NATIONAL HEALTH INVESTORS INC
Form 10-K
February 16, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)
[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2017

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

For the transition period from _____________ to _____________

Commission File Number 001-10822
National Health Investors, Inc.
(Exact name of registrant as specified in its charter)

Maryland	62-1470956
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
222 Robert Rose Drive, Murfreesboro, Tennessee	37129
(Address of principal executive offices)	(Zip Code)

(615) 890-9100
(Registrant’s telephone number, including area code)

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

Title of each Class	Name of each exchange on which registered
Common stock, $.01 par value	New York Stock Exchange

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 [x] 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 [x]

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 [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files) Yes [x] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§292.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [x]

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

Large accelerated filer	[x]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]
(Do not check if a smaller reporting company)		Emerging growth company	[ ]

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

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

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2017 (based on the closing price of these shares on the New York Stock Exchange) was approximately $3,117,380,000. There were 41,532,154 shares of the registrant's common stock outstanding as of February 14, 2018.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2018 annual meeting of stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Form 10-K.

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PART I.

Forward Looking Statements

References throughout this document to NHI or the Company include National Health Investors, Inc., and its consolidated subsidiaries. In accordance with the Securities and Exchange Commission's "Plain English" guidelines, this Annual Report on Form 10-K has been written in the first person. In this document, the words "we", "our", "ours" and "us" refer only to National Health Investors, Inc. and its consolidated subsidiaries and not any other person. Unless the context indicates otherwise, references herein to "the Company" include all of our consolidated subsidiaries.

This Annual Report on Form 10-K and other materials we have filed or may file with the Securities and Exchange Commission, as well as information included in oral statements made, or to be made, by our senior management contain certain "forward-looking" statements as that term is defined by the Private Securities Litigation Reform Act of 1995. All statements regarding our expected future financial position, results of operations, cash flows, funds from operations, continued performance improvements, ability to service and refinance our debt obligations, ability to finance growth opportunities, and similar statements including, without limitation, those containing words such as "may", "will", "believes", "anticipates", "expects", "intends", "estimates", "plans", and other similar expressions are forward-l statements.

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements. Such risks and uncertainties include, among other things, the following risks described in more detail under the heading "Risk Factors" under Item 1A:

* We depend on the operating success of our tenants and borrowers for collection of our lease and note payments;

* We depend on the success of property development and construction activities, which may fail to achieve the operating results we expect;

* We are exposed to the risk that our tenants and borrowers may become subject to bankruptcy or insolvency proceedings;

* We are exposed to risks related to governmental regulations and payors, principally Medicare and Medicaid, and the effect that lower reimbursement rates would have on our tenants' and borrowers' business;

* We are exposed to the risk that the cash flows of our tenants and borrowers would be adversely affected by increased liability claims and liability insurance costs;

* We are exposed to risks related to environmental laws and the costs associated with liabilities related to hazardous substances;

* We are exposed to the risk that we may not be fully indemnified by our lessees and borrowers against future litigation;

* We depend on the success of our future acquisitions and investments;

* We depend on our ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;

*

We may need to refinance existing debt or incur additional debt in the future, which may not be available on terms acceptable to us;

* We have covenants related to our indebtedness which impose certain operational limitations and a breach of those covenants could materially adversely affect our financial condition and results of operations;

* We are exposed to the risk that the illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties;

* When interest rates increase, our common stock may decline in price;

* Certain tenants in our portfolio account for a significant percentage of the rent we expect to generate from our portfolio, and the failure of any of these tenants to meet their obligations to us could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

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* We depend on revenues derived mainly from fixed rate investments in real estate assets, while a portion of our debt capital used to finance those investments bear interest at variable rates. This circumstance creates interest rate risk to the Company;

* We are exposed to the risk that our assets may be subject to impairment charges;

* We depend on the ability to continue to qualify for taxation as a real estate investment trust;

* We have ownership limits in our charter with respect to our common stock and other classes of capital stock which may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders;

* We are subject to certain provisions of Maryland law and our charter and bylaws that could hinder, delay or prevent a change in control transaction, even if the transaction involves a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests.

* If our efforts to maintain the privacy and security of Company information are not successful, we could incur substantial costs and reputational damage, and could become subject to litigation and enforcement actions.

See the notes to the annual audited consolidated financial statements, and “Business” and “Risk Factors” under Item 1 and Item 1A therein for a further discussion of these and of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. You should carefully consider these risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones we face. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition, results of operations, or cash flows could be materially adversely affected. In that case, the trading price of our shares of stock could decline and you may lose part or all of your investment. Given these risks and uncertainties, we can give no assurance that these forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

ITEM 1. BUSINESS

General

National Health Investors, Inc., established in 1991 as a Maryland corporation, is a self-managed real estate investment trust (“REIT”) specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of lease, mortgage and other note investments in independent living facilities, assisted living facilities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments have included marketable securities and a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 (“RIDEA”) through which we invested in facility operations managed by an independent third-party. We have funded our real estate investments primarily through: (1) operating cash flow, (2) debt offerings, including bank lines of credit and term debt, both unsecured and secured, and (3) the sale of equity securities.

At December 31, 2017, we had investments in real estate, mortgage and other notes receivable involving 218 facilities located in 32 states. These investments involve 141 senior housing properties, 72 skilled nursing facilities, 3 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of $1,298,000) consisted of properties with an original cost of $2,664,605,000, rented under triple-net leases to 27 lessees, and $141,486,000 aggregate carrying value of mortgage and other notes receivable due from 11 borrowers.

Our investments in real estate and mortgage loans are secured by real estate located within the United States. We are managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision making. Therefore, we have concluded that we operate as a single segment. Information about revenues from our tenants and borrowers, our net income, cash flows and balance sheet can be found in Item 8 of this Form 10-K.

Classification of Properties in our Portfolio

Senior Housing

As of December 31, 2017, our portfolio included 136 senior housing properties ("SHO") leased to operators and mortgage loans secured by 5 SHOs. The SHOs in our portfolio are either need-driven or discretionary for end users and consist of independent

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living facilities, assisted living facilities, senior living campuses, and entrance-fee communities which are more fully described below.

Need-Driven Senior Housing

Assisted Living Facilities. As of December 31, 2017, our portfolio included 86 assisted living facilities (“ALF”) leased to operators and mortgage loans secured by 4 ALFs. ALFs are free-standing facilities that provide basic room and board functions for elderly residents. As residents typically receive assistance with activities of daily living such as bathing, grooming, administering medication and memory care services, we consider these facilities to be need-driven senior housing. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. Operators of ALFs are typically paid from private sources without assistance from government. ALFs may be licensed and regulated in some states, but generally do not require the issuance of a Certificate of Need (“CON”) as required for skilled nursing facilities.

Senior Living Campuses. As of December 31, 2017, our portfolio included 10 senior living campuses (“SLC”) leased to operators. SLCs contain one or more buildings that include skilled nursing beds combined with an independent or assisted living facility that provides basic room and board functions for elderly residents. They may also provide assistance to residents with activities of daily living such as bathing, grooming and administering medication. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. As the decision to transition to a senior living campus is typically more than a lifestyle choice and is usually driven by the need to receive some moderate level of care, we consider this facility type to be need-driven. Operators of SLCs are typically paid from private sources and from government programs such as Medicare and Medicaid for skilled nursing residents.

Discretionary Senior Housing

Independent Living Facilities. As of December 31, 2017, our portfolio included 30 independent living facilities (“ILF”) leased to operators. ILFs offer specially designed residential units for active senior adults and provide various ancillary services for their residents including restaurants, activity rooms and social areas. Services provided by ILF operators are generally paid from private sources without assistance from government payors. ILFs may be licensed and regulated in some states, but generally do not require the issuance of a CON as required for skilled nursing facilities. As ILFs typically do not provide assistance with activities of daily living, we consider the decision to transition to an ILF facility to be discretionary.

Entrance-Fee Communities. As of December 31, 2017, our portfolio included 10 entrance-fee communities (“EFC”) leased to operators and a mortgage loan secured by 1 EFC. Entrance-fee communities, frequently referred to as continuing care retirement communities, or CCRCs, typically include a combination of detached cottages, an independent living facility, an assisted living facility and a skilled nursing facility on one campus. These communities appeal to residents because there is no need to relocate when health and medical needs change. EFCs are classified as either Type A, B, or C depending upon the amount of healthcare benefits included in the entrance fee. “Type A” EFCs, or “Lifecare” communities, include substantially all future healthcare costs. Communities providing a modified healthcare contract offering access to skilled nursing care but only paying for a maximum number of days are referred to as “Type B” EFCs. Finally, “Type C” EFCs, the type in our portfolio, are fee-for-service communities which do not provide any healthcare benefits and correspondingly have the lowest entrance fees. However, monthly fees may be higher to reflect the current healthcare components delivered to each resident. EFC licensure is state-specific, but generally the skilled nursing beds included in our EFC portfolio are subject to state licensure and regulation. As the decision to transition to an EFC is typically made as a lifestyle choice and not as the result of a pressing medical concern, we consider the decision to transition to an EFC to be discretionary. Accordingly, the predominant source of revenue for operators of EFCs is from private payor sources.

Medical

As of December 31, 2017, our portfolio included 73 medical facilities leased to operators and mortgage loans secured by 4 medical facilities. The medical facilities within our portfolio consist of skilled nursing facilities, hospitals and medical office buildings, which are more fully described below.

Skilled Nursing Facilities. As of December 31, 2017, our portfolio included 68 skilled nursing facilities (“SNF”) leased to operators and mortgage loans secured by 4 SNFs. SNFs provide some combination of skilled and intermediate nursing and rehabilitative care, including speech, physical and occupational therapy. As the decision to utilize the services of a SNF is typically made as the result of a pressing medical concern, we consider this to be a need driven medical facility. The operators of the SNFs receive payment from a combination of private pay sources and government payors such as Medicaid and Medicare. SNFs are required to obtain state licenses and are highly regulated at the federal, state and local

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level. Most SNFs must obtain a CON from the state before opening or expanding such facilities. Some SNFs also include assisted living beds.

Hospitals. As of December 31, 2017, our portfolio included 3 hospitals ("HOSP") leased to operators. Hospitals provide a wide range of inpatient and outpatient services, including acute psychiatric and rehabilitation services, and are subject to extensive federal, state and local legislation and regulation. Hospitals undergo periodic inspections regarding standards of medical care, equipment and hygiene as a condition of licensure. Services provided by hospitals are generally paid for by a combination of private pay sources and government payors. As the decision to utilize the services of a hospital is typically made as the result of a pressing medical concern, we consider this to be a need driven medical facility.

Medical Office Buildings. As of December 31, 2017, our portfolio included 2 medical office buildings ("MOB") leased to operators. MOBs are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. As the decision to utilize the services of an MOB is typically made as a the result of a pressing medical concern, we consider this to be a need driven medical facility. MOBs differ from conventional office buildings due to the special requirements of the tenants. Each of our MOBs is leased to one lessee, and is either physically attached to or located on an acute care hospital campus. The lessee sub-leases individual office space to the physicians or other medical practitioners. The lessee is responsible to us for the lease obligations of the entire building, regardless of their ability to sub-lease the individual office space.

Nature of Investments

Our investments are typically structured as acquisitions of properties through purchase-leaseback transactions, acquisitions of properties from other real estate investors, loans or operations through structures allowed by RIDEA. We have provided construction loans for facilities for which we were already committed to provide long-term financing or for which the operator agreed to enter into a purchase option and lease with us upon completion of construction or after the facility is stabilized. The annual lease rates on our leases and the annual interest rates on our mortgage, construction and mezzanine loans ranged between 6.75% and 10% during 2017. We believe our lease and loan terms are competitive within our peer group. Typical characteristics of these transactions are as follows:

Leases. Our leases generally have an initial leasehold term of 10 to 15 years with one or more 5-year tenant renewal options. The leases are "triple net leases" under which the tenant is responsible for the payment of all taxes, utilities, insurance premium costs, repairs and other charges relating to the operation of the properties, including required levels of capital expenditures each year. The tenant is obligated at its expense to keep all improvements, fixtures and other components of the properties covered by "all risk" insurance in an amount equal to at least the full replacement cost thereof, and to maintain specified minimal personal injury and property damage insurance, protecting us as well as the tenant. The leases also require the tenant to indemnify and hold us harmless from all claims resulting from the use, occupancy and related activities of each property by the tenant, and to indemnify us against all costs related to any release, discovery, clean-up and removal of hazardous substances or materials, or other environmental responsibility with respect to each facility.

Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income is recognized on a straight-line basis over the term of the lease where the lease contains fixed escalators. Certain of our operators hold purchase options allowing them to acquire properties they currently lease from NHI. When present, tenant purchase options generally give the lessee an option to purchase the underlying property for consideration determined by i) a sliding base dependent upon the extent of appreciation in the property plus a specified proportion of any appreciation; ii) our acquisition costs plus a specified proportion of any appreciation; iii) an agreed capitalization rate applied to the current rental; or iv) our acquisition costs plus a profit floor plus a specified proportion of any appreciation. Where stipulated above, appreciation is to be established by independent appraisal.

Some of the obligations under the leases are guaranteed by the parent corporation of the lessee, if any, or affiliates or individual principals of the lessee. In some leases, the third party operator will also guarantee some portion of the lease obligations. Some obligations are backed further by other collateral such as security deposits, machinery, equipment, furnishings and other personal property.

We monitor our triple-net lessee tenant credit quality and identify any material changes by performing the following activities:

- Obtaining financial statements on a monthly, quarterly and annual basis to assess the operational trends of our tenants and the financial position and capability of those tenants
- Calculating the operating cash flow for each of our tenants
- Calculating the lease service coverage ratio and other ratios pertinent to our tenants

- Obtaining property-level occupancy rates for our tenants
- Verifying the payment of real estate taxes by our tenants
- Obtaining certificates of insurance for each tenant
- Obtaining financial statements of our lessee guarantors on an annual basis
- Conducting a periodic inspection of our properties to ascertain proper maintenance, repair and upkeep
- Monitoring those tenants with indications of continuing and material deteriorating credit quality through discussions with our executive management and Board of Directors

RIDEA Transactions. Our arrangement with an affiliate of Bickford Senior Living ("Bickford") was structured to be compliant with the provisions of RIDEA which permitted NHI to receive rent payments through a triple-net lease between a property company and an operating company and gave NHI the opportunity to capture additional value on the improving performance of the operating company through distributions to a Taxable REIT Subsidiary ("TRS"). Accordingly, the TRS held our 85% equity interest in an unconsolidated operating company, which we did not control, and provided an organizational structure that allowed the TRS to engage in a broad range of activities and share in revenues that would otherwise be non-qualifying income under the REIT gross income tests. The TRS is subject to state and federal income taxes. Our RIDEA arrangement was terminated on September 30, 2016.

Mortgage loans. We have first mortgage loans with maturities of at least 5 years from inception with varying amortization schedules from interest-only to fully-amortizing. Most of the loans are at a fixed interest rate; however, some interest rates increase based on a fixed schedule. In most cases, the owner of the facility is committed to make minimum annual capital expenditures for the purpose of maintaining or upgrading their respective facility. Additionally, most of our loans are collateralized by first mortgage liens and corporate or personal guarantees. Currently, our first mortgage loans carry interest rates which range from 6.75% to 8.25%.

We have made mortgage loans to borrowers secured by a second deed-of-trust where there is a process in place for the borrower to obtain long-term financing, primarily with a U.S. government agency, and where the historical financial performance of the underlying facility meets our loan underwriting criteria.

Mezzanine loans. Frequently in situations calling for temporary financing or when our borrowers' in-place lending arrangements prohibit the extension of first mortgage security, we typically accept a second mortgage position or extend credit based on corporate and/or personal guarantees. These mezzanine loans often combine with an NHI purchase option covering the subject property. Our mezzanine loans currently carry interest rates of 10%.

Construction loans. From time to time, we also provide construction loans that convert to mortgage loans upon the completion of the construction of the facility. We may also obtain a purchase option to acquire the facility at a future date and lease the facility back to the operator. During the term of the construction loan, funds are usually advanced pursuant to draw requests made by the borrower in accordance with the terms and conditions of the loan. Interest is typically assessed on these loans at rates equivalent to the eventual mortgage rate upon conversion. In addition to the security of the lien against the property, we will generally require additional security and collateral in the form of either payment and performance completion bonds or completion guarantees by the borrower's parent, affiliates of the borrower or one or more of the individuals who control the borrower. We currently have four construction loans bearing interest ranging from 6.75% to 9%.

Other notes receivable. We have provided a revolving credit facility to a borrower whose business is to provide bridge loans to owner-operators who are qualifying for long-term HUD financing secured by real estate. Our interest rate on the credit facility is 10%. We have provided loans to borrowers involved in the skilled nursing and senior housing industries who have pledged personal and business guarantees as security for the loans. The interest rates on these loans typically range from 8.45% to10%.

Investment in marketable securities. From time to time we have invested a portion of our funds in various marketable securities with quoted market prices, including the common shares of other publicly-held REITs. We classify these highly-liquid securities as available-for-sale and carry the investments at their then quoted fair market value at the balance sheet date. We may choose to liquidate these investments to invest the proceeds into real estate assets. We currently have no investments in marketable securities.

Competition and Market Conditions

We compete with other REITs, private equity funds, banks and insurance companies in the acquisition, leasing and financing of health care real estate.

Operators of our facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for residents and/or patients and staff based on quality of care, reputation, physical appearance of facilities,

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services offered, family preference, physicians, staff and price. Competition is with other operators as well as companies managing multiple facilities, some of which are substantially larger and have greater resources than the operators of our facilities. Some of these facilities are operated for profit while others are owned by governmental agencies or tax exempt not-for-profit entities.

The SNFs which either secure our mortgage loans or we lease to operators receive the majority of their revenues from Medicare, Medicaid and other government payors. From time to time, these facilities have experienced revenue reductions brought about by the enactment of legislation to reduce government costs. In particular, the establishment of a Medicare Prospective Payment System ("PPS") for SNF services to replace the cost-based reimbursement system significantly reduced Medicare reimbursement to SNF providers. While Congress subsequently took steps to mitigate the impact of PPS on SNFs, other federal legislative policies have been adopted and continue to be proposed that would reduce the growth rate of Medicare and/or Medicaid payments to SNFs. State Medicaid funding is not expected to keep pace with inflation according to industry studies. Any changes in government reimbursement methodology that reduce reimbursement to levels that are insufficient to cover the operating costs of our lessees and borrowers could indirectly adversely impact us.

Our senior housing properties generally rely on private-pay residents who may be negatively impacted in an economic downturn. For example, a resident may intend to sell their home to afford the cost of living in an ILF or ALF. In addition, the success of these facilities is often impacted by the existence of comparable, competing facilities in a local market.

Operator Diversification

For the year ended December 31, 2017, approximately 25% of our portfolio revenue was from publicly-owned operators, 57% was from regional operators, 17% from national chains which are privately owned and 1% was from smaller operators. We consider the creditworthiness of the operator to be an important factor in underwriting the lease or loan investment, and we generally have the right to approve any changes in operators.

For the year ended December 31, 2017, tenants which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Chancellor Health Care; East Lake Capital Management; The Ensign Group; Health Services Management; Holiday Retirement; National HealthCare Corporation; and Senior Living Communities.

Major Customers

We have four operators, an affiliate of Holiday Retirement ("Holiday"), Senior Living Communities, LLC ("Senior Living"), National HealthCare Corporation ("NHC") and an affiliate of Bickford, from whom we individually derive at least 10% of our total revenues, and 60% collectively.

Holiday

As of December 31, 2017, we leased 25 independent living facilities to an affiliate of Holiday. The 17-year master lease began in December 2013 and provides for a minimum escalator of 3.5% after 2017.

