

NATIONAL HEALTH INVESTORS INC
Form 10-K
February 18, 2014

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

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2013

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

(State or other jurisdiction of incorporation or organization)

62-1470956

(I.R.S. Employer Identification No.)

222 Robert Rose Drive, Murfreesboro, Tennessee

(Address of principal executive offices)

(615) 890-9100

(Registrant's telephone number, including area code)

37129

(Zip Code)

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

Title of each Class

Common stock, \$.01 par value

Name of each exchange on which registered

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 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically 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 No

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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2013 (based on the closing price of these shares on the New York Stock Exchange) was approximately \$1,570,271,000. There were 33,051,176 shares of the registrant’s common stock outstanding as of February 14, 2014.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive proxy statement for its 2014 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-looking 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 customers (facility operators) for collection of our revenues during this time of uncertain economic conditions in the U.S.;
- * 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 will have on our tenants' and borrowers' business;
- * We are exposed to the risk that the cash flows of our tenants and borrowers will be adversely affected by increased liability claims and general and professional liability insurance costs;
- * We are exposed to risks related to environmental laws and the costs associated with the liability related to hazardous substances;
- * We are exposed to the risk that we may not be indemnified by our lessees and borrowers against future litigation;
- * We depend on the success of future acquisitions and investments;
- * We depend on the ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;
- * We may need to incur more debt in the future, which may not be available on terms acceptable to the Company;
- * 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;

* We are exposed to risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests;

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

* 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 our assets may be subject to impairment charges;

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

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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.

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., incorporated under the laws of Maryland in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care and senior housing industries. As of December 31, 2013, our portfolio consisted of real estate, mortgage and note investments and investments in the preferred stock and marketable securities of other REITs. We are a self-managed REIT investing in health care real estate or in the operations thereof through independent third-party managers that generate current income to be distributed to stockholders. We have pursued this mission by investing primarily in leased properties, loans and RIDEA transactions. These investments include senior housing (assisted living, independent living and senior living campuses), skilled nursing facilities, hospitals and medical office buildings, all of which are collectively referred to herein as "Health Care Facilities." We typically fund these investments through three sources of capital: (1) debt offerings, including bank lines of credit and ordinary term debt, (2) current cash flow, and (3) the sale of equity securities.

At December 31, 2013, our continuing operations consisted of investments in real estate and mortgage and other notes receivable involving 168 health care facilities located in 30 states. These investments involve 94 senior housing communities, 68 skilled nursing facilities, 4 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of \$882,000) consisted of properties with an original cost of approximately \$1,421,120,000, rented under triple-net leases to 23 lessees, and \$60,639,000 aggregate carrying value of mortgage and other notes receivable due from 15 borrowers.

All of our investments in real estate and mortgage loans secured by real estate are 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, a measure of our income, and total assets can be found in Item 8 of this Form 10-K.

Types of Health Care Facilities

Senior Housing Communities. As of December 31, 2013, our portfolio included 91 senior housing communities (“SHO”) leased to operators and mortgage loans secured by 3 SHOs. SHOs within our portfolio consist of assisted living facilities, independent living facilities, and senior living campuses which are more fully described below.

Assisted living facilities. As of December 31, 2013, our portfolio included 58 assisted living facilities (“ALF”) leased to operators and mortgage loans secured by 2 ALFs. ALFs are free-standing facilities that provide basic room and board functions for elderly residents. They may also provide assistance to elderly residents with activities of daily -living such as bathing, grooming, memory care services and administering medication. 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 do not require the issuance of a Certificate of Need (“CON”) as required for skilled nursing facilities.

Independent living facilities. As of December 31, 2013, our portfolio included 28 independent living facilities (“ILF”) -leased to operators. ILFs offer specially designed residential units for the active and ambulatory elderly and provide various

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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 programs. ILFs may be licensed and regulated in some states, but do not require the issuance of a CON as required for skilled nursing facilities.

Senior living campuses. As of December 31, 2013, our portfolio included 5 senior living campuses ("SLC") leased to operators and a mortgage loan secured by 1 SLC. SLCs are either freestanding or multi-site campuses that include skilled nursing beds combined with an ILF and/or an ALF that provide basic room and board functions for elderly residents. They may also provide assistance to elderly 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. Operators of SLCs are typically paid from private sources and from government programs such as Medicare and Medicaid for skilled nursing residents.

Skilled nursing facilities. As of December 31, 2013, our portfolio included 61 skilled nursing facilities ("SNF") leased to operators and mortgage loans secured by 7 SNFs. SNFs provide some combination of skilled and intermediate nursing and rehabilitative care, including speech, physical and occupational therapy. The operators of the SNFs receive payment from a combination of private pay sources and government programs such as Medicaid and Medicare. SNFs are required to obtain state licenses and are highly regulated at the federal, state and local level. Most SNFs must obtain a CON from the state before opening or expanding such facilities. Some SNFs also include assisted living beds.

Medical office buildings. As of December 31, 2013, our portfolio included 2 medical office buildings ("MOB") leased to operators. MOB are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. MOB differ from conventional office buildings due to the special requirements of the tenants. Each of our MOB 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.

Hospitals. As of December 31, 2013, our portfolio included 3 hospitals ("HOSP") leased to operators and a mortgage loan secured by 1 hospital. 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 programs.

Nature of Investments

Our investments are typically structured as acquisitions of properties through purchase-leaseback transactions, acquisitions of properties from other real estate investors, mortgage loans or, in operations, through structures allowed by the REIT Investment Diversification Empowerment Act of 2007 ("RIDEA"). We have also 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 lease with us upon completion of the construction. The annual lease rates on our leases and the annual interest rates on our mortgage and construction loans ranged between 6.5% and 12% during 2013. We normally charge a commitment fee of 1% based on the purchase price of the property or the total principal amount of a mortgage or construction loan. 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 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 ownership and operation of the Health Care Facilities, including required levels of capital expenditure each year. The tenant is obligated at its expense to keep all improvements, fixtures and other components of the Health Care Facilities 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 and occupancy of each Health Care Facility by the tenant and related activities, and to indemnify us against all costs related to any release, discovery, clean-up and removal of hazardous substances or materials on, or other environmental responsibility with respect to each Health Care 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. The acute care hospital and MOBs which we own and lease give the lessee an option to purchase the underlying property at the greater of i) our acquisition costs; ii) the then fair market value as established by independent appraisers or iii) the sum of the land costs, construction costs and any additional capital improvements made to the property by us. In addition, the acute care hospital and MOB leases contain a right of first refusal for the lessee if we receive an offer to buy the underlying leased property.

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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/or 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 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 Bickford Senior Living ("Bickford") is structured to be compliant with the provisions of RIDEA which permits NHI to receive rent payments through a triple-net lease between a property company and an operating company and gives 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 holds our 85% equity interest in an unconsolidated operating company, which we do not control, and provides an organizational structure that will allow 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.

Construction loans. From time to time, we also provide construction loans that by their terms 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. The terms of such construction loans are for a period which commences upon the closing of such loans and terminates upon the earlier of (a) the completion of the construction of the applicable facility or (b) a specific date. 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.

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 scheduled fixed rate increases. 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.

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 health care facility meets our loan underwriting criteria. The interest rates on our second mortgage loans are currently 12% to 14.5% per annum.

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 health care facilities. Our interest rate on the credit facility is 13.5%. 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 currently range from 12% to 13.5%.

Investment in preferred stock and marketable securities of other healthcare REITs. We invest a portion of our funds in the preferred and common shares of other publicly-held REITs to ensure the substantial portion of our assets is invested for real estate purposes. As of December 31, 2013, our investments in preferred and common shares of publicly-held REITs had a carrying value of \$50,782,000. Please refer to Notes 5 & 6 of our consolidated financial statements for further information.

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Competition and Market Conditions

We compete with other REITs, private equity funds and other investors (including, but not limited to, banks, insurance companies, and investment banks who market securities in mortgage funds) in the acquisition, leasing and financing of health care-related properties.

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

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 programs. From time to time, these facilities have experienced Medicare and Medicaid 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 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 borrowers and lessees could adversely impact us.

Senior housing communities generally rely on private-pay residents who may be negatively impacted in an economic downturn. The success of these facilities is often impacted by the existence of comparable, competing facilities in a local market.

Operator Diversification

The majority of our Health Care Facilities are operated by the owner or lessee. For the year ended December 31, 2013, approximately 38% of our portfolio revenue was from publicly-owned operators, 50% was from regional operators, 8% was from smaller operators and 4% from national chains which are privately owned. We consider the operator to be an important factor in determining the creditworthiness of the investment, and we generally have the right to approve any changes in operators.

For the year ended December 31, 2013, operators of facilities which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Emeritus Senior Living; Fundamental Long Term Care Holdings, LLC; Health Services Management, Inc.; Landmark Senior Living; Legend Healthcare, LLC; National HealthCare Corp.; Senior Living Management Corporation, LLC; SeniorHealth of Rutherford, LLC; SP Silverdale, LLC; and White Pine Senior Living.

Major Customers

We have two operators, National HealthCare Corporation ("NHC") and Bickford Senior Living ("Bickford"), from whom we individually derive at least 10% of our income from operations. Beginning in December 2013, a third major operator, Holiday Acquisition Holdings LLC ("Holiday"), an affiliate of Holiday Retirement, has leased 25 independent living facilities from us which contractually obligates Holiday, in 2014 and going forward, to make lease payments which will aggregate to more than 25% of NHI revenues, based on our 2013 leases in place.

NHC. NHC is a publicly-held company and the lessee of our legacy properties. We lease 42 health care 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 seven skilled nursing facilities acquired from ElderTrust of Florida, Inc. on August 31, 2013.

In December 2012 we extended the 1991 lease through December 2026. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. We refer to this additional rent component as "percentage rent." Similarly, the 2013 lease provides for percentage rent equal to 4% of the increase, if any, in each facility's annual revenue over a 2014 base year.

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Of our total revenue from continuing operations, \$34,756,000 (29%), \$33,056,000 (35%) and \$32,619,000 (39%) in 2013, 2012 and 2011, respectively, were derived from the two lease agreements with NHC.

In August 2013 we sold six skilled nursing facilities to NHC for \$21,000,000 in cash. To reflect this transaction, effective January 1, 2014, NHI's annual base rent on the 1991 lease will be reduced by \$2,950,000. At that time, our annual base rent from the 1991 and 2013 leases will become \$34,200,000. Accordingly, the results of operation of the facilities sold were classified as discontinued operations for all periods presented in our Consolidated Statements of Income.

NHC owned 1,630,462 shares of our common stock at December 31, 2013. The chairman of our board of directors is also a director on NHC's board.

Bickford. We own an 85% equity interest and an affiliate of Bickford owns a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 29 assisted living/memory care facilities in 6 states and also has 1 facility under construction. The facilities are leased in a joint venture to an operating company, ("OpCo"), of which we also retain an 85% ownership interest, but do not control. The joint venture is structured to comply with the provisions of RIDEA.

On June 28, 2013, PropCo purchased 17 assisted living and memory care facilities which were managed by Bickford. The facilities total 750 units and are located in Illinois, Indiana, Iowa and Nebraska. Of these facilities, 14 were acquired from a subsidiary of Care Investment Trust, Inc. ("Care") for \$124,549,000, consisting of \$44,021,000 in cash and assumption of secured debt with a fair value of \$80,528,000. As part of this transaction, we recognized all identifiable tangible assets and liabilities assumed at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed \$4,360,000 to the fair value of the land, \$120,189,000 to the fair value of the buildings and improvements and expensed \$63,000 in transaction costs at closing. The 14 newly-acquired facilities have been leased to OpCo for an initial term of 5 years at an aggregate annual lease amount of \$9,750,000 plus annual fixed escalators commencing on July 1 of each succeeding year.

Concurrent with this acquisition, PropCo also completed a \$12,910,000 purchase and leaseback of three assisted living facilities located in Iowa, Nebraska and Indiana totaling 107 units from affiliates of Bickford. PropCo's previous master lease with Bickford was amended to include these three properties and the annual lease amount was increased from \$7,750,000 to \$9,086,000, plus annual fixed escalators beginning January 1 of each succeeding year. All other significant terms of the existing master lease remain unchanged.

As described above, the current annual contractual rent from OpCo to PropCo is \$18,836,000, plus fixed annual escalators. During the quarter ended December 31, 2013, PropCo completed major construction and received certificates of occupancy on two assisted living facilities which were under development. Under the terms of the current development lease agreement, NHI continues to receive rent of 9% on the total amount of development costs, including land, which totaled \$17,796,000 at December 31, 2013.

Of our total revenue from continuing operations, \$14,586,000 (12%), \$5,164,000 (6%) and \$4,235,000 (5%) were recorded as rental income from Bickford for the years ended December 31, 2013, 2012, and 2011, respectively.

Holiday. In December 2013 we acquired 25 independent living facilities from an affiliate of Holiday Retirement, for \$491,000,000 plus transaction costs of \$1,959,000. The total purchase price was allocated to the assets acquired based upon their relative fair values, preliminarily estimated as \$21,700,000 to land, \$471,259,000 to buildings and improvements. No intangibles were identified in the acquisition. Such allocations have not been finalized as we await conclusive asset valuations and, as such, the results of the allocation are preliminary and subject to adjustment. This portfolio is located in 12 states. We have leased this portfolio to a subsidiary of Holiday, who continues to operate the facilities pursuant to a management agreement with a Holiday-affiliated manager.

The master lease term of 17 years begins in December 2013 and provides for initial base rent of \$31,915,000 plus annual escalators of 4.5% in the first 3 years and a minimum of 3.5% each year thereafter.

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Commitments and Contingencies

The following table summarizes information as of December 31, 2013 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
Commitments:					
Bickford Senior Living	SHO	Development	\$9,000,000	\$(2,712,000)	\$6,288,000
Chancellor Health Care	SHO	Development	\$8,000,000	\$—	\$8,000,000
Kentucky River Medical Center	Hospital	Renovation	\$8,000,000	\$(5,838,000)	\$2,162,000
Santé Mesa	Hospital	Development	\$13,870,000	\$(11,870,000)	\$2,000,000
Capital Funding Group	N/A	Revolving Credit	\$15,000,000	\$(15,000,000)	\$—
Contingencies:					
Discovery Senior Living	SHO	Lease Inducement	\$2,500,000	\$—	\$2,500,000
Santé Partners	SHO	Lease Inducement	\$2,000,000	\$—	\$2,000,000
Fundamental Long Term Care	SNF	Purchase Consideration	\$1,600,000	\$—	\$1,600,000
Helix Healthcare	Hospital	Purchase Consideration	\$1,000,000	\$—	\$1,000,000

Sources of Revenues

General. Our revenues are derived primarily from rental income, mortgage interest income and income from our other investments, substantially all of which are in the securities of other healthcare REITs. During 2013, rental income was \$106,029,000 (90%), interest income from mortgages and other notes was \$7,633,000 (6%) and income from our other investments was \$4,166,000 (4%) of total revenue from continuing operations of \$117,828,000. Our revenues depend on the operating success of our facility operators whose source and amount of revenues are determined by (i) the licensed beds or other capacity of the Health Care Facilities, (ii) the occupancy rate of the Health Care Facilities, (iii) the extent to which the services provided at each Health Care Facility are utilized by the patients, (iv) the mix of private pay, Medicare and Medicaid patients at the Health Care Facilities, and (v) the rates paid by private paying patients and by the Medicare and Medicaid programs.

Governmental and other concerns regarding health care costs have and may continue to result in significant reductions in payments to health care facilities, and there can be no assurance that future payment rates for either governmental or private health care plans will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care have had and could continue to have an adverse effect on revenues of our lessees and borrowers and thereby adversely affect those lessees' and borrowers' abilities to make their lease or debt payments to us. Failure of the lessees or borrowers to make their lease or debt payments would have a direct and material adverse impact on us.

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 centers under a Prospective Payment System ("PPS") which is based on a predetermined, fixed amount. PPS was instituted as mandated by the Balanced Budget Act of 1997 and became effective July 1, 1998. 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. PPS as implemented in 1998 had an adverse

impact on the healthcare industry and our lessees' and borrowers' business by decreasing payments materially, which adversely impacted our business. Refinements in the form of temporary add-ons provided some relief until October 1, 2002. Since then, annual market basket (inflationary) increases have continued to improve payments; however, other federal legislative policies have been adopted and continue to be proposed that could reduce Medicare payments to nursing facilities. For example, in July 2011, the Centers for Medicare and Medicaid Services ("CMS") announced the Skilled Nursing Facilities – PPS final rule for fiscal year 2012 which cut Medicare payments to SNF operators by a net 11.1% beginning October 1, 2011. In July 2012, CMS announced the final rule for fiscal 2013 that increased Medicare payments to SNF operators by a net 1.8% for the fiscal year beginning October 1, 2012. On May 1, 2013, CMS released a proposed rule outlining a 1.4% increase in their Medicare reimbursement for fiscal 2014 beginning on October 1, 2013. The final rule for 2014 does not take into account the ongoing attempt by Congress to reduce the federal deficit by \$1.5 trillion over the next decade as required by the Budget Control

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Act of 2011. The failure of Congress to agree on spending reductions to meet deficit goals would trigger automatic spending cuts of 2% to Medicare.

RUGs IV incorporates 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 (ADLs) 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. State Medicaid plans subject to budget constraints are of particular concern to us given the repeal of the Boren Amendment by the Balanced Budget Act of 1997. The Boren Amendment provided fair reimbursement protection to nursing facilities. Changes in federal funding coupled with state budget problems have produced an uncertain environment. Industry studies predict the Medicaid crisis will continue with states’ required contribution to Medicare Part D and anticipated budget deficits. States will more than likely be unable to keep pace with nursing center 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 nursing home care.

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 authorities. 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 reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care could adversely affect the operating revenues of our SNF and hospital lessees and borrowers, and thereby adversely affect their ability to make their lease or debt payments to us. Failure of our lessees and borrowers to make their scheduled lease and loan payments to us would have a direct and material adverse impact on us.

Government Regulation

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 lessee 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 lessee'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.

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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 as a health care facility could be jeopardized, which could adversely affect the lessee's or borrower's ability to make lease or debt payments to us and 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 and securities of other publicly-held REITs.

