sample. The Error Rate shall be calculated by dividing the Overpayment in Claims Review Sample by the total dollar amount associated with the Paid Claims in the Claims Review Sample.

viii. An estimate of the Overpayment in the Population at the mean point estimate.

ix. A spreadsheet of the Claims Review results for each Subject Facility that includes the following information for each selected Patient Stay and the associated Paid Claims: the Federal health care program billed; beneficiary health insurance claim number, dates of service, code submitted (e.g., PDPM or RUG code), code reimbursed, allowed amount by payor, correct code (as determined by the IRO), correct allowed amount (as determined by the IRO), dollar difference between allowed amount reimbursed by payor and the correct allowed amount.

c. Recommendations. The IRO's report shall include any recommendations for improvements to Diversicare's billing and coding system or to Diversicare's controls for ensuring that all items and services billed to Medicare Part A are medically necessary and reasonable, appropriate and sufficient to meet the needs of a patient in the assigned Case Mix Groups, and appropriately documented, based on the findings of the Claims Review.

4. *Credentials*. The names and credentials of the individuals who: (1) designed the statistical sampling procedures and the review methodology utilized for the Claims Review and (2) performed the Claims Review.

Exhibit 21

Subsidiaries

Advocat Finance, Inc.
Diversicare Afton Oaks, LLC
Diversicare Afton Oaks Property, LLC
Diversicare Ballinger, LLC
Diversicare Briarcliff, LLC
Diversicare Briarcliff Property, LLC
Diversicare Chanute Property, LLC
Diversicare Chisolm, LLC
Diversicare Chisolm Property, LLC
Diversicare of Clinton, LLC
Diversicare of Clinton Property, LLC
Diversicare Council Grove Property, LLC
Diversicare Doctors, LLC
Diversicare Estates, LLC
Diversicare Hartford, LLC
Diversicare Hartford Property, LLC
Diversicare Haysville Property, LLC
Diversicare Highlands, LLC
Diversicare Hillcrest, LLC
Diversicare Hillcrest Property, LLC
Diversicare Holding Company, LLC
Diversicare Humble, LLC
Diversicare Hutchinson Property, LLC
Diversicare Kansas, LLC
Diversicare Katy, LLC
Diversicare Lampasas, LLC
Diversicare Lampasas Property, LLC
Diversicare Larned Property, LLC
Diversicare Leasing Company II, LLC
Diversicare Leasing Company III, LLC
Diversicare Leasing Corp.
Diversicare Management Services Co.
Diversicare Normandy Terrace, LLC
Diversicare of Avon, LLC
Diversicare of Big Springs, LLC
Diversicare of Bradford Place, LLC
Diversicare of Chanute, LLC
Diversicare of Chateau, LLC
Diversicare of Council Grove, LLC
Diversicare of Fulton, LLC
Diversicare of Glasgow, LLC
Diversicare of Greenville, LLC
Diversicare of Haysville, LLC
Diversicare of Hutchinson, LLC

Diversicare of Larned, LLC
Diversicare of Nicholasville, LLC
Diversicare of Providence, LLC
Diversicare of Riverside, LLC
Diversicare of Sedgwick, LLC
Diversicare of Selma, LLC
Diversicare of Seneca Place, LLC
Diversicare of Siena Woods, LLC
Diversicare of St. Joseph, LLC
Diversicare of St. Theresa, LLC
Diversicare Paris, LLC
Diversicare Pharmacy Holdings, LLC
Diversicare Pinedale, LLC
Diversicare Property Co., LLC
Diversicare Rose Terrace, LLC
Diversicare Sedgwick Property, LLC
Diversicare Selma Property, LLC
Diversicare Texas I, LLC
Diversicare Therapy Services, LLC
Diversicare Treemont, LLC
Diversicare Windsor House, LLC
Diversicare Windsor House Property, LLC
Diversicare Yorktown, LLC
Diversicare Yorktown Property, LLC
Diversicare of Amory, LLC
Diversicare of Arab, LLC
Diversicare of Batesville, LLC
Diversicare of Bessemer, LLC
Diversicare of Boaz, LLC
Diversicare of Brookhaven, LLC
Diversicare of Eupora, LLC
Diversicare of Foley, LLC
Diversicare of Hueytown, LLC
Diversicare of Lanett, LLC
Diversicare of Montgomery, LLC
Diversicare of Oneonta, LLC
Diversicare of Oxford, LLC
Diversicare of Pell City, LLC
Diversicare of Ripley, LLC
Diversicare of Riverchase, LLC
Diversicare of Southaven, LLC
Diversicare of Tupelo, LLC
Diversicare of Tylertown, LLC
Diversicare of Winfield, LLC
Diversicare of Meridian, LLC
Senior Care Cedar Hills, LLC
Senior Care Florida Leasing, LLC
Senior Care Golfcrest, LLC
Senior Care Golfview, LLC
Senior Care Southern Pines, LLC

SHC Risk Carrier, Inc.
Sterling Health Care Management, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Diversicare Healthcare Services, Inc.
Brentwood, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (No. 333-134905, 333-151565, 333-167630, 333-212928 and 333-219696) of Diversicare Healthcare Services, Inc. of our report dated March 5, 2020, relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ BDO USA, LLP

Nashville, Tennessee
March 5, 2020

Exhibit 31.1

CERTIFICATIONS PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

(i) CERTIFICATION

I, James R. McKnight, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Diversicare Healthcare Services, Inc.;

2. Based on my knowledge, this 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 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 we 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 quarter (the registrant's fourth 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 functions):

(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: March 5, 2020

/s/ James R. McKnight, Jr.

James R. McKnight, Jr.

President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002

(ii) CERTIFICATION

I, Kerry D. Massey, certify that:

1. I have reviewed this annual report on Form 10-K of Diversicare Healthcare Services, Inc.;

2. Based on my knowledge, this 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 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 we 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 quarter (the registrant's fourth 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 functions):

(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: March 5, 2020

/s/ Kerry D. Massey

Kerry D. Massey

Executive Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION OF ANNUAL REPORT ON FORM 10-K
OF DIVERSICARE HEALTHCARE SERVICES, INC.
FOR THE YEAR ENDED DECEMBER 31, 2018

The undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned's best knowledge and belief, the Annual Report on Form 10-K for Diversicare Healthcare Services, Inc. (the "Company") for the period ending December 31, 2019 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 Company.

This Certification is executed as of March 5, 2020.

/s/ James R. McKnight, Jr.
James R. McKnight, Jr.
President and Chief Executive Officer

/s/ Kerry D. Massey
Kerry D. Massey
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 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.