Of our total revenues, $43,817,000 (16%), $43,817,000 (18%) and $43,817,000 (19%) were derived from Holiday for the years ended December 31, 2017, 2016 and 2015, respectively, including $7,397,000, $8,965,000 and $10,466,000 in straight-line rent, respectively. Our tenant operates the facilities pursuant to a management agreement with a Holiday-affiliated manager.

Senior Living Communities

In December 2014 we acquired a portfolio of eight retirement communities totaling 1,671 units from Health Care REIT, Inc. and certain of its affiliates for a cash purchase price of $476,000,000. We leased the portfolio under a triple-net master lease to an affiliate of Senior Living, the current tenant of the facilities. The Senior Living portfolio initially included seven entrance-fee communities and one senior living campus. In November 2016 we expanded the portfolio under lease to Senior Living with the acquisition, for $74,000,000, of Evergreen Woods, a 299-unit entrance fee community in Connecticut. As currently configured, the 15-year master lease contains two 5-year renewal options and provides for 2017 cash rent of $38,740,000, subject to 3% annual escalators through lease expiration in 2029 and any renewal periods.

In connection with the 2014 acquisition, we provided a $15,000,000 revolving line of credit to Senior Living, the maturity of which mirrors the term of the master lease. Borrowings are used primarily to finance construction projects within the Senior Living portfolio, including building additional units. Amounts outstanding under the facility, $616,000 at December 31, 2017, bear interest at an annual rate equal to the 10-year U.S. Treasury rate, 2.40% at December 31, 2017, plus 6%.

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In March 2016, we extended two mezzanine loans of up to $12,000,000 and $2,000,000, respectively, to affiliates of Senior Living, to partially fund construction of a 186-unit senior living campus on Daniel Island in South Carolina. The loans bear interest payable monthly at a 10% annual rate and mature in March 2021. The loans were fully drawn at December 31, 2017, and provide NHI with a purchase option on the development upon its meeting certain operational metrics. The option is to remain open during the term of the loans, plus any extensions.

Of our total revenues, $45,735,000 (16%), $40,332,000 (16%) and $39,422,000 (17%) were derived from Senior Living for the years ending December 31, 2017, 2016 and 2015, respectively, including $6,984,000, $7,369,000 and $8,422,000, respectively, in straight-line rent.

NHC

NHC is a publicly-held company and the lessee of our legacy properties. We lease 42 facilities to NHC comprised of 3 independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). These facilities are leased to NHC under the terms of an amended Master Lease Agreement dated October 17, 1991 (“the 1991 lease”) which includes our 35 remaining legacy properties and a Master Lease Agreement dated August 30, 2013 (“the 2013 lease”) which includes 7 skilled nursing facilities acquired from a third party. Under the terms of the 1991 lease, base annual rental of $30,750,000 escalates by 4% of the increase, if any, in each facility’s revenue over a 2007 base year. Similarly, the 2013 lease provides for base annual rental of $3,450,000 plus percentage rent equal to 4% of the increase, if any, in each facility’s annual revenue over a 2014 base year. The NHC escalator is contingent upon future facility revenue increases and therefore does not give rise to straight-line revenues.

Of our total revenues, $37,467,000 (13%), $37,626,000 (15%) and $36,625,000 (16%) in 2017, 2016 and 2015, respectively, were derived from the two lease agreements with NHC.

NHC owned 1,630,462 shares of our common stock at December 31, 2017. The chairman of our board of directors is also a director on NHC’s board.

Bickford

As of December 31, 2017 our Bickford portfolio consists of leases with primary lease expiration dates as follows (in thousands):

	Lease Expiration				
	Sept / Oct 2019	June 2023	Sept 2027	May 2031	Total
Number of Properties	10	13	4	20	47
2017 Annual Contractual Rent	$8,994	$10,809	$125	$16,576	$36,504
Straight Line Rent Adjustment	(347)	226	309	4,914	5,102
Total Revenues	$8,647	$11,035	$434	$21,490	$41,606

On June 1, 2017, we acquired an assisted living/memory-care facility totaling 60 units in Lansing, Michigan for $10,400,000 in cash, inclusive of $200,000 in closing costs. Additionally, we committed to the funding of $475,000 in specified capital improvements, which will be added to the lease base. We included this facility in a master lease to Bickford for an initial term of 14 years plus renewal options. The initial lease rate is 7.25%, plus annual fixed escalators. We accounted for the acquisition as an asset purchase.

In April and August 2017, Bickford opened the last two of the five-facility development project announced in 2015. Newly-constructed facilities have an annual lease rate of 9% at completion, after 6 months of free rent. As of December 31, 2017, our Bickford lease portfolio consists of 47 facilities. Of these facilities, 35 were held in a RIDEA structure and operated as a joint venture until September 30, 2016, when NHI and Sycamore, an affiliate of Bickford, entered into a definitive agreement terminating the joint venture and converting Bickford's participation to a triple-net tenancy with assumption of existing leases and terms. Through September 30, 2016, NHI owned an 85% equity interest and Sycamore owned a 15% equity interest in our consolidated subsidiary ("PropCo"). The facilities were leased to an operating company ("OpCo"), in which NHI previously held a non-controlling 85% ownership interest. The facilities are managed by Bickford. Our joint venture was structured to comply with the provisions of RIDEA. On September 30, 2016, we unwound the joint venture underlying the RIDEA and reacquired Bickford's share of its assets. Effective June 1, 2017, NHI and Bickford announced two new amended and restated master leases covering twenty Bickford properties. Under terms of the new master lease, the base term for these properties will now extend to May 2031.

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Additionally, effective June 28, 2017, the lease of thirteen properties acquired in June 2013 and initially set for expiration in June 2018 has been renewed and extended through June 2023. NHI has a right to future Bickford acquisitions, development projects and refinancing transactions.

In September 2017, upon collection of all past-due rents, we transitioned the lease of a 126-unit assisted living portfolio from our then tenant as the result of material noncompliance with lease terms. On October 1, 2017, we entered with Bickford into a 10-year lease, beginning October 1. The agreement provides for an initial annual lease payment of $1,500,000 with a 4% escalator in effect for years two through four and 3% thereafter. Additionally, the lease provides a purchase option which opens immediately and is co-terminus with the lease. The option will be exercisable for the greater of $21,400,000 or at a capitalization rate of 8.5% on the forward 12-month rental at the time of exercise.

Of our total revenues, $41,606,000 (15%), $30,732,000 (12%) and $24,121,000 (11%) were recognized as rental income from Bickford for the years ended December 31, 2017, 2016 and 2015, including $5,102,000, $858,000, and $267,000 in straight-line rent income, respectively.

At December 31, 2017, our construction loans to Bickford are summarized as follows:

	Rate	Maturity	Commitment	Drawn	Location
July 2016	9%	5 years	$14,000,000	$(11,096,000)	Illinois
January 2017	9%	5 years	14,000,000	(4,462,000)	Michigan
			$28,000,000	$(15,558,000)	

The promissory notes are secured by first mortgage liens on substantially all real and personal property as well as a pledge of any and all leases or agreements which may grant a right of use to the subject property. Usual and customary covenants extend to the agreements, including the borrower’s obligation for payment of insurance and taxes. NHI has a purchase option on the properties at stabilization, whereby annual rent will be set with a floor of 9.55%, based on NHI’s total investment, plus fixed annual escalators.

In January 2018, we made a construction loan to Bickford of $14,000,000 for a new assisted living and memory care facility in Virginia under the same terms as described above.

Commitments and Contingencies

The following tables summarize information as of December 31, 2017 related to our outstanding commitments and contingencies which are more fully described in the notes to the consolidated financial statements, included herein.

	Asset Class	Type	Total	Funded	Remaining
Loan Commitments:					
Life Care Services Note A	SHO	Construction	$60,000,000	$(53,622,000)	$6,378,000
Bickford	SHO	Construction	28,000,000	(15,558,000)	12,442,000
Senior Living	SHO	Revolving Credit	15,000,000	(616,000)	14,384,000
			$103,000,000	$(69,796,000)	$33,204,000

	Asset Class	Type	Total	Funded	Remaining
Development Commitments:					
Legend/The Ensign Group	SNF	Purchase	$56,000,000	$(14,000,000)	$42,000,000
East Lake/Watermark Retirement	SHO	Renovation	10,000,000	(5,900,000)	4,100,000
Santé Partners	SHO	Renovation	3,500,000	(2,621,000)	879,000
Bickford	SHO	Renovation	2,400,000	(122,000)	2,278,000
East Lake Capital Management	SHO	Renovation	400,000	—	400,000

Senior Living	SHO	Renovation	6,830,000	(970,000)	5,860,000
Discovery Senior Living	SHO	Renovation	500,000	—	500,000
Woodland Village	SHO	Renovation	7,450,000	(762,000)	6,688,000
Chancellor Health Care	SHO	Construction	650,000	(62,000)	588,000
Navion Senior Solutions	SHO	Construction	650,000	—	650,000
			$88,380,000	$(24,437,000)	$63,943,000

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	Asset Class	Type	Total	Funded	Remaining
Contingencies:					
Bickford	SHO	Lease Inducement	$14,000,000	$(2,250,000)	$11,750,000
East Lake Capital Management	SHO	Lease Inducement	8,000,000	—	8,000,000
Navion Senior Solutions	SHO	Lease Inducement	4,850,000	—	4,850,000
Prestige Care	SHO	Lease Inducement	1,000,000	—	1,000,000
The LaSalle Group	SHO	Lease Inducement	5,000,000	—	5,000,000
			$32,850,000	$(2,250,000)	$30,600,000

Sources of Revenues

General. Our revenues are derived primarily from rental income, mortgage and other note interest income and income from our other investments, substantially all of which are in marketable securities, including the common stock of other healthcare REITs. During 2017, rental income was $265,127,000 (95.1%), interest income from mortgages and other notes was $13,134,000 (4.7%) and income from our other investments was $398,000 (0.2%) of total revenue of $278,659,000. Our revenues depend on the operating success of our tenants and borrowers whose source and amount of revenues are determined by (i) the licensed beds or other capacity of the facility, (ii) their occupancy rate, (iii) the extent to which the services provided at each facility are utilized by the residents and patients, (iv) the mix of private pay, Medicare and Medicaid patients, and (v) the rates paid by private payors and by the Medicare and Medicaid programs.

Government Regulation

Medicare and Medicaid. A significant portion of the revenue of our SNF lessees and borrowers is derived from government funded reimbursement programs, such as Medicare and Medicaid. Reimbursement under these programs is subject to periodic payment review and other audits by federal and state authorities. Medicare is uniform nationwide and reimburses skilled nursing facilities under PPS which is based on a predetermined, fixed amount. PPS is an acuity based classification system that uses nursing and therapy indexes adjusted by geographical wage indexes to calculate per diem rates for each Medicare patient. Payment rates are updated annually and are generally adjusted each October when the federal fiscal year begins. The current acuity classification system is named Resource Utilization Groups IV (“RUGs IV”) and was effective October 1, 2010. Federal legislative policies have been adopted and continue to be proposed that would provide small increases in annual Medicare payments to skilled nursing facilities. For example, the Centers for Medicare and Medicaid Services (“CMS”) announced the Skilled Nursing Facilities – PPS final rule for fiscal year 2018 which increased Medicare payments to SNF operators by only 1.0% beginning October 1, 2017. The fiscal year 2017 increase was 1.6%, the fiscal year 2016 increase was 1.2% and the fiscal year 2015 increase was 2.0%. In the future, any failure of Congress to agree on spending reductions to meet long-term mandated deficit reduction goals would trigger automatic spending cuts of 2% to Medicare.

RUGs IV incorporated changes to PPS that significantly altered how SNFs are paid for rendering care. Some examples are as follows:

- A shift to 66 payment categories from 53 payment categories;
- Changes related to assessment reference dates and qualifiers that will significantly reduce utilization of rehabilitation and extensive service categories;
- Modification to therapy services related to estimating treatments and utilization of concurrent therapy that will likely result in RUG classifications at much lower levels of therapy than previous results; and

- Adjustments related to assistance with activities of daily living ("ADL"s) and an increased emphasis on ADL scores in the nursing case mix indices and related RUG payment rates.

Medicaid is a joint federal and state program designed to provide medical assistance to "eligible needy persons." Medicaid programs are operated by state agencies that adopt their own medical reimbursement methodology and standards. Payment rates and covered services vary from state to state. In many instances, revenues from Medicaid programs are insufficient to cover the actual costs incurred in providing care to those patients. With regard to Medicaid payment increases to skilled nursing operators, changes in federal funding coupled with state budget problems have produced uncertainty. States will more than likely be unable to keep pace with SNF inflation. States are under pressure to pursue other alternatives to long term care such as community and home-based services. Furthermore, several of the states in which we have investments have actively sought to reduce or slow the increase of Medicaid spending for SNF care.

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Medicare and Medicaid programs are highly regulated and subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations and administrative and judicial interpretations of existing law. Moreover, as health care facilities have experienced increasing pressure from private payors attempting to control health care costs, reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Healthcare reimbursement will likely continue to be of significant importance to federal and state programs. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our lessees' and borrowers' costs of doing business and on the amount of reimbursement by government and other third-party payors. There can be no assurance that future payment rates for either government or private payors will be sufficient to cover cost increases in providing services to patients. Any changes in government or private payor reimbursement policies which reduce payments to levels that are insufficient to cover the cost of providing patient care could adversely affect the operating revenues of tenants and borrowers in our properties that rely on such payments, and thereby adversely affect their ability to make their lease or debt payments to us. Failure of our tenants and borrowers to make their scheduled lease and loan payments to us would have a direct and material adverse impact on us.

Licensure and Certification. The health care industry is highly regulated by federal, state and local law and is directly affected by state and local licensing requirements, facility inspections, state and federal reimbursement policies, regulations concerning capital and other expenditures, certification requirements and other such laws, regulations and rules. Sanctions for failure to comply with these regulations and laws include (but are not limited to) loss of licensure, fines and loss of certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The failure of any tenant or borrower to comply with such laws, requirements and regulations could affect their ability to operate the facility or facilities and could adversely affect such tenant's or borrower's ability to make lease or debt payments to us.

In the past several years, due to rising health care costs, there has been an increased emphasis on detecting and eliminating fraud and abuse in the Medicare and Medicaid programs. Payment of any consideration in exchange for referral of Medicare and Medicaid patients is generally prohibited by federal statute, which subjects violators to severe penalties, including exclusion from the Medicare and Medicaid programs, fines and even prison sentences. In recent years, both federal and state governments have significantly increased investigation and enforcement activity to detect and punish wrongdoers. In addition, legislation has been adopted at both state and federal levels which severely restrict the ability of physicians to refer patients to entities in which they have a financial interest.

It is anticipated that the trend toward increased investigation and enforcement activity in the area of fraud and abuse, as well as self-referral, will continue in future years. Certain of our investments are with lessees or borrowers which are partially or wholly owned by physicians. In the event that any lessee or borrower were to be found in violation of laws regarding fraud and abuse or self-referral, that lessee's or borrower's ability to operate the facility could be jeopardized, which could adversely affect the lessee's or borrower's ability to make lease or debt payments to us and could thereby adversely affect us.

Certificates Of Need . The SNFs and hospitals in which we invest are also generally subject to state statutes which may require regulatory approval in the form of a CON prior to the construction or expansion of facilities to accommodate new beds (or addition of new beds to existing facilities), the addition of services or certain capital expenditures. CON requirements are not uniform throughout the United States and are subject to change. We cannot predict the impact of regulatory changes with respect to CONs on the operations of our lessees and borrowers; however, in our primary market areas, a significant reduction in new construction of long-term care beds has occurred.

Investment Policies

Our investment objectives are (i) to provide consistent and growing current income for distribution to our stockholders through investments primarily in health care related facilities or in the operations thereof through independent third-party management, (ii) to provide the opportunity to realize capital growth resulting from appreciation, if any, in the residual value of our portfolio properties, and (iii) to preserve and protect stockholders' capital through a balance of diversity, flexibility and liquidity. There can be no assurance that these objectives will be realized. Our investment policies include making investments in real estate, mortgage and other notes receivable, marketable securities, including the common stock of other REITs, and joint ventures structured to comply with the provisions of RIDEA.

As described in Item 7 on page 33, we have funded or made commitments to fund new investments in real estate and loans, of $215,231,000 in 2017 and $28,400,000 in January 2018, and we anticipate making additional investments in 2018 that meet our underwriting criteria. In making new investments, we consider such factors as (i) the geographic area and type of property, (ii) the location, construction quality, condition and design of the property, (iii) the current and anticipated cash flow and its adequacy to meet operational needs, and lease or mortgage obligations to provide a competitive income return to our investors, (iv) the growth, tax and regulatory environments of the communities in which the properties are located, (v) occupancy and demand for similar facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management

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operating the facilities located on the property and (vii) the mix of private and government-sponsored residents. There can be no assurances that investments meeting our standards regarding these attributes will be found or closed.

We will not, without the approval of a majority of the Board of Directors and review of a committee comprised of independent directors, enter into any joint venture relationships with or acquire from or sell to any director, officer or employee of NHI, or any affiliate thereof, as the case may be, any of our assets or other property.

The Board of Directors, without the approval of the stockholders, may alter our investment policies if it determines that such a change is in our best interests and our stockholders' best interests. The methods of implementing our investment policies may vary as new investment and financing techniques are developed or for other reasons. Management may recommend changes in investment criteria from time to time.

Future investments in health care related facilities may utilize borrowed funds or issuance of equity when it is advisable in the opinion of the Board of Directors. We may negotiate lines of credit or arrange for other short or long-term borrowings from lenders. We may arrange for long-term borrowings from institutional investors or through public offerings. We have previously invested and may in the future invest in properties subject to existing loans or secured by mortgages, deeds of trust or similar liens with favorable terms or in mortgage investment pools.

Executive Officers of the Company

The table below sets forth the name, position and age of each of our executive officers. Each executive officer is appointed by the Board of Directors, serves at its pleasure and holds office for a term of one year. There is no "family relationship" among any of the named executive officers or with any director. All information is given as of February 15, 2018:

Name	Position	Age
Eric Mendelsohn	President and Chief Executive Officer	56
Roger R. Hopkins	Chief Accounting Officer	56
Kristin S. Gaines	Chief Credit Officer	46
Kevin Pascoe	Chief Investment Officer	37
John Spaid	Executive Vice President Finance	58

Eric Mendelsohn joined NHI in January 2015. He has over 15 years of healthcare real estate and financing experience. Previously, Mr. Mendelsohn was with Emeritus Senior Living for 9 years, most recently as a Senior Vice President of Corporate Development where he was responsible for the financing and acquisition of assisted living properties, home health care companies, administration of joint venture relationships and executing corporate finance strategies. Prior to Emeritus, he was with the University of Washington as a Transaction Officer where he worked on the development, acquisition and financing of research, clinical and medical properties and has been a practicing transaction attorney, representing lenders and landlords. Mr. Mendelsohn holds a Bachelor of Science from American University in International Relations, a Law Degree from Pepperdine University, and a Masters (LLM) in Banking and Finance from Boston University. Mr. Mendelsohn is a member of the Florida and Washington State Bar Associations.