As described in the notes to the consolidated financial statements, we funded or made commitments to fund new investments in real estate and loans during 2013 totaling \$751,585,000, and we anticipate making additional investments in 2014 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 health care facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management 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, 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.

Future investments in health care related facilities or businesses may utilize borrowed funds 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.

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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 12, 2014:

Name	Position	Age
J. Justin Hutchens	President and Chief Executive Officer	39
Roger R. Hopkins	Chief Accounting Officer	52
Kristin S. Gaines	Chief Credit Officer	42

J. Justin Hutchens joined NHI in February 2009 as President and COO. Pursuant to a succession plan, in March 2011 he was appointed CEO. Prior to joining NHI, Mr. Hutchens acquired 15 years of senior care operations experience. His background includes multi-site management with assisted living and skilled nursing facilities (1997 - 2003). He has national operating experience (2003 -2009) as the Senior Vice-President and COO of Summerville Senior Living and Executive Vice-President and COO of Emeritus Senior Living (NYSE: ESC). Mr. Hutchens holds a Master of Science in Management from Regis University and a Bachelor of Science in Human Services from the University of Northern Colorado. He was awarded Executive Certificates in Measurement and Control of Organizational Performance from the University of Michigan, and Strategy and Innovation from the MIT Sloan School of Management.

Roger R. Hopkins joined NHI in 2006 and was named Chief Accounting Officer in December 2006. He has over 30 years of public accounting and financial management experience. Until 2006, he was a partner in the Tennessee regional accounting firm of Rodefer Moss & Co, PLLC. He was previously a senior manager in the Nashville, Tennessee office of Deloitte & Touche. Mr. Hopkins received a Bachelor of Science degree in Accounting from Tennessee Technological University in 1982 and is a Certified Public Accountant.

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 BBA in Accounting from Middle Tennessee State University.

We have a staff of 11, all serving in our corporate office in Murfreesboro, TN. Essential services such as internal auditing, tax compliance, information technology, legal services, and investor relations are outsourced to third-party professional firms.

Investor Information

We maintain a web site at www.nhireit.com. We publish to this web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and press releases. 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 Ethics and Standards of Conduct. This has been adopted for all employees, officers and directors of the Company. The website will also disclose whether there have been any amendments or waivers to the Code of Ethics and Standards of Conduct. To date there have been none.

Information on our “NHI Valuesline” which allows all interested parties unrestricted access to our Internal Auditor, 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 Compensation Committee
Charter.

The NHI Nomination and Corporate Governance Committee Charter.

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

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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 noon local time on Friday, May 2, 2014 at our corporate office at 222 Robert Rose Drive, Murfreesboro, TN.

ITEM 1A. RISK FACTORS

We depend on the operating success of our customers (facility operators) for collection of our revenues during this time of uncertain economic conditions in the U.S.

Revenues to operators of our Health Care Facilities 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. Overall weak economic conditions in the U.S. which affect housing sales, investment returns and personal incomes may adversely affect occupancy rates of ALFs that generally rely on private pay residents. Expenses for the Health Care 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 results in a facility 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 are exposed to the risk that our tenants and borrowers may not be able to meet the rent, principal and interest or other payments due us, which may result in an operator bankruptcy or insolvency, or that an operator might 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. An operator 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 facility, avoid the imposition of liens on a facility and/or transition a facility to a new operator. In some instances, we have terminated our lease with an operator and leased the facility to another operator. In some of those situations, we provided working capital loans to, and limited indemnification of, the new operator. If we cannot transition a leased facility to a new operator, we may take possession of that facility, 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 will have on our tenants' and borrowers' business.

Our operators' businesses are affected by government reimbursement and private payor rates. To the extent that any of our Health Care Facilities receive a significant portion of its 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 authorities. 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 payors. 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 will be adversely affected by increased liability claims and general and professional 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

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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 the liability 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 own 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 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 resulting from the occupancy and use of each Health Care 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 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 an operator 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 the 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 non-elective dispositions, 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 incur more debt in the future, which may not be available on terms acceptable to the Company.

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.

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We believe we will be able to raise additional debt and equity capital at reasonable costs to refinance our credit facility at or prior to its maturity. Our ability to raise reasonably priced capital is not guaranteed; we may be unable to raise reasonably priced 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. Health Care 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 Health Care 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.

We are exposed to risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests.

Our investments in unconsolidated entities could be adversely affected by our lack of sole decision-making authority regarding major decisions, our reliance on the financial condition of other interests, any disputes that may arise between us and other partners, and our exposure to potential losses from the actions of partners. Risks of dealing with parties outside NHI include limitations on unilateral major decisions opposed by other interests, the prospect of divergent goals of ownership including the likelihood of disputes regarding management, ownership or disposition of a property, or limitations on the transfer of our interests without the consent of our partners. Risks of the unconsolidated entity extend to areas in which the financial health of our partners may impact our plans. Our partners might become bankrupt or fail to fund their share of required capital contributions, which may hinder significant action in the entity. We may disagree with our partners about decisions affecting a property or the entity itself, which

could result in litigation or arbitration that increases our expenses, distracts our officers and directors and disrupts the day-to-day operations of the property, including by delaying important decisions until the dispute is resolved; and finally, we may suffer losses as a result of actions taken by our partners with respect to our investments.

We depend on revenues derived mainly from fixed rate investments in real estate assets, while our debt capital used to finance those investments is primarily 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

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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, primarily 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.

We periodically, but not less than quarterly, 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 as a REIT.

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.

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 stock 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 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.

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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 these 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, 2013

SKILLED NURSING Center	City	State	Lease (L)/ Mortgage (M)	Licensed Beds
NHC HealthCare, Anniston	Anniston	AL	L	151
NHC HealthCare, Moulton	Moulton	AL	L	136
Sunbridge Estrella Care & Rehabilitation	Avondale	AZ	L	161
Ayers Health & Rehabilitation Center	Trenton	FL	L	120
Bayonet Point Health & Rehabilitation Center	Hudson	FL	L	180
Bear Creek Nursing Center	Hudson	FL	L	120
Brooksville Healthcare Center	Brooksville	FL	L	180
Cypress Cove Care Center	Crystal River	FL	L	120
Heather Hill Healthcare Center	New Port Richey	FL	L	120
Parkway Health & Rehabilitation Center	Stuart	FL	L	177
Royal Oak Nursing Center	Dade City	FL	L	120
The Health Center of Merritt Island	Merritt Island	FL	L	180
The Health Center of Plant City	Plant City	FL	L	180
Grangeville Health and Rehabilitation Center	Grangeville	ID	L	60
NHC HealthCare, Glasgow	Glasgow	KY	L	206
Buckley HealthCare Center	Greenfield	MA	L	120
Holyoke Health Care Center	Holyoke	MA	L	102
John Adams HealthCare Center	Quincy	MA	L	71
Longmeadow of Taunton	Taunton	MA	L	100
NHC Healthcare, Desloge	Desloge	MO	L	120
NHC Healthcare, Joplin	Joplin	MO	L	126
NHC Healthcare, Kennett	Kennett	MO	L	170
NHC Healthcare, Maryland Heights	Maryland Heights	MO	L	220
NHC HealthCare, St. Charles	St. Charles	MO	L	120
Maple Leaf HealthCare Center	Manchester	NH	L	114
Villa Crest HealthCare Center	Manchester	NH	L	165
Epsom Manor HealthCare Center	Epsom	NH	L	108
NHC Healthcare, Anderson	Anderson	SC	L	290
NHC Healthcare, Greenwood	Greenwood	SC	L	152
NHC HealthCare, Laurens	Laurens	SC	L	176
UniHealth Post-Acute Care-Orangeburg	Orangeburg	SC	L	88
NHC Healthcare, Athens	Athens	TN	L	98
NHC Healthcare, Chattanooga	Chattanooga	TN	L	207
NHC HealthCare, Dickson	Dickson	TN	L	211
NHC HealthCare, Franklin	Franklin	TN	L	80
NHC Healthcare, Hendersonville	Hendersonville	TN	L	122
NHC Healthcare, Johnson City	Johnson City	TN	L	160
NHC Healthcare, Lewisburg	Lewisburg	TN	L	102
NHC HealthCare, McMinnville	McMinnville	TN	L	150
NHC HealthCare, Milan	Milan	TN	L	122
NHC Healthcare, Oakwood	Lewisburg	TN	L	60
NHC HealthCare, Pulaski	Pulaski	TN	L	102
NHC Healthcare, Scott	Lawrenceburg	TN	L	62
NHC HealthCare, Sequatchie	Dunlap	TN	L	120

NHC HealthCare, Smithville

Smithville

TN L

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SKILLED NURSING Center	City	State	Lease (L)/ Mortgage (M)	Licensed Beds
NHC Healthcare, Somerville	Somerville	TN	L	84
NHC Healthcare, Sparta	Sparta	TN	L	120
Canton Oaks	Canton	TX	L	120
Corinth Rehabilitation Suites	Corinth	TX	L	134
Heritage Place	Mesquite	TX	L	149
Legend Healthcare & Rehabilitation	Paris	TX	L	120
Legend Oaks Healthcare & Rehabilitation Center (East)	Houston	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center (Northwest)	Houston	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center	San Antonio	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center - Ennis	Ennis	TX	L	124
Legend Healthcare & Rehabilitation	Greenville	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center	Houston	TX	L	124
Legend Oaks Healthcare & Rehabilitation Center	Houston	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center	Kyle	TX	L	126
Park Place Care Center	Georgetown	TX	M	164
Winterhaven Healthcare Center	Houston	TX	L	160
Heritage Hall - Brookneal	Brookneal	VA	M	60
Heritage Hall - Grundy	Grundy	VA	M	120
Heritage Hall - Laurel Meadows	Laurel Fork	VA	M	60
Heritage Hall - Virginia Beach	Virginia Beach	VA	M	90
Heritage Hall - Front Royal	Front Royal	VA	M	60
Heritage Hall - Lexington	East Lexington	VA	M	60
NHC HealthCare, Bristol	Bristol	VA	L	120
ASSISTED LIVING				
Regency Pointe Retirement Community	Rainbow City	AL	L	120
The Place at Gilbert	Gilbert	AZ	L	40
The Place at Glendale	Glendale	AZ	L	38
The Place at Tanque Verde	Tucson	AZ	L	42
The Place at Tucson	Tucson	AZ	L	60
Brentwood at Fore Ranch	Ocala	FL	M	120
Indigo Palms at Maitland	Maitland	FL	L	116
Savannah Court of Bartow	Bartow	FL	L	30
Savannah Court of St. Cloud	St. Cloud	FL	L	30
Savannah Court of Lakeland	Lakeland	FL	L	30
Savannah Court at Lake Oconee	Greensboro	GA	L	64
Bickford of Ames*	Ames	IA	L	37
Bickford of Burlington*	Burlington	IA	L	44
Bickford of Cedar Falls	Cedar Falls	IA	L	42
Bickford of Clinton	Clinton	IA	L	37
Bickford of Ft. Dodge*	Ft. Dodge	IA	L	38
Bickford of Iowa City	Iowa City	IA	L	37
Bickford of Marshalltown*	Marshalltown	IA	L	38
Bickford of Muscatine*	Muscatine	IA	L	45
Bickford of Urbandale*	Urbandale	IA	L	61
Indianhead Estates	Weiser	ID	L	25
Bickford of Bourbonnais*	Bourbonnais	IL	L	65

Bickford of Moline*

Moline

IL L

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			Lease (L)/	Licensed
Center	City	State	Mortgage (M)	Beds
Bickford of Peoria	Peoria	IL	L	32
Bickford of Quincy*	Quincy	IL	L	46
Bickford of Rockford*	Rockford	IL	L	65
Bickford of Springfield*	Springfield	IL	L	67
Bickford of Carmel**	Carmel	IN	L	60
Bickford of Crawfordsville*	Crawfordsville	IN	L	28
Bickford of Crown Point	Crown Point	IN	L	60
Bickford of Greenwood	Greenwood	IN	L	60
Bickford of Lafayette	LaFayette	IN	L	28
Bickford of Wabash	Wabash	IN	L	28
Bickford of Mission Springs	Mission	KS	L	91
Bickford of Overland Park	Overland Park	KS	L	79
West Monroe Arbors	West Monroe	LA	L	59
Bossier Arbors	Bossier City	LA	L	60
Bastrop Arbors	Bastrop	LA	L	38
Minden Arbors	Minden	LA	L	26
The Woodlands Assisted Living	Baltimore	MD	L	70
Bickford of Battle Creek	Battle Creek	MI	L	46
Bickford of Lansing	Lansing	MI	L	46
Bickford of Midland	Midland	MI	L	46
Bickford of Saginaw	Saginaw	MI	L	46
Traditions	Owatonna	MN	M	70
Gracewood Champlin	Champlin	MN	L	30
Gracewood Hugo	Hugo	MN	L	24
Gracewood Maplewood	Maplewood	MN	L	42
Gracewood North Branch	North Branch	MN	L	30
Bickford of Grand Island	Grand Island	NE	L	37
Bickford of Lincoln*	Lincoln	NE	L	44
Bickford of Omaha Hickory*	Omaha	NE	L	37
Halcyon Village	Marysville	OH	L	76
Dorian Place	Ontario	OR	L	44
Wellsprings	Ontario	OR	L	32
The Place at Conway	Conway	SC	L	52
The Place at Gallatin	Gallatin	TN	L	49
The Place at Kingsport	Kingsport	TN	L	49
The Place at Tullahoma	Tullahoma	TN	L	49
Charleston House	Beaver Dam	WI	L	120
INDEPENDENT LIVING				
Apple Blossom Independent Senior Living Community	Rogers	AR	L	119
Butterfield Place Independent Senior Living Community	Fort Smith	AR	L	117
Bay Park Independent Senior Living Community	Pinole	CA	L	98
Bridgecreek Independent Senior Living Community	West Covina	CA	L	108
Camelot Independent Senior Living Community	Hemet	CA	L	136
Fig Garden Independent Senior Living Community	Fresno	CA	L	103
Hampshire Independent Senior Living Community	Merced	CA	L	115
Mistywood Independent Senior Living Community	Roseville	CA	L	117

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INDEPENDENT LIVING

Center	City	State	Mortgage (M)	Beds
Standiford Place Independent Senior Living Community	Modesto	CA	L	121
Iris Place Independent Senior Living Community	Athens	GA	L	142
Riverplace Independent Senior Living Community	Columbus	GA	L	114
River's Edge Independent Senior Living Community	Savannah	GA	L	121
Chateau De Boise Independent Senior Living Community	Boise	ID	L	97
Arbor Glen Independent Senior Living Community	Fort Wayne	IN	L	120
Nouveau Marc Independent Senior Living Community	Kenner	LA	L	113
Lake St. Charles Retirement Center	St. Charles	MO	L	180
Yardley Commons Independent Senior Living Community	Voorhees	NJ	L	107
Worthington Independent Senior Living Community	Gahanna	OH	L	117
Silver Arrow Estates Independent Senior Living Community	Broken Arrow	OK	L	126
Astor House Independent Senior Living Community	Newberg	OR	L	121
Eagle Crest Independent Senior Living Community	Myrtle Beach	SC	L	120
Westminster Independent Senior Living Community	Greenville	SC	L	117
Colonial Hill Retirement Center	Johnson City	TN	L	63
Parkwood Retirement Apartments	Chattanooga	TN	L	30
Bedford Independent Senior Living Community	Vancouver	WA	L	103
Garden Club Independent Senior Living Community	Bellevue	WA	L	105
Kamlu Retirement Inn Independent Senior Living Community	Vancouver	WA	L	83
Orchard Park Independent Senior Living Community	Yakima	WA	L	101

SENIOR LIVING CAMPUS

Linda Valley Care Center	Loma Linda	CA	L	181
Savannah Court of Maitland	Maitland	FL	L	151
Savannah Court of Palm Beaches	W. Palm Beach	FL	L	144
Sunbridge Retirement & Rehab for Nampa	Nampa	ID	L	183
East Cascade Retirement Community	Madras	OR	M	76
Sante Silverdale	Silverdale	WA	L	138

HOSPITALS

Santé Mesa	Mesa	AZ	M	70
Alvarado Parkway Institute	La Mesa	CA	L	66
Kentucky River Hospital	Jackson	KY	L	55
TrustPoint Hospital (Polaris)	Murfreesboro	TN	L	60

MEDICAL OFFICE

North Okaloosa	Crestview	FL	L	Sq. Ft. 27,017
Pasadena Bayshore	Pasadena	TX	L	61,500

Corporate Office	Murfreesboro	TN	N/A	7,000
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* These properties are encumbered by a mortgage with an outstanding balance of \$80,080,000 at December 31, 2013.

** Under construction

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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	
2014	1	—	60	\$306	.19	%
2015	—	—	—	—	—	%
2016	4	—	604	4,154	2.60	%
2017	23	—	1,665	17,070	10.70	%
2018	16	61,500	731	11,595	7.27	%
2019	—	—	—	—	—	%
2020	6	27,017	224	2,876	1.80	%
2021	2	—	344	1,904	1.19	%
2022	4	—	156	3,672	2.30	%
2023	2	—	254	2,968	1.86	%
Thereafter	99	—	11,085	114,978	72.08	%

*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 generate 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 Health Care 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 Health Care 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 Health Care 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 subsequently purchased 194,100 shares of its common stock in the public market from its stockholders.

A separate agreement was entered into with each of 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 7, 2014, there were approximately 831 holders of record of shares and approximately 28,800 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:

2013	2012
Sales Price	Sales Price

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Quarter Ended	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
March 31	\$67.18	\$57.24	\$.695	\$51.29	\$43.37	\$.65
June 30	72.99	56.20	.735	51.63	47.16	.65
September 30	65.94	53.01	.735	54.81	51.00	.67
December 31	64.00	56.00	.735	57.30	51.00	.89 ¹

¹Includes a special dividend of \$0.22 per share

The closing price of our stock on February 13, 2014 was \$62.09.

