



**CORPORATE GOVERNANCE  
GUIDELINES**

*As of June 11, 2020*

# **Diversicare Healthcare Services, Inc. Board of Directors Corporate Governance Guidelines**

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**Diversicare Healthcare Services, Inc. Board of Directors**  
**Corporate Governance Guidelines**

**Role of the Board**

**1. General**

The Board of Directors, which is elected by the shareholders, is the ultimate decision-making body of the Company except with respect to those matters reserved to the shareholders. The Board of Directors is charged with oversight of Diversicare's management in their efforts to make sure the business is run well and the investors are treated fairly. The Diversicare Board of Directors represents the shareholders' interest in developing a successful business in long term health care, including optimizing long-term financial returns. The Board is responsible for determining that the Corporation is managed in such a way to accomplish this result. This is an active, not a passive, responsibility. The Board has the responsibility to evaluate that management is capably executing its responsibilities. The Board acts as an advisor and counselor to senior management.

**2. Major Responsibilities**

The major responsibilities of the Board include:

1. Reviewing and affirming general policies and goals of the Company
2. Providing general oversight of the business
3. Reviewing and approving compensation philosophy of the Company and specific compensation of Company officers
4. Approving corporate strategy and major management initiatives
5. Providing oversight of legal, financial and ethical conduct
6. Electing and, when necessary, replacing the Chief Executive Officer and electing other officers of the Company as necessary
7. Evaluating Board processes and performance
8. Overseeing the evaluation of management
9. Reviewing with the Chief Executive Officer matters of management succession.

All major decisions are to be considered by the Board as a whole.

**Selection and Composition of the Board**

**3. Membership Criteria**

The Governance and Nominating Committee is responsible for reviewing with the Board, on an annual basis, the appropriate skills and characteristics required by Board members in the context of the current make-up of the Board. This assessment should include issues of diversity, age, contribution to the meetings, the ability to work with other directors and skills such as understanding of long term health care, health care background and regulations, etc. - all in the context of an assessment of the perceived needs of the Board at that point in time. All new directors receive an orientation from the Chief Executive Officer and are expected to maintain the necessary level of expertise to perform his or her responsibilities as director. The orientation of

new Directors will include background material, meetings with senior management and visits to Company facilities. The Company does not maintain any formal continuing education programs. Prospective board members shall undergo an appropriate level of due diligence including background investigations (criminal, Medicare/Medicaid databases and financial). Any matters discovered during such investigations shall be discussed prior to approval of the director.

All prospective directors must certify that they have complied in all respects with all required securities disclosures with respect to Diversicare stock ownership.

#### **4. Selection of New Directors**

The Governance and Nominating Committee of the Board should be responsible, in fact as well as by procedure, for selecting new members and in recommending them for election by the shareholders. The Board expects the screening process to involve the direct input from the Chairman of the Board and the Chief Executive Officer.

#### **5. Extending the Invitation to a Potential Director to Join the Board**

The invitation to join the Board should be extended by the Chairman of the Governance and Nominating Committee.

### **Board Leadership**

#### **6. Selection of Chairman and CEO**

The Board should be free to make this choice any way that seems best for the Company at a given point in time. The Board does not have a firm policy, one way or the other, on whether or not the role of the Chief Executive Officer and Chairman should be separate and, if it is to be separate, whether the Chairman should be selected from the non-employee Directors or be an officer of the Company.

#### **7. Collective Responsibility**

All outside Directors are expected to be active participants and share collective responsibility in the Board's activities. As such, the Board believes there should be a limit to the number of other Boards of which an outside Director should be a member. That limit, in the Board's estimation, is three (3) so that no member of the Diversicare Board can serve on more than a total of three (3) public boards (excluding Diversicare), provided however, that if a Board member is also the CEO or CFO of another company, the total number of other Boards (excluding Diversicare) cannot exceed two (2) public boards. The Board may consider special circumstances with respect to the foregoing, and may specifically approve a director serving on more public boards if approved by specific resolution of the Board.

## **Board Composition and Performance**

### **8. Size**

The Board has traditionally had four to seven members. However, the Board would be willing to go to a somewhat larger size in order to accommodate the availability of an outstanding candidate(s).

### **9. Mix of Inside and Independent Directors**

The Board believes that as a matter of policy, there should be a majority of independent Directors on the Diversicare Board. The Board is willing to have members of management, in addition to the Chief Executive Officer, as Directors. On matters of corporate governance, decisions will be made by the Governance and Nominating Committee of the Board.

### **10. Definition of What Constitutes Independence for Outside Directors**

The Board believes, in addition to satisfying the applicable independence standards required by law and the NASDAQ, there should be no current relationship between any outside Director and Diversicare that would be construed in any way to compromise any Board member being designated independent.

### **11. Former Chief Executive Officer's Board Membership**

The Board believes this is a matter to be decided in each individual instance. It is assumed that when the Chief Executive Officer resigns from that position, he/she should submit his/her resignation from the Board at the same time. Whether the individual continues to serve on the Board is a matter for discussion at that time with the new Chief Executive Officer and the Board.

A former Chief Executive Officer serving on the Board will be considered an inside Director for purposes of voting on matters of corporate governance.

### **12. Directors Who Change Their Present Job Responsibility**

It is the sense of the Board that individual Directors who change the responsibility they held when they were elected to the Board should submit a letter of resignation to the Board.

It is not the sense of the Board that in every instance the Directors who change from the position they held when they came on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board, via the Governance and Nominating Committee, to review the continued appropriateness of Board membership under these circumstances.