Roger R. Hopkins joined the former management advisor of NHI in July 2006 and was named Chief Accounting Officer for NHI in December 2006. With over 35 years of combined financial experience in public accounting and the real estate industry, he positioned companies to access public and private capital markets for equity and debt. Mr. Hopkins is responsible for the development of financial and tax strategies, reporting metrics, supplemental data reports and NHI's internal control system. He has accounted for significant acquisitions and financings by NHI, including the successful executions of convertible debt and follow-on equity offerings, private debt placements and bank financing arrangements. Mr. Hopkins was an Audit Partner in the Nashville office of Rodefer Moss & Co, a regional accounting firm with seven offices in Tennessee, Indiana and Kentucky, where he brought extensive experience in Securities and Exchange Commission filing requirements and compliance issues. He was previously a Senior Manager in the Nashville office of Deloitte. Mr. Hopkins received his Bachelor of Science in Accounting from Tennessee Technological University in 1982 and is a CPA licensed in Tennessee.

Kristin S. Gaines was appointed NHI's Chief Credit Officer in February 2010. She joined NHI in 1998 as a Credit Analyst. During her tenure with NHI, Ms. Gaines has had a progressive career in the areas of finance and operations. Her experience has resulted in a breadth of expertise in underwriting, portfolio oversight and real estate finance. Ms. Gaines holds an MBA and a Bachelor of Business Administration in Accounting from Middle Tennessee State University.

Kevin Pascoe joined NHI in June 2010. Mr. Pascoe oversees NHI's portfolio of assets, relationship management with existing tenants and conducts operational due diligence on NHI's existing investments and new investment opportunities. He has over 10

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years of health care real estate background including his experience with General Electric - Healthcare Financial Services ("GE HFS") (2006 – 2010) where he most recently served as a Vice President. With GE HFS, he moved up through the organization while working on various assignments including relationship management, deal restructuring, and special assets. He also was awarded an assignment in the GE Capital Global Risk Rotation Program. Mr. Pascoe holds an MBA and a Bachelor of Business Administration in Economics from Middle Tennessee State University.

John Spaid joined NHI in March 2016. He oversees the Company's banking relationships and financial transactions. Mr. Spaid has nearly 30 years of experience in real estate, finance and senior housing. Previously, he was with Emeritus Senior Living as a Senior Vice President whose responsibilities included budget and forecasting, debt and lease obligation underwriting, merger and acquisition processes, financial modeling, due diligence, board and investor presentations, employee development and Sarbanes-Oxley compliance. Mr. Spaid has been an independent financial consultant and has also served as the CFO of a regional assisted living and memory care provider in Redmond, Washington. Mr. Spaid holds an MBA from the University of Michigan and a Bachelor of Business Administration from the University of Texas.

We have a staff of 16, all reporting to our corporate office in Murfreesboro, TN. Essential services such as internal audit, tax compliance, information technology and legal services are outsourced to third-party professional firms.

Investor Information

We publish our annual report on Form 10-K, quarterly reports on Form 10-Q, quarterly Supplemental Information, current reports on Form 8-K, and press releases to our website at www.nhireit.com. We have a policy of publishing these on the website within two (2) business days after public release or filing with the SEC.

We also maintain the following documents on our web site:

The NHI Code of Business Conduct and Ethics. This has been adopted for all employees, officers and directors of the Company.

Information on our "NHI Valuesline" which allows all interested parties to communicate with NHI executive officers and directors. The toll free number is 877-880-2974 and the communications may be made anonymously, if desired.

The NHI Restated Audit Committee Charter.

The NHI Revised Compensation Committee Charter.

The NHI Revised Nominating and Corporate Governance Committee Charter.

The NHI Corporate Governance Guidelines.

We will furnish, free of charge, a copy of any of the above documents to any interested investor upon receipt of a written request.

Our transfer agent is Computershare. Computershare will assist registered owners with the NHI Dividend Reinvestment plan, change of address, transfer of ownership, payment of dividends, replacement of lost checks or stock certificates. Computershare's contact information is: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. The toll free number is 800-942-5909 and the website is www.computershare.com.

The Annual Stockholders’ meeting will be held at 12:00 p.m. local time on Friday, May 4, 2018 at Pinnacle Bank at Symphony Place, The Learning Center 8th Floor, 150 3rd Avenue South, Nashville, Tennessee 37201.

ITEM 1A. RISK FACTORS

We depend on the operating success of our tenants and borrowers for collection of our lease and note payments.

Revenues to operators of our properties are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts and from widely-publicized federal and state budget shortfalls and constraints. Periods of weak economic growth in the U.S. which affect housing sales, investment returns and personal incomes may adversely affect senior housing occupancy rates. Expenses for the facilities are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Liability insurance and staffing costs continue to increase for our operators. To the extent any decrease in revenues and/or any increase in operating expenses

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results in a property not generating enough cash to make scheduled payments to us, our revenues, net income and funds from operations would be adversely affected. Such events and circumstances would cause us to evaluate whether there was an impairment of the real estate or mortgage loan that should be charged to earnings. Such impairment would be measured as the amount by which the carrying amount of the asset exceeded its fair value. Consequently, we might be unable to maintain or increase our current dividend and the market price of our stock may decline.

We depend on the success of property development and construction activities, which may fail to achieve the operating results we expect.

When we decide to invest in the renovation of an existing property or in the development of a new property, we make assumptions about the future potential cash flows of that property. We estimate our return based on expected occupancy, rental rates and future capital costs. If our projections prove to be inaccurate due to increased capital costs, lower occupancy or other factors, our investment in that property may not generate the cash flow we expected. Recently developed properties may take longer than expected to achieve stabilized operating levels, if at all. To the extent such facilities fail to reach stabilized operating levels or achieve stabilization later than expected, it could materially adversely affect our tenants' abilities to make payments to us under their leases and thus adversely affect our business and results of operations.

We are exposed to the risk that our tenants and borrowers may become subject to bankruptcy or insolvency proceedings for other reasons.

Although our operating lease agreements provide us the right to evict an operator, demand immediate payment of rent and exercise other remedies, and our mortgage loans provide us the right to terminate any funding obligations, demand immediate repayment of principal and unpaid interest, foreclose on the collateral and exercise other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. A tenant or borrower in bankruptcy may be able to limit or delay our ability to collect unpaid rent in the case of a lease or to receive unpaid principal and/or interest in the case of a mortgage loan and to exercise other rights and remedies. We may be required to fund certain expenses (e.g. real estate taxes, maintenance and capital improvements) to preserve the value of a property, avoid the imposition of liens on a property and/or transition a property to a new tenant or borrower. In some instances, we have terminated our lease with a tenant and leased the facility to another tenant. In some of those situations, we provided working capital loans to, and limited indemnification of, the new tenant. If we cannot transition a leased facility to a new tenant, we may take possession of that property, which may expose us to certain successor liabilities. Should such events occur, our revenue and operating cash flow may be adversely affected.

We are exposed to risks related to governmental regulations and payors, principally Medicare and Medicaid, and the effect that lower reimbursement rates would have on our tenants' and borrowers' business.

Our tenants' and borrowers' businesses are affected by government reimbursement and the rates paid by private pay sources. To the extent that any of our facilities receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such facilities. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. Such reductions in Medicare reimbursement will have an adverse effect on the financial operations of our borrowers and lessees who operate SNFs. Changes in health care reimbursement will likely continue to be of paramount importance to federal and state programs. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of the health care industry. There can be no assurance that adequate reimbursement levels will continue to be available for services provided by any facility operator, whether the facility receives reimbursement from Medicare, Medicaid or private pay sources. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an operator's liquidity, financial condition and results of operations, which could adversely affect the ability of an operator to meet its obligations to us. In addition, the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility.

We are exposed to the risk that the cash flows of our tenants and borrowers would be adversely affected by increased liability claims and liability insurance costs.

ALF and SNF operators have experienced substantial increases in both the number and size of patient care liability claims in recent years, particularly in the states of Texas and Florida. As a result, general and professional liability costs have increased and may continue to increase. Nationwide, long-term care liability insurance rates are increasing because of large jury awards in states like Texas and Florida. Both Texas and Florida have now adopted SNF liability laws that modify or limit tort damages. Despite some of these reforms, the long-term care industry overall continues to experience very high general and professional liability costs. Insurance companies have responded to this claims crisis by severely restricting their capacity to write long-term care general and professional liability policies. No assurance can be given that the climate for long-term care general and professional liability insurance will improve in any of the foregoing states or any other states where the facility operators conduct business. Insurance companies may continue to reduce or stop writing general and professional liability policies for ALFs and SNFs. Thus, general and professional liability insurance coverage may be restricted, very costly or not available, which may adversely affect the facility operators' future operations, cash flows and financial condition and may have a material adverse effect on the facility operators' ability to meet their obligations to us.

We are exposed to risks related to environmental laws and the costs associated with liabilities related to hazardous substances.

Under various federal and state laws, owners or operators of real property may be required to respond to the release of hazardous substances on the property and may be held liable for property damage, personal injuries or penalties that result from environmental contamination. These laws also expose us to the possibility that we may become liable to reimburse the government for damages and costs it incurs in connection with the contamination. Generally, such liability attaches to a person based on the person's relationship to the property. Our tenants or borrowers are primarily responsible for the condition of the property and since we are a passive landlord, we do not "participate in the management" of any property in which we have an interest. Moreover, we review environmental site assessment of the properties that we purchase or encumber prior to taking an interest in them. Those assessments are designed to meet the "all appropriate inquiry" standard, which qualifies us for the innocent purchaser defense if environmental liabilities arise. Based upon such assessments, we do not believe that any of our properties are subject to material environmental contamination. However, environmental liabilities, including mold, may be present in our properties and we may incur costs to remediate contamination, which could have a material adverse effect on our business or financial condition.

We are exposed to the risk that we may not be fully indemnified by our lessees and borrowers against future litigation.

Our leases require that the lessee name us as an additional insured party on the tenant's insurance policy in regard to claims made for professional liability or personal injury. The leases also require the tenant to indemnify and hold us harmless for all claims arising out of or incidental to the occupancy and use of each facility. We cannot give any assurance that these protective measures will completely eliminate any risk to us related to future litigation, the costs of which could have a material adverse impact on us.

We depend on the success of our future acquisitions and investments.

We are exposed to the risk that our future acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and newly acquired properties might require significant management attention that would otherwise be devoted to our existing business. If we agree to provide construction funding to a borrower and the project is not completed, we may need to take steps to ensure completion of the project or we could lose the property. Moreover, if we issue equity securities or incur additional debt, or both, to finance future acquisitions, it may reduce our per share financial results. These costs may negatively affect our results of operations.

We depend on our ability to reinvest cash in real estate investments in a timely manner and on acceptable terms.

From time to time, we will have cash available from (1) the proceeds of sales of our securities, (2) principal payments on our notes receivable and (3) the sale of properties, including tenant purchase option exercises, under the terms of master leases or similar financial support arrangements. We must reinvest these proceeds, on a timely basis, in health care investments or in qualified short-term investments. We compete for real estate investments with a broad variety of potential investors. This competition for attractive investments may negatively affect our ability to make timely investments on terms acceptable to us. Delays in acquiring properties may negatively impact revenues and the amount of distributions to stockholders.

We may need to refinance existing debt or incur additional debt in the future, which may not be available on terms acceptable to us.

We operate with a policy of incurring debt when, in the opinion of our Board of Directors, it is advisable. Currently, we believe that our current liquidity, availability under our unsecured credit facility, and our capacity to service additional debt will enable us to meet our obligations, including dividends, and continue to make investments in healthcare real estate. While we currently have a very low debt ratio, in the future, we may increase our borrowings. We may incur additional debt by borrowing under our unsecured credit facility, mortgaging properties we own and/or issuing debt securities in a public offering or in a private transaction. We believe we will be able to raise additional debt and equity capital at reasonable costs to refinance our existing indebtedness at or prior to its maturity. Our ability to raise reasonably priced capital is not guaranteed; we may be unable to raise reasonably priced

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capital because of reasons related to our business or for reasons beyond our control, such as market conditions. If our access to capital becomes limited, it could have an impact on our ability to refinance our debt obligations, fund dividend payments, acquire properties and fund acquisition activities.

We have covenants related to our indebtedness which impose certain operational limitations and a breach of those covenants could materially adversely affect our financial condition and results of operations.

The terms of our current indebtedness as well as debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. Among other things, these provisions require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. Our continued ability to incur debt and operate our business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in a default under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from a breach of any of these covenants in our debt instruments, could have a material adverse effect on our financial condition and results of operations.

We are exposed to the risk that the illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties.

Real estate investments are relatively illiquid and, therefore, our ability to quickly sell or exchange any of our properties in response to changes in economic and other conditions may be limited. All of our properties are "special purpose" properties that cannot be readily converted to general residential, retail or office use. Facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Transfers of operations of facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be less than the net book value or the amount owed on any related mortgage loan, because the property may not be readily adaptable to other uses. The sale of the property or the replacement of an operator that has defaulted on its lease or loan could also be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. No assurances can be given that we will recognize full value for any property that we are required to sell for liquidity reasons. Should such events occur, our results of operations and cash flows could be adversely affected.

When interest rates increase, our common stock may decline in price.

Our common stock, like other dividend stocks, is sensitive to changes in market interest rates. In response to changing interest rates the price of our common stock may behave like a long-term fixed-income security and, compared to shorter-term instruments, may have more volatility. A wide variety of market factors can cause interest rates to rise, including central bank monetary policy, an uptick in inflation and changes in general economic conditions. The risks associated with increasing rates are intensified given that interest rates have been near historic lows but may be expected to increase in the future, with unpredictable effects on the markets and on the price of our common stock. Consequential effects of a general rise in interest rates may hamper our access to capital markets, affect the liquidity of our underlying investments in real estate, and, by extension, limit management’s effective range of responses to changing tenant circumstances or in answer to investment opportunities. Limited operational alternatives may further hinder our ability to maintain or increase our dividend, and the market price of our common stock may experience further declines as the result.

Certain tenants/operators in our portfolio account for a significant percentage of the rent we expect to generate from our portfolio, and the failure of any of these tenants/operators to meet their obligations to us could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders.

The successful performance of our real estate investments is materially dependent on the financial stability of our tenants/operators. As of December 31, 2017, approximately 60% of our total revenue is generated by Holiday (16%), Senior Living (16%), Bickford (15%), and NHC (13%). Lease or interest payment defaults by these or other tenants/operators or declines in their operating performance could materially and adversely affect our business, financial condition and results of operations and our ability to make distributions to our stockholders. In the event of a tenant default, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment and re-leasing our property. Further, we cannot assure you that we will be able to re-lease the property for the rent previously received, or at all, or that lease terminations will not cause us to sell the property at a loss. The result of any of the foregoing risks could materially and adversely affect our business, financial conditions and results of operations and our ability to make distributions to our stockholders.

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We depend on revenues derived mainly from fixed rate investments in real estate assets, while a portion of our debt used to finance those investments bear interest at variable rates. This circumstance creates interest rate risk to the Company.

Our business model assumes that we can earn a spread between the returns earned from our investments in real estate as compared to our cost of capital, including debt and/or equity. Current interest rates on our debt are at historically low levels, and, as a result, the spread and our profitability on our investments have been at high levels. We are exposed to interest rate risk in the potential for a narrowing of our spread and profitability if interest rates increase in the future. Certain of our debt obligations are floating rate obligations with interest rates that vary with the movement of LIBOR or other indexes. Our revenues are derived mainly from fixed rate investments in real estate assets. Although our leases generally contain escalating rent clauses that provide a partial hedge against interest rate fluctuations, if interest rates rise, our interest costs for our existing floating rate debt and any new debt we incur would also increase. This increasing cost of debt could reduce our profitability by increasing the cost of financing our existing portfolio and our investment activity. Rising interest rates could limit our ability to refinance existing debt upon maturity or cause us to pay higher rates upon refinancing. We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities and through the use of derivative instruments, such as interest rate swap agreements with major financial institutions. Increased interest rates may also negatively affect the market price of our common stock and increase the cost of new equity capital.

We are exposed to the risk that our assets may be subject to impairment charges.

Each quarter we evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our reported results of operations in the period in which the impairment charge occurs.

We depend on the ability to continue to qualify for taxation as a Real Estate Investment Trust.

We intend to operate as a REIT under the Internal Revenue Code of 1986, as amended (the “Internal Revenue Code”) and believe we have and will continue to operate in such a manner. Since REIT qualification requires us to meet a number of complex requirements, it is possible that we may fail to fulfill them, and if we do, our earnings will be reduced by the amount of federal taxes owed. A reduction in our earnings would affect the amount we could distribute to our stockholders and the market price of our common stock.

We have ownership limits in our charter with respect to our common stock and other classes of capital stock which may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

Our charter, subject to certain exceptions, contains restrictions on the ownership and transfer of our common and preferred stock that are intended to assist us in preserving our qualification as a REIT. Our charter provides that any transfer that would cause NHI to be beneficially owned by fewer than 100 persons or would cause NHI to be “closely held” under the Internal Revenue Code would be void, which, subject to certain exceptions, results in no person or entity being allowed to own, actually or constructively, more than 9.9% of the outstanding shares of our stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from the ownership limit and such an exemption has been granted through Excepted Holder Agreements to members of the Carl E. Adams family. Based on the Excepted Holder Agreements currently outstanding, the individual ownership limit for all other stockholders is approximately 7.5%. Our charter gives our Board of Directors broad powers to prohibit and rescind any attempted transfer in violation of the ownership limits. These ownership limits may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

We are subject to certain provisions of Maryland law and our charter and bylaws that could hinder, delay or prevent a change in control transaction, even if the transaction involves a premium price for our common stock or our stockholders believe such transaction to be otherwise in their best interests.

The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions with an "interested stockholder" or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter, unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Unless our Board of Directors takes action to exempt us, generally or with respect to certain

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transactions, from this statute in the future, the Maryland Business Combination Act will be applicable to business combinations between us and other persons. The Company's charter and bylaws also contain certain provisions that could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of the Company. Such provisions could limit the price that certain investors might be willing to pay in the future for the common stock. These provisions include a staggered board of directors, blank check preferred stock, and the application of Maryland corporate law provisions on business combinations and control shares. 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.

If our efforts to maintain the privacy and security of Company information are not successful, we could incur substantial costs and reputational damage, and could become subject to litigation and enforcement actions.

Our business, like that of other REITs, involves the receipt, storage and transmission of information about our Company, our tenants and borrowers, and our employees, some of which is entrusted to third-party service providers and vendors. We also work with third-party service providers and vendors to provide technology, systems and services that we use in connection with the receipt, storage and transmission of this information.

Our information systems, and those of our third-party service providers and vendors, may be vulnerable to continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to these systems or our information through fraud or deception of our associates, third-party service providers or vendors. Hardware, software or applications we obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are also constantly changing and evolving and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we and our third-party service providers and vendors must continually evaluate and adapt our respective systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. Any significant compromise or breach of our data security, whether external or internal, or misuse of our data, could result in significant costs, fines, lawsuits, and damage to our reputation. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in significant additional costs.

Other risks.