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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 have been approved by our stockholders. The following table provides information as of December 31, 2013 about our common stock that may be issued upon grants of restricted stock and 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	516,674	\$59.20	1,160,635 ¹

¹These shares remain available for grant under the 2005 Plan and 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 FTSE NAREIT All REITs Index and the Standard & Poor's 500 Stock Index. The FTSE NAREIT All REITs Index is comprised of all tax-qualified REITs that are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List. The FTSE NAREIT All REITs Index is not free float adjusted, and constituents are not required to meet minimum size and liquidity criteria.

	2008	2009	2010	2011	2012	2013
NHI	\$100.00	\$146.23	\$188.96	\$195.14	\$265.04	\$275.75
NAREIT	\$100.00	\$127.46	\$128.74	\$129.81	\$155.90	\$160.89
S&P 500	\$100.00	\$126.46	\$145.50	\$148.57	\$172.34	\$228.16

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ITEM 6. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2013. 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. Prior period financial information has been reclassified for presentation of operations discontinued in 2013 as described in the notes to the consolidated financial statements. These reclassifications had no impact on previously reported net income.

(in thousands, except share and per share amounts)

STATEMENT OF INCOME DATA:	Years Ended December 31,				
	2013	2012	2011	2010	2009
Revenues	\$117,828	\$93,317	\$83,739	\$79,423	\$65,211
Income from continuing operations	79,498	72,834	69,817	58,729	53,682
Discontinued operations:					
Income from operations - discontinued	5,426	6,098	7,967	8,688	10,548
Gain on sales of real estate	22,258	11,966	3,348	2,004	—
Net income	107,182	90,898	81,132	69,421	64,230
Net income attributable to noncontrolling interest	(999)	) (167)) —	—	—
Net income attributable to common stockholders	\$106,183	\$90,731	\$81,132	\$69,421	\$64,230
PER SHARE DATA:					
Basic earnings per common share:					
Income from continuing operations	\$2.77	\$2.61	\$2.52	\$2.12	\$1.95
Discontinued operations	.97	.65	.41	.39	.38
Net income attributable to common stockholders	\$3.74	\$3.26	\$2.93	\$2.51	\$2.33
Diluted earnings per common share:					
Income from continuing operations	\$2.77	\$2.61	\$2.51	\$2.12	\$1.94
Discontinued operations	.97	.65	.41	.38	.38
Net income attributable to common stockholders	\$3.74	\$3.26	\$2.92	\$2.50	\$2.32
OTHER DATA:					
Common shares outstanding	33,051,176	27,857,217	27,751,208	27,689,392	27,629,505
Weighted average common shares:					
Basic	28,362,398	27,811,813	27,719,096	27,664,482	27,586,338
Diluted	28,397,702	27,838,720	27,792,592	27,732,959	27,618,300
Regular dividends declared per common share	\$2.90	\$2.64	\$2.495	\$2.36	\$2.20
Special dividends declared per common share	\$—	\$.22	\$.22	\$—	\$.10
BALANCE SHEET DATA: (at year end)					
Mortgages and other notes receivable, net	\$60,639	\$84,250	\$78,672	\$75,465	\$94,588

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Real estate properties, net	\$1,247,740	\$535,390	\$394,795	\$327,654	\$223,861
Preferred stock and marketable securities	\$50,782	\$51,016	\$49,496	\$60,608	\$59,454
Assets held for sale, net	\$—	\$1,611	\$29,381	\$36,853	\$33,420
Total assets	\$1,455,820	\$705,981	\$579,563	\$509,341	\$459,360
Debt	\$617,080	\$203,250	\$97,300	\$37,765	\$—
Total equity	\$777,160	\$468,047	\$443,485	\$442,500	\$434,612

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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., incorporated under the laws of Maryland in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care and senior housing industries. As of December 31, 2013, our portfolio consisted of real estate, mortgage and note investments and other investments in the preferred stock and marketable securities of other REITs. We are a self-managed REIT investing in health care real estate or in the operations thereof through independent third-party managers that generate current income to be distributed to stockholders. We have pursued this mission by investing primarily in leased properties, loans and RIDEA transactions. These investments include senior housing, skilled nursing facilities, hospitals and medical office buildings, all of which are collectively referred to herein as "Health Care Facilities." Senior housing includes assisted living facilities, senior living campuses, and independent living facilities. We typically fund these investments through three sources of capital: (1) debt offerings, including bank lines of credit and ordinary term debt, (2) current cash flow, and (3) the sale of equity securities.

Portfolio

At December 31, 2013, our continuing operations were comprised of investments in real estate and mortgage and other notes receivable in 168 health care facilities located in 30 states consisting of 94 senior housing communities, 68 skilled nursing facilities, 4 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of \$882,000) consisted of properties with an original cost of approximately \$1,421,120,000, rented under triple-net leases to 23 lessees, and \$60,639,000 aggregate carrying value of mortgage and other notes receivable due from 15 borrowers.

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The following tables summarize our investments in real estate and mortgage and other notes receivable as of December 31, 2013 (dollars in thousands):

Real Estate Properties	Properties	Beds/Sq. Ft.*	Revenue
Assisted Living	58	2,857	\$29,559
Senior Living Campus	5	797	6,827
Independent Living	28	3,114	2,329
Senior Housing Communities	91	6,768	38,715
Skilled Nursing Facilities	61	8,174	59,058
Hospitals	3	181	7,171
Medical Office Buildings	2	88,517	* 1,085
Total Real Estate Properties	157		\$106,029

Mortgage and Other Notes Receivable	Properties	Beds/Sq. Ft.*	Revenue
Assisted Living	2	190	\$732
Senior Living Campus	1	76	115
Senior Housing Communities	3	266	847
Skilled Nursing Facilities	7	594	2,777
Hospital	1	70	1,203
Other Notes Receivable	—	—	2,781
Total Mortgage and Other Notes Receivable	11		\$7,608
Total Portfolio	168		\$113,637

Portfolio Summary	Properties	Investment %	Revenue
Real Estate Properties	157	93.3 %	\$106,029
Mortgage and Other Notes Receivable	11	6.7 %	7,608
Total Portfolio	168	100.0 %	\$113,637

Summary of Facilities by Type	Properties	Beds/Sq. Ft.*	Revenue
Assisted Living	60	26.7 %	\$30,290
Independent Living	28	2.0 %	2,329
Senior Living Campus	6	6.1 %	6,942
Senior Housing Communities	94	34.8 %	39,561
Skilled Nursing Facilities	68	54.4 %	61,835
Hospitals	4	7.4 %	8,375
Medical Office Buildings	2	1.0 %	1,085
Other	—	2.4 %	2,781
Total Real Estate Portfolio	168	100.0 %	\$113,637

Portfolio by Operator Type	Properties	Beds/Sq. Ft.*	Revenue
Public	53	37.8 %	\$43,013
National Chain (Privately-Owned)	29	4.4 %	4,941
Regional	75	50.0 %	56,838
Small	11	7.8 %	8,870
Total Real Estate Portfolio	168	100.0 %	\$113,662

For the year ended December 31, 2013, operators of facilities which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Emeritus Senior Living; Fundamental Long Term Care Holdings; Health Services Management; Landmark Senior Living; Legend Healthcare; National HealthCare Corp.;

SeniorHealth of Rutherford; Senior Living Management Corporation; SP Silverdale; and White Pine Senior Living.

As of December 31, 2013, our average effective annualized rental income was \$7,623 per bed for SNFs, \$13,183 per unit for ALFs, \$14,279 per unit for ILFs, \$39,619 per bed for hospitals, and \$12 per square foot for MOBs.

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We invest a portion of our funds in the preferred and common shares of other publicly-held healthcare REITs to ensure a substantial portion of our assets are invested for real estate purposes. At December 31, 2013, such investments had a carrying value of \$50,782,000.

Areas of Focus

We are evaluating and will potentially make additional investments during 2014 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 fuels steady, and thus, enduring growth for NHI and our tenants. While deal flow among the largest in our peer group may be slowing, there are smaller portfolio assets in secondary markets with prospective yields that justify our attention. Our investment focus, regardless of asset type, is on high quality opportunities-- defined by us to mean (a) the tenant has a track record of successful operations, (b) the tenant has the necessary credit to meet its lease obligation to us; and (c) the facility is in good physical condition and (d) is positioned in a local market that offers the potential to achieve excellent financial results.

As we make new investments, we expect to maintain a relatively low level of debt compared to the value of our assets and relative to our peers in the industry. Approximately 52% of our revenue from continuing operations has come 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. As a result, in 2009, we began to diversify 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. While we will occasionally acquire skilled nursing facilities in good physical condition with a proven operator and strong local market fundamentals, our current investment focus is on acquiring senior housing assets (including assisted living and memory care facilities, independent living facilities and senior living campuses).

With the acquisition of the 25 independent living properties from Holiday in December 2013, discussed in further detail under Investment Highlights, less than 40% of our contractual revenue for 2014 is expected to come from skilled nursing facilities. With this acquisition, we have further diversified across asset types and have achieved a concentration of revenue from large national tenants who are recognized leaders in their industries. Bickford Senior Living is our largest assisted living/memory care tenant, Holiday Acquisition Holdings is our largest independent living tenant and National HealthCare Corporation is our largest skilled nursing tenant, as measured by annual contractual lease revenue from these tenants as a percentage of total revenue from continuing operations.

If longer term borrowing rates increase as anticipated, 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 lead to an increase in lease rates. We expect our cost of capital will increase as a result of our plan to transition some of our short term revolving borrowings into debt instruments with longer maturities and increased overall interest rates. Managing risk involves trade-offs with the competing 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.

We are continuing to explore additional funding resources including bank term loans, convertible debt, debt private placement and secured government agency financing.

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 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 we believe the spreads over our cost of capital will generate sufficient returns to our shareholders.

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Our regular and special dividends for the last four years are as follows:

	2013	2012	2011	2010
Regular	\$2.90	\$2.64	\$2.50	\$2.36
Special	\$—	\$0.22	¹ \$0.22	\$—
	\$2.90	\$2.86	\$2.72	\$2.36

¹ Paid to shareholders of record in January 2013

Our increased investments in healthcare real estate beginning in 2009 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 the value of our assets and 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 and principal payments on debt), and the ratio of consolidated 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 calculate our fixed charge coverage ratio as approximately 12:1 for the year ended December 31, 2013 (see page 47 for a discussion of Adjusted EBITDA and a reconciliation to our net income). On an annualized basis, our consolidated debt-to-Adjusted EBITDA ratio is 5:1.

Annual dividend growth, a low leverage balance sheet, a portfolio of diversified, high-quality assets, and prioritizing business relationships with experienced tenants and borrowers continue to be the key drivers of our business plan.

According to a 2011 estimate by the U.S. Department of Health and Human Services, the number of Americans 65 and older is expected to grow 36% between 2010 and 2020, compared to a 9% growth rate for the general population. An increase in this age demographic is expected to increase the demand for senior housing properties of all types in the coming decades.

There is increasing demand for private-pay senior housing properties in countries outside the U.S. We will consider real estate and note investments with U.S. entities who seek to expand their senior housing operations into countries where local-market demand is sufficiently demonstrated. We have a current investment of \$1,500,000 in such ventures.

We expect to fund any new investments in real estate and mortgage notes in 2014 using our liquid investments and debt financing unless the size of an acquisition leads us to consider issuing equity securities to fund some or all of such acquisition in order to maintain a relatively low level of debt in comparison to the value of our assets.

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.

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

Valuations and Impairments

The majority of our tenants and borrowers are in the long-term health care industry (SNFs and ALFs) where 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 also experienced a dramatic increase in professional liability claims and in the cost of insurance to cover such claims. These factors 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 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.

We evaluate our marketable equity securities for other-than-temporary impairments. An impairment of a marketable equity security would be considered "other-than-temporary" unless we have the ability and intent to hold the investment for a period of time sufficient for a forecasted market price recovery up to (or beyond) the cost of the investment and evidence indicates the cost of the investment is recoverable within a reasonable period of time.

The initial carrying value of investments in unconsolidated entities is based on the amount paid to purchase the interest or the estimated fair value of the assets prior to our acquisition of interests in the entity. An aggregate basis difference between the cost of our equity method investee and the amount of underlying equity in its net assets is primarily attributable to goodwill, which is not amortized. We evaluate for impairment our equity method investments and related goodwill based upon a comparison of the estimated fair value of the investments to their carrying value. When we determine a decline in the estimated fair value of such an investment below its carrying value is other than temporary, an impairment is recorded. No impairments to the carrying value of our equity method investee have been recorded for any period presented.

While we believe that the carrying amounts of our properties and arrangement with Bickford are recoverable and our notes receivable, marketable securities and other investments are realizable, it is possible that future events could

require us to make significant adjustments or revisions to these estimates.

The determination of the 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.

Revenue Recognition

We collect interest and rent from our customers. Generally, our policy is to recognize revenues on an accrual basis as earned. However, there are certain of our customers, for whom we have determined, based on insufficient historical collections and the lack of expected future collections, that revenue for interest or rent is not probable of collection until received. For these

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investments, our policy is to recognize interest or rental 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, are included in rental income when they are determinable and earned, and are excluded from future minimum lease payments.

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 of 1986, as amended (the "Code"), and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. Effective October 1, 2012, we began to record income tax expense or benefit with respect to our subsidiary which will be taxed as a Taxable REIT Subsidiary ("TRS") under provisions similar to those applicable to regular corporations. Aside from such income taxes that may be applicable to the taxable income in our TRS, we will not be 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") in which we are determined to be the 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 variable interest entities ("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 consolidate investments in VIEs when we are determined to be the primary beneficiary of the VIE. 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 developed by us is recorded at cost, including the capitalization of interest during construction. The cost of real property investments acquired is allocated to net tangible and identifiable intangible assets based on their respective fair values. Tangible assets primarily consist of land, buildings and improvements. The remaining purchase price is allocated among identifiable intangible assets, if any.

We make estimates as part of our allocation of the purchase price of acquisitions to the various components of the acquisition based upon the relative fair value of each component. The most significant components of our allocations are typically the allocation of fair value to land, 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.

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Investment Highlights

Since January 1, 2013 we have made or announced the following real estate investments (dollars in thousands):

	Properties	Asset Class	Amount
Lease Investments			
Holiday Acquisition Holdings LLC	25	Senior Housing	\$492,959
Bickford Senior Living/RIDEA Structure	17	Senior Housing	137,459
National Healthcare Corporation	7	Skilled Nursing	37,417
Fundamental Long Term Care Holdings, LLC	2	Skilled Nursing	27,750
Chancellor Healthcare	2	Senior Housing	17,000
Emeritus Senior Living	1	Senior Housing	15,300
Discovery Senior Living	1	Senior Housing	12,000
Note Investments			
Bickford Senior Living	1	Senior Housing	9,200
Discovery Senior Living	1	Senior Housing	2,500
			\$751,585

We have two operators, National HealthCare Corporation ("NHC") and Bickford Senior Living ("Bickford"), from whom we individually derive at least 10% of our income from operations. Beginning in December 2013, a third major operator, Holiday Acquisition Holdings LLC ("Holiday"), has leased 25 independent living facilities from us which contractually obligates Holiday, in 2014 and going forward, to make lease payments which will aggregate to more than 25% of NHI revenues, based on our 2013 leases in place.

Holiday

In December 2013 we acquired 25 independent living facilities from Holiday, an affiliate of Holiday Retirement, for \$491,000,000 plus transaction costs of \$1,959,000. The total purchase price was allocated to the assets acquired based upon their relative fair values, preliminarily estimated as \$21,700,000 to land, \$471,259,000 to buildings and improvements. No intangibles were identified in the acquisition. Such allocations have not been finalized as we await conclusive asset valuations and, as such, the results of the allocation are preliminary and subject to adjustment. This portfolio is located in 12 states. We have leased this portfolio to a subsidiary of Holiday, who continues to operate the facilities pursuant to a management agreement with a Holiday-affiliated manager.

The master lease term of 17 years began in December 2013 and provides for initial cash rent of \$31,915,000 plus annual escalators of 4.5% in the first 3 years and a minimum of 3.5% each year thereafter. Holiday will be our largest tenant in 2014, with anticipated lease revenues in excess of 25% of our total revenues. Holiday's obligations to us under the master lease are guaranteed by its indirect parent, Holiday AL Holdings, LP.

We funded this acquisition with proceeds of a \$250,000,000 term loan and proceeds from a public offering of 5,175,000 shares of our common stock at \$57 per share. The net proceeds from the offering were approximately \$282,542,000, after deducting \$12,500,000 in underwriting discounts, commissions and other offering expenses.

Bickford

As of December 31, 2013, we owned an 85% equity interest and an affiliate of Bickford owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 29 assisted living/memory care facilities and also has 1 facility under construction. The facilities are leased to an operating company, ("OpCo"), in which we also share an 85/15 ownership interest with an affiliate of Bickford, who controls the entity. Our joint venture is structured to comply with the provisions of RIDEA.

On June 28, 2013, PropCo purchased 17 assisted living and memory care facilities which were managed by Bickford. The facilities total 750 units and are located in Illinois, Indiana, Iowa and Nebraska. Of these facilities, 14 were acquired from a subsidiary of Care Investment Trust, Inc. ("Care") for \$124,549,000, consisting of \$44,021,000 in cash and assumption of secured debt with a fair value of \$80,528,000. As part of this transaction, we recognized all identifiable tangible assets and liabilities assumed at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed \$4,360,000 to the fair value of the land, \$120,189,000 to the fair value of the buildings and improvements and expensed \$63,000

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in transaction costs at closing. The 14 newly-acquired facilities have been leased to OpCo for an initial term of 5 years at an aggregate annual lease amount of \$9,750,000 plus annual fixed escalators commencing on July 1 of each succeeding year.

Concurrent with this acquisition, PropCo also completed a \$12,910,000 purchase and leaseback of three assisted living facilities located in Iowa, Nebraska and Indiana totaling 107 units from affiliates of Bickford. The acquisition was accounted for as an asset purchase. PropCo's previous master lease with Bickford was amended to include these three properties and the annual lease amount was increased from \$7,750,000 to \$9,086,000, plus annual fixed escalators beginning January 1 of each succeeding year. All other significant terms of the existing master lease remain unchanged.