### **13. Term Limits**

After the 2017 annual meeting, Directors are elected for one year terms with all Board members standing for election at each annual meeting of shareholders. The Board does not believe it should establish term limits. While term limits could help ensure that there are fresh ideas and viewpoints available to the Board, they hold the disadvantage of losing the contribution of Directors who have been able to develop, over a period of time, increasing insight into the Company and its operations and, therefore, provide an increasing contribution to the Board as a whole.

### **14. Retirement Age**

It is the sense of the Board that the Directors should submit a letter of resignation from service on the Board at the time of their 75<sup>th</sup> birthday. It is not the sense of the Board that in every instance those Directors who turn the age of 75 while serving on the Board should necessarily leave the Board. There should, however, be an opportunity for the Board, via the Governance and Nominating Committee, to review the continued appropriateness of Board membership under these circumstances and determine each year whether to allow any Director over the age of 75 to be nominated for re-election.

### **15. Compensation Review**

It is appropriate for the senior management of the Company to report once a year to the Governance and Nominating Committee and the Compensation Committee the status of Diversicare's Board compensation in relation to other equivalent-sized U.S. companies. As part of a Director's total compensation and to create a direct linkage with corporate performance, the Board believes that a meaningful portion of a Director's compensation should be provided in and a position should be maintained in Diversicare common stock.

Changes in Board compensation, if any, should be determined by the Governance and Nominating Committee, subject, where appropriate, to shareholder approval.

### **16. Executive Sessions of Independent Directors**

The independent Directors of the Board will meet in regularly scheduled executive sessions at which only independent Directors are present. In addition, members of the Board who are employees are excused from Board or Committee meetings when appropriate.

### **17. Access to Outside Advisors**

The Board has the authority to hire outside advisors should Board members feel that this is advisable.

**18. Assessing the Board's Performance**

The Board collectively should review its performance annually. This assessment should specifically review areas in which the Board and/or the management believe a better contribution could be made.

**19. Interaction with Institutional Investors, Press, Customers, Etc.**

The Board believes that the management speaks for Diversicare. If comments from the Board are appropriate, they should, except in rare and unusual circumstances, come from the Chairman.

**20. Conduct of Board Members**

Each Board member should conduct himself or herself professionally and in the best interest of the Company and its shareholders. In addition, each Board member shall follow all rules and regulations of the Securities and Exchange Commission and any other such regulatory body with respect to stock ownership, disclosure of "inside" information to non-insiders, etc. Under no circumstances shall any Board member post on internet sites or otherwise present Company information without consent of the Board of Directors.

**Board Relationship to Senior Management**

**21. Regular Attendance of Non-Directors at Board Meetings**

The Board welcomes the regular attendance at each Board meeting of non-Board members who are members of senior management.

**22. Access to Management**

Board members have complete access to Diversicare's management. Furthermore, the Board encourages the senior management, from time to time, to bring managers into Board meetings who: (a) can provide additional insight into the items being discussed because of personal involvement in these areas, and/or (b) represent managers with future potential that the senior management believes should be given exposure to the Board.

**Board Meeting Procedures**

**23. Selection of Agenda Items**

The Chairman of the Board and the Chief Executive Officer (if the Chairman is not the Chief Executive Officer) will establish the agenda for each Board meeting. Each Board member is free to suggest the inclusion of items(s) on the agenda.

**24. Materials Distributed in Advance**

Information and data that is important to the Board's understanding of the business should be distributed in writing to the Board before the Board meets. The management will make every attempt to see that this material is as brief as possible while still providing the desired information.

**25. Presentations**

As a general rule, presentations on specific subjects should be sent to the Board members in advance so that Board meeting time may be conserved and discussion time focused on questions that the Board has about the material. On those occasions in which the subject matter is too sensitive to put on paper, the presentation will be discussed at the meeting, with sufficient time for discussion.

**Committee Matters**

**26. Number, Structure and Independence**

The current Committee structure (Audit, Governance and Nominating, Risk Management and Compensation Committees) of the Company seems appropriate. The Audit Committee membership will consist only of independent Directors. The Board believes, consistent with applicable NASDAQ listing standards, that committee membership for the Governance and Nominating, Risk Management and Compensation Committees should also consist only of independent Directors. There will, from time to time, be occasions in which the Board may want to form a new Committee or disband a current Committee depending upon the circumstances.

**27. Assignment and Rotation of Members**

The Governance and Nominating Committee is responsible, after consultation with the Chief Executive Officer and with consideration of the desires of individual Board members, for the recommendation for assignment of Board members to various Committees.

**28. Frequency and Length of Meetings**

The Committee Chairman, in consultation with Committee members, will determine the frequency and length of the meetings of the Committee.

**29. Agendas**

The Chairman of the Committee, in consultation with the appropriate members of senior management and staff, will develop the Committee agenda.



## **Leadership Development**

### **30. Evaluation of the Chief Executive Officer**

The full Board (outside Directors), under the leadership of the Compensation Committee, should make this evaluation annually, and it should be communicated to the Chief Executive Officer by the Chairman of the Compensation Committee.

The evaluation should include an assessment based on objective criteria including performance of the business, accomplishment of long-term strategic objectives, development of management, etc.

The evaluation will be used by the Compensation Committee in the course of its deliberations when considering the compensation of the Chief Executive Officer.

### **31. Succession Planning**

There should be an annual report by the Chief Executive Officer to the Board on succession planning.

The Chairman of the Compensation Committee and the Chief Executive Officer should establish a mechanism so that, on a continuing basis, the Chief Executive Officer's recommendation of a successor should he/she be unexpectedly disabled can be made available to the Board.

### **32. Management Development**

There should be an annual report to the Board by the Chief Executive Officer on the Company's program for management development. This report should be given to the Board at the same time as the succession planning report.

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