See the notes to the consolidated financial statements, "Business" under Item 1 and "Legal Proceedings" under Item 3 herein for a discussion of various governmental regulations and operating factors relating to the health care industry and other factors and the risks inherent in them. You should carefully consider each of the foregoing risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones facing us. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our shares of stock could decline, and you may lose all or part of your investment. Given these risks and uncertainties, we can give no assurance that any forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

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ITEM 2. PROPERTIES OWNED OR ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS AS OF DECEMBER 31, 2017

PROPERTIES OWNED

Location	SHO	SNF	HOSP & MOB	Investment
Alabama	1	2	—	$17,260,000
Arkansas	2	—	—	49,789,000
Arizona	4	1	—	22,835,000
California	9	—	1	183,723,000
Connecticut	3	—	—	131,056,000
Florida	7	10	1	211,753,000
Georgia	5	—	—	112,224,000
Iowa	10	—	—	63,593,000
Idaho	4	—	—	29,373,000
Illinois	14	—	—	205,910,000
Indiana	8	—	—	74,584,000
Kansas	2	—	—	42,072,000
Kentucky	—	1	1	20,746,000
Louisiana	5	—	—	39,569,000
Massachusetts	—	4	—	13,730,000
Maryland	1	—	—	9,471,000
Michigan	6	—	—	40,938,000
Minnesota	4	—	—	21,400,000
Missouri	1	5	—	27,757,000
North Carolina	6	—	—	133,710,000
Nebraska	4	—	—	33,427,000
New Hampshire	—	3	—	23,687,000
New Jersey	1	—	—	24,380,000
Ohio	4	—	—	76,586,000
Oklahoma	2	—	—	55,737,000
Oregon	8	3	—	134,571,000
South Carolina	7	4	—	337,510,000
Tennessee	6	16	1	100,198,000
Texas	2	18	1	275,211,000
Virginia	3	1	—	34,196,000
Washington	6	—	—	97,250,000
Wisconsin	1	—	—	20,359,000
	136	68	5	$2,664,605,000
Corporate Office				1,298,000
				$2,665,903,000

ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS

Location	SHO	SNF	Investment
Florida	1	—	$10,000,000
Illinois	1	—	11,096,000
Michigan	1	—	4,462,000
New Hampshire	1	—	9,908,000

Virginia	—	4	7,839,000
Washington	1	—	54,805,000
	5	4	$98,110,000

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10-YEAR LEASE EXPIRATIONS

The following table provides additional information on our leases which are scheduled to expire based on the maturity date contained in the most recent lease agreement or extension. We expect that, prior to maturity, we will negotiate new terms of a lease to either the current tenant or another qualified operator.

Year	Leases Expiring	Rentable Square Feet*	Number of Units/Beds	Annualized Gross Rent** (in thousands)	Percentage of Annualized Gross Rent	
2018	1	—	88	$ 447	0.2	%
2019	10	—	470	9,003	3.7	%
2020	6	27,017	224	2,977	1.2	%
2021	2	—	344	1,962	0.8	%
2022	4	—	156	4,168	1.7	%
2023	15	—	852	13,558	5.6	%
2024	10	—	674	7,009	2.9	%
2025	10	61,500	647	8,105	3.4	%
2026	32	—	4,624	32,559	13.5	%
2027	7	—	772	9,856	4.1	%
Thereafter	112	—	11,433	151,904	62.9	%

*Rentable Square Feet represents total square footage in two MOB investments.
**Annualized Gross Rent refers to the amount of lease revenue that our portfolio would have generated in 2017 if all leases were in effect for the twelve-month calendar year, regardless of the commencement date, maturity date, or renewals.

ITEM 3. LEGAL PROCEEDINGS

Our facilities are subject to claims and suits in the ordinary course of business. Our lessees and borrowers have indemnified, and are obligated to continue to indemnify us, against all liabilities arising from the operation of the facilities, and are further obligated to indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the facilities, management believes that the ultimate resolution of all such pending proceedings will have no material adverse effect on our financial condition, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

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PART II.

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

The Company's charter contains certain provisions which are designed to ensure that the Company's status as a REIT is protected for federal income tax purposes. One of these provisions provides that any transfer that would cause NHI to be beneficially owned by fewer than 100 persons or would cause NHI to be "closely held" under the IRS Code would be void, which, subject to certain exceptions, results in no stockholder being allowed to own, either directly or indirectly pursuant to certain tax attribution rules, more than 9.9% of the Company's stock. In 1991, the Board created an exception to this ownership limitation for Dr. Carl E. Adams, his spouse, Jennie Mae Adams, and their lineal descendants. Effective May 12, 2008, we entered into Excepted Holder Agreements with W. Andrew Adams and certain members of his family. These written agreements are intended to restate and replace the parties' prior verbal agreement. Based on the Excepted Holder Agreements currently outstanding, the individual ownership limit for all other stockholders is approximately 7.5%. Our charter gives our Board of Directors broad powers to prohibit and rescind any attempted transfer in violation of the ownership limits. These agreements were entered into in connection with the Company's announcement in 2008 of a stock purchase program pursuant to which the Company purchased 194,100 shares of its common stock in the public market from its stockholders.

A separate agreement was entered into severally with the spouse and children of Dr. Carl E. Adams and others within Mr. W. Andrew Adams' family. We needed to enter into such an agreement with each family member because of the complicated ownership attribution rules under the Internal Revenue Code. The agreement permits the Excepted Holders to own stock in excess of 9.9% up to the limit specifically provided in the individual agreement and not lose rights with respect to such shares. However, if the stockholder's stock ownership exceeds the limit, then such shares in excess of the limit become "Excess Stock" and lose voting rights and entitlement to receive dividends. The Excess Stock classification remains in place until the stockholder no longer exceeds the threshold limit specified in the Agreement. The purpose of these agreements is to ensure that the Company does not violate the prohibition against a REIT being closely held.

W. Andrew Adams' Excess Holder Agreement also provides that he will not own shares of stock in any tenant of the Company if such ownership would cause the Company to constructively own more than a 9.9% interest in such tenant. Again, this prohibition is designed to protect the Company's status as a REIT for tax purposes.

In order to qualify for the beneficial tax treatment accorded to a REIT, we must make distributions to holders of our common stock equal on an annual basis to at least 90% of our REIT taxable income (excluding net capital gains), as defined in the Internal Revenue Code. Cash available for distribution to our stockholders is primarily derived from interest payments received on our notes and from rental payments received under our leases. All distributions will be made by us at the discretion of the Board of Directors and will depend on our cash flow and earnings, our financial condition, bank covenants contained in our financing documents and such other factors as the Board of Directors deems relevant. Our REIT taxable income is calculated without reference to our cash flow. Therefore, under certain circumstances, we may not have received cash sufficient to pay our required distributions.

Our common stock is traded on the New York Stock Exchange under the symbol "NHI". As of February 14, 2018, there were approximately 726 holders of record of shares and approximately 26,354 beneficial owners of shares.

High and low stock prices of our common stock on the New York Stock Exchange and dividends declared for the last two years were:

	2017		2016
	Sales Price	Cash Dividends Declared	Sales Price

Quarter Ended	High	Low		High	Low	Cash Dividends Declared
March 31	$79.93	$68.96	$.95	$67.26	$54.51	$.90
June 30	$79.73	$71.06	$.95	$75.11	$65.04	$.90
September 30	$81.21	$74.62	$.95	$82.53	$74.85	$.90
December 31	$81.60	$75.07	$.95	$79.09	$66.31	$.90

The closing price of our stock on February 14, 2018 was $63.33.

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We currently maintain two equity compensation plans: the 2005 Stock Option, Restricted Stock and Stock Appreciation Rights Plan ("the 2005 Plan") and the 2012 Stock Incentive Plan ("the 2012 Plan"). These plans, as amended, have been approved by our stockholders. The following table provides information as of December 31, 2017 about our common stock that may be issued upon the exercise of options under our existing equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	859,182	$70.11	951,668[1]

[1]These shares remain available for grant under the 2012 Plan.

The following graph demonstrates the performance of the cumulative total return to the stockholders of our common stock during the previous five years in comparison to the cumulative total return on the MSCI US REIT Index and the Standard & Poor's 500 Stock Index. The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of Equity REIT securities. The MSCI US REIT Index includes securities with exposure to core real estate (e.g. residential and retail properties) as well as securities with exposure to other types of real estate (e.g. casinos, theaters).

	2012	2013	2014	2015	2016	2017
NHI	$100.00	$104.04	$136.08	$124.61	$159.77	$170.62
MSCI	$100.00	$102.47	$133.60	$136.97	$149.32	$156.29
S&P 500	$100.00	$132.39	$150.51	$152.60	$172.30	$208.14

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ITEM 6. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2017. This financial information has been derived from our historical financial statements including those for the most recent three years included elsewhere in this Annual Report on Form 10-K and should be read in conjunction with those consolidated financial statements, accompanying footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7.

(in thousands, except share and per share amounts)

	Years Ended December 31,				
STATEMENT OF INCOME DATA:	2017	2016	2015	2014	2013
Revenues	$278,659	$248,460	$228,948	$177,469	$117,788
Income from continuing operations	159,365	152,716	150,314	103,052	79,498
Discontinued operations:					
Income from operations - discontinued	—	—	—	—	5,426
Gain on sales of real estate	—	—	—	—	22,258
Net income	159,365	152,716	150,314	103,052	107,182
Net income attributable to noncontrolling interest	—	(1,176)	(1,452)	(1,443)	(999)
Net income attributable to common stockholders	$159,365	$151,540	$148,862	$101,609	$106,183
PER SHARE DATA:					
Basic earnings per common share:					
Income from continuing operations	$3.90	$3.88	$3.96	$3.04	$2.77
Discontinued operations	—	—	—	—	.97
Net income attributable to common stockholders	$3.90	$3.88	$3.96	$3.04	$3.74
Diluted earnings per common share:					
Income from continuing operations	$3.87	$3.87	$3.95	$3.05	$2.77
Discontinued operations	—	—	—	—	.97
Net income attributable to common stockholders	$3.87	$3.87	$3.95	$3.05	$3.74
OTHER DATA:					
Common shares outstanding, end of year	41,532,154	39,847,860	38,396,727	37,485,902	33,051,176
Weighted average common shares:					
Basic	40,894,219	39,013,412	37,604,594	33,375,966	28,362,398
Diluted	41,151,453	39,155,380	37,644,171	33,416,014	28,397,702
Regular dividends declared per common share	$3.80	$3.60	$3.40	$3.08	$2.90
BALANCE SHEET DATA: (at year end)					
Real estate properties, net	$2,285,701	$2,159,774	$1,836,807	$1,776,549	$1,247,740
Mortgages and other notes receivable, net	$141,486	$133,493	$133,714	$63,630	$60,639
Investments in preferred stock and marketable securities	$—	$—	$72,744	$53,635	$50,782
Assets held for sale, net	$—	$—	$1,346	$—	$—
Total assets	$2,545,821	$2,403,633	$2,133,218	$1,982,960	$1,455,820
Debt	$1,145,497	$1,115,981	$914,443	$862,726	$617,080
Total equity	$1,322,117	$1,209,590	$1,142,460	$1,049,933	$777,160

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

The following discussion and analysis is based primarily on the consolidated financial statements of National Health Investors, Inc. for the periods presented and should be read together with the notes thereto contained in this Annual Report on Form 10-K. Other important factors are identified in “Item 1. Business” and “Item 1A. Risk Factors” above.

Executive Overview

National Health Investors, Inc., established in 1991 as a Maryland corporation, is a self-managed REIT specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of lease, mortgage and other note investments in independent living facilities, assisted living facilities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments have included marketable securities and a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 (“RIDEA”) through which we invested in facility operations managed by an independent third-party. We have funded our real estate investments primarily through: (1) operating cash flow, (2) debt offerings, including bank lines of credit and term debt, both unsecured and secured, and (3) the sale of equity securities.

Portfolio

At December 31, 2017, we had investments in real estate, mortgage and other notes receivable involving 218 facilities located in 32 states. These investments involve 141 senior housing properties, 72 skilled nursing facilities, 3 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of $1,298,000) consisted of properties with an original cost of $2,664,605,000, rented under triple-net leases to 27 lessees, and $141,486,000 aggregate carrying value of mortgage and other notes receivable due from 11 borrowers.

We classify the properties in our portfolio as either senior housing or medical properties. We further classify our senior housing properties as either need-driven (assisted living facilities and senior living campuses) or discretionary (independent living facilities and entrance-fee communities). Medical properties within our portfolio include skilled nursing facilities, medical office buildings and specialty hospitals.

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The following tables summarize our investments in real estate and mortgage and other notes receivable as of December 31, 2017 (dollars in thousands):

Real Estate Properties	Properties	Beds/Sq. Ft.*	Revenue	%	Investment
Senior Housing - Need-Driven					
Assisted Living	86	4,192	$ 70,663	25.4 %	$ 765,479
Senior Living Campus	10	1,323	16,371	5.9 %	162,022
Total Senior Housing - Need-Driven	96	5,515	87,034	31.3 %	927,501
Senior Housing - Discretionary					
Independent Living	30	3,412	46,268	16.7 %	547,436
Entrance-Fee Communities	10	2,363	50,447	18.1 %	599,171
Total Senior Housing - Discretionary	40	5,775	96,715	34.8 %	1,146,607
Total Senior Housing	136	11,290	183,749	66.1 %	2,074,108
Medical Facilities					
Skilled Nursing Facilities	68	8,813	72,608	26.1 %	524,040
Hospitals	3	181	7,797	2.8 %	55,971
Medical Office Buildings	2	88,517 *	973	0.3 %	10,486
Total Medical Facilities	73		81,378	29.2 %	590,497
Total Real Estate Properties	209		$ 265,127	95.3 %	$ 2,664,605
Mortgage and Other Notes Receivable					
Senior Housing - Need-Driven	4	252	$ 1,937	0.7 %	$ 35,466
Senior Housing - Discretionary	1	400	5,119	1.8 %	54,805
Medical Facilities	4	270	1,820	0.7 %	7,839
Other Notes Receivable	—	—	4,258	1.5 %	43,376
Total Mortgage and Other Notes Receivable	9	922	13,134	4.7 %	141,486
Total Portfolio	218		$ 278,261	100.0 %	$ 2,806,091

Portfolio Summary	Properties	Beds/Sq. Ft.*	Revenue	%	Investment
Real Estate Properties	209		$ 265,127	95.3 %	$ 2,664,605
Mortgage and Other Notes Receivable	9		13,134	4.7 %	141,486
Total Portfolio	218		$ 278,261	100.0 %	$ 2,806,091
Summary of Facilities by Type					
Senior Housing - Need-Driven					
Assisted Living	90	4,444	$ 72,600	26.1 %	$ 800,945
Senior Living Campus	10	1,323	16,371	5.9 %	162,022
Total Senior Housing - Need-Driven	100	5,767	88,971	32.0 %	962,967
Senior Housing - Discretionary					
Entrance-Fee Communities	11	2,763	55,565	20.0 %	653,976
Independent Living	30	3,412	46,268	16.6 %	547,436
Total Senior Housing - Discretionary	41	6,175	101,833	36.6 %	1,201,412
Total Senior Housing	141	11,942	190,804	68.6 %	2,164,379
Medical Facilities					
Skilled Nursing Facilities	72	9,083	74,429	26.8 %	531,878
Hospitals	3	181	7,797	2.8 %	55,971
Medical Office Buildings	2	88,517 *	973	0.3 %	10,487

Total Medical	77	83,199	29.9 %	598,336
Other Notes Receivable	—	4,258	1.5 %	43,376
Total Portfolio	218	$ 278,261	100.0 %	$ 2,806,091
Portfolio by Operator Type				
Public	70	$ 68,504	24.7 %	$ 484,277
National Chain (Privately-Owned)	28	46,949	17.0 %	531,047
Regional	115	157,045	56.8 %	1,756,867
Small	5	4,052	1.5 %	33,900
Total Portfolio	218	$ 276,550	100.0 %	$ 2,806,091

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For the year ended December 31, 2017, our tenants who provided more than 3% of our total revenues were (parent company, in alphabetical order): Bickford Senior Living; Chancellor Health Care, East Lake Capital Management; The Ensign Group; Health Services Management; Holiday Retirement; National HealthCare Corporation; and Senior Living Communities.

As of December 31, 2017, our average effective annualized rental income was $8,242 per bed for SNFs, $17,031 per unit for ALFs, $14,345 per unit for ILFs, $21,349 per unit for EFCs, $43,079 per bed for hospitals, and $11 per square foot for MOBs.

Areas of Focus

We are evaluating and will potentially make additional investments in 2018 while we continue to monitor and improve our existing properties. We seek tenants who will become mission-oriented partners in relationships where our business goals are aligned. This approach aims to fuel steady, and thus, enduring growth for those partners and for NHI. Within the context of our growth model, we rely on a cost-effective access to debt and equity capital to finance acquisitions that will drive our earnings. There is significant competition for healthcare assets from other REITs, both public and private, and from private equity sources. Large-scale portfolios continue to command premium pricing, due to the continued abundance of private and foreign buyers seeking to invest in healthcare real estate. This combination of circumstances places a premium on our ability to execute acquisitions and negotiate leases that will generate meaningful earnings growth for our shareholders. We emphasize growth with our existing tenants and borrowers as a way to insulate us from other competition.

With lower capitalization rates for existing healthcare facilities, there has been increased interest in constructing new facilities in hopes of generating better returns on invested capital. Using our relationship-driven model, we continue to look for opportunities to support new and existing tenants and borrowers with the capital needed to expand existing facilities and to initiate ground-up development of new facilities. We concentrate our efforts in those markets where there is both a demonstrated demand for a particular product type and where we perceive we have a competitive advantage. The projects we agree to finance have attractive upside potential and are expected to provide above-average returns to our shareholders to mitigate the risks inherent with property development and construction.

The Federal Open Market Committee of the Federal Reserve announced an increase in its benchmark federal funds rate by 25 basis points on March 15, 2017, on June 14, 2017, and on December 13, 2017. The anticipation of past and further increases in the federal funds rate in 2018 has been a primary source of much volatility in REIT equity markets. As a result, there will be pressure on the spread between our cost of capital and the returns we earn. We expect that pressure to be partially mitigated by market forces that would tend to result in higher capitalization rates for healthcare assets and higher lease rates indicative of historical levels. Our cost of capital has increased over the past year as we transition some of our short term revolving borrowings into debt instruments with longer maturities and fixed interest rates. Managing long-term risk involves trade-offs with the competing alternative goal of maximizing short-term profitability. Our intention is to strike an appropriate balance between these competing interests within the context of our investor profile. As interest rates rise, our share price may decline as investors adjust prices to reflect a dividend yield that is sufficiently in excess of a risk free rate.

For the year ended December 31, 2017, approximately 27% of our revenue was derived from operators of our skilled nursing facilities that receive a significant portion of their revenue from governmental payors, primarily Medicare and Medicaid. Such revenues are subject annually to statutory and regulatory changes and in recent years have been reduced due to federal and state budgetary pressures. Over the past five years, we have selectively diversified our portfolio by directing a significant portion of our investments into properties which do not rely primarily on Medicare and Medicaid reimbursement, but rather on private pay sources (assisted living and memory care facilities, senior living campuses, independent living facilities and entrance-fee communities). We will occasionally acquire skilled nursing facilities in good physical condition with a proven operator and strong local market fundamentals, because diversification implies a periodic rebalancing, but our recent investment focus has been on acquiring need-driven and discretionary senior housing assets.

Considering individual tenant lease revenue as a percentage of total revenue, Bickford is our largest assisted living tenant, an affiliate of Holiday is our largest independent living tenant, National HealthCare Corporation (“NHC”) is our largest skilled nursing tenant and Senior Living is our largest entrance-fee community tenant. Our shift toward private payor facilities, as well as our expansion into the discretionary senior housing market, has further resulted in a portfolio whose current composition is relatively balanced between medical facilities, need-driven and discretionary senior housing.

We manage our business with a goal of increasing the regular annual dividends paid to shareholders. Our Board of Directors approves a regular quarterly dividend which is reflective of expected taxable income on a recurring basis. Our transactions that are infrequent and non-recurring that generate additional taxable income have been distributed to shareholders in the form of special dividends. Taxable income is determined in accordance with the Internal Revenue Code and differs from net income for

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financial statements purposes determined in accordance with U.S. generally accepted accounting principles. Our goal of increasing annual dividends requires a careful balance between identification of high-quality lease and mortgage assets in which to invest and the cost of our capital with which to fund such investments. We consider the competing interests of short and long-term debt (interest rates, maturities and other terms) versus the higher cost of new equity. We accept some level of risk associated with leveraging our investments. We intend to continue to make new investments that meet our underwriting criteria and where the spreads over our cost of capital will generate sufficient returns to our shareholders.