As described above, the current annual contractual rent from OpCo to PropCo is \$18,836,000, plus fixed annual escalators. During the quarter ended December 31, 2013, PropCo completed major construction and received certificates of occupancy on two assisted living facilities which were under development. Under the terms of the current development lease agreement, NHI continues to receive rent of 9% on the total amount of development costs, including land, which totaled \$17,796,000 as of December 31, 2013. Of these costs, \$15,084,000 relate to the facilities for which occupancy certificates have been received.

Of our total revenue from continuing operations, \$14,586,000 (12%), \$5,164,000 (6%) and \$4,235,000 (5%) were recorded as rental income from Bickford for the years ended December 31, 2013, 2012, and 2011, respectively.

As of December 31, 2013, the carrying value of our investment in the operating company, OpCo, was \$9,494,000. The excess of the original purchase price over the fair value of identified tangible assets at acquisition of \$8,986,000 is treated as implied goodwill and is subject to periodic review for impairment in conjunction with our equity method investment as a whole.

With PropCo's acquisition of additional Bickford properties in June 2013, an assignment was entered into whereby the operations of the 17 newly acquired facilities were conveyed by an affiliate of Bickford to OpCo. The transaction mandated the effective cut-off of operating revenues and expenses and the settlement of operating assets and liabilities at the acquisition date. Specified remaining net tangible assets were assigned to OpCo at the transferor's carryover basis resulting in an adjustment, through NHI's capital in excess of par value to our equity method investment in OpCo, of \$817,000.

Unaudited summarized income statements for OpCo are presented below (in thousands):

	Year Ended December 31,	
	2013	2012
Revenues	\$42,636	\$6,335
Operating expenses, including management fees	27,419	4,329
Lease expenses	14,579	1,937
Depreciation and amortization	256	16
Net Income	\$382	\$53

NHI has an exclusive right to Bickford's future acquisitions, development projects and refinancing transactions. At December 31, 2013, PropCo had purchased land and begun construction on one assisted living/memory care facility having a maximum cost of \$9,000,000. Our costs incurred to date, including land, were \$2,712,000.

In July 2013, we extended a \$9,200,000 loan to Bickford to fund a portion of their acquisition of six senior housing communities consisting of 342 units. The loan is guaranteed by principals of Bickford and has a two-year maturity

plus a one-year extension option with 12% annual interest. As a result of this transaction and existing agreements governing the nature of our relationship with Bickford, PropCo has acquired a \$97,000,000 purchase option on the properties which is exercisable over the term of the loan.

NHC

Of our total revenue from continuing operations, \$34,756,000 (29%), \$33,056,000 (35%) and \$32,619,000 (39%) in 2013, 2012 and 2011, respectively, were derived from NHC, a publicly-held company and the lessee of our legacy properties. As of December 31, 2013, we leased 42 health care facilities to NHC consisting 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 an amended Master Lease Agreement dated October 17, 1991 ("the 1991 lease") which includes

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our 35 remaining legacy properties and a Master Lease Agreement dated August 30, 2013 ("the 2013 lease"), discussed below, which includes seven skilled nursing facilities acquired from ElderTrust on August 31, 2013.

In December 2012, we entered into an extension of the 1991 lease through December 2026. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. We refer to this additional rent component as "percentage rent."

The following table summarizes the percentage rent received and recognized from NHC (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Current year	\$2,275	\$1,530	\$1,530
Prior year final certification ¹	746	997	560
Total percentage rent	\$3,021	\$2,527	\$2,090

¹ For purposes of the percentage rent calculation described in the Master Lease Agreement, NHC's annual revenue by facility for a given year is certified to NHI by March 31st of the following year.

As previously disclosed, in December 2012, NHI entered into an agreement with NHC to sell six skilled nursing facilities for \$21,000,000 in cash. The properties had a carrying value of \$1,611,000. The sale was completed on August 31, 2013, and resulted in a gain for financial statement purposes of \$19,370,000 after transaction costs of \$19,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. The results of operation of the facilities sold were classified as discontinued operations for all periods presented in our Consolidated Statements of Income. To reflect this transaction, effective January 1, 2014, NHI's annual base rent will be reduced by \$2,950,000.

On August 30, 2013, we acquired seven skilled nursing facilities (and one vacant assisted living facility) in Massachusetts and New Hampshire from our former not-for-profit borrower ElderTrust of Florida, Inc. ("ElderTrust") for consideration of \$37,417,000, consisting of \$23,676,000 in cash, inclusive of closing costs, and the cancellation of notes receivable from ElderTrust with a principal balance of \$13,741,000. Beginning September 1, 2013, the facilities were placed under a new triple net lease to the current manager, NHC, for an initial period of 15 years commencing with a lease amount of \$350,000 for the remainder of 2013. In 2014, the lease provides for a base annual rental of \$3,450,000. Under the terms of the lease, rent escalates 4% of the increase in each facility's revenue over the 2014 base year. Because ElderTrust was the owner and operator of the facilities, we accounted for the transaction as an asset acquisition. During the last three years of the lease, NHC will have the option to purchase the facilities for \$49,000,000.

Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of \$26,150,000 in cash, plus consideration related to the Corinth facility of \$1,600,000 conditional upon the achievement of certain operating metrics, which continued to be probable as of December 31, 2013. The facilities, which total 254 beds, have been leased to affiliates of Fundamental Long Term Care Holdings, LLC ("Fundamental") for an initial term of 10 years at a lease rate of 9% plus annual fixed escalators. The lease includes three 5-year renewal options at the terms which exist upon renewal.

In October 2013, we agreed to sell three older skilled nursing facilities to affiliates of our current tenant, Fundamental, for \$18,500,000. The properties had a carrying value of \$17,068,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the internal Revenue Code. Our lease revenue from these facilities was \$3,316,000, \$3,231,000, and \$3,067,000 for the years ended December 31, 2013, 2012, and 2011, respectively. We completed this sale on December 31, 2013. Pursuant to the purchase option, rents associated with the remaining properties will be fixed at \$250,000 per month, without escalation, through the

first renewal term in February 2016. Subsequent to the sale of the Arlington, Richardson and Canton facilities, Fundamental leases four facilities from NHI.

Chancellor

In October 2013, we completed a \$9,000,000 acquisition of a 63-unit senior housing community in Baltimore, Maryland, and leased the facility to Chancellor Health Care, LLC for an initial term of seven years, plus renewal options. The lease rate in the first year will be 8% plus a fixed annual escalator. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase. We also committed to provide up to \$500,000 for renovations and improvements.

Additionally, we have committed \$7,500,000 to build a 46-unit free-standing assisted living and memory care community, expanding our Linda Valley senior living campus in Loma Linda, California. The initial lease term is for 15 years at an annual

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rate of 9% plus a fixed annual escalator. NHI purchased the Linda Valley campus in 2012 and leased it to Chancellor Health Care, who has been operating the campus since 1993.

Emeritus

In July 2013 we completed a \$15,300,000 acquisition of The Inn at Halcyon Village in Marysville, Ohio ("Halcyon"). The 76-unit assisted living and memory care community is leased to Emeritus Senior Living for an initial term of 15 years with options to extend. Rent in the first year of the lease will be \$1,140,000. Annual fixed escalators begin in the third lease year.

Discovery

In September 2013, we completed a \$12,000,000 acquisition of Regency Pointe Retirement Community in Rainbow City, Alabama. The 120-unit senior housing community is leased to Discovery Senior Living ("Discovery") for an initial term of 15 years with three 5-year renewal options. Rent in the first year of the lease is \$942,000 plus annual fixed escalators. As a lease inducement, upon obtaining certain operating metrics, Discovery will be eligible over years two, three and four of the lease for contingent payments totaling up to \$2,500,000 which, if paid, we will amortize as an adjustment to rental income over the remaining lease term. At acquisition, the likelihood that we would incur the contingent payments was considered reasonably possible but not probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements.

In October 2013, we provided a \$2,500,000 second mortgage loan to an affiliate of Discovery for the construction of a 120-unit senior housing community in Naples, Florida. Construction began in the fourth quarter of 2013. The loan is guaranteed by principals of Discovery and has a five-year maturity with monthly payments of interest at a 12% annual rate.

Other Lease Activity

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, 2013, we had 1 expiring lease which was renewed with the existing tenant on substantially similar lease terms.

In October 2013, our current tenant, Weatherly Associates, LLC, exercised their option to purchase our Weatherly, PA senior housing facility for \$5,315,000. The property had a carrying value of \$3,591,000 resulting in a gain for financial statement purposes. We plan to defer recognition of the tax gain on the sale of this facility by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. Our lease revenue from the facility was \$353,000, \$403,000, and \$403,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

Real Estate and Mortgage Write-downs

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

Potential Effects of Medicare Reimbursement

Our tenants who operate skilled nursing facilities 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. On May 1, 2013, the Centers for Medicare & Medicaid Services ("CMS") released a proposed rule outlining a 1.4% increase in their Medicare reimbursement for fiscal 2014 beginning on October 1, 2013. 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 skilled nursing facilities. Accordingly, for the near-term, we are treating as cautionary the Federal Government's recent re-commitment, after debating a 'chained CPI' indexing, to fully index Social Security to inflation. In this cautious approach, any near-term acquisitions of skilled nursing facilities are planned on a selective basis, with emphasis on operator quality and newer construction.

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As discussed in the notes to the consolidated financial statements, former not-for-profit borrowers, SeniorTrust and ElderTrust, appointed receivers to effect the sale of their assets and the winding up of those entities. These two mortgage borrowers were adversely impacted by previous Medicare rate adjustments due to their payor mix, their current payment coverage ratios and limited net equity. The impact of net reductions in Medicare reimbursement had an adverse effect on the value of the underlying real estate assets. In March 2013, the financial condition of SeniorTrust reflected their declining net operating income over the previous twelve months and indicated a further adverse change in the estimated value of the collateral for our notes receivable at that time. As a result, we recorded an impairment on this former note receivable of \$4,037,000 based on such estimated value.

Litigation Settlement

In April 2013, we entered into a settlement agreement concerning litigation with the two borrowers mentioned above, ElderTrust and SeniorTrust. As described earlier, we agreed to purchase the seven skilled nursing facilities which served as collateral for the note from ElderTrust. The purchase was completed on August 30, 2013. Additionally, we agreed to a full settlement of our notes receivable from SeniorTrust for \$15,000,000 in cash. Our notes from SeniorTrust were paid in full on June 28, 2013.

At the time of the settlement agreement, our annualized interest-only cash flows from SeniorTrust and ElderTrust totaled approximately \$1,980,000. With an additional net investment of \$8,676,000, our estimated annualized cash flows beginning in 2014, before any rent escalation, will be \$3,450,000.

The table below illustrates the projected effect of the settlement on annualized cash flows and return on investment (in thousands):

	Before Settlement	After Settlement	Difference	
SeniorTrust	\$15,000	\$—	\$(15,000)
ElderTrust	13,741	37,417	23,676	
Total Investment	\$28,741	\$37,417	\$8,676	
Estimated Annualized Cash Flow	\$1,980	\$3,450	\$1,470	
Estimated Annualized Cash Flow as % of Total Investment	6.9	% 9.2	% 16.9	%

The above analysis focuses entirely upon cash flow and investment return without considering qualitative portfolio improvements inherent in transitioning from a mortgage note to a triple net lease. Additionally, the above analysis does not consider the effect of future rent escalations or the future cost of borrowings used to acquire the seven ElderTrust properties.

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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		
	2013	2012	\$	%	
Revenues:					
Rental income					
ALFs leased to Bickford Senior Living	\$14,219	\$4,646	\$9,573	NM	
SNFs leased to Fundamental Long Term Care	3,494	1,777	1,717	96.6	%
Hospital leased to Polaris	2,140	528	1,612	NM	
ALF leased to Landmark Senior Living	1,579	35	1,544	NM	
SLC leased to Santé Partners	2,114	744	1,370	NM	
SLC leased to Chancellor Health Care	1,207	276	931	NM	
SNFs leased to NHC	33,974	33,056	918	2.8	%
SNFs leased to Legend Healthcare	11,918	11,099	819	7.4	%
Other new and existing leases	28,913	25,539	3,374	13.2	%
	99,558	77,700	21,858	28.1	%
Straight-line rent adjustments, new and existing leases	6,471	3,782	2,689	71.1	%
Total Rental Income	106,029	81,482	24,547	30.1	%
Interest income from mortgage and other notes					
Capital Funding Group	2,062	626	1,436	NM	
Bickford Senior Living	531	8	523	NM	
ElderTrust	644	1,068	(424)	(39.7))%
SeniorTrust	475	999	(524)	(52.5))%
Bell Oden	—	853	(853)	NM	
Other new and existing mortgages	3,921	3,872	49	1.3	%
Total Interest Income from Mortgage and Other Notes	7,633	7,426	207	2.8	%
Investment income and other	4,166	4,409	(243)	(5.5))%
Total Revenue	117,828	93,317	24,511	26.3	%
Expenses:					
Depreciation					
ALFs leased to Bickford Senior Living	4,229	1,344	2,885	NM	
ALF leased to Landmark Senior Living	581	—	581	NM	
SLC leased to Santé Partners	679	226	453	NM	
Hospital leased to Polaris	440	76	364	NM	
Other new and existing assets	14,172	13,126	1,046	8.0	%
Total Depreciation	20,101	14,772	5,329	36.1	%
Interest expense and amortization of loan costs	9,229	3,492	5,737	NM	
Franchise, excise and other taxes	616	771	(155)	(20.1))%
General and administrative	9,254	7,799	1,455	18.7	%
Loan and realty (recoveries) losses, net	1,976	(2,195)	4,171	NM	
Other expenses	784	766	18	2.3	%
	41,960	25,405	16,555	65.2	%
Income before equity-method investee, discontinued operations and noncontrolling interest	75,868	67,912	7,956	11.7	%
Income from equity-method investee	324	45	279	NM	
Investment and other gains	3,306	4,877	(1,571)	(32.2))%
Income from continuing operations	79,498	72,834	6,664	9.1	%
Income from discontinued operations	5,426	6,098	(672)	(11.0))%

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Gain on sale of real estate	22,258	11,966	10,292	86.0	%
Net income	107,182	90,898	16,284	17.9	%
Net income attributable to noncontrolling interest	(999	) (167	) (832	)	NM
Net income attributable to common stockholders	\$106,183	\$90,731	\$15,452	17.0	%

NM - not meaningful

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Financial highlights of the year ended December 31, 2013, compared to 2012 were as follows:

Rental income increased \$24,547,000 when compared to the same period in the prior year primarily as a result of new real estate investments of \$748,939,000 and \$129,851,000 funded during 2013 and 2012. Our Holiday investment of \$492,959,000 was funded on December 23, 2013 and contributed minimally to the increase, as it was placed in service during the last days of the year. 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 for 2014 is expected to be lower than 2013 due to (1) the settlement of outstanding notes receivable balances from not-for-profit borrowers, ElderTrust and SeniorTrust totaling \$28,741,000, and (2) the payoff of a mortgage receivable of \$3,293,000 secured by a facility in Georgia which resulted in a recovery of a previous writedown of \$2,061,000. Unless we continue to make new investments in loans in 2014 and future years, our interest income will decrease due to the normal amortization and scheduled maturities of our loans.

- Depreciation expense recognized in continuing operations increased \$5,329,000 compared to the prior year primarily due to new real estate investments completed during 2012 and 2013.

Interest expense, which includes amortization of loan costs of \$706,000 and \$320,000 for the years ended December 31, 2013 and 2012, respectively, relates to our borrowings on our credit facility and debt assumptions to fund new real estate and loan investments. Amortization of loan costs for 2013 includes \$416,000 which were written off as a result of the modifications we made to the credit facility at the end of the second quarter. Upfront fees and other loan-related costs are amortized over the term of the credit facility. The increase in interest expense and loan cost amortization of \$5,737,000 resulted from expanded borrowings used to fund new real estate investments in 2012 and 2013. We expect to fund additional healthcare real estate investments in 2014 with borrowings from our bank credit facility and longer-term debt, both secured and unsecured, which will increase our interest expense.

General and administrative expenses for 2013 increased \$1,455,000 when compared to 2012 primarily due to higher consulting and advisory costs resulting from our increased investment activity, employee compensation and \$210,000 in transaction costs related to two business combinations completed during 2013.

Loan and realty losses include an impairment of \$4,037,000 recorded in March 2013 related to our estimate of the underlying value of the collateral for the SeniorTrust note. In September 2013 we received \$3,293,000 as full payment of a mortgage note and recorded a recovery of a previous writedown of \$2,061,000.

Investment and other gains include the write-off of a \$3,256,000 contingent purchase liability that is not required to be paid. We recognized a gain of \$19,370,000 on our sale of six skilled nursing facilities to our tenant, NHC, and a gain of \$2,888,000 on two other dispositions discussed in Note 2 to the consolidated financial statements.