Our dividends for the current year and the last two years are as follows:

2017	2016	2015
$3.80	$3.60	$3.40

Our investments in healthcare real estate have been partially accomplished by our ability to effectively leverage our balance sheet. However, we continue to maintain a relatively low-leverage balance sheet compared with many in our peer group. We believe that our fixed charge coverage ratio, which is the ratio of Adjusted EBITDA (earnings before interest, taxes, depreciation and amortization, including amounts in discontinued operations, excluding real estate asset impairments and gains on dispositions) to fixed charges (interest expense at contractual rates net of capitalized interest and principal payments on debt), and the ratio of consolidated net debt to Adjusted EBITDA are meaningful measures of our ability to service our debt. We use these two measures as a useful basis to compare the strength of our balance sheet with those in our peer group. We also believe this gives us a competitive advantage when accessing debt markets.

We calculate our fixed charge coverage ratio as approximately 6.4x for the year ended December 31, 2017 (see our discussion of Adjusted EBITDA and a reconciliation to our net income on page 50). Giving effect to our acquisitions and financings on an annualized basis, our consolidated net debt-to Adjusted EBITDA ratio is approximately 4.2x for the year ended December 31, 2017 (in thousands):

Consolidated Total Debt	$1,145,497
Less: cash and cash equivalents	(3,063)
Consolidated Net Debt	$1,142,434
Adjusted EBITDA	$265,026
Annualized impact of recent investments	5,509
	$270,535
Consolidated Net Debt to Adjusted EBITDA	4.2x

According to the Administration on Aging ("AoA") of the US Department of Health and Human Services, in 2014, the latest year for which data is available, 46.2 million people (or 14.5% of the population) were age 65 or older in the United States. Census estimates showed that, by 2040, those 65 or older are expected to comprise 21.7% of the population.

Census estimates also project that close to half of those currently age 65 will reach age 84 or older. As Transgenerationalaging.org notes, "The fastest-growing segment of the total population is the oldest old - those 80 and over. Their growth rate is twice that of those 65 and over and almost 4-times that for the total population. In the United States, this group now represents 10% of the older population and will more than triple from 5.7 million in 2010 to over 19 million by 2050." If the growth rate holds steady, from 5.7 million in 2010, the "oldest old" will comprise close to 12 million in the US by 2030.

Per the AoA, in 2013 the median value of homes owned by older persons was $150,000 (with a median purchase price of $63,900) compared to a median home value of $160,000 for all homeowners. Of the 26.8 million households headed by older persons in 2013, 81% were homeowners, about 65% of whom owned their homes free and clear. Home ownership provides the elderly with the freedom to choose their lifestyles.

Equipped with the basics of financial security, many will be economically able to enter the market for senior housing. Strong demographic trends provide the context for continued growth in 2018 and the years ahead. We plan to fund any new real estate and mortgage investments during 2018 using operational cash flow, debt, and equity financing. As the weight of additional debt to fund new acquisitions suggests the need to rebalance our capital structure, we will then expect to access the capital markets through an ATM or other equity offerings. Our disciplined investment strategy implemented through measured increments of debt

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and equity sets the stage for annual dividend growth and continued low leverage. This discipline combined with a portfolio of diversified, high-quality assets and business relationships with experienced operators continue to be the key drivers of our business plan.

Critical Accounting Policies

We prepare our consolidated financial statements in conformity with accounting principles generally accepted in the United States of America. These accounting principles require us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and cause our reported net income to vary significantly from period to period. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition.

We consider an accounting estimate or assumption critical if:

1. the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
2. the impact of the estimates and assumptions on financial condition or operating performance is material.

Our significant accounting policies and the associated estimates, judgments and the issues which impact these estimates are as follows:

Valuations and Impairments

Our tenants and borrowers who operate SNFs derive their revenues primarily from Medicare, Medicaid and other government programs. Amounts paid under these government programs are subject to legislative and government budget constraints. From time to time, there may be material changes in government reimbursement. In the past, SNFs have experienced material reductions in government reimbursement.

The long-term health care industry has experienced significant professional liability claims which have resulted in an increase in the cost of insurance to cover potential claims. In previous years, these factors have combined to cause a number of bankruptcy filings, bankruptcy court rulings and court judgments affecting our lessees and borrowers. In prior years, we have determined that impairment of certain of our investments had occurred as a result of these events.

We evaluate the recoverability of the carrying values of our properties on a property-by-property basis. On a quarterly basis, we review our properties for recoverability when events or circumstances, including significant physical changes in the property, significant adverse changes in general economic conditions and significant deteriorations of the underlying cash flows of the property, indicate that the carrying amount of the property may not be recoverable. The need to recognize an impairment charge is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment charge is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property.

For our mortgage and other notes receivable, we evaluate the estimated collectibility of contractual loan payments and general economic conditions on an instrument-by-instrument basis. On a quarterly basis, we review our notes receivable for ability to realize on such notes when events or circumstances, including the non-receipt of contractual principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If necessary, impairment is measured as the amount by which the carrying amount exceeds the fair value as measured by the discounted cash flows expected to be received under the note receivable or, if foreclosure is probable, the fair value of the collateral securing the note receivable.

The determination of fair value and whether a shortfall in operating revenues or the existence of operating losses is indicative of a loss in value that is other than temporary involves significant judgment. Our estimates consider all available evidence including, as appropriate, the present value of the expected future cash flows discounted at market rates, general economic conditions and trends, the duration of the fair value deficiency, and any other relevant factors. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our financial results.

While we believe that the carrying amounts of our properties are recoverable and our notes receivable and other investments are realizable, it is possible that future events could require us to make significant adjustments or revisions to these estimates.

Revenue Recognition

We collect rent and interest from our tenants and borrowers. Generally, our policy is to recognize revenues on an accrual basis as earned. However, when we determine, based on insufficient historical collections and the lack of expected future collections, that rent or interest is not probable of collection until received, our policy is to recognize rental or interest income when assured, which we consider to be the period the amounts are collected. We identify investments as nonperforming if a required payment is not received within 30 days of the date it is due. This policy could cause our revenues to vary significantly from period to period. Revenue from minimum lease payments under our leases is recognized on a straight-line basis to the extent that future lease payments are considered collectible. Lease payments that depend on a factor directly related to future use of the property, such as an increase in annual revenues over base year revenues, are considered to be contingent rentals and are included in rental income when they are determinable and earned.

REIT Qualification

As part of the process of preparing our consolidated financial statements, significant management judgment is required to evaluate our compliance with REIT requirements. Our determinations are based on interpretation of tax laws, and our conclusions may have an impact on the income tax expense recognized. We believe that we have operated our business so as to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to so qualify at all times. Until September 30, 2016, we operated a TRS under a joint venture structured to comply with the provisions of the RIDEA through which we invested in facility operations managed by independent third-parties. On September 30, 2016, NHI and Bickford entered into a definitive agreement terminating the joint venture. In the past we recorded income tax expense or benefit with respect to the subsidiary which was taxed as a TRS under provisions similar to those applicable to regular corporations. Aside from such income taxes that may have been applicable to the taxable income in our TRS, we are not subject to U.S. federal income tax, provided that we continue to qualify as a REIT and make distributions to stockholders equal to or in excess of our taxable income. This treatment substantially eliminates the “double taxation” (at the corporate and stockholder levels) that typically applies to corporate dividends. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would cause us to owe state and federal income taxes and would have a material adverse impact on our financial position, results of operations and cash flows.

Principles of Consolidation

The consolidated financial statements include our accounts, the accounts of our wholly-owned subsidiaries and the accounts of joint ventures in which we own a majority voting interest with the ability to control operations and where no substantive participating rights or substantive kick-out rights have been granted to the noncontrolling interests. In addition, we consolidate a legal entity deemed to be a variable interest entity (“VIE”) when we determine that we are the VIE’s primary beneficiary. All material inter-company transactions and balances have been eliminated in consolidation.

We apply Financial Accounting Standards Board (“FASB”) guidance for our arrangements with VIEs which requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of the VIE. A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity’s activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity’s activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity’s activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights. We may change our assessment of a VIE due to events such as modifications of contractual arrangements that affect the characteristics or adequacy of the entity’s equity investments at risk and the disposal of all or a portion of an interest held by the primary beneficiary.

Real Estate Properties

Real property we develop is recorded at cost, including the capitalization of interest during construction. The cost of real property investments we acquire is allocated to net tangible and identifiable intangible assets based on their relative fair values. We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the fair value of each component. For properties acquired in transactions accounted for as asset purchases, the purchase price allocation is based on the relative fair values of the assets acquired. Cost includes the amount of contingent consideration, if any, deemed to be probable at the acquisition date. Contingent consideration is deemed to be probable to the extent that a significant reversal in amounts recognized is not likely to occur when the uncertainty associated with the contingent consideration is subsequently resolved. The most significant components of our allocations are typically the allocation of fair value to land,

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equipment, buildings and other improvements, and intangible assets, if any. Our estimates of the values of these components will affect the amount of depreciation and amortization we record over the estimated useful life of the property acquired or the remaining lease term.

Significant Operators

As discussed in Note 2 to the consolidated financial statements, we have four lessees (including their affiliated entities, which are the legal tenants) from whom we individually derive at least 10% of our rental income as follows (dollars in thousands):

		Original	Rental Income				
		Investment	Year Ended December 31,				Lease
	Asset Class	Amount	2017		2016		Renewal
Holiday Retirement	ILF	$493,378	$43,817	17%	$43,817	19%	2031
Senior Living Communities	EFC	547,262	45,735	17%	40,332	17%	2029
Bickford Senior Living	ALF	460,245	41,606	16%	30,732	13%	Various
National HealthCare Corporation	SNF	171,297	37,467	14%	37,626	16%	2026
All others	Various	992,423	96,502	36%	79,846	35%	Various
		$2,664,605	$265,127		$232,353		

Straight-line rent of $7,397,000 and $8,965,000 was recognized from the Holiday lease for the years ended December 31, 2017 and 2016, respectively. Straight-line rent of $6,984,000 and $7,369,000 was recognized from the Senior Living lease for the years ended December 31, 2017 and 2016, respectively. Straight-line rent of $5,102,000 and $858,000 was recognized from the Bickford leases for the years ended December 31, 2017 and 2016, respectively. The increase in straight-line rent from Bickford reflects the extension of leases in the second quarter of 2017. For NHC, rent escalations are based on a percentage increase in revenue over a base year and do not give rise to non-cash, straight-line rental income.

Our operators report to us the results of their operations, which we in turn subject to further analysis as a means of monitoring potential concerns within our portfolio. In our most fundamental analyses, we will typically compute EBITDARM, a property level measure of our operators' success, by eliminating the effects of the operator's method of acquiring the use of the assets (interest and rent), its non-cash expenses (depreciation and amortization), expenses that are dependent on its level of success (income taxes), and also excluding the effect of the operator's payment of its management fees, as those fees are contractually subordinate to our lease payment. The eliminations provide a comparable basis for assessing our various relationships.

EBITDARM attempts to tell a story in shorthand of the cash potential of a group of assets - for NHI this would be a senior housing community or a portfolio of communities. Social and other non-quantifiable benefits are disregarded. We rely on these, a careful balance sheet analysis, and other analytical procedures to guide us in making decisions and in managing our assets - our primary function as a REIT, from which flow the expected rewards of real estate ownership.

Typical among our operators is a varying lag in reporting to us the results of their operations. Across our portfolio, however, our operators can be counted on to have reported their results, at the latest, within ninety days of month's end. We have identified EBITDARM as the most elemental barometer of success, based on results they have reported to us. From EBITDARM we calculate a lease coverage ratio (EBITDARM/Cash Rent), measuring the ability of the operator to meet its monthly rental obligation. The results are presented below on a trailing twelve-month basis, as of the quarters ended September 30, 2017, 2016 and 2015:

	2017 EBITDARM/ Cash Rent	Number of Properties	2016 EBITDARM/ Cash Rent	Number of Properties	2015 EBITDARM/ Cash Rent	Number of Properties
Senior Housing (SHO)						
Need-Driven	1.19x	89	1.20x	80	1.33x	69
Discretionary	1.23x	37	1.26x	36	1.22x	33
Total SHO	1.21x	126	1.23x	116	1.27x	102
Skilled Nursing	2.52x	71	2.78x	70	3.09x	65
Hospitals	2.17x	3	2.62x	3	2.29x	3
Medical Office	4.79x	2	11.3x	2	7.72x	2

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Fluctuations in portfolio coverage are a result of market and economic trends, local market competition, and regulatory factors as well as the operational success of our tenants. While the coverages above can be seen as informational only, and we use the results of individual leases to inform our decision making with respect to our specific tenants, overall trends bear analysis. The decline in coverage in our SHO portfolio was driven primarily by changing contractual responsibility for coverages with the unwinding of our RIDEA structure in 2016 and by the inclusion of development properties in 2016 and 2017 among the population under consideration. Coverages in skilled nursing reflect changes in the operational structure of our largest skilled nursing tenant, a larger presence of new tenants within the population, and the renegotiation of certain leases resulting in the recognition of higher rental revenues by NHI. The decline in MOB coverage in 2017 followed the devastation of Hurricane Harvey along the Texas coast.

Presented below are coverages from our four largest tenants during the same periods described above. Trends discussed for our SNFs and ALFs incorporate relevant information for NHC and Bickford. Holiday undertook significant operational restructuring affecting 2017 that led to a slight downturn in trailing twelve-month coverage. Recent three-month results indicate a significant recovery toward previous occupancy levels. We regard SLC trends as within the range of normal expected deviation.

	2017 EBITDARM/ Cash Rent	Number of Properties	2016 EBITDARM/ Cash Rent	Number of Properties	2015 EBITDARM/ Cash Rent	Number of Properties
NHC	3.61x	42	3.67x	42	3.91x	42
Senior Living	1.21x	9	1.22x	8	1.24x	8
Bickford	1.22x	38	1.19x	37	1.44x	29
Holiday	1.16x	25	1.19x	25	1.21x	25

RIDEA

On September 30, 2016, NHI and Sycamore Street, LLC (“Sycamore”), an affiliate of Bickford entered into a definitive agreement terminating our joint venture which consisted of the ownership and operation of 35 properties and converting Bickford’s participation to a triple-net tenancy with assumption of existing leases and terms. Through September 30, 2016, NHI owned an 85% equity interest and Sycamore owned a 15% equity interest in our consolidated subsidiary, PropCo which owned 35 assisted living/memory care facilities, three new facilities and two facilities in development. The facilities had been leased to OpCo, in which NHI previously held a non-controlling 85% ownership interest. The facilities are managed by Bickford. The joint venture was structured to comply with the provisions of RIDEA. For the combined transaction, we recognized a gain of $1,657,000 on the sale of OpCo; we recognized $462,000 of income tax expense in applying a full valuation allowance to our state net operating loss carry-forwards on our Taxable REIT Subsidiary; Bickford’s non-controlling interest was de-recognized; and the difference between the fair value of NHI’s cost allocated to the redemption and the carrying amount of the 15% non-controlling interest was recorded as an adjustment to equity through additional-paid-in capital.

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Investment Highlights

Since January 1, 2017, we have made or announced the following real estate and note investments ($ in thousands):

	Date	Properties	Asset Class	Amount
2017				
Lease Investments				
Navion Senior Solutions	February 2017	2	SHO	$16,100
Prestige Care	March 2017	1	SHO	26,200
The LaSalle Group	March 2017	5	SHO	61,865
The Ensign Group	March 2017	1	SNF	15,096
Bickford Senior Living	June 2017	1	SHO	10,400
Acadia Healthcare	July 2017	1	HOSP	4,840
Senior Living Communities	August 2017	1	SHO	6,830
Marathon/Village Concepts	October 2017	1	SHO	7,100
Discovery Senior Living	December 2017	1	SHO	34,600
Navion Senior Solutions	December 2017	1	SHO	8,200
Note Investments				
Bickford Senior Living	January 2017	1	SHO	14,000
Evolve Senior Living	August 2017	1	SHO	10,000
				$215,231
2018				
The Ensign Group - lease investment	January 2018	1	SNF	$14,400
Bickford Senior Living - construction loan	January 2018	1	SHO	14,000
				$28,400

Navion Senior Solutions

In two acquisitions, we acquired three assisted living/memory-care facilities totaling 118 units in North Carolina. In the first acquisition, on February 21, 2017, we paid $16,100,000, inclusive of $100,000 in closing costs and the funding of $207,000 in specified capital improvements for two assisted living/memory-care facilities totaling 86 units in Hendersonville, North Carolina. We leased the facilities to Navion Senior Solutions (“NSS,” previously known as Ravn Senior Solutions) for an initial lease term of 15 years plus renewal options. The initial annual lease rate is 7.35%, plus fixed annual escalators. For the two facilities acquired in February, we have additionally committed to NSS certain earnout payments contingent on reaching and maintaining certain performance metrics. As earned, the earnout payments, totaling $1,500,000, would be due in installments of up to $1,000,000 for performance measured as of December 31, 2018, with any subsequently earned cumulative unpaid amounts to be measured and due as earned for the periods ending December 31, 2019 and/or 2020. Upon funding, contingent payments earned will be added to the lease base.

On December 14, 2017, for $7,550,000, inclusive of $100,000 in closing costs, we acquired a third assisted living/memory-care facility totaling 32 units in Durham, North Carolina. We leased the facility to NSS for an initial lease term of 15 years plus renewal options. Additionally, the lease provides for lease incentives of up to $3,350,000 based upon the achievement of certain performance metrics, and we have committed $650,000 to an expansion program. The initial annual lease rate is 7.15%, plus fixed annual escalators. Payment of any incentives will be added to the lease base at the rate prevailing when funded. The Durham acquisition was incorporated into the existing master lease, which was extended for all properties through December 2032.

NSS's relationship to NHI consists of its leasehold interests and purchase options and is considered a variable interest, analogous to a financing arrangement. NSS is structured to limit liability for potential damage claims, is capitalized for that purpose and is considered a VIE. Additionally, the master lease conveys to NHI an option to purchase a third facility currently operated by NSS.

Prestige

On March 10, 2017, we acquired a 102-unit assisted living community in Portland, Oregon for $26,200,000, inclusive of closing costs of $112,000. We leased the facility to Prestige Care ("Prestige") under our existing master lease, which has a remaining lease term of 12 years plus renewal options. The lease provides for an initial annual lease rate of 7% plus annual escalators of 3.5% in years two through four and 2.5% thereafter. The acquisition was accounted for as an asset purchase.

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In addition, we have committed to Prestige certain earnout payments contingent on reaching and maintaining specified performance metrics. If earned, the earnout payments, totaling $1,000,000, would be due in installments of up to $1,000,000 for performance measured as of December 31, 2017, with any subsequently earned cumulative unpaid amounts to be measured and due as earned for the period ending December 31, 2018. Upon funding, contingent payments earned will be added to the lease base.

The LaSalle Group

On March 16, 2017, we acquired five memory care communities totaling 223 units in Texas and Illinois for $61,800,000 plus closing costs of $65,000. We leased the facilities to The LaSalle Group (“LaSalle”) for an initial lease term of 15 years. The lease provides for an initial annual lease rate of 7% plus annual escalators of 3.5% in years two through three and 2.5% thereafter. The acquisition was accounted for as an asset purchase.

In addition, we have committed to LaSalle certain earnout payments contingent on reaching and maintaining certain performance metrics. As earned, the earnout payments, totaling $5,000,000, would be due in installments of up to $2,500,000 for performance measured as of December 31, 2018, with any subsequently earned cumulative unpaid amounts to be measured and due as earned for the trailing periods ending December 31, 2019 and/or 2020. Upon funding, contingent payments earned will be added to the lease base.

The Ensign Group

On March 24, 2017, we acquired from a developer a 126-bed skilled nursing facility in New Braunfels, Texas for a cash investment of $13,846,000 plus $1,250,000 contributed by the lessee, The Ensign Group (“Ensign”). The facility was then included under our existing master lease for the remaining lease term of 14 years plus renewal options. The initial lease rate is set at 8.35% subject to annual escalators based on prevailing inflation rates. The acquisition was accounted for as an asset purchase.

On January 12, 2018, NHI we acquired from a developer a 121-bed skilled nursing facility in Waxahachie, Texas for a cash investment of $14,400,000 plus $1,275,000 contributed by the lessee, Ensign. The facility will be included under our existing master lease with Ensign for the remaining lease term of 13 years plus renewal options. The initial lease rate is set at 8.2% subject to annual escalators based on prevailing inflation rates. The acquisition was accounted for as an asset purchase.

With the acquisition of the New Braunfels and Waxahachie properties, NHI has a continuing commitment to purchase, from the developer, two new skilled nursing facilities in Texas for approximately $28,000,000 which are newly developed and are leased to Legend Healthcare and subleased to Ensign. The fixed-price nature of the commitment creates a variable interest for NHI in the developer, whom NHI considers to lack sufficient equity to finance its operations without recourse to additional subordinated debt. The presence of these conditions causes the developer to be considered a VIE.

Bickford

As of December 31, 2017 our Bickford portfolio is structured as following (in thousands):

	Lease Expiration				
	Sept / Oct 2019	June 2023	Sept 2027	May 2031	Total
Number of Properties	10	13	4	20	47

2017 Annual Contractual Rent	$8,994	$10,809	$125	$16,576	$36,504
Straight Line Rent Adjustment	(347)	226	309	4,914	5,102
Total Revenues	$8,647	$11,035	$434	$21,490	$41,606

On June 1, 2017, we acquired an assisted living/memory-care facility totaling 60 units in Lansing, Michigan, for $10,400,000, inclusive of $200,000 in closing costs. Additionally, we have committed to the funding of $475,000 in specified capital improvements, which will be added to the lease base. We included this facility in a master lease to Bickford for a remaining term of 14 years plus renewal options. The initial lease rate is 7.25%, plus annual fixed escalators. We accounted for the acquisition as an asset purchase.

In April and August 2017, Bickford opened the last two of the five-facility development project announced in 2015. Newly-constructed facilities have an annual lease rate of 9% at completion, after six months of free rent. NHI has a right to future Bickford

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acquisitions, development projects and refinancing transactions. Of these facilities, 35 were held in a RIDEA structure and operated as a joint venture until September 30, 2016, when NHI and Sycamore, an affiliate of Bickford, entered into a definitive agreement terminating the joint venture and converting Bickford's participation to a triple-net tenancy with assumption of existing leases and terms. Through September 30, 2016, NHI owned an 85% equity interest and Sycamore owned a 15% equity interest in our consolidated subsidiary, PropCo. The facilities were leased to an operating company , in which NHI previously held a non-controlling 85% ownership interest. The facilities are managed by Bickford. Our joint venture was structured to comply with the provisions of RIDEA. On September 30, 2016, we unwound the joint venture underlying the RIDEA and reacquired Bickford's share of its assets. Effective May 1, 2017, NHI and Bickford announced a new amended and restated master lease covering 20 Bickford properties. Under terms of the new master lease, the base term for these properties will now extend to May 2031. Additionally, effective June 28, 2017, the leases of thirteen properties acquired in June 2013 and initially set for expiration in June 2018 have been renewed and extended through June 2023.

In September 2017, upon collection of all past-due rents, we transitioned the lease of a 126-unit assisted living portfolio from our then tenant as the result of material noncompliance with lease terms. On September 30, 2017, we entered into a 10-year lease with Bickford, beginning October 1, 2017. The agreement provides for initial annual lease payments of $1,500,000 with a 4% escalator in effect for years two through four and 3% thereafter. Additionally, the lease provides a purchase option which opens immediately and is co-terminus with the lease. The option will be exercisable for the greater of $21,400,000 or at a capitalization rate of 8.5% on the forward 12-month rental at the time of exercise. The former lease provided for a contractual payment of $2,237,000 in 2016.

Acadia

In July 2017, we acquired a 10-acre parcel of land ("Property") for $4,840,000. The Property was conveyed to NHI by a subsidiary of our tenant, Acadia Healthcare Company ("Acadia"), who is the lessee of NHI's TrustPoint Hospital in Murfreesboro, Tennessee, which is situated on adjacent land. Our ground lease with Acadia covers a 10-year period and bears an initial rate of 7%, subject to escalation after the third year. Additionally, the lease confers a purchase option on the property, on which Acadia intends to construct a sister facility. The option opens in 2020, extends through June 2023, and is to be exercisable at our original purchase price. In connection with the ground lease, the window of Acadia's existing purchase option on the TrustPoint Hospital facility was shifted from 2018 to 2020 to coincide with the option window on the Property. Of our total revenues, $2,537,000 and $2,392,000 were derived from Acadia for the years ended December 31, 2017 and 2016, respectively.

Evolve

On August 7, 2017, we extended a first mortgage loan of $10,000,000 to Evolve Senior Living ("Evolve") to fund the purchase of a 40 unit memory care facility in New Hampshire. The loan provides for annual interest of 8% and a maturity of five years plus renewal terms at the option of the borrower. NHI has the option to purchase the facility at fair market value after year two of the loan.

Senior Living Communities

On August 25, 2017, we committed to fund up to $6,830,000 in upgrades covering identified needs within the nine independent living facilities operated by Senior Living. Amounts funded will be added to the lease base. No funding had occurred under the agreement as of December 31, 2017.

Marathon/Village Concepts

On October 15, 2017, we committed up to $7,100,000 to fund the expansion of our independent living community in Chehalis, Washington leased to Marathon Development and Village Concepts Retirement Communities (“Marathon”). Upon funding, incurred amounts will be added to the lease base. As of December 31, 2017, no funding had occurred under the agreement.

Discovery

On December 1, 2017, we acquired a 200-unit independent living facility in Tulsa, Oklahoma, for $34,600,000 including the assumption of a Fannie Mae mortgage with remaining balance of $18,311,000. The mortgage amortizes through 2025 when a balloon payment will be due, is subject to prepayment penalties until 2024, and bears interest at an annual rate of 4.6%. We leased the property to Discovery Senior Living (“Discovery”) at an initial lease rate of 7% with fixed annual escalators beginning in year two of the fifteen-year term. We have additionally committed up to $500,000 in capital improvements, which upon funding will be added to the lease base. The acquisition was accounted for as an asset purchase.

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Potential Effects of Medicare Reimbursement

Our tenants who operate SNFs receive a significant portion of their revenues from governmental payors, primarily Medicare (federal) and Medicaid (states). Changes in reimbursement rates and limits on the scope of services reimbursed to skilled nursing facilities could have a material impact on the operators' liquidity and financial condition. CMS released a rule outlining a 1% increase in their Medicare reimbursement for fiscal year 2018 beginning on October 1, 2017. We currently estimate that our borrowers and lessees will be able to withstand this nominal Medicare increase due to their credit quality, profitability and their debt or lease coverage ratios, although no assurances can be given as to what the ultimate effect that similar Medicare increases on an annual basis would have on each of our borrowers and lessees. According to industry studies, state Medicaid funding is not expected to keep pace with inflation. Federal legislative policies have been adopted and continue to be proposed that would reduce Medicare and/or Medicaid payments to SNFs. Any near-term acquisitions of skilled nursing facilities are planned on a selective basis, with emphasis on operator quality and newer construction.

Other Portfolio Activity

HSM Lease Extension

Effective as of May 1, 2017, we amended and extended our lease with Health Services Management ("HSM") covering six skilled nursing facilities in Florida. The amended lease calls for $9,800,000 in first year cash rent, plus fixed annual escalators over a 12-year term. The new agreement replaced the lease set to expire September 30, 2017, which provided for a total cash rent of $7,241,000 in 2016.

Our leases are typically structured as "triple net leases" on single-tenant properties having an initial leasehold term of 10 to 15 years with one or more 5-year renewal options. As such, there may be reporting periods in which we experience few, if any, lease renewals or expirations. During the year ended December 31, 2017, except as noted above, we did not have any renewing or expiring leases.

Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income is recognized on a straight-line basis over the term of the lease. Certain of our operators hold purchase options allowing them to acquire properties they currently lease from NHI. For options open or coming open in 2018, we are engaged in negotiations to continue as lessor or in some other capacity.

We adjust rental income for the amortization of payments recorded as the result of the eventual settlement of commitments and contingencies listed later in Item 7 as lease inducements. Amortization of these payments against revenues was $119,000, $40,000 and $40,000 for the years ended December 31, 2017, 2016 and 2015, respectively.

Tenant Non-Compliance

In October 2017, we issued a letter of forbearance to one of our tenants for a default on our lease terms involving coverage and liquidity ratios. Rent to the Company was current as of December 31, 2017. Lease revenues from the tenant and its affiliates comprise 3% of our rental income, and the related straight-line rent receivable was approximately $3,482,000 at December 31, 2017.

We continue to work with the tenant to resolve their defaults. In this effort, we have established a physical presence and visited specific touchpoints that concentrate on the tenant's revenue and expenditure cycles, and we have identified potential efficiencies. The combination of monitoring and the redoubling of the operator's efforts has yielded early (unaudited) results that indicate some improvement in collections, occupancy and margins, an attendant strengthening of operating ratios, and point the way to renewed profitability. With these developments, we continue to maintain a heightened vigilance toward the performance of the portfolio. No rent concessions have been offered to this tenant.

The defaults mentioned above typically give rise to considerations regarding the impairment or recoverability of the related assets, and we give additional attention to the nature of the default's underlying causes. At this time, consequently, our assessment of likely undiscounted cash flows, calculated at the lowest level for which identifiable asset-specific cash flows are largely independent, reveals no basis for an impairment charge on the underlying real estate.

Real Estate and Mortgage Write-downs

Our borrowers and tenants experience periods of significant financial pressures and difficulties similar to those encountered by other health care providers. Governments at both the federal and state levels have enacted legislation to lower, or at least slow,

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the growth in payments to health care providers. Furthermore, the cost of professional liability insurance has increased significantly during this same period. Since inception, a number of our facility operators and mortgage loan borrowers have undergone bankruptcy. Others have been forced to surrender properties to us in lieu of foreclosure or, for certain periods, have failed to make timely payments on their obligations to us.

We believe that the carrying amounts of our real estate properties are recoverable and that mortgage notes receivable are realizable and supported by the value of the underlying collateral. However, it is possible that future events could require us to make significant adjustments to these carrying amounts.

When present, tenant purchase options generally give the lessee an option to purchase the underlying property for consideration determined by i) a sliding base dependent upon the extent of appreciation in the property plus a specified proportion of any appreciation; ii) our acquisition costs plus a specified proportion of any appreciation; iii) an agreed capitalization rate applied to the current rental; or iv) our acquisition costs plus a profit floor plus a specified proportion of any appreciation.

Mortgage Loans

Bickford

We have the following note investments with Bickford:

	Rate	Maturity	Commitment	Drawn	Location
July 2016	9%	5 years	14,000,000	(11,096,000)	Illinois
January 2017	9%	5 years	14,000,000	(4,462,000)	Michigan
January 2018	9%	5 years	14,000,000	(1,490,000)	Virginia
			$42,000,000	$(17,048,000)	

The promissory notes are secured by first mortgage liens on substantially all real and personal property as well as a pledge of any and all leases or agreements which may grant a right of use to the subject property. Usual and customary covenants extend to the agreements, including the borrower’s obligation for payment of insurance and taxes. NHI has a purchase option on the properties at stabilization, whereby annual rent will be set with a floor of 9.55%, based on NHI’s total investment, plus fixed annual escalators.

Our loans to Bickford represent a variable interest as do our leases, which are considered analogous to financing arrangements. Bickford is structured to limit liability for potential claims for damages, is capitalized to achieve that purpose and is considered a VIE. On these and future loan development projects, Bickford as the borrower is entitled to up to $2,000,000 per project in incentive loan draws based upon the achievement of predetermined operational milestones, the funding of which will increase the principal amount and NHI's future purchase price and eventual NHI lease payment.

Evolve

In August 2017, we completed a first mortgage loan of $10,000,000 to Evolve for the purchase of a 40 unit memory care facility in New Hampshire. The loan provides for annual interest of 8% and a maturity of five years plus renewal terms at the option of the borrower. Terms of the loan grant NHI a 10% participation in the property’s appreciation during the period the loan is outstanding, and NHI also has the option to purchase the facility at fair market value after the second year of the loan. Our loan to Evolve represents a variable interest. Evolve is structured to limit liability for potential claims for damages, is capitalized to achieve that purpose and is considered a VIE.

Timber Ridge

In February 2015, we entered into an agreement to lend up to $154,500,000 to LCS-Westminster Partnership III LLP ("LCS-WP"), an affiliate of Life Care Services ("LCS") . The loan agreement conveys a mortgage interest and facilitates the construction of Phase II of Timber Ridge at Talus ("Timber Ridge"), a Type-A Continuing Care Retirement Community in Issaquah, WA managed by LCS.

The loan takes the form of two notes under a master credit agreement. The senior note ("Note A") totals $60,000,000 at a 6.75% interest rate with 10 basis-point escalators after year three, and has a term of 10 years. We have funded $53,622,000 of Note A as of December 31, 2017. Note A is interest-only and is locked to prepayment for three years. After year three, the prepayment penalty starts at 5% and declines 1% per year. The second note ("Note B") is a construction loan for up to $94,500,000 at an annual interest rate of 8% and a five-year maturity and was fully funded as of December 31, 2017. We expect substantial repayment with new

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resident entrance fees from the opening of Phase II in October, 2016. Repayment of Note B amounted to $92,547,000 as of December 31, 2017.

NHI has a purchase option on the entire Timber Ridge property for the greater of fair market value or $115,000,000 during a purchase option window of 120 days that will contingently open in year five or upon earlier stabilization of the development, as defined. The current basis of our investment in Timber Ridge loans, net of unamortized commitment fees, is $54,805,000, but we are obligated to complete the funding of Note A up to $60,000,000.

Other Note Activity

In June 2017 Traditions of Minnesota paid off the undiscounted balance of $4,256,000 on its mortgage note outstanding to NHI. With the early payoff, we recognized interest income of $922,000 related to a prepayment penalty and the retirement of the remaining unamortized discount.

Tenant Purchase Options

Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income with fixed contractual escalations is ordinarily recognized on a straight-line basis over the term of the lease. Certain of our operators hold purchase options allowing them to acquire properties they currently lease from NHI. For options open or coming open in 2018, we are engaged in preliminary negotiations to continue as lessor or in some other capacity. A summary of these tenant options to purchase senior housing communities, hospitals, medical office buildings and skilled nursing facilities is presented below ($ in thousands):

Asset Type	Number of Facilities	Lease Expiration	1st Option Open Year	Current Cash Rent
MOB	1	February 2025	Open	$ 300
HOSP	1	September 2027	2020	$ 2,398
SHO	8	December 2024	2020	$ 4,144
HOSP	1	March 2025	2020	$ 1,831
SHO	3	June 2025	2020	$ 4,961
SHO	2	May 2031	2021	$ 4,421
HOSP	1	June 2022	2022	$ 3,398
Various	8	—	Thereafter	$ 4,061

When present, tenant purchase options generally give the lessee an option to purchase the underlying property for consideration determined by i) a sliding base dependent upon the extent of appreciation in the property plus a specified proportion of any appreciation; ii) our acquisition costs plus a specified proportion of any appreciation; iii) an agreed capitalization rate applied to the current rental; or iv) our acquisition costs plus a profit floor plus a specified proportion of any appreciation.

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Results of Operations

The significant items affecting revenues and expenses are described below (in thousands):

	Years ended December 31,		Period Change	
	2017	2016	$	%
Revenues:				
Rental income				
ALFs leased to Bickford	36,504	29,874	6,630	22.2 %
8 EFCs and 1 SLC leased to Senior Living Communities	38,751	32,964	5,787	17.6 %
ALFs leased to The LaSalle Group	3,437	—	3,437	NM
15 SNFs leased to Ensign Group transitioned from Legend	19,025	16,653	2,372	14.2 %
1 ALF and 2 SLCs leased to East Lake Capital Management	9,382	7,110	2,272	32.0 %
ALFs leased to Chancellor Health Care	7,559	5,558	2,001	36.0 %
SNFs leased to Health Services Management	9,001	7,241	1,760	24.3 %
2 ALFs and 3 SNFs leased to Prestige Senior Living	5,293	3,712	1,581	42.6 %
ILFs leased to an affiliate of Holiday Retirement	36,420	34,852	1,568	4.5 %
Other new and existing leases	73,665	72,191	1,474	2.0 %
	239,037	210,155	28,882	13.7 %
Straight-line rent adjustments, new and existing leases	26,090	22,198	3,892	17.5 %
Total Rental Income	265,127	232,353	32,774	14.1 %
Interest income from mortgage and other notes				
Timber Ridge	5,118	8,249	(3,131)	NM
Senior Living Management	2,006	444	1,562	NM
Bickford construction loans	782	69	713	NM
Senior Living Communities	1,575	997	578	NM
Mortgage and other notes paid off during the period	1,104	940	164	17.4 %
Other new and existing mortgages	2,549	3,106	(557)	(17.9)%
Total Interest Income from Mortgage and Other Notes	13,134	13,805	(671)	(4.9)%
Investment income and other	398	2,302	(1,904)	(82.7)%
Total Revenue	278,659	248,460	30,199	12.2 %
Expenses:				
Depreciation				
ALFs operated by Bickford Senior Living	12,024	9,783	2,241	22.9 %
7 EFCs and 1 SLC leased to Senior Living Communities	14,328	12,821	1,507	11.8 %
ALFs leased to The LaSalle Group	1,217	—	1,217	NM
15 SNFs leased to Ensign Group transitioned from Legend	5,665	4,487	1,178	26.3 %
ALFs leased to Chancellor Health Care	2,437	1,767	670	37.9 %
Other new and existing assets	31,502	30,667	835	2.7 %
Total Depreciation	67,173	59,525	7,648	12.8 %
Interest expense and amortization of debt issuance costs and discounts	46,324	43,108	3,216	7.5 %
Payroll and related compensation expenses	6,352	4,272	2,080	48.7 %
Compliance, consulting and administrative fees	2,514	3,048	(534)	(17.5)%
Non-cash share-based compensation expense	2,612	1,732	880	50.8 %
Loan and realty losses (recoveries)	—	15,856	(15,856)	NM
Other expenses	2,193	2,152	41	1.9 %
	127,168	129,693	(2,525)	(1.9)%
Income before equity-method investee, income tax benefit (expense), investment and other gains and noncontrolling interest	151,491	118,767	32,724	27.6 %

Loss from equity-method investee	—	(1,214)	1,214	NM
Loss on convertible note retirement	(2,214)	—	(2,214)	NM
Income tax (expense) benefit of taxable REIT subsidiary	—	(749)	749	NM
Investment and other gains	10,088	35,912	(25,824)	(71.9)%
Net income	159,365	152,716	6,649	4.4 %
Net income attributable to noncontrolling interest	—	(1,176)	1,176	(100.0)%
Net income attributable to common stockholders	$159,365	$151,540	$7,825	5.2 %

NM - not meaningful

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Financial highlights of the year ended December 31, 2017, compared to 2016 were as follows:

- Rental income increased $32,774,000, or 14.1%, primarily as a result of new investments funded in 2017 and 2016. The increase in rental income included a $3,892,000 increase in straight-line rent adjustments. Generally accepted accounting principles require rental income to be recognized on a straight-line basis over the term of the lease to give effect to scheduled rent escalators that are determinable at lease inception. Generally, future increases in rental income depend on our ability to make new investments which meet our underwriting criteria.