The results of operations for facilities included in assets held for sale or sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

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

	Years ended December 31,		Period Change		
	2012	2011	\$	%	
Revenues:					
Rental income					
SNFs leased to Legend Healthcare	\$11,099	\$6,512	\$4,587	70.4	%
ALFs leased to Bickford Senior Living	4,646	3,485	1,161	33.3	%
SLC leased to Santé Partners	744	—	744	NM	
ALFs leased to Senior Living Management	3,703	3,239	464	14.3	%
ALF leased to Selah Management Group	1,391	843	548	65.0	%
Other new and existing leases	56,117	54,676	1,441	2.6	%
	77,700	68,755	8,945	13.0	%
Straight-line rent adjustments, new and existing leases	3,782	3,853	(71)	(1.8))%
Total Rental Income	81,482	72,608	8,874	12.2	%
Interest income from mortgage and other notes					
Capital Funding Group	626	70	556	NM	
Other new and existing mortgages	6,800	6,582	218	3.3	%
Total Interest Income from Mortgage and Other Notes	7,426	6,652	774	11.6	%
Investment income and other	4,409	4,479	(70)	(1.6))%
Total Revenue	93,317	83,739	9,578	11.4	%
Expenses:					
Depreciation					
SNFs leased to Legend Healthcare	\$1,923	\$277	\$1,646	NM	
SNFs leased to Fundamental reclassified to continuing operations	907	—	907	NM	
Other new and existing assets	11,942	11,173	769	6.9	%
Total Depreciation	14,772	11,450	3,322	29.0	%
Interest expense:					
Change in fair value of interest rate swap agreement	—	1,197	(1,197)	NM	
Interest expense and amortization of loan costs	3,492	2,651	841	31.7	%
Total Interest Expense	3,492	3,848	(356)	(9.3))%
Loan and realty (recoveries) losses, net	(2,195)	(99)	(2,096)	NM	
Share-based compensation expense	2,168	3,087	(919)	(29.8))%
Salaries, wages & benefits	3,334	2,863	471	16.5	%
Other expenses	3,834	3,034	800	26.4	%
	25,405	24,183	1,222	5.1	%
Income before equity-method investment, discontinued operations and noncontrolling interest	67,912	59,556	8,356	14.0	%
Income from equity-method investment	45	—	45	NM	
Investment and other gains	4,877	10,261	(5,384)	(52.5))%
Income from continuing operations	72,834	69,817	3,017	4.3	%
Income from discontinued operations	6,098	7,967	(1,869)	(23.5))%
Gain on sale of real estate	11,966	3,348	8,618	NM	
Net income	90,898	81,132	9,766	12.0	%
Net income attributable to noncontrolling interest	(167)	—	(167)	NM	
Net income attributable to common stockholders	\$90,731	\$81,132	\$9,599	11.8	%

NM - not meaningful

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Financial highlights of the year ended December 31, 2012, compared to the same period in 2011 were as follows:

Rental income increased \$8,874,000 when compared to the same period in the prior year primarily as a result of new real estate investments of \$75,806,000 in 2011 and \$129,851,000 in 2012.

Interest income from mortgage and other notes increased \$774,000 due to new loan investments of \$6,566,000 funded in 2011 and \$16,035,000 funded in 2012.

Depreciation expense increased \$3,322,000 primarily as the result of \$2,616,000 included in 2012 for the facilities leased to Fundamental which were reclassified from discontinued operations after the agreement to sell the facilities was canceled. The adjustment to depreciation expense of \$2,398,000 would have been recognized in 2012 and in prior years as depreciation on these properties had the disposal group been continuously classified as held and used.

Interest expense related to borrowings on our credit facility to fund new real estate and loan investments. Upfront fees and other loan-related costs are amortized over the term of the credit facility. The \$1,197,000 decrease in the fair value of the interest rate swap agreement increased interest expense in 2011 since the agreement, which was terminated in 2011, did not qualify for hedge accounting treatment. In 2012, adjustments totaling \$1,241,000 reflecting the change in fair value of our cash flow hedge were recorded in Other Comprehensive Income and not as a component of operations as the new interest rate swap qualified for hedge accounting. An increase in interest payments and loan cost amortization of \$841,000 resulted from expanded borrowings, offset by a lower LIBOR underlying our floating-rate debt in 2012.

Our net loan and realty recoveries of \$2,195,000 in 2012 reflect a recovery of \$4,495,000 on mortgage notes receivable, net of the SeniorTrust mortgage note impairment of \$2,300,000 as discussed in the notes to the consolidated financial statements. NHI's collection history with SeniorTrust and the deterioration of the financial condition and creditworthiness of the borrower indicated that the carrying value of the mortgage note receivable was not recoverable.

Share-based compensation expense decreased in 2012 based upon lower stock volatility which is a key input to the Black-Scholes pricing model for determining the market value of our stock options granted to directors and employees. The value of the options is expensed over the vesting period of the individual grants.

Investment and other gains in 2012 includes income of \$4,605,000 related to an equity participation formula as part of a mortgage note payoff in December 2012 from one of our borrowers.

One of our subsidiaries (1) reached a settlement regarding the final tax return for the operations acquired through foreclosure, and (2) agreed to settle a claim for personal injury in relation to a matter which arose prior to our acquisition of the subsidiary. These settlements resulted in charges against income in 2012 in the amounts of \$180,000 and \$275,000, respectively, and are included in other expenses.

The results of operations for facilities included in assets held for sale or sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

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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, dividends received on our investments in the common and preferred shares of other REITs, proceeds from the sales of real property and borrowings from our term loans and revolving credit facility. Our primary uses of cash include dividend distributions to our shareholders, debt service payments (both principal and interest), new investments in real estate and notes 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		
	12/31/2013	12/31/2012	\$	%		12/31/11	\$	%		
Cash and cash equivalents at beginning of period	\$9,172	\$15,886	\$(6,714)	(42.3)	%	2,664	\$13,222	496.3	%	
Net cash provided by operating activities	104,193	86,266	17,927	20.8	%	76,854	9,412	12.2	%	
Net cash used in investing activities	(625,824)	(99,810)	(526,014)	527.0	%	(55,474)	(44,336)	79.9	%	
Net cash provided by (used in) financing activities	523,771	6,830	516,941	NM		(8,158)	14,988	NM		
Cash and cash equivalents at end of period	\$11,312	\$9,172	\$2,140	23.3	%	15,886	\$(6,714)	(42.3)	%	

Operating Activities – Net cash provided by operating activities for the year ended December 31, 2013 increased primarily as a result of the collection of lease payments on new real estate investments completed during 2012 and 2013.

Investing Activities – Net cash flows used in investing activities for the year ended December 31, 2013 increased as compared to 2012 primarily due to a significant increase in real estate investment activity completed during 2013.

Financing Activities – Net cash flows provided by financing activities for the year ended December 31, 2013 increased as a result of a new \$250,000,000 term loan, \$282,542,000 in proceeds from an equity offering and increased borrowings on our revolving credit facility all of which were used to fund real estate investments, partially offset by \$85,145,000 in dividends paid to stockholders.

Liquidity

At December 31, 2013, our liquidity was strong, with \$106,962,000 available in cash, highly-liquid marketable securities and borrowing capacity on our revolving credit facility. In addition, our investment in LTC preferred stock is convertible into 2,000,000 shares of common stock whose per share price ranged between \$35 and \$40 during the quarter ended December 31, 2013. Cash proceeds from lease and mortgage collections, loan payoffs and the recovery of previous write-downs have been distributed as dividends to stockholders, used to retire our indebtedness, and accumulated in bank deposits for the purpose of making new real estate and mortgage loan investments.

On June 28, 2013, we entered into a \$370,000,000 unsecured credit facility that includes \$120,000,000 of 7-year term loans that are fully drawn. The facility includes an uncommitted incremental facility feature allowing for an additional \$130,000,000 of borrowings. The credit facility provides for unsecured, revolving borrowings of up to \$250,000,000

with a maturity of 5 years (inclusive of a one year extension option) and interest initially at 140 basis points over LIBOR, and \$80,000,000 and \$40,000,000 unsecured, 7-year term loans with interest initially at 150 basis points over LIBOR. Interest rates are referenced to our Consolidated Leverage Ratio, as defined, and were adjusted in December 2013 to 165 basis points over LIBOR for the revolving credit facility and 175 basis points over LIBOR for the term loans to account for debt undertaken in conjunction with our Holiday acquisition. There is an unused commitment fee of 35 basis points per annum. At December 31, 2013, we had \$83,000,000 available to draw on the revolving portion of the credit facility. Quoted 30-day LIBOR was 17 basis points on December 31, 2013.

On November 27, 2013, we announced the sale of 5,175,000 shares of our common stock at \$57 per share. The net proceeds from the offering were approximately \$282,542,000, after deducting \$12,500,000 in underwriting discounts, commissions and other offering expenses. This offering represents the largest capital transaction since our initial public offering. Following this transaction, in December 2013, we closed on a new term loan with a syndicate of banks led by Wells Fargo, which provided us with a new \$250,000,000 term loan which has the same maturity as our revolving credit facility. Interest on the new term loan is 175 basis points over LIBOR. We used \$492,959,000 of the combined proceeds from the stock offering and term loan to acquire 25 independent living properties from affiliates of Holiday Acquisition Holdings LLC.

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The unsecured credit facility mentioned above requires that we maintain certain financial ratios within limits set by our creditors. To date, these ratios, which are calculated quarterly, have been well within the limits required by the credit facility agreements.

We continually assess the impact of any new investments and the underlying capital requirements on these limits. In the future, our resource allocation decisions may be driven in part by the need to maintain compliance with these creditor-imposed limits.

As part of the Care acquisition described in Note 2, we assumed Fannie Mae mortgage loans with principal balances of \$71,090,000 and \$7,234,000 at December 31, 2013, which have interest at rates of 6.85% and 7.17%, respectively, and mature on July 1, 2015. The loans are subject to early-payment penalties extending until December 2014. At that time, we may consider other favorable arrangements.

In August 2013, with borrowings from our revolving credit facility, we paid off a \$19,250,000 mortgage which carried interest at 300 basis points over LIBOR and had a scheduled maturity of November 2013.

To mitigate our exposure to interest rate risk, we have entered into the following interest rate swap contracts on two of our term loans as of December 31, 2013 (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	\$544
June 2013	June 2020	3.86%	1-month LIBOR	\$80,000	\$431

We plan to refinance the borrowings on our revolving credit facility into longer-term debt instruments. We will 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 inevitably transitions away from quantitative easing. Because of consensus expectations of resultant rising interest rates, refinancing the borrowings on our revolving credit facility continues to be a high priority.

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, 2013 and thereafter. During 2013, we declared total dividends (regular and special) of \$2.90 per common share in 2013, \$2.86 per common share in 2012, and \$2.715 per common share in 2011. 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). The 2012 and 2011 dividends declared included a special dividend of \$.22 per common share. The special dividend for 2012 was due to a recovery of a previous writedown at the end of December 2012. The record date for shareholders was required to be in January 2013, therefore, the special dividend was taxable to shareholders in 2013. 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. For a discussion of our letter of credit with an affiliate of Bickford, see our discussion in this section under Contractual Obligations, below. Our equity method investment in OpCo is intended to be self-financing, and aside from initial investments therein, no direct support has been provided by NHI to OpCo since inception on September 30, 2012. We have concluded that OpCo meets the accounting criteria to be considered a VIE. However, because we do not control the entity, nor do we have any role in the day-to-day management, we are not the primary beneficiary of the entity, and we account for our investment using the equity method. We have no material obligation arising from our investment in OpCo, and we believe our maximum exposure to loss at December 31, 2013, due to this involvement, would be limited to our equity interest.

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Contractual Obligations and Contingent Liabilities

As of December 31, 2013, our contractual payment obligations and contingent liabilities are more fully described in the notes to the consolidated financial statements and were as follows (in thousands):

	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt, including interest ¹	\$689,576	\$—	\$111,912	\$25,485	\$552,179
Real estate purchase liabilities	2,600	1,000	1,600	—	—
Construction commitments	34,450	34,450	—	—	—
Loan commitments	2,000	2,000	—	—	—
	\$728,626	\$37,450	\$113,512	\$25,485	\$552,179

¹ Interest is calculated based on the interest rate at December 31, 2013 through maturity of the 7-year term loans, the revolving credit facility, and the mortgages assumed in our arrangement with Bickford, based on the balances outstanding as of December 31, 2013. The calculation also includes an unused commitment fee of .35%.

Commitments and Contingencies

Bickford

At December 31, 2013, our consolidated subsidiary, PropCo, had purchased land and begun construction on one assisted living facilities having a maximum cost of \$9,000,000. Our costs incurred to date, including land, were \$2,712,000. In a further transaction, we have a commitment of \$2,785,000 on a letter of credit for the benefit of our joint venture partner, an affiliate of Bickford.

Chancellor

In October 2013, we entered into a \$7,500,000 commitment to build a 46-unit free-standing assisted living and memory care community, expanding our Linda Valley senior living campus in Loma Linda, California. We expect to begin construction during the first quarter of 2014. The initial lease term is for 15 years at an annual rate of 9% plus a fixed annual escalator. NHI purchased the Linda Valley campus in 2012 and leased it to Chancellor Health Care, who has been operating the campus since 1993. We also committed to provide up to \$500,000 for renovations and improvements related to our recent acquisition of a 63-unit senior housing community in Baltimore, Maryland which we have leased to Chancellor Health Care. We expect to begin the renovations during the first quarter of 2014.

Discovery

As a lease inducement, we have a contingent commitment to fund a series of payments up to \$2,500,000 in connection with our September 2013 lease to Discovery of a senior living campus in Rainbow City, Alabama. Discovery would earn the contingent payments upon obtaining, and maintaining, a specified lease coverage ratio. As earned, the payments would be due in installments of \$750,000 in each of years two and three of the lease with the residual due in year four. As of December 31, 2013, the likelihood that we would incur the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements.

Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of \$26,150,000 in cash, plus consideration related to the Corinth facility of \$1,600,000 conditional upon the achievement of certain operating metrics, which continued to be probable as of December 31, 2013.

Helix Healthcare

In March 2010, we completed a purchase/leaseback transaction with Helix Healthcare (“Helix”) for \$12,500,000. The purchase price includes a conditional payment of \$1,000,000, which is recorded as a purchase liability.

Kentucky River

In March 2012, we entered into a long-term lease extension and construction commitment to Jackson Hospital Corporation, an affiliate of Community Health Systems, to provide up to \$8,000,000 for extensive renovations and additions to our Kentucky River Medical Center, a general acute care hospital in Jackson, Kentucky. This investment will be added to the basis on which the lease amount is calculated. The construction project commenced during the first quarter of 2013 and is expected to continue over

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two years. Total construction costs incurred as of December 31, 2013 were \$5,838,000. The ten-year lease extension began July 1, 2012 with an additional 5-year renewal option.

Legend Healthcare

In October 2011, we completed a purchase/leaseback of four skilled nursing facilities in Texas with affiliates of Legend Healthcare, LLC (“Legend”) for \$55,278,000, which included contingent consideration of \$5,478,000. In December 2012, we funded \$2,222,000 of this contingent consideration. We had previously anticipated the remaining \$3,256,000, which was recorded as a purchase liability, to be funded. During the quarter ended December 31, 2013, we determined that Legend had not achieved the required operating metrics and therefore would not qualify for this remaining consideration. As a result, we have recorded a gain of \$3,256,000 on the settlement of this purchase liability and have included this amount in investment and other gains in our Consolidated Statements of Income.

Santé

We have a \$2,000,000 supplemental construction commitment to our borrower, Santé Partners, LLC (“Santé”). This additional loan amount becomes available to the borrower when the 70-bed transitional rehabilitation hospital, completed in March 2011, achieves certain operating metrics. NHI also has the option to purchase and lease back the hospital when it achieves a predetermined level of stabilized net operating income.

We had previously committed to fund a \$3,500,000 expansion and renovation program in connection with our August 2012 acquisition of the senior living campus in Silverdale, Washington leased to Santé. As of December 31, 2013, we had fully funded this commitment, which was added to the basis on which the lease amount is calculated. Also in connection with our Silverdale, Washington senior living campus, we have a contingent commitment to fund two lease inducement payments of \$1,000,000 each. Santé would earn the payments upon obtaining, and maintaining, a specified lease coverage ratio. If earned, the first payment would be due after the second lease year and the second payment would be due after the third lease year. At acquisition, the likelihood that we would incur the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements.

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FFO, AFFO & FAD

Funds From Operations - FFO

Our funds from operations for the year ended December 31, 2013 increased \$7,503,000, or 8.0%, over the same period in 2012. Our normalized FFO for the year ended December 31, 2013 increased \$12,448,000, or 14.1%, over the same period in 2012, primarily as the result of our new real estate investments in 2012 and 2013. FFO represents net earnings available to common stockholders, excluding real estate asset impairments and gains on dispositions, plus depreciation associated with real estate investments. Normalized FFO excludes from FFO certain items which, due to their infrequent or unpredictable nature, 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, and recoveries of previous write-downs.

We believe that 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 for the year ended December 31, 2013 increased \$10,570,000, or 12.60%, over the same period in 2012 due primarily to the impact of real estate investments completed during 2012 and 2013. In addition to the adjustments included in the calculation of normalized FFO, normalized AFFO excludes the impact of any straight-line rent adjustments.

We believe that normalized AFFO is an important supplemental measure of operating performance for a REIT. Generally accepted accounting principles ("GAAP") require 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. Normalized AFFO is useful to our investors as it reflects the rate escalators inherent in the contractual lease payments received from our lessees.

Funds Available for Distribution - FAD

Our normalized FAD for the year ended December 31, 2013 increased \$11,528,000, or 13.2%, over the same period in 2012 due primarily to the impact of real estate investments completed during 2012 and 2013. In addition to the adjustments included in the calculation of normalized AFFO, normalized FAD excludes the impact of depreciation not associated with real estate investments and stock based compensation.

We believe that 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.

These operating performance measures may not be comparable to similarly titled measures used by other REITs. Consequently, our FFO, normalized FFO, normalized AFFO & normalized 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 & normalized FAD to that of other REITs. These financial performance measures do not

represent cash generated from operating activities in accordance with 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 is not necessarily indicative of cash available to fund cash needs.