- Interest income from mortgage and other notes decreased $671,000, due to a combination of the continued repayment of our construction loan to Timber Ridge, interest income received on development loans to Bickford Senior Living and Senior Living Management and the recognition of an unamortized note discount related to a mortgage note which was paid in full during the second quarter. We expect total interest income from our loan portfolio to decrease with the full repayment of our $94,500,000 construction loan to Timber Ridge in January 2018.

- Depreciation expense increased $7,648,000 primarily due to new real estate investments completed during 2017 and 2016.

- Interest expense, including amortization of debt discount and issuance costs, increased $3,216,000 primarily as a result of an increase in 30-day LIBOR, which is the benchmark for our revolving debt, and the refinancing of $75,000,000 in September 2016 to an 8-year note with annual interest at 3.93%.

- Payroll and related compensation expenses increased $2,080,000 due primarily to the addition of new corporate employees and the expense of certain incentive bonuses.

- Investment and other gains for the year ended December 31, 2017 consist of $10,038,000 from the sale of marketable securities. For the year ended December 31, 2016, investment and other gains include $29,673,000 from the sale of marketable securities, $2,805,000 from the sale of two Texas skilled nursing facilities, $1,654,000 from the sale of an Idaho skilled nursing facility, $123,000 from the sale of a vacant land parcel in Alabama and $1,657,000 recorded as a gain on the sale of our 85% non-controlling interest in OpCo.

- Loan and realty losses of $15,856,000 for the year ended December 31, 2016 relate to non-cash transactional write-offs involving the acquisition of eight skilled nursing facilities from Legend and transition of a total of 15 SNF leases to Ensign in the second quarter of 2016, and the non-cash write-off of straight-line rent receivable during the third quarter of 2016 resulting from a tenant’s material non-compliance with our lease terms which, as of October 1, 2017, NHI has transitioned to another tenant.

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The significant items affecting revenues and expenses are described below (in thousands):

	Years ended December 31,		Period Change	
	2016	2015	$	%
Revenues:				
Rental income				
15 SNFs leased to Ensign Group transitioned from Legend	15,660	9,394	6,266	66.7 %
ALFs leased to Bickford	29,874	23,853	6,021	25.2 %
1 ALF and 2 SLCs leased to East Lake Capital Management	7,110	2,342	4,768	NM
8 EFCs and 1 SLC leased to Senior Living Communities	32,964	31,000	1,964	6.3 %
ALFs leased to Chancellor Health Care	5,558	3,738	1,820	48.7 %
ILFs leased to an affiliate of Holiday Retirement	34,852	33,351	1,501	4.5 %
SNFs leased to Fundamental Long Term Care[1]	2,682	5,416	(2,734)	(50.5)%
2 SNFs leased to Legend[2]	993	3,127	(2,134)	(68.2)%
Other new and existing leases	80,462	77,563	2,899	3.7 %
	210,155	189,784	20,371	10.7 %
Straight-line rent adjustments, new and existing leases	22,198	24,623	(2,425)	(9.8)%
Total Rental Income	232,353	214,407	17,946	8.4 %
Interest income from mortgage and other notes				
Timber Ridge	7,976	3,569	4,407	NM
Senior Living Communities	976	411	565	NM
Mortgage and other notes paid off during the period	556	2,189	(1,633)	(74.6)%
Other new and existing mortgages	4,297	4,037	260	6.4 %
Total Interest Income from Mortgage and Other Notes	13,805	10,206	3,599	35.3 %
Investment income and other	2,302	4,335	(2,033)	(46.9)%
Total Revenue	248,460	228,948	19,512	8.5 %
Expenses:				
Depreciation				
1 ALF, 2 SLCs and 2 EFCs leased to East Lake Capital	2,495	889	1,606	NM
15 SNFs leased to Ensign Group transitioned from Legend	4,487	2,102	2,385	NM
ALFs operated by Bickford Senior Living	9,783	7,669	2,114	27.6 %
ALFs leased to Chancellor Health Care	1,767	1,104	663	60.1 %
Other new and existing assets	40,993	41,359	(366)	(0.9)%
Total Depreciation	59,525	53,123	6,402	12.1 %
Interest expense and amortization of debt issuance costs and discounts	43,108	37,629	5,479	14.6 %
Payroll and related compensation expenses	4,272	4,375	(103)	(2.4)%
Compliance, consulting and professional fees	3,048	3,292	(244)	(7.4)%
Non-cash share-based compensation expense	1,732	2,134	(402)	(18.8)%
Loan and realty losses (recoveries)	15,856	(491)	16,347	NM
Other expenses	2,152	2,167	(15)	(0.7)%
	129,693	102,229	27,464	26.9 %
Income before equity-method investee, income tax benefit (expense), investment and other gains and noncontrolling interest	118,767	126,719	(7,952)	(6.3)%
Loss from equity-method investee	(1,214)	(1,767)	553	31.3 %
Income tax (expense) benefit of taxable REIT subsidiary	(749)	707	(1,456)	NM
Investment and other gains	35,912	24,655	11,257	45.7 %
Net income	152,716	150,314	2,402	1.6 %
Net income attributable to noncontrolling interest	(1,176)	(1,452)	276	(19.0)%
Net income attributable to common stockholders	$151,540	$148,862	$2,678	1.8 %

NM - not meaningful
[1] 2015 includes two Texas SNFs disposed April 2016
[2] Disposed May 2016

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Financial highlights of the year ended December 31, 2016, compared to 2015 were as follows:

- Rental income increased $17,946,000, or 8.4%, primarily as a result of new investments funded in 2015 and 2016. The increase in rental income included a $2,425,000 decrease in straight-line rent adjustments. Generally accepted accounting principles require rental income to be recognized on a straight-line basis over the term of the lease to give effect to scheduled rent escalators that are determinable at lease inception. Generally, future increases in rental income depend on our ability to make new investments which meet our underwriting criteria.

- Interest income from mortgage and other notes increased $3,599,000 primarily due to advances made on our mortgage and construction loan commitment to the Timber Ridge entrance fee community as described in Investment Highlights, partially offset by lower interest income from notes paid off during 2016. We expect total interest income from our loan portfolio to decrease as repayments of our $94,500,000 construction loan to Timber Ridge began in October 2016, and the loan was substantially repaid during 2017. Repayments amounted to $61,289,000 as of December 31, 2016, plus an additional $7,304,000 through February 15, 2017.

- Interest income from our loan portfolio is also subject to decrease due to normal maturities, scheduled principal amortization and early payoffs of individual loans.

- Investment income decreased primarily due to our decision to sell 1,043,800 shares of LTC, Inc. common stock.

- Depreciation expense increased $6,402,000 primarily due to new real estate investments completed during 2015 and 2016.

- Interest expense, including amortization of debt issuance costs and discounts, increased $5,479,000 primarily as a result of the timing and amount of new borrowings and our strategic focus to refinance short-term borrowings on our revolving credit facility at variable interest rates with long-term debt at fixed rates. This strategy helps to mitigate the risk of rising interest rates and locks in the investment spread between our lease revenue and our cost of debt capital.

- Loan and realty losses of $15,856,000 relate to non-cash transactional write-offs involving the acquisition of eight skilled nursing facilities from Legend and transition of a total of 15 SNF leases to Ensign in the second quarter of 2016, and the non-cash write-off of straight-line rent receivable during the third quarter of 2016 resulting from a tenant’s material non-compliance with our lease terms and our planned transition to another tenant or to market the properties.

- The loss from equity method investee of $1,214,000 reflects our pro rata portion of the investee’s net loss for 2016 as described earlier in our discussion of our joint venture with a Bickford affiliate which was terminated on September 30, 2016.

- Investment and other gains includes $29,673,000 from the sale of marketable securities, $2,805,000 from the sale of two Texas skilled nursing facilities in May 2016, $1,654,000 from the sale of an Idaho skilled nursing facility in March 2016, $123,000 from the sale of a vacant land parcel in Alabama and $1,657,000 recorded as a gain on the sale of our 85% non-controlling interest in OpCo.

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Liquidity and Capital Resources

Sources and Uses of Funds

Our primary sources of cash include rent payments, principal and interest payments on mortgage and other notes receivable, interest and dividends received on our marketable securities, proceeds from the sales of real property, net proceeds from offerings of equity securities and borrowings from our term loans and revolving credit facility. Our primary uses of cash include debt service payments (both principal and interest), new investments in real estate and notes, dividend distributions to our shareholders and general corporate overhead.

These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows as summarized below (dollars in thousands):

	Year Ended		One Year Change		Year Ended	One Year Change	
	12/31/2017	12/31/2016	$	%	12/31/2015	$	%
Cash and cash equivalents at beginning of period	$4,636	$ 13,090	$(8,454)	NM	3,091	$9,999	323.5 %
Net cash provided by operating activities	197,325	177,219	20,106	11.3 %	164,425	12,794	7.8 %
Net cash used in investing activities	(163,846)	(329,838)	165,992	NM	(136,326)	(193,512)	141.9 %
Net cash (used in) provided by financing activities	(35,052)	144,165	(179,217)	NM	(18,100)	162,265	(896.5)%
Cash and cash equivalents at end of period	$3,063	$ 4,636	$(1,573)	(33.9)%	13,090	$(8,454)	NM

Operating Activities – Net cash provided by operating activities for the year ended December 31, 2017 increased primarily as a result of the collection of lease and interest payments on new real estate investments completed during 2017 and 2016.

Investing Activities – Net cash flows used in investing activities for the year ended December 31, 2017 decreased primarily due to $225,646,000 of investments in real estate and notes, which were partially offset by collection of notes receivable, sales of marketable securities and certain real estate assets, compared with $486,788,000 of investments in real estate and notes in 2016 that were similarly offset by collections.

Financing Activities – The use of cash in financing activities resulted primarily from the excess of dividend payments over proceeds from equity offerings, the impact of other large transactions primarily being the restructuring of our debt.

Liquidity

At December 31, 2017, our liquidity was strong, with $332,063,000 available in cash and borrowing capacity on our revolving credit facility.

We began liquidating our position in LTC Properties, Inc. (“LTC”) common stock in the fourth quarter of 2015, realizing cumulative total proceeds of $109,318,000 through December 31, 2017. We realized taxable gains of $10,038,000, $29,673,000, and $23,529,000 for the years ended December 31, 2017, 2016 & 2015 respectively.

Our ATM program, discussed below, represents an additional source of liquidity. Traditionally, debt financing and cash resulting from operating and investing activities, which are derived from proceeds of lease and note collections, loan payoffs and the recovery of previous write-downs, have been used to satisfy our operational and investing needs and to provide a return to our shareholders. Those operational and investing needs reflect the resources necessary to maintain and cultivate our funding sources and have generally fallen into three categories: debt service, REIT operating expenses, and new real estate and note investments.

In June 2016, we completed an at-the market ("ATM") equity offering. The following table summarizes the issuances on our ATM as of December 31, 2017.

	Shares	Weighted Average Share Price	Net Proceeds
June 2016	714,666	$ 71.30	$50,189,000
August - September 2016	680,976	$ 80.51	$54,001,000
March 2017	1,123,184	$ 72.31	$79,722,000
August - October 2017	537,977	$ 80.20	$42,515,000
	3,056,803		$226,427,000

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The use of funds from our ATM and the liquidation of our position in LTC common stock effected a rebalancing of our leverage in response to our acquisitions and has kept our options flexible for further expansion. We continue to explore various other funding sources including bank term loans, convertible debt, traditional equity placement, unsecured bonds and senior notes, debt private placement and secured government agency financing. We view our ATM program as an effective way to match-fund our smaller acquisitions by exercising control over the timing and size of transactions and achieving a more favorable cost of capital as compared to larger follow-on offerings.

We expect that borrowings on our revolving credit facility, borrowings on term loans, and our ATM program will allow us to continue to make real estate investments during 2018. However, we anticipate that our historically low cost of debt capital will continue to rise in the near to mid-term, as the federal government prolongs the upward transitioning of the federal funds rate. In response to the changed interest-rate environment, we may find it advisable within the coming year to acquire a public credit rating as a tool for managing our interest costs.

We anticipate continued use of proceeds from the ATM program for general corporate purposes, which may include future acquisitions and repayment of indebtedness, including borrowings under our credit facility. The ATM offerings have been made pursuant to a prospectus supplement dated February 17, 2015 and a related prospectus dated March 18, 2014, as well as the new prospectus, effective February 22, 2017, filed as part of our automatic “shelf” registration statement on Form S-3 and updating our previous filings with the Securities and Exchange Commission.

In August 2017, we amended our unsecured $800,000,000 credit facility, scheduled to mature in June 2020, consolidated our three bank term loans into a single $250,000,000 term loan and extended the maturity of the term loan and $550,000,000 revolving credit facility to August 2022. The facility provides for floating interest on the term loan and revolver to be initially set at 30-day LIBOR plus 130 and 115 bps, respectively, based on current leverage metrics. Additional significant amendments to the facility include the refinement of the collateral pool, imposition of a 0% floor to the LIBOR base, movement from the payment of unused commitment fees to a facility fee of 20 basis points and the composition of creditors participating in our loan syndication. The employment of interest rate swaps to fix LIBOR on our bank term debt leaves only our revolving credit facility exposed to variable rate risk. Our swaps and the financial instruments to which they relate are described in the table below, under the caption “Interest Rate Swap Agreements.” Also in August 2017, we amended our private placement term loan agreements to largely conform those agreements with our bank credit facility.

Concurrent with the amendments to our credit facility and with the exception of specific debt-coverage ratios, covenants pertaining to our private placement term loans were generally conformed with those governing the credit facility. We generally accounted for these transactions and related fees as modifications of the debt, recording $3,806,000 in fees to creditors, $478,000 in third party fees and wrote off $407,000 of unamortized debt issuance costs pertaining to members of the lending syndicate whose roles in the amended facility had been reduced or eliminated.

During the year ended December 31, 2017, we undertook targeted open-market repurchases of certain of our convertible notes having an original face amount of $200,000,000. Payments of cash negotiated in the transactions were dependent on prevailing market conditions, our liquidity requirements, contractual restrictions, individual circumstances of the selling parties and other factors. The total balance of notes repurchased and retired through December 31, 2017, net of unamortized original issue discount and associated issuance costs, was $50,785,000, resulting in the recognition of losses on the note retirements for the year ended December 31, 2017, of $2,214,000, calculated as the excess of cash paid over the carrying value of that portion of the notes accounted for as debt. For the retirement of that portion of the outlay allocated to the fair value of the conversion feature, $7,930,000 was charged to additional paid-in capital during the year ended December 31, 2017.

Generally, the targeted noteholders have been and will continue to be large institutional investors who may also hold a position in our common stock. The focus on "sophisticated investors," will likely restrict the extent of the program to only a portion of our noteholders. Beginning with favorable market conditions, the circumstances enumerated above outline when, from time to time, we might expect to find the climate favorable for us to negotiate a fair price with these stakeholders. We expect to extend the targeted repurchase program to allow willing sellers the opportunity to participate, though we anticipate that the continuity of the buy-backs will likely be affected by quarterly and event-specific blackout periods, if any. Critical to our ability to prolong the targeted repurchase program is the necessity that we continue to be in compliance with all restrictive covenants embodied in our institutional debt. Should we be successful in negotiating further buy-backs of our notes, we expect each transaction to stand on its own merits as either an open-market or privately negotiated transaction.

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To mitigate our exposure to interest rate risk, we have in place the following interest rate swap contracts in place to hedge against floating rates on our $250,000,000 bank term loan as of December 31, 2017 (dollars in thousands):

Date Entered	Maturity Date	Fixed Rate	Rate Index	Notional Amount	Fair Value
May 2012	April 2019	3.29%	1-month LIBOR	$40,000	$159
June 2013	June 2020	3.86%	1-month LIBOR	$80,000	$(227)
March 2014	June 2020	3.91%	1-month LIBOR	$130,000	$(520)

For instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative has been reported as a component of other comprehensive income ("OCI"), and reclassified into earnings in the same period, or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness have been recognized in earnings. Hedge ineffectiveness related to our cash flow hedges, which is reported in current period earnings as interest expense, was not significant for the two years ended December 31, 2016 and 2015. With the amendment of our bank credit facility in August 2017, discussed above, the introduction to the debt instrument of a LIBOR floor not present in the hedges resulted in hedge inefficiency of approximately $353,000 for the year ended December 31, 2017, which we credited to interest expense.

In the first quarter of 2018, we intend to adopt ASU 2017-12 Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, among whose provisions is a change in the timing and income statement line item for ineffectiveness related to cash flow hedges. The transition method is a modified retrospective approach that will require the Company to recognize the cumulative effect of initially applying the ASU as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year in which we adopt the update. The primary provision in the ASU requiring an adjustment to our beginning retained earnings is the change in timing and income statement line item for ineffectiveness related to cash flow hedges. As a result of the transition guidance provided in the ASU, as of January 1, 2018, cumulative ineffectiveness as adjusted for any prior off-market cashflow hedges will be reclassified out of beginning retained earnings and into accumulated other comprehensive income. Upon adoption of the ASU, a better alignment of the Company's financial reporting for hedging activities with the economic objectives of those activities should result.

We periodically refinance the borrowings on our revolving credit facility through the ATM and longer-term debt instruments. We consider secured debt from U.S. Govt. agencies, including HUD, private placements of unsecured debt, and public offerings of debt and equity. We anticipate that our historically low cost of debt capital will rise in the near to mid-term, as the federal government continues its upward transitioning of the Federal funds rate.

If we modify or replace existing debt, we would incur debt issuance costs. These fees would be subject to amortization over the term of the new debt instrument and may result in the write-off of fees associated with debt which has been replaced or modified. Sustaining long-term dividend growth will require that we consider all forms of capital mentioned above, with the goal of maintaining a low-leverage balance sheet as mitigation against potential adverse changes in the business of our tenants and borrowers.

We intend to comply with REIT dividend requirements that we distribute at least 90% of our annual taxable income for the year ending December 31, 2017 and thereafter. Dividends declared for the fourth quarter of each fiscal year are paid by the end of the following January and are, with some exceptions, treated for tax purposes as having been paid in the fiscal year just ended as provided in IRS Code Sec. 857(b)(8). We declare special dividends when we compute our REIT taxable income in an amount that exceeds our regular dividends for the fiscal year.

Off Balance Sheet Arrangements

We currently have no outstanding guarantees. As described in Note 1 to the consolidated financial statements, our leases, mortgages and other notes receivable with certain entities represent variable interests in those enterprises. However, because we do not control these entities, nor do we have any role in their day-to-day management, we are not their primary beneficiary. Except as discussed below under Contractual Obligations and Contingent Liabilities, we have no further material obligations arising from our transactions with these entities, and we believe our maximum exposure to loss at December 31, 2017, due to this involvement would be limited to our contractual commitments and contingent liabilities and the amount of our current investments with them, as detailed further in in Notes 1, 2, 3 and 6 to the consolidated financial statements.

In March 2014 we issued $200,000,000 of convertible notes, the conversion feature being intended to broaden the Company's credit profile and as a means to obtain a more favorable coupon rate. For this feature we calculate the dilutive effect using market

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prices prevailing over the reporting period. Because the dilution calculation is market-driven, and per share guidance we provide is based on diluted amounts, the theoretical effects of the conversion feature result in per share unpredictability.

Additional disclosure requirements also give widely ranging results depending on market price variability. The notes will be freely convertible in the last six months of their contractual life, beginning in the fourth quarter of 2020; however, generally accepted accounting principles require us to periodically report the amount by which the notes' convertible value exceeds their principal amount, without regard to the current availability of the conversion feature. Further, the mechanics of the calculation require the use of an end-of-period stock price, so that using that amount for the remaining notes outstanding of $147,575,000 at December 31, 2017, delivers an excess of $10,776,000, whereas the use of another price point would give a different result.

The conversion feature is generally available to the noteholders entering the last six months of the notes' term but may also become actionable if the market price of NHI's common stock should, for 20 of 30 consecutive trading days within a calendar quarter, sustain a level in excess of 130% of the adjusted conversion price, or $91.35 per share, down from $93.55 per share, initially. The notes are "optional net-share settlement" instruments, meaning that NHI has the ability and intent to settle the principal amount of the indebtedness in cash, with possible dilutive share issuances for any excess, at NHI's option. Settlement of the notes requires management to allocate the consideration we ultimately pay between the debt component and the equity conversion feature as though they were separate instruments. The allocation is effected by valuing the debt component first, with any remainder allocated to the conversion feature. Amounts expended to settle the notes will be recognized first as a settlement of the notes at par and then will be recognized in income to the extent the portion allocated to the debt instrument differs from par value. The remainder of the allocation, if any, will be treated as settlement of equity and adjusted through our paid in capital account.

Contractual Obligations

As of December 31, 2017, our contractual payment obligations were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt, including interest[1]	$1,425,101	$44,168	$276,452	$787,572	$316,909
Real estate purchase liabilities	42,000	14,000	28,000	—	—
Construction commitments	24,186	24,186	—	—	—
Loan commitments	33,204	33,204	—	—	—
	$1,524,491	$115,558	$304,452	$787,572	$316,909

[1] Interest is calculated based on the weighted average interest rate of outstanding debt balances as of December 31, 2017. The calculation also includes a commitment fee of .20%.

Commitments and Contingencies

The following tables summarize information as of December 31, 2017 related to our outstanding commitments and contingencies which are more fully described in the notes to the consolidated financial statements.

	Asset Class	Type	Total	Funded	Remaining
Loan Commitments:					
Life Care Services Note A	SHO	Construction	$60,000,000	$(53,622,000)	$6,378,000
Bickford Senior Living	SHO	Construction	28,000,000	(15,558,000)	12,442,000
Senior Living Communities	SHO	Revolving Credit	15,000,000	(616,000)	14,384,000
			$103,000,000	$(69,796,000)	$33,204,000

In addition to smaller ongoing renovation commitments which will be included in the lease base when funded, in 2014 we provided a $15,000,000 revolving line of credit to Senior Living, the maturity of which mirrors the 15-year term of the master lease also dating from 2014. While borrowings are used within the Senior Living portfolio to finance construction projects, including building additional units, up to $5,000,000 of the facility may be used to meet general working-capital needs. In March 2016, we extended two additional mezzanine loans totaling $14,000,000 to affiliates of Senior Living, to partially fund construction of a 186-unit senior living campus on Daniel Island in South Carolina.

See Note 3 to the consolidated financial statements for full details of our loan commitments. As provided above, loans funded do not include the effects of discounts or commitment fees. LCS has been repaying its construction loan and indications are that additional draws on Note A in 2018 will not result in full funding under terms of the agreement. Funding of the promissory note commitment to Bickford is expected to continue monthly through 2018.

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	Asset Class	Type	Total	Funded	Remaining
Development Commitments:					
Legend/The Ensign Group	SNF	Purchase	$56,000,000	$(14,000,000)	$42,000,000
East Lake/Watermark Retirement	SHO	Renovation	10,000,000	(5,900,000)	4,100,000
Santé Partners	SHO	Renovation	3,500,000	(2,621,000)	879,000
Bickford Senior Living	SHO	Renovation	2,400,000	(122,000)	2,278,000
East Lake Capital Management	SHO	Renovation	400,000	—	400,000
Senior Living Communities	SHO	Renovation	6,830,000	(970,000)	5,860,000
Discovery Senior Living	SHO	Renovation	500,000	—	500,000
Woodland Village	SHO	Renovation	7,450,000	(762,000)	6,688,000
Chancellor Health Care	SHO	Construction	650,000	(62,000)	588,000
Navion Senior Solutions	SHO	Construction	650,000	—	650,000
			$88,380,000	$(24,437,000)	$63,943,000

We remain obligated to purchase, from a developer, three new skilled nursing facilities in Texas for $42,000,000 which are leased to Legend and subleased to Ensign.

	Asset Class	Type	Total	Funded	Remaining
Contingencies:					
Bickford / Sycamore	SHO	Lease Inducement	$14,000,000	$(2,250,000)	$11,750,000
East Lake Capital Management	SHO	Lease Inducement	8,000,000	—	8,000,000
Navion Senior Solutions	SHO	Lease Inducement	4,850,000	—	4,850,000
Prestige Care	SHO	Lease Inducement	1,000,000	—	1,000,000
The LaSalle Group	SHO	Lease Inducement	5,000,000	—	5,000,000
			$32,850,000	$(2,250,000)	$30,600,000

Contingent payments related to the five Bickford development properties constructed in 2016 and 2017 include a licensure incentive of $250,000 per property. Additionally, each property is subject to a three-tiered operator incentive schedule paying up to an additional $1,750,000, based on the attainment of certain performance metrics. As funded, these payments are added to the lease base and amortized against rental income.

In connection with our July 2015 lease to East Lake of three senior housing properties, NHI has committed to certain lease inducement payments of $8,000,000 contingent on reaching and maintaining certain metrics, which have been assessed as not probable of payment and which we have not recorded on our balance sheet as of December 31, 2017. We are unaware of circumstances that would change our initial assessment as to the contingent lease incentives. Not included in the above table is a seller earnout of $750,000, which was recorded on our consolidated balance sheet within accounts payable and other accrued expenses at acquisition in 2014.

In February 2014, we entered into a commitment on a letter of credit for the benefit of Sycamore, an affiliate of Bickford, which previously held a minority interest in PropCo. In the fourth quarter of 2017, Sycamore began to draw on other means to furnish its resource provider the required letter of credit, and our commitment under the 2014 letter was ended. As of December 31, 2017, we furnish no direct support to Sycamore. As an affiliate company of Bickford, Sycamore is structured to limit liability for potential claims for damages, is capitalized to achieve that purpose and is considered a VIE.

See Note 2 to the consolidated financial statements for further description of contingent lease inducements available to Navion, LaSalle and Prestige.

Litigation

Our facilities are subject to claims and suits in the ordinary course of business. Our lessees and borrowers have indemnified, and are obligated to continue to indemnify us, against all liabilities arising from the operation of the facilities, and are further obligated to indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the facilities, management believes that the ultimate resolution of all such pending proceedings will have no material adverse effect on our financial condition, results of operations or cash flows.

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FFO, AFFO & FAD

These supplemental operating performance measures may not be comparable to similarly titled measures used by other REITs. Consequently, our Funds From Operations ("FFO"), Normalized FFO, Normalized Adjusted Funds From Operations ("AFFO") and Normalized Funds Available for Distribution ("FAD") may not provide a meaningful measure of our performance as compared to that of other REITs. Since other REITs may not use our definition of these operating performance measures, caution should be exercised when comparing our Company's FFO, Normalized FFO, Normalized AFFO and Normalized FAD to that of other REITs. These financial performance measures do not represent cash generated from operating activities in accordance with generally accepted accounting principles ("GAAP") (these measures do not include changes in operating assets and liabilities) and therefore should not be considered an alternative to net earnings as an indication of operating performance, or to net cash flow from operating activities as determined by GAAP as a measure of liquidity, and are not necessarily indicative of cash available to fund cash needs.

Funds From Operations - FFO

Our FFO per diluted common share for the year ended December 31, 2017 increased $0.25 (4.8%) over the same period in 2016. Our normalized FFO for the year ended December 31, 2017 increased $0.42 (9%) over the same period in 2016, primarily as the result of our new real estate investments in 2016 and 2017. FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT") and applied by us, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate property, plus real estate depreciation and amortization and impairment, if applicable, and after adjustments for unconsolidated partnerships and joint ventures, if any. The Company's computation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or have a different interpretation of the current NAREIT definition from that of the Company; therefore, caution should be exercised when comparing our Company's FFO to that of other REITs. Diluted FFO assumes the exercise of stock options and other potentially dilutive securities. Normalized FFO excludes from FFO certain items which may create some difficulty in comparing FFO for the current period to similar prior periods, and may include, but are not limited to, impairment of non-real estate assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, recoveries of previous write-downs and the write off of debt issuance costs due to credit facility modifications.

FFO and normalized FFO are important supplemental measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen and fallen with market conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative, and should be supplemented with a measure such as FFO. The term FFO was designed by the REIT industry to address this issue.

Adjusted Funds From Operations - AFFO

Our normalized AFFO per diluted common share for the year ended December 31, 2017 increased $0.36 (8.2%) over the same period in 2016 due primarily to the impact of real estate investments completed during 2016 and 2017. In addition to the adjustments included in the calculation of normalized FFO, normalized AFFO excludes the impact of any straight-line rent revenue, amortization of the original issue discount on our convertible senior notes and amortization of debt issuance costs.

Normalized AFFO is an important supplemental measure of operating performance for a REIT. GAAP requires a lessor to recognize contractual lease payments into income on a straight-line basis over the expected term of the lease. This straight-line adjustment has the effect of reporting lease income that is significantly more or less than the contractual cash flows received pursuant to the terms of the lease agreement. GAAP also requires the original issue discount of our convertible senior notes and debt issuance costs to be amortized as non-cash adjustments to earnings. Normalized AFFO is useful to our investors as it reflects the growth inherent in the contractual lease payments of our real estate portfolio.

Funds Available for Distribution - FAD

Our normalized FAD for the year ended December 31, 2017 increased $24,290,000 (14.0%) over the same period in 2016 due primarily to the impact of real estate investments completed during 2016 and 2017. In addition to the adjustments included in the calculation of normalized AFFO, normalized FAD excludes the impact of non-cash stock based compensation. Normalized FAD is an important supplemental measure of operating performance for a REIT as a useful indicator of the ability to distribute dividends to shareholders. Additionally, normalized FAD improves the understanding of our operating results among investors and makes comparisons with: (i) expected results, (ii) results of previous periods and (iii) results among REITs, more meaningful. Because FAD may function as a liquidity measure, we do not present FAD on a per-share basis.

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The following table reconciles net income attributable to common stockholders, the most directly comparable GAAP metric, to FFO, Normalized FFO, Normalized AFFO and Normalized FAD and is presented for both basic and diluted weighted average common shares (in thousands, except share and per share amounts):

	Years ended December 31,		
	2017	2016	2015
Net income attributable to common stockholders	$159,365	$151,540	$148,862
Elimination of certain non-cash items in net income:			
Depreciation	67,173	59,525	53,123
Depreciation related to noncontrolling interest	—	(927)	(1,150)
Net gain on sales of real estate	(50)	(4,582)	(1,126)
NAREIT FFO attributable to common stockholders	$226,488	$205,556	$199,709
Gain on sale of marketable securities	(10,038)	(29,673)	(23,529)
Gain on sale of equity-method investee	—	(1,657)	—
Write-off of deferred tax asset	—	1,192	—
Loss on early retirement of convertible debt	2,214	—	—
Debt issuance costs written-off due to credit facility modifications	407	—	—
Ineffective portion of cash flow hedges	(353)	—	—
Non-cash write-off of straight-line rent receivable	—	9,456	—
Write-off of lease intangible	—	6,400	—
Revenue recognized due to early lease termination	—	(303)	—
Recognition of note discount and early payment penalty	(922)	(288)	—
Recovery of previous write-down	—	—	(491)
Normalized FFO attributable to common stockholders	$217,796	$190,683	$175,689
Straight-line lease revenue, net	(26,090)	(22,198)	(24,623)
Straight-line lease revenue, net, related to noncontrolling interest	—	(4)	40
Amortization of lease incentives	119	40	40
Amortization of original issue discount	1,109	1,145	1,101
Amortization of debt issuance costs	2,483	2,368	2,311
Amortization of debt issuance costs related to noncontrolling interest	—	(27)	(30)
Normalized AFFO	$195,417	$172,007	$154,528
Non-cash stock based compensation	2,612	1,732	2,134
Normalized FAD	$198,029	$173,739	$156,662
BASIC			
Weighted average common shares outstanding	40,894,219	39,013,412	37,604,594
FFO per common share	$5.54	$5.27	$5.31
Normalized FFO per common share	$5.33	$4.89	$4.67
Normalized AFFO per common share	$4.78	$4.41	$4.11
DILUTED			
Weighted average common shares outstanding	41,151,453	39,155,380	37,644,171
FFO per common share	$5.50	$5.25	$5.31
Normalized FFO per common share	$5.29	$4.87	$4.67
Normalized AFFO per common share	$4.75	$4.39	$4.10

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Adjusted EBITDA

We consider Adjusted EBITDA to be an important supplemental measure because it provides information which we use to evaluate our performance and serves as an indication of our ability to service debt. We define Adjusted EBITDA as consolidated earnings before interest, taxes, depreciation and amortization, including amounts in discontinued operations, excluding real estate asset impairments and gains on dispositions and certain items which may create some difficulty in comparing Adjusted EBITDA for the current period to similar prior periods, and may include, but are not limited to, impairment of non-real estate assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, and recoveries of previous write-downs. Since others may not use our definition of Adjusted EBITDA, caution should be exercised when comparing our Adjusted EBITDA to that of other companies.

The following table reconciles net income, the most directly comparable GAAP metric, to Adjusted EBITDA:

	December 31,		
	2017	2016	2015
Net income	$159,365	$152,716	$150,314
Interest expense	46,324	43,108	37,629
Franchise, excise and other taxes	960	1,009	985
Income tax of taxable REIT subsidiary	—	749	(707)
Depreciation	67,173	59,525	53,123
Net gain on sales of real estate	(50)	(4,582)	(1,126)
Normalizing items	—	—	—
Gain on sale of marketable securities	(10,038)	(29,673)	(23,529)
Gain on sale of equity-method investee	—	(1,657)	—
Loss on early retirement of convertible debt	2,214	—	—
Non-cash write-off of straight-line rent receivable	—	9,456	—
Write-off of lease intangible	—	6,400	—
Revenue recognized due to early lease termination	—	(303)	—
Acquisition costs under business combination accounting	—	—	—
Recognition of note discount and early payment penalty	(922)	(288)	—
Expenses related to abandoned capital offerring	—	—	—
Write-off of previously accrued executive bonus	—	—	—
Recovery of previous write-down	—	—	(491)
Change in fair value of interest rate swap	—	—	—
Other items, net	—	—	—
Adjusted EBITDA	$265,026	$236,460	$216,198
Interest expense at contractual rates	$40,385	$36,197	$30,094
Principal payments	794	768	743
Fixed Charges	$41,179	$36,965	$30,837
Fixed Charge Coverage	6.4x	6.4x	7.7x

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

At December 31, 2017, we were exposed to market risks related to fluctuations in interest rates on approximately $221,000,000 of variable-rate indebtedness (excluding $250,000,000 of variable-rate debt that has been hedged through interest-rate swap contracts) and on our mortgage and other notes receivable. The unused portion ($329,000,000 at December 31, 2017) of our credit facility, should it be drawn upon, is subject to variable rates.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and loans receivable unless such instruments mature or are otherwise terminated. However, interest rate changes will affect the fair value of our fixed rate instruments. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not significantly affect the fair value of those instruments. Assuming a 50 basis point increase or decrease in the interest rate related to variable-rate debt, and assuming no change in the outstanding balance as of December 31, 2017, net interest expense would increase or decrease annually by approximately $1,105,000 or $.03 per common share on a diluted basis.

We use derivative financial instruments in the normal course of business to mitigate interest rate risk. We do not use derivative financial instruments for speculative purposes. Derivatives are included in the Consolidated Balance Sheets at their fair value. We may engage in hedging strategies to manage our exposure to market risks in the future, depending on an analysis of the interest rate environment and the costs and risks of such strategies.

The following table sets forth certain information with respect to our debt (dollar amounts in thousands):

	December 31, 2017			December 31, 2016		
	Balance[1]	% of total	Rate[5]	Balance[1]	% of total	Rate[5]
Fixed rate:						
Convertible senior notes	$147,575	12.7 %	3.25%	$200,000	17.7 %	3.25%
Unsecured term loans[2]	650,000	56.0 %	3.83%	650,000	57.4 %	4.01%
HUD mortgage loans[3]	45,047	3.9 %	4.04%	45,841	4.0 %	4.04%
Fannie Mae mortgage loans[4]	96,367	8.3 %	3.94%	78,084	6.9 %	3.79%
Variable rate:						
Unsecured revolving credit facility	221,000	19.1 %	2.96%	158,000	14.0 %	2.27%
	$1,159,989	100.0%	3.61%	$1,131,925	100.0%	3.62%

[1] Differs from carrying amount due to unamortized discount.
[2] Includes six term loans in 2017 and eight in 2016; rate is a weighted average
[3] Includes 10 HUD mortgages; rate is a weighted average inclusive of a mortgage insurance premium
[4] Includes 14 Fannie Mae mortgages in 2017 and 13 in 2016
[5] Total is weighted average rate

The unsecured term loans in the table above give effect to $40,000,000, $80,000,000, and $130,000,000 notional amount interest rate swaps with maturities of April 2019, June 2020 and June 2020, respectively, that collectively are continuing to hedge against fluctuations in variable interest rates applicable to the $250,000,000 term loan maturing in 2022. These loans bear interest at LIBOR plus a spread, currently 130 basis points, based on our current Consolidated Coverage Ratio, as defined.

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To highlight the sensitivity of our fixed-rate loans to changes in interest rates, the following summary shows the effects on fair value ("FV") assuming a parallel shift of 50 basis points ("bps") in market interest rates for a contract with similar maturities as of December 31, 2017 (dollar amounts in thousands):

	Balance	Fair Value[1]	FV reflecting change in interest rates	
Fixed rate:			-50 bps	+50 bps
Private placement term loans - unsecured	$400,000	$390,816	$402,515	$379,509
Convertible senior notes	147,575	150,172	152,562	147,821
Fannie Mae mortgage loans	96,367	92,055	95,006	89,206
HUD mortgage loans	45,047	46,342	49,666	43,323

[1] The change in fair value of our fixed rate debt was due primarily to the overall change in interest rates.

At December 31, 2017, the fair value of our mortgage and other notes receivable, discounted for estimated changes in the risk-free rate, was approximately $140,049,000. A 50 basis point increase in market rates would decrease the estimated fair value of our mortgage and other notes receivable by approximately $2,903,000, while a 50 basis point decrease in such rates would increase their estimated fair value by approximately $2,990,000.

Equity Price Risk

The Company is no longer subject to equity risk since it no longer owns any marketable securities.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders
National Health Investors, Inc.
Murfreesboro, Tennessee

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of National Health Investors, Inc. (the “Company”) and subsidiaries as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and financial statement schedules 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 and subsidiaries at December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated February 15, 2018 expressed an unqualified opinion thereon.

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 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.

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 2004.

Nashville, Tennessee
February 15, 2018

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NATIONAL HEALTH INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share amounts)

	December 31,	
Assets:	2017	2016
Real estate properties:		
Land	$191,623	$172,003
Buildings and improvements	2,471,602	2,285,122
Construction in progress	2,678	15,729
	2,665,903	2,