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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,		
	2013	2012	2011
Net income attributable to common stockholders	\$106,183	\$90,731	\$81,132
Elimination of certain non-cash items in net income:			
Real estate depreciation in continuing operations	17,646	13,182	10,516
Real estate depreciation related to noncontrolling interest	(537)	(68)	—
Real estate depreciation in discontinued operations	557	2,209	542
Net gain on sales of real estate	(22,258)	(11,966)	(3,348)
Funds from operations	\$101,591	\$94,088	\$88,842
Investment gains	(3,256)	(4,760)	(9,899)
Loan costs expensed due to credit facility amendments	416	—	—
Non-cash write-off of straight-line rent receivable	—	963	—
Change in fair value of interest rate swap agreement	—	—	1,197
Legal settlement	—	365	—
Loan impairments and (recoveries), net	1,976	(2,195)	(99)
Other items, net	208	26	135
Normalized FFO	\$100,935	\$88,487	\$80,176
Straight-line lease revenue, net	(6,560)	(3,664)	(3,778)
Straight-line lease revenue, net, related to noncontrolling interest	55	—	—
Non-cash write-off of straight-line rent receivable	—	(963)	—
Normalized AFFO	\$94,430	\$83,860	\$76,398
Non-real estate depreciation in continuing operations	2,455	1,590	934
Non-real estate depreciation related to noncontrolling interest	(97)	(19)	—
Non-cash stock based compensation	2,339	2,168	3,087
Normalized FAD	\$99,127	\$87,599	\$80,419
BASIC			
Weighted average common shares outstanding	28,362,398	27,811,813	27,719,096
FFO per common share	\$3.58	\$3.38	\$3.21
Normalized FFO per common share	\$3.56	\$3.18	\$2.89
Normalized AFFO per common share	\$3.33	\$3.02	\$2.76
Normalized FAD per common share	\$3.50	\$3.15	\$2.90
DILUTED			
Weighted average common shares outstanding	28,397,702	27,838,720	27,792,592
FFO per common share	\$3.58	\$3.38	\$3.20
Normalized FFO per common share	\$3.55	\$3.18	\$2.88
Normalized AFFO per common share	\$3.33	\$3.01	\$2.75
Normalized FAD per common share	\$3.49	\$3.15	\$2.89

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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, due to their infrequent or unpredictable nature, 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:

	Years ended December 31,		
	2013	2012	2011
Net income	\$ 107,182	\$ 90,898	\$ 81,132
Interest expense	9,229	3,492	2,651
Franchise, excise and other taxes	616	771	837
Depreciation in continuing and discontinued operations	20,658	16,981	11,992
Net gain on sales of real estate	(22,258)	(11,966)	(3,348)
Investment gains	(3,256)	(4,760)	(9,899)
Loan costs expensed due to credit facility amendments	416	—	—
Non-cash write-off of straight-line rent receivable	—	963	—
Change in fair value of interest rate swap agreement	—	—	1,197
Legal settlement	—	365	—
Loan impairments and (recoveries), net	1,976	(2,195)	(99)
Other items, net	208	26	135
Adjusted EBITDA	\$ 114,771	\$ 94,575	\$ 84,598

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

Interest Rate Risk

At December 31, 2013, we were exposed to market risks related to fluctuations in interest rates on approximately \$417,000,000 of variable-rate indebtedness (excludes \$120,000,000 of variable-rate debt that has been hedged through interest-rate swap contracts) and on our mortgage and other notes receivable. The unused portion (\$83,000,000 at December 31, 2013) 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, 2013, net interest expense would increase or decrease annually by approximately \$2,085,000 or \$.07 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, 2013			December 31, 2012			
	Balance ¹	% of total	Rate ²	Balance	% of total	Rate ²	
Fixed rate:							
Unsecured 7-year term loan	\$40,000	6.5	% 3.29	% \$40,000	19.6	% 3.04	%
Unsecured 7-year term loan	80,000	13.0	% 3.86	% —	—	—	%
Secured mortgage loan	71,090	11.6	% 6.85	% —	—	—	%
Secured mortgage loan	7,234	1.2	% 7.20	% —	—	—	%
Variable rate:							
Unsecured 7-year term loan	—	—	—	80,000	39.4	% 1.62	%
Secured mortgage loan	—	—	—	19,250	9.5	% 3.22	%
Unsecured 4.5-year term loan	250,000	40.6	% 1.97	% —	—	—	%
Unsecured revolving credit facility	167,000	27.1	% 1.87	% 64,000	31.5	% 1.62	%
	\$615,324	100.0	% 2.90	% \$203,250	100.0	% 2.05	%

¹ Excludes unamortized premium of \$1,756 applicable to two fixed rate secured mortgages

² Total is weighted average rate

The unsecured 7-year term loans in the table above reflects the effect of \$40,000,000 and \$80,000,000 notional amount interest rate swaps with maturities of April 2019 and June 2020, respectively, that effectively converts variable rate debt to fixed rate debt. These loans bear interest at LIBOR plus a spread, currently 175 basis points, based on our Consolidated Coverage Ratio, as defined.

To highlight the sensitivity of our secured mortgage 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, 2013 (dollar amounts in thousands):

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	Balance	Fair Value ¹	FV reflecting change in interest rates	
Fixed rate:			-50 bps	+50 bps
Secured mortgage loan	\$71,090	\$72,011	\$72,359	\$71,665
Secured mortgage loan	7,234	7,354	7,389	7,319

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

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At December 31, 2013, the fair value of our mortgage loans receivable, discounted for estimated changes in the risk-free rate, was approximately \$67,201,000. A 50 basis point increase in market rates would decrease the estimated fair value of our mortgage loans by approximately \$1,161,000, while a 50 basis point decrease in such rates would increase their estimated fair value by approximately \$1,211,000.

Equity Price Risk

We are exposed to equity price risk, which is the potential change in fair value due to a change in quoted market prices. We account for our investments in marketable securities, with a fair value of \$12,650,404 at December 31, 2013, as available-for-sale securities. Increases and decreases in the fair market value of our investments in other marketable securities are unrealized gains and losses that are presented as a component of other comprehensive income. The investments in marketable securities are recorded at their fair value based on quoted market prices. Thus, there is exposure to equity price risk. We monitor our investments in marketable securities to consider evidence of whether any portion of our original investment is likely not to be recoverable, at which time we would record an impairment charge to operations. A hypothetical 10% change in quoted market prices would result in a related \$1,265,000 change in the fair value of our investments in marketable securities.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

We have audited the accompanying consolidated balance sheets of National Health Investors, Inc. as of December 31, 2013 and 2012 and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of National Health Investors, Inc. at December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2013, 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), National Health Investors, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control — Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 14, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Nashville, Tennessee
February 14, 2014

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

	December 31,	
	2013	2012
Assets:		
Real estate properties:		
Land	\$91,770	\$58,869
Buildings and improvements	1,320,567	636,994
Construction in progress	9,665	2,673
	1,422,002	698,536
Less accumulated depreciation	(174,262	) (163,146
Real estate properties, net	1,247,740	535,390
Mortgage and other notes receivable, net	60,639	84,250
Investment in preferred stock, at cost	38,132	38,132
Cash and cash equivalents	11,312	9,172
Marketable securities	12,650	12,884
Straight-line rent receivable	18,691	12,370
Equity-method investment and other assets	66,656	12,172
Assets held for sale, net	—	1,611
Total Assets	\$1,455,820	\$705,981
Liabilities and Equity:		
Debt	\$617,080	\$203,250
Real estate purchase liabilities	2,600	4,256
Accounts payable and accrued expenses	8,011	3,671
Dividends payable	24,293	24,793
Lease deposit liabilities	22,775	—
Deferred income	3,901	1,964
Total Liabilities	678,660	237,934
Commitments and Contingencies		
National Health Investors Stockholders' Equity:		
Common stock, \$.01 par value; 40,000,000 shares authorized; 33,051,176 and 27,857,217 shares issued and outstanding, respectively	330	279
Capital in excess of par value	753,635	467,843
Cumulative net income in excess (deficit) of dividends	3,043	(18,495
Accumulated other comprehensive income	9,538	7,555
Total National Health Investors Stockholders' Equity	766,546	457,182
Noncontrolling interest	10,614	10,865
Total Equity	777,160	468,047
Total Liabilities and Equity	\$1,455,820	\$705,981

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

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NATIONAL HEALTH INVESTORS, INC.
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2013	2012	2011
Revenues:			
Rental income	\$106,029	\$81,482	\$72,608
Interest income from mortgage and other notes	7,633	7,426	6,652
Investment income and other	4,166	4,409	4,479
	117,828	93,317	83,739
Expenses:			
Depreciation	20,101	14,772	11,450
Interest	9,229	3,492	3,848
Legal	784	766	559
Franchise, excise and other taxes	616	771	837
General and administrative	9,254	7,799	7,588
Loan and realty losses (recoveries), net	1,976	(2,195)	(99)
	41,960	25,405	24,183
Income before equity-method investee, investment and other gains, discontinued operations and noncontrolling interest	75,868	67,912	59,556
Income from equity-method investee	324	45	—
Investment and other gains	3,306	4,877	10,261
Income from continuing operations	79,498	72,834	69,817
Discontinued operations			
Income from operations - discontinued	5,426	6,098	7,967
Gain on sale of real estate	22,258	11,966	3,348
Income from discontinued operations	27,684	18,064	11,315
Net income	107,182	90,898	81,132
Less: net income attributable to noncontrolling interest	(999)	(167)	—
Net income attributable to common stockholders	\$106,183	\$90,731	\$81,132
Weighted average common shares outstanding:			
Basic	28,362,398	27,811,813	27,719,096
Diluted	28,397,702	27,838,720	27,792,592
Earnings per common share:			
Basic:			
Income from continuing operations attributable to common stockholders	\$2.77	\$2.61	\$2.52
Discontinued operations	.97	.65	.41
Net income per common share attributable to common stockholders	\$3.74	\$3.26	\$2.93
Diluted:			
Income from continuing operations attributable to common stockholders	\$2.77	\$2.61	\$2.51
Discontinued operations	.97	.65	.41
Net income per common share attributable to common stockholders	\$3.74	\$3.26	\$2.92

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

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NATIONAL HEALTH INVESTORS, INC.
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (in thousands)

	Year Ended December 31,			
	2013	2012	2011	
Net income	\$ 107,182	\$ 90,898	\$ 81,132	
Other comprehensive income:				
Change in unrealized gains on securities	(234	) 1,645	1,750
Less: reclassification adjustment for gains in net income	—	(30) (9,899)
Increase (decrease) in fair value of cash flow hedge	3,563	(1,017) —	
Less: reclassification adjustment for amounts recognized in net income	(1,346	) (224) —	
Total other comprehensive income (loss)	1,983	374	(8,149)
Comprehensive income	109,165	91,272	72,983	
Less: comprehensive income attributable to noncontrolling interest	(999	) (167) —	
Comprehensive income attributable to common stockholders	\$ 108,166	\$ 91,105	\$ 72,983	

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

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NATIONAL HEALTH INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year Ended December 31,		
	2013	2012	2011
Cash flows from operating activities:			
Net income	\$ 107,182	\$ 90,898	\$ 81,132
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	20,658	16,981	11,992
Amortization	247	320	581
Straight-line rental income	(6,560)	(3,664)	(3,778)
Non-cash interest income on construction loan	—	—	(1,082)
Write-off of debt issuance costs	416	—	—
Loan and realty losses (recoveries), net	1,976	(2,195)	(99)
Gain on sale of real estate	(22,258)	(11,966)	(3,348)
Gain on payoff of mortgage note	—	(4,605)	—
Gain on purchase liability settlement	(3,256)	—	—
Net realized gains on sales of marketable securities	—	(30)	(9,899)
Share-based compensation	2,339	2,168	3,087
Change in fair value of interest rate swap agreement	—	—	1,197
Income from equity-method investee	(324)	(45)	—
Change in operating assets and liabilities:			
Equity-method investment and other assets	(659)	(745)	(3,236)
Accounts payable and accrued expenses	2,495	(512)	95
Deferred income	1,937	(339)	212
Net cash provided by operating activities	104,193	86,266	76,854
Cash flows from investing activities:			
Investment in mortgage and other notes receivable	(11,082)	(16,241)	(6,566)
Collection of mortgage and other notes receivable	18,976	17,463	4,540
Investment in real estate	(635,971)	(110,601)	(75,806)
Investment in real estate development	(11,926)	—	—
Investment in renovations of existing real estate	(6,773)	—	—
Receipt of earnest money deposit	—	—	525
Investment in equity-method investment	—	(8,309)	—
Payment of real estate purchase liability	—	(5,222)	—
Proceeds from disposition of real estate properties	20,952	22,975	8,971
Proceeds from sales of marketable securities	—	125	12,862
Net cash used in investing activities	(625,824)	(99,810)	(55,474)
Cash flows from financing activities:			
Net change in borrowings under revolving credit facilities	103,000	(33,300)	59,535
Borrowings on term loan	330,000	120,000	50,000
Payments of term loans	(99,655)	—	(50,000)
Debt issuance costs	(5,867)	(766)	—
Proceeds from equity offering, net	282,542	—	—
Proceeds from exercise of stock options	146	(2)	200
Distributions to noncontrolling interest	(1,250)	(177)	—
Dividends paid to stockholders	(85,145)	(78,925)	(67,893)

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Net cash provided by (used in) financing activities	523,771	6,830	(8,158)
Increase (Decrease) in cash and cash equivalents	2,140	(6,714)	13,222
Cash and cash equivalents, beginning of period	9,172	15,886	2,664	
Cash and cash equivalents, end of period	\$ 11,312	\$ 9,172	\$ 15,886	

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

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NATIONAL HEALTH INVESTORS, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
 (in thousands)

	Year Ended December 31,		
	2013	2012	2011
Supplemental disclosure of cash flow information:			
Interest paid	\$ 8,342	\$ 3,449	\$ 2,156
Supplemental disclosure of non-cash investing and financing activities:			
Settlement of mortgage note by real estate acquisition	\$ 13,741	\$—	\$—
Lease escrow deposits	\$ 22,775	\$—	\$—
Escrow deposit for tax deferred exchange	\$ 23,813	\$—	\$—
Conditional consideration in asset acquisition	\$ 1,600	\$—	\$ 5,478
Accounts payable increase due to investments in real estate	\$ 3,086	\$—	\$—
Discount on mortgage note receivable purchased	\$—	\$—	\$ 204
Assumption of debt in real estate acquisition, at fair value	\$ 80,528	\$ 19,250	\$—
Noncontrolling interest conveyed in acquisition	\$—	\$ 10,964	\$—
Assignment of net assets in equity-method investee	\$ 817	\$—	\$—

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

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NATIONAL HEALTH INVESTORS, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands except share and per share amounts)

	Common Stock			Cumulative	Accumulated	Total	Noncontrolling	Total
	Shares	Amount	Capital in Excess of Par Value	Net Income in Excess (Deficit) of Dividends	Other Comprehensive Income	Health Investors' Stockholders' Equity	Interest	Equity
Balances at December 31, 2010	27,689,392	\$ 277	\$462,392	\$(35,499)	\$ 15,330	\$ 442,500	\$ —	\$442,500
Total comprehensive income	—	—	—	81,132	(8,149)	72,983	—	72,983
Shares issued on stock options exercised	61,816	1	199	—	—	200	—	200
Share-based compensation	—	—	3,087	—	—	3,087	—	3,087
Dividends declared, \$2.715 per common share	—	—	—	(75,285)	—	(75,285)	—	(75,285)
Balances at December 31, 2011	27,751,208	\$ 278	\$465,678	\$(29,652)	\$ 7,181	\$ 443,485	\$ —	\$443,485
Total comprehensive income	—	—	—	90,731	374	91,105	167	91,272
Noncontrolling interest conveyed in acquisition	—	—	—	—	—	—	10,964	10,964
Distributions to noncontrolling interest	—	—	—	—	—	—	(266)	(266)
Shares issued on stock options exercised	106,009	1	(3)	—	—	(2)	—	(2)
Share-based compensation	—	—	2,168	—	—	2,168	—	2,168
Dividends declared, \$2.86 per common share	—	—	—	(79,574)	—	(79,574)	—	(79,574)
Balances at December 31, 2012	27,857,217	\$ 279	\$467,843	\$(18,495)	\$ 7,555	\$ 457,182	\$ 10,865	\$468,047
Total comprehensive income	—	—	—	106,183	1,983	108,166	999	109,165
Distributions to noncontrolling interest	—	—	—	—	—	—	(1,250)	(1,250)
Issuance of common stock, net	5,175,000	51	282,490	—	—	282,541	—	282,541
Shares issued on stock options exercised	18,959	—	146	—	—	146	—	146
Share-based compensation	—	—	2,339	—	—	2,339	—	2,339

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Assignment of net assets in equity-method investee	—	—	817	—	—	817	—	817
Dividends declared, \$2.90 per common share	—	—	—	(84,645)	—	(84,645)	—	(84,645)
Balances at December 31, 2013	33,051,176	\$ 330	\$ 753,635	\$ 3,043	\$ 9,538	\$ 766,546	\$ 10,614	\$ 777,160

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

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NATIONAL HEALTH INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The Company - National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation incorporated and publicly listed in 1991, is a real estate investment trust ("REIT") specializing in financing healthcare real estate by purchase and leaseback transactions, RIDEA transactions and mortgage loans. Our investments include senior housing (assisted living, memory care, independent living and senior living campuses), skilled nursing, medical office buildings and specialty hospitals. Revenue is derived primarily from rental income on leased properties, interest income on mortgage loans and income from investments in the securities of other healthcare REITs.

Principles of Consolidation - The accompanying consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries and the joint venture entity over which we exercise control. All inter-company transactions and balances have been eliminated in consolidation. Net income is reduced by the portion of net income attributable to noncontrolling interests.

We apply Financial Accounting Standards Board ("FASB") guidance for our arrangements with variable interest entities ("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 consolidate investments in VIEs when we are determined to be the primary beneficiary of the VIE. 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.

We identify the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. We perform this analysis on an ongoing basis. At December 31, 2013, we held an interest in one unconsolidated VIE, of which we were not the primary beneficiary.

We also apply FASB guidance related to investments in joint ventures based on the type of controlling rights held by the members' interests in limited liability companies that may preclude consolidation by the majority equity owner in certain circumstances in which the majority equity owner would otherwise consolidate the joint venture.

We structure our joint ventures to be compliant with the provisions of the REIT Investment Diversification and Empowerment Act of 2007 ("RIDEA") which permits NHI to receive rent payments through a triple-net lease between a property company and an operating company, and is designed to give 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 holds our equity interest in an unconsolidated operating company, which we do not control, and provides an organizational structure that will allow 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.

Equity-Method Investment - We report our TRS' investment in an unconsolidated entity, over whose operating and financial policies we have the ability to exercise significant influence but not control, under the equity method of accounting. Under this method of accounting, our pro rata share of the entity's earnings or losses is included in our Consolidated Statements of Income. Additionally, we adjust our investment carrying amount to reflect our share of changes in an equity-method investee's capital resulting from its capital transactions.

The initial carrying value of our equity-method investment is based on the fair value of the net assets of the entity at the time we acquired our interest. We estimate fair values of the net assets of our equity-method investee based on discounted cash flow models. The inputs we use in these models are based on assumptions that we believe to be within a reasonable range of current market rates for the respective investments.

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We evaluate our equity-method investment for impairment whenever events or changes in circumstances indicate that the carrying value of our investment may exceed the fair value. If it is determined that a decline in the fair value of our investment is not temporary, and if such reduced fair value is below its carrying value, an impairment is recorded. The determination of the fair value of our equity-method investments involve significant judgment. Our estimates consider all available evidence including the present value of the expected future cash flows discounted at market rates, general economic conditions and other relevant factors.

Noncontrolling Interest - We present the portion of any equity that we do not own in entities that we control (and thus consolidate) as noncontrolling interest and classify such interest as a component of consolidated equity, separate from total NHI stockholders' equity, in our Consolidated Balance Sheets. In addition, we include net income attributable to the noncontrolling interest in net income in our Consolidated Statements of Income.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements - Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy is required to prioritize the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

The three levels of inputs used to measure fair value are as follows:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

If the fair value measurement is based on inputs from different levels of the hierarchy, the level within which the entire fair value measurement falls is the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. When an event or circumstance alters our assessment of the observability and thus the appropriate classification of an input to a fair value measurement which we deem to be significant to the fair value measurement as a whole, we will transfer that fair value measurement to the appropriate level within the fair value hierarchy.

Real Estate Properties - Real estate properties are recorded at cost or, if acquired through business combination, at fair value. Cost or fair value at the time of acquisition is allocated among land, buildings, tenant improvements, lease and other intangibles, and personal property. 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 capitalized interest during construction periods. We use the straight-line method of depreciation for buildings over their estimated useful

lives of 40 years, and improvements over their estimated useful lives ranging from 3 to 25 years.

We evaluate the recoverability of the carrying value of our real estate 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.

We have reclassified for all periods presented the operations of facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations in the Consolidated Statements of Income. Long-lived assets classified as held for sale are reported separately in the Consolidated Balance Sheets. When assets previously classified as being held for sale no longer meet the accounting criteria for such classification, we reclassify those assets as held and used, measured at the lower of their carrying

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amount before the assets were classified as held for sale (adjusted in the period in which the decision not to sell was made for any depreciation expense that would have been recognized had the assets been continuously classified as held and used) or their fair value at the date of the subsequent decision not to sell. Results of operations of the facilities previously disclosed in our Consolidated Statements of Income as discontinued operations which no longer meet the accounting criteria as held for sale are reclassified into continuing operations for all periods presented. There is no change to reported net income for the prior periods as a result of this reclassification.

Mortgage and Other Notes Receivable - Each quarter, we evaluate the carrying values of our notes receivable on an instrument-by-instrument basis for recoverability 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 a note receivable becomes more than 30 days delinquent as to contractual principal or interest payments, the loan is classified as non-performing, and thereafter we recognize all amounts due when received. If necessary, an impairment is measured as the amount by which the carrying amount exceeds 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.

Cash Equivalents - Cash equivalents consist of all highly liquid investments with an original maturity of three months or less.

Concentration of Credit Risks - Our credit risks primarily relate to cash and cash equivalents, investments in preferred stock and investments in mortgage and other notes receivable. Cash and cash equivalents are primarily held in bank accounts and overnight investments. We maintain our bank deposit accounts with large financial institutions in amounts that often exceed federally-insured limits. We have not experienced any losses in such accounts. Our mortgages and other notes receivable consist primarily of secured loans on health care facilities. Our investment in preferred stock is in another healthcare REIT.

Our financial instruments, principally our investments in preferred stock, marketable securities, and notes receivable, are subject to the possibility of loss of the carrying values as a result of either the failure of other parties to perform according to their contractual obligations or changes in market prices which may make the instruments less valuable. We obtain collateral in the form of mortgage liens and other protective rights and continually monitor these rights in order to reduce such possibilities of loss. We evaluate the need to provide for reserves for potential losses on our financial instruments based on management's periodic review of our portfolio on an instrument-by-instrument basis.

Marketable Securities - Our investments in marketable securities are classified as available-for-sale securities. Unrealized gains and losses on available-for-sale securities are recorded in stockholders' equity. We evaluate our marketable securities for other-than-temporary impairments on at least a quarterly basis. Realized gains and losses from the sale of available-for-sale securities are determined on a specific-identification basis.

A decline in the market value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end and forecasted performance of the investment.

Deferred Costs - Costs incurred to acquire debt are amortized by the effective interest method over the term of the related debt.

Deferred Income - Deferred income primarily includes non-refundable loan and lease commitment fees received by us, which are amortized into income over the expected period of the related loan or lease. In the event that our financing commitment to a potential borrower or lessee expires, the related commitment fees are recognized into income immediately. Commitment fees may be charged based on the terms of the loan or lease agreements and the creditworthiness of the parties.

Rental Income - Base rental income is recognized using the straight-line method over the term of the lease. Under certain leases, we receive additional contingent rent, which is calculated on the increase in revenues of the lessee over a base year or base quarter. We recognize contingent rent annually or quarterly when, based on the actual revenues of the lessee, receipt of such income is probable since the target threshold has been achieved. 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 a base year, are considered to be contingent rentals and are excluded from minimum lease payments.

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If rental income calculated on a straight-line basis exceeds the cash rent due under a lease, the difference is recorded as an increase to straight-line rent receivable in the Consolidated Balance Sheets and an increase in rental income in the Consolidated Statements of Income. If rental income on a straight-line basis is calculated to be less than cash received, there is a decrease in the same accounts.

We identify a lease as non-performing if a required payment is not received within 30 days of the date it is due. Our policy related to rental income on non-performing leased real estate properties is to recognize rental income in the period when the related cash is received. As of December 31, 2013, we had not identified any of our leases as non-performing.

Mortgage Interest Income - Mortgage interest income is recognized based on the interest rates and principal amounts outstanding on the mortgage notes receivable. Under certain mortgages, we receive additional contingent interest, which is calculated on the increase in the current year revenues of a borrower over a base year. We identify a mortgage loan as non-performing if a required payment is not received within 30 days of the date it is due. Our policy related to mortgage interest income on non-performing mortgage loans is to recognize mortgage interest income in the period when the cash is received. As of December 31, 2013, we had not identified any of our mortgages as non-performing.

Investment Income and Other - Investment income and other includes dividends when declared and interest when earned from investments in preferred stock and marketable securities of other healthcare REITs, interest on cash and cash equivalents when earned, and amortization of deferred income. Realized gains and losses on sales of marketable securities using the specific-identification method are included as a separate component of continuing operations in the Consolidated Statements of Income as investment and other gains.

Derivatives - In the normal course of business, we are subject to risk from adverse fluctuations in interest rates. We have periodically chosen to manage this risk through the use of derivative financial instruments, primarily interest rate swaps. Counterparties to these contracts are major financial institutions. We are exposed to credit loss in the event of nonperformance by these counterparties. We do not use derivative instruments for trading or speculative purposes. Our objective in managing exposure to market risk is to limit the impact on cash flows.

To qualify for hedge accounting, our interest rate swaps must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions must be, and are expected to remain, probable of occurring in accordance with our related assertions. All of our hedges are cash flow hedges.

We recognize all derivative instruments, including embedded derivatives required to be bifurcated, as assets or liabilities at their fair value in the Consolidated Balance Sheets. Changes in the fair value of derivative instruments that are not designated as hedges or that do not meet the criteria of hedge accounting are recognized in earnings. For derivatives designated in qualifying cash flow hedging relationships, the change in fair value of the effective portion of the derivatives is recognized in accumulated other comprehensive income (loss), whereas the change in fair value of the ineffective portion is recognized in earnings.

Federal Income Taxes - We intend at all times to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Effective October 1, 2012, we began recording income tax expense or benefit with respect to one of our subsidiaries which is taxed as a Taxable REIT Subsidiary ("TRS") under provisions similar to those applicable to regular corporations. Aside from such income taxes which may be applicable to the taxable income in the TRS, we will not be 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. Accordingly, no provision for federal income taxes has been made in the consolidated financial statements, except for the provision on the taxable

income of the TRS which is included in franchise, excise and other taxes in the Consolidated Statements of Income. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on our financial position, results of operations and cash flows.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the basis of assets, estimated useful lives used to compute depreciation expense, gains on sales of real estate, non-cash compensation expense and recognition of commitment fees.

Our tax returns filed for years beginning in 2010 are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our consolidated financial statements as a component of income tax expense.

Segment Disclosures - We are in the business of owning and financing health care properties. We are managed as one segment, rather than multiple segments for internal purposes and for internal decision making.

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New Accounting Pronouncements - In February 2013, the FASB issued ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which amends FASB Topic 220, Comprehensive Income, which requires entities to provide information about amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the income statement or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. ASU 2013-02 was effective prospectively for reporting periods beginning after December 15, 2012. The adoption of ASU 2013-02 did not have a material impact on our consolidated financial statements.

In July 2013 the FASB issued ASU 2013-10, Derivatives and Hedging, which amends Topic 815. ASU 2013-10 permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to U.S. Treasury and LIBOR. ASU 2013-10 also removes the restriction on using different benchmark rates for similar hedges. ASU 2013-10 is effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of ASU 2013-10 did not have a material impact on our consolidated financial statements.

NOTE 2. REAL ESTATE

As of December 31, 2013, we owned 157 health care real estate properties located in 30 states and consisting of 91 senior housing communities, 61 skilled nursing facilities, 3 hospitals and 2 medical office buildings. Our senior housing properties include assisted living facilities, independent living facilities, and senior living campuses. These investments (excluding our corporate office of \$882,000) consisted of properties with an original cost of approximately \$1,421,120,000, rented under triple-net leases to 23 lessees.

Acquisitions and New Leases of Real Estate

During the year ended December 31, 2013, we made the following real estate investments and commitments as described below (dollars in thousands):

Operator	Properties	Asset Class	Amount
Holiday Acquisition Holdings LLC	25	Senior Housing	\$492,959
Bickford Senior Living/RIDEA Structure	17	Senior Housing	137,459
National Healthcare Corporation	7	Skilled Nursing	37,417
Fundamental Long Term Care Holdings, LLC	2	Skilled Nursing	27,750
Chancellor Health Care, LLC	2	Senior Housing	17,000
Emeritus Senior Living	1	Senior Housing	15,300
Discovery Senior Living	1	Senior Housing	12,000
			\$739,885

Holiday

In December 2013 we acquired 25 independent living facilities from Holiday Acquisition Holdings LLC (“Holiday”), an affiliate of Holiday Retirement, for \$491,000,000 plus transaction costs of \$1,959,000. Because the Holiday facilities were owner operated, we accounted for the transaction as an asset purchase. The total purchase price was allocated to the assets acquired based upon their relative fair values, preliminarily estimated as \$21,700,000 to land and \$471,259,000 to buildings and improvements. No intangibles were identified in the acquisition. Such allocations have not been finalized as we await conclusive asset valuations and, as such, the results of the allocation are preliminary and subject to adjustment. This portfolio is located in 12 states from New Jersey to California. We have leased this portfolio to NH Master Tenant, LLC, a subsidiary of Holiday, who continues to operate the facilities pursuant to a management agreement with a Holiday-affiliated manager.

The Master Lease term of 17 years began in December 2013 and provides for initial base rent of \$31,915,000 plus annual escalators of 4.5% in the first 3 years and a minimum of 3.5% each year thereafter. Because the facilities were owner-occupied, we accounted for the acquisition as an asset purchase. Holiday's obligations to us under the master lease are guaranteed by its indirect parent, Holiday AL Holdings, LP.

We funded this acquisition with proceeds of a \$250,000,000 term loan described in Note 7 to the consolidated financial statements and proceeds from the sale of 5,175,000 shares of our common stock having net proceeds of \$282,542,000, after deducting \$12,500,000 in underwriting discounts, commissions and other offering expenses.

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Bickford

As of December 31, 2013, we owned an 85% equity interest and an affiliate of Bickford Senior Living ("Bickford") owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 29 assisted living/memory care facilities and also has 1 facility under construction. The facilities are leased to an operating company, ("OpCo"), in which we also retain an 85% ownership interest, but do not control. Our joint venture is structured to comply with the provisions of RIDEA.

On June 28, 2013, PropCo purchased 17 assisted living and memory care facilities which were managed by Bickford. The facilities total 750 units and are located in Illinois, Indiana, Iowa and Nebraska. Of these facilities, 14 were acquired from a subsidiary of Care Investment Trust, Inc. ("Care") for \$124,549,000, consisting of \$44,021,000 in cash and assumption of secured debt with a fair value of \$80,528,000. PropCo accounted for acquisition of the 100% interest in the real estate operations of these facilities using the acquisition method as prescribed by ASC Topic 805. As part of this transaction, we recognized all identifiable tangible assets and liabilities assumed at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed \$4,360,000 to the fair value of the land, \$120,189,000 to the fair value of the buildings and improvements and expensed \$63,000 in transaction costs at closing. The 14 newly-acquired facilities have been leased to OpCo for an initial term of 5 years at an aggregate annual lease amount of \$9,750,000 plus annual fixed escalators commencing on July 1 of each succeeding year.

Concurrent with this acquisition, PropCo also completed a \$12,910,000 purchase and leaseback of three assisted living facilities located in Iowa, Nebraska and Indiana totaling 107 units from affiliates of Bickford. The acquisition was accounted for as an asset purchase. PropCo's previous master lease with Bickford was amended to include these three properties and the annual lease amount was increased from \$7,750,000 to \$9,086,000, plus annual fixed escalators beginning January 1 of each succeeding year. All other significant terms of the existing master lease remain unchanged.

As described above, the current annual contractual rent from OpCo to PropCo is \$18,836,000, plus fixed annual escalators. During the quarter ended December 31, 2013, PropCo completed major construction and received certificates of occupancy on two assisted living facilities which were under development. Under the terms of the current development lease agreement, NHI continues to receive rent of 9% on the total amount of development costs, including land, which totaled \$17,796,000 at December 31, 2013.

Of our total revenue from continuing operations, \$14,586,000 (12%), \$5,164,000 (6%) and \$4,235,000 (5%) were recorded as rental income from Bickford for the years ended December 31, 2013, 2012, and 2011, respectively.

NHI has an exclusive right to Bickford's future acquisitions, development projects and refinancing transactions. At December 31, 2013, PropCo had purchased land and begun construction on one assisted living/memory care facility having a maximum cost of \$9,000,000. Our costs incurred to date, including land, were \$2,712,000.

For the 14 Care properties acquired in a business combination and discussed above, the unaudited pro forma revenue, net income and net income available to common stockholders of the combined entity is provided below had the acquisition date been January 1, 2012 (in thousands):

	2013	2012
Revenue	\$122,923	\$103,670
Net income	\$103,943	\$91,515
Net income available to common stockholders	\$103,869	\$91,397
Basic earnings per common share	\$3.66	\$3.29

Diluted earnings per common share	\$3.66	\$3.28
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Supplemental pro forma information above includes revenues from the newly executed lease with OpCo, recognized on a straight-line basis, depreciation, and appropriate interest costs.

Our revenue from continuing operations and our net income include \$5,258,000 and \$363,000, respectively, from the 14 Care properties for the year ended December 31, 2013.

NHC

Of our total revenue from continuing operations, \$34,756,000 (29%), \$33,056,000 (35%) and \$32,619,000 (39%) in 2013, 2012 and 2011, respectively, were derived from National HealthCare Corporation (“NHC”), a publicly-held company and the

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lessee of our legacy properties. At December 31, 2013, we leased 42 health care facilities to NHC consisting 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). The master lease agreement with NHC originally dated October 17, 1991, has since been amended to extend the lease expiration 5 years to December 31, 2026. There are two additional 5-year renewal options, each at fair rental value of such leased property as negotiated between the parties and determined without including the value attributable to any improvements to the leased property voluntarily made by NHC at its expense. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. We refer to this additional rent component as "percentage rent."

The following table summarizes the percentage rent received and recognized from NHC (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Current year	\$2,275	\$1,530	\$1,530
Prior year final certification ¹	746	997	560
Total percentage rent	\$3,021	\$2,527	\$2,090

¹ For purposes of the percentage rent calculation described in the Master Lease Agreement, NHC's annual revenue by facility for a given year is certified to NHI by March 31st of the following year.

In December 2012 NHI entered into an agreement with NHC to sell six skilled nursing facilities for \$21,000,000 in cash. The properties had a carrying value of \$1,611,000. The sale was completed on August 31, 2013, and resulted in a gain for financial statement purposes of \$19,370,000 after transaction costs of \$19,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. The results of operation of the facilities sold were classified as discontinued operations for all periods presented in our Consolidated Statements of Income. Upon the sale of these facilities and prior to the acquisition described below, NHI's annual base rent of \$33,700,000 was reduced to \$30,750,000.

On August 30, 2013, NHI acquired seven skilled nursing facilities (and one vacant assisted living facility) in Massachusetts and New Hampshire from former not-for-profit borrower ElderTrust of Florida, Inc. ("ElderTrust") for consideration of \$37,417,000 consisting of \$23,676,000 in cash, inclusive of closing costs, and the cancellation of notes receivable from ElderTrust with a principal balance of \$13,741,000. Beginning September 1, 2013, the facilities were placed under a new triple net lease to the current manager, NHC, for a period of 15 years commencing with a lease amount of \$350,000 for the remainder of 2013. In 2014, the lease provides for a base annual rental of \$3,450,000. Under the terms of the lease, rent escalates 4% of the increase in each facility's revenue over the 2014 base year. Because ElderTrust was the owner and operator of the facilities, we accounted for the transaction as an asset purchase. During the last three years of the lease, NHC will have the option to purchase the facilities for \$49,000,000.

Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of \$26,150,000 in cash, plus consideration related to the Corinth facility of \$1,600,000 conditional upon the achievement of certain operating metrics, which continued to be probable as of December 31, 2013. The facilities, which total 254 beds, have been leased to affiliates of Fundamental Long Term Care Holdings, LLC ("Fundamental") for an initial term of 10 years at a lease rate of 9% plus annual fixed escalators. The lease includes three 5-year renewal options at the terms which exist upon renewal. Because the Corinth facility was owner-operated, the acquisition of the Corinth facility was accounted for as an asset purchase.

Because Fundamental was the current lessee, we accounted for acquisition of the 100% interest in the real estate operation of the Canton facility using the acquisition method as prescribed by FASB Topic 805, Business

Combinations ("ASC Topic 805"). As part of this transaction, we recognized all identifiable tangible assets at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed \$420,000 of the purchase price to the fair value of the land, \$11,659,000 to the fair value of building and improvements, \$671,000 to the fair value of equipment and expensed \$147,000 in transaction costs which were paid at closing.

In December 2013, we sold three older skilled nursing facilities to affiliates of our current tenant, Fundamental, for \$18,500,000. The properties had a carrying value of \$17,068,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the internal Revenue Code. Our lease revenue from these facilities was \$3,316,000, \$3,231,000, and \$3,067,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

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Chancellor

In October 2013, we completed a \$9,000,000 acquisition of a 63-unit senior housing community in Baltimore, Maryland, and leased the facility to Chancellor Health Care, LLC for an initial term of seven years, plus renewal options. The lease rate in the first year is 8% plus a fixed annual escalator. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase. We also committed to provide up to \$500,000 for renovations and improvements which will be added to the basis on which the lease amount is calculated.

Additionally, we have committed \$7,500,000 to build a 46-unit free-standing assisted living and memory care community, expanding our Linda Valley senior living campus in Loma Linda, California. The initial lease term is for 15 years at an annual rate of 9% plus a fixed annual escalator. NHI purchased the Linda Valley campus in 2012 and leased it to Chancellor Health Care, who has been operating the campus since 1993.

Emeritus

In July 2013 we completed a \$15,300,000 acquisition of The Inn at Halcyon Village in Marysville, Ohio ("Halcyon"). The 76-unit assisted living and memory care community is leased to Emeritus Senior Living for an initial term of 15 years with an option to extend. Rent in the first year of the lease will be \$1,140,000. Annual fixed escalators begin in the third lease year. Because Halcyon was owner-operated, we accounted for the acquisition as an asset purchase.

Discovery

In September 2013 we completed a \$12,000,000 acquisition of Regency Pointe Retirement Community in Rainbow City, Alabama. The 120-unit senior housing community is leased to Discovery Senior Living ("Discovery") for an initial term of 15 years, with three 5-year renewal options. Rent in the first year of the lease is \$942,000 plus annual fixed escalators thereafter. As a lease inducement, upon achieving certain operating metrics, Discovery will be eligible over years two, three and four of the lease for contingent payments totaling up to \$2,500,000 which, if paid, will be amortized as an adjustment to rental income over the remaining lease term. As of December 31, 2013, the likelihood that we would incur the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements. Because Regency Pointe was owner-operated, we accounted for the acquisition as an asset purchase.

Disposition

In October 2013, our current tenant, Weatherly Associates, LLC, exercised their option to purchase a senior housing facility in Pennsylvania for \$5,315,000. The property had a carrying value of \$3,591,000. We plan to defer recognition of the tax gain on the sale of this facility by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. Our lease revenue from the facility was \$353,000, \$403,000, and \$403,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

Future Minimum Lease Payments

At December 31, 2013, the future minimum lease payments (excluding percentage rent) to be received by us under our operating leases with our tenants are as follows (in thousands):

2014	\$137,717
2015	135,704
2016	135,453
2017	134,419

2018	122,562
Thereafter	1,164,051
	\$1,829,906

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NOTE 3. EQUITY-METHOD INVESTMENT AND OTHER ASSETS

Our equity-method investment in OpCo and other assets consist of the following (in thousands):

	As of December 31,	
	2013	2012
Equity-method investment in OpCo	\$9,494	\$8,353
Loan costs and prepaid expenses, net	7,596	1,838
Accounts receivable and other assets	2,272	1,815
Replacement reserve and tax escrows - Fannie Mae	706	—
Lease escrow deposits	22,775	—
Escrow deposit for tax deferred exchange	23,813	—
Escrow deposit for real estate purchase	—	166
	\$66,656	\$12,172

Upon the acquisition of our equity method investment in OpCo, in 2012, our purchase price was allocated to the assets acquired based upon their estimated relative fair values. Accounting guidance for equity method investments requires that we account for the difference between the cost basis of our investment in OpCo and our pro rata share of the amount of underlying equity in the net assets of OpCo as though OpCo were a consolidated subsidiary. Accordingly, the excess of the original purchase price over the fair value of identified tangible assets at acquisition of \$8,986,000 is treated as implied goodwill and is subject to periodic review for impairment in conjunction with our equity method investment. When we acquired the Bickford properties in June 2013, an assignment was entered into whereby the operations of the 17 facilities were conveyed by an affiliate of Bickford to OpCo. The transaction mandated the effective cut-off of operating revenues and expenses and the settlement of operating assets and liabilities as of the acquisition date. Specified remaining net tangible assets were assigned to OpCo at the transferor's carryover basis resulting in an adjustment, through NHI's capital in excess of par value to our equity method investment in OpCo, of \$817,000. We monitor and periodically review our equity method investment in OpCo for impairment to determine whether a decline, if any, in the value of the investment is other-than temporary. We noted no decline in value as of December 31, 2013.

OpCo is intended to be self-financing, and aside from initial investments therein, no direct support has been provided by NHI to OpCo since inception on September 30, 2012. While PropCo's rental revenues associated with the related properties are sourced from OpCo, a decision to furnish additional direct support would be at our discretion and not obligatory. As a result, we believe our maximum exposure to loss at December 31, 2013, due to our investment in OpCo, would be limited to our equity interest. We have concluded that OpCo meets the accounting criteria to be considered a VIE. However, because we do not control the entity, nor do we have any role in the day-to-day management, we are not the primary beneficiary of the entity, and we account for our investment using the equity method. There have been no distributions declared during the years ended December 31, 2013 and 2012.

At December 31, 2013, we had real estate sales proceeds of \$23,813,000 held with a qualified intermediary for the purpose of using the funds toward a future purchase of real estate and completing a tax-deferred exchange within the rules of Section 1031 of the Internal Revenue Code.

At December 31, 2013, we held lease escrow deposits of \$22,775,000 in regard to our lease with Holiday. The Holiday deposits include \$21,275,000 as a lease security deposit which remains for the term of the 17-year lease commencing in December 2013 and is payable to Holiday at the end of the lease term. The remaining \$1,500,000 is reserved for specified capital improvements.

NOTE 4. MORTGAGE AND OTHER NOTES RECEIVABLE

At December 31, 2013, we had investments in mortgage notes receivable with a carrying value of \$34,926,000 secured by real estate and UCC liens on the personal property of 11 health care properties and other notes receivable with a carrying value of \$27,082,000 guaranteed by significant parties to the notes or by cross-collateralization of properties with the same owner. At December 31, 2012, we had investments in mortgage notes receivable with a carrying value of \$68,214,000 and other notes receivable with a carrying value of \$16,036,000. No allowance for doubtful accounts was considered necessary at December 31, 2013 or December 31, 2012.

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In September 2012 we evaluated the recoverability of the mortgage notes receivable due from SeniorTrust of Florida, Inc., a Tennessee non-profit organization. Using a discounted cash flow analysis, we evaluated the declining net operating income of SeniorTrust over the previous twelve months and recognized an impairment to the carrying value of the SeniorTrust notes in the total amount of \$2,300,000 reducing the SeniorTrust notes receivable to a carrying value of \$19,037,000 at December 31, 2012.

Due to non-receipt of contractual payments, in March 2013 we re-evaluated the recoverability of the SeniorTrust notes and recognized an impairment to the carrying value in the total amount of \$4,037,000, thereby reducing the carrying value of the SeniorTrust notes receivable to \$15,000,000.

In June 2013 we received full payment of \$15,000,000 on the SeniorTrust notes.

In August 2013 the mortgage notes receivable due from ElderTrust of Florida, Inc. with an aggregate principal balance of \$13,741,000 were applied to the purchase price of seven skilled nursing facilities in Massachusetts and New Hampshire. See Note 8 for more information on our transactions with SeniorTrust and ElderTrust.

In July 2013 we extended a \$9,200,000 loan to Bickford to fund a portion of their acquisition of six senior housing communities consisting of 342 units. The loan is guaranteed by principals of Bickford and has a two year maturity plus a one year extension option with 12% annual interest. As a result of this transaction, PropCo acquired a \$97,000,000 purchase option on the properties which is exercisable over the term of the loan.

In September 2013 we received \$3,293,000 as full payment upon the final maturity of a mortgage note secured by a skilled nursing facility located in Georgia. Of the amount received, we recorded \$2,061,000 as a recovery of a previous writedown.

In October 2013 we provided a \$2,500,000 second mortgage loan to an affiliate of Discovery for the construction of a 120-unit senior housing community in Naples, Florida. Construction began in the fourth quarter of 2013. The loan is guaranteed by principals of Discovery and has a five-year maturity with monthly payments of interest at a 12% annual rate.

In December 2012, we received from our current borrower a payment of \$13,830,000 in full settlement of our note receivable secured by three skilled nursing facilities in Georgia formerly owned by Allgood Healthcare, Inc. The payment consisted of note principal of \$4,650,000, accrued interest of \$80,000, a recovery of a previous writedown of \$4,495,000, and a note gain of \$4,605,000. The recovery and gain are included in separate components of our income from continuing operations in our Consolidated Statements of Income. These facilities had previously been involved in bankruptcy proceedings with the former owner.

NOTE 5. INVESTMENT IN PREFERRED STOCK, AT COST

We received \$3,273,000 in preferred dividends from LTC (a publicly-traded REIT) for each of the years ended December 31, 2013, 2012 and 2011, on our investment in 2,000,000 shares of their cumulative preferred stock carried at its original cost of \$38,132,000. The preferred stock, which was purchased in September 1998, is not listed on a stock exchange, is considered a non-marketable security and is recorded at cost in our Consolidated Balance Sheets. The non-voting preferred stock is convertible into 2,000,000 shares of LTC common stock whose closing price at December 31, 2013 was \$35.39 per share. The preferred stock has an annual cumulative coupon rate of 8.5% payable quarterly and a liquidation preference of \$19.25 per share. While not the fair value of our preferred stock investment, we provide the above information as pertinent to the reader's estimation of the fair value of our investment. In accordance with ASC Topic 825 Financial Instruments, paragraph 10-50 Disclosure-Overall, we have determined that due to excessive costs, it is not practicable to estimate the fair value of our cost basis investment in preferred stock

because of inherent subjectivities in refining the estimate to a degree that is likely to materially augment the information provided above. Further, we have identified no events that may have had an adverse effect on its fair value which would have required revisiting the instrument's carrying value.

NOTE 6. INVESTMENTS IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities which are reported at fair value. Unrealized gains and losses on available-for-sale securities are presented as a component of accumulated other comprehensive income. Realized gains and losses from securities sales are determined based upon specific identification of the securities.

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Marketable securities consist of the following (in thousands):

	December 31, 2013		December 31, 2012	
	Amortized	Fair Value	Amortized	Fair Value
	Cost		Cost	
Common stock of other healthcare REITs	\$4,088	\$12,650	\$4,088	\$12,884

Gross unrealized gains related to available-for-sale securities were \$8,562,000 at December 31, 2013 and \$8,796,000 at December 31, 2012.

During 2011, we sold 381,000 common shares of LTC and sold 96,330 shares of convertible preferred stock of NHC and recognized gains totaling \$8,809,000.

During 2011, we recognized a gain of \$1,090,000 on the sale of 50,000 common shares of Nationwide Health Properties, Inc. ("NHP") in exchange for 39,330 common shares of Ventas, Inc. ("Ventas") upon the acquisition of NHP by Ventas.

During 2013, 2012, and 2011 we recognized \$667,000, \$628,000, and \$822,000, respectively, of dividend income from our marketable securities and have included these amounts in investment income and other in the Consolidated Statements of Income.

NOTE 7. DEBT

Debt consists of the following (in thousands):

	December 31, 2013	December 31, 2012
Revolving credit facility - unsecured	\$167,000	\$64,000
Bank term loans - unsecured	370,000	120,000
Bank term loan - secured	—	19,250
Fannie Mae term loans - secured (including a premium of \$1,756)	80,080	—
	\$617,080	\$203,250

On June 28, 2013, we entered into a \$370,000,000 unsecured credit facility which includes a 5-year revolving credit facility (inclusive of a 1-year extension option) of \$250,000,000 with interest initially at 140 basis points over LIBOR and \$120,000,000 of 7-year term loans with interest initially at 150 basis points over LIBOR. The facility also includes an uncommitted incremental facility feature allowing for an additional \$130,000,000 of borrowings. The credit facility was provided by Wells Fargo, Bank of Montreal, KeyBank, and Bank of America, with Pinnacle National Bank as a participating bank. At December 31, 2013, we had \$83,000,000 available to draw on the revolving portion of the credit facility. Quoted 30-day LIBOR was 17 basis points on December 31, 2013. The unused commitment fee is 35 basis points per annum. The new facility replaces a smaller credit facility that originated on May 1, 2012 and provided for \$320,000,000 of total borrowing capacity. Interest rates are referenced to our Consolidated Leverage Ratio, as defined, and were adjusted in December 2013 to 165 basis points over LIBOR for the revolving credit facility and 175 basis points over LIBOR for the term loans to give effect to debt undertaken in conjunction with our Holiday acquisition. The revolving credit facility has a maximum applicable rate of 190 basis points over LIBOR and the term loans have a maximum applicable rate of 200 basis points over LIBOR.

To provide a portion of the funding for the Holiday acquisition described in Note 2, we entered into a \$250,000,000 term loan with a syndicate of banks led by Wells Fargo. Interest is 175 basis points over LIBOR and the loan has the same maturity as our revolving credit facility.

As part of the Care acquisition described in Note 2, we assumed Fannie Mae mortgage loans, with principal balances of \$71,090,000 and \$7,234,000 on December 31, 2013, which have interest at rates of 6.85% and 7.17%, respectively, and mature on July 1, 2015 (prepayable without penalty after December 31, 2014).

The unsecured credit facility mentioned above requires that we maintain certain financial ratios within limits set by our creditors. To date, these ratios, which are calculated quarterly, have been well within the limits required by the credit facility agreements.

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The following table summarizes interest expense (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Interest expense	\$8,523	\$3,172	\$2,070
Amortization of loan costs	706	320	581
Change in fair value of interest rate swap agreement	—	—	1,197
Total interest expense	\$9,229	\$3,492	\$3,848

Amortization of loan costs for 2013 includes \$416,000 which was written off as a result of modifications we made to the credit facility.

In August 2013, we used our revolving credit facility to pay off a \$19,250,000 secured bank loan which provided for interest at 300 basis points over LIBOR.

Interest Rate Swap Agreements

We have entered into interest rate swap agreements to fix the interest rates on the \$80,000,000 and \$40,000,000 7-year term loans. The critical terms of this swap agreement are essentially identical to those of the 7-year term loans and thus, in accordance with ASC Topic 815 Derivative Instruments and Hedging Activities, the swap is considered a perfectly effective "cash flow hedge." Accordingly, changes in the fair value of this cash flow hedge are included in accumulated other comprehensive income rather than net income in our Consolidated Statements of Income. If the fair value of the hedge is an asset, we include it in our Consolidated Balance Sheets in other assets, and, if a liability, as a component of accrued expenses.

Below is a summary of our swap agreements at December 31, 2013 (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	\$544
June 2013	June 2020	3.86%	1-month LIBOR	\$80,000	\$431

See Note 14 for fair value disclosures about our Fannie Mae mortgage loan and interest rate swap agreements.

On November 1, 2011, we terminated a previous interest rate swap agreement. Interest in 2011 reflected the change in fair value of the interest rate swap agreement.

NOTE 8. COMMITMENTS AND CONTINGENCIES

Bickford

At December 31, 2013, our subsidiary PropCo had purchased land and begun construction on one assisted living facility having a maximum cost of \$9,000,000. Our costs incurred to date, including land, were \$2,712,000. NHI entered into a commitment of \$2,785,000 on a letter of credit for the benefit of our joint venture partner, an affiliate of Bickford, on February 6, 2014.

Chancellor

In October 2013, we entered into a \$7,500,000 commitment to build a 46-unit free-standing assisted living and memory care community, expanding our Linda Valley senior living campus in Loma Linda, California. We expect to begin construction during the first quarter of 2014. The initial lease term is for 15 years at an annual rate of 9% plus a fixed annual escalator. NHI purchased the Linda Valley campus in 2012 and leased it to Chancellor Health Care, who

has been operating the campus since 1993. We also committed to provide up to \$500,000 for renovations and improvements related to our recent acquisition of a 63-unit senior housing community in Baltimore, Maryland which we have leased to Chancellor Health Care. We expect to begin renovations during the first quarter of 2014.

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Fundamental

In April 2013, we completed the purchase of two skilled nursing facilities located in Canton and Corinth, Texas for a purchase price of \$26,150,000 in cash, plus consideration related to the Corinth facility of \$1,600,000 conditional upon the achievement of certain operating metrics, which continued to be probable as of December 31, 2013.

Kentucky River

In March 2012, we entered into a long-term lease extension and construction commitment to Jackson Hospital Corporation, an affiliate of Community Health Systems, to provide up to \$8,000,000 for extensive renovations and additions to our Kentucky River Medical Center, a general acute care hospital in Jackson, Kentucky. This investment will be added to the basis on which the lease amount is calculated. The construction project commenced during the first quarter of 2013 and is expected to continue over two years. Total construction costs incurred as of December 31, 2013 were \$5,838,000. The 10-year lease extension began July 1, 2012, with an additional 5-year renewal option.

Legend Healthcare

In October 2011, we completed a purchase/leaseback of four skilled nursing facilities in Texas with affiliates of Legend Healthcare, LLC ("Legend") for \$55,278,000, including consideration of \$5,478,000 which was contingent on the achievement of certain operating metrics. In December 2012, we funded \$2,222,000 of this contingent consideration. We had previously anticipated the remaining \$3,256,000, which was recorded as a purchase liability, to be funded. During the quarter ended December 31, 2013, we determined that Legend had not achieved the required operating metrics and therefore would not qualify for this remaining consideration. As a result, we have recorded a gain of \$3,256,000 on the settlement of this purchase liability and have included this amount in investment and other gains in our Consolidated Statements of Income.

Santé

We have a \$2,000,000 supplemental construction commitment to our borrower, Santé Partners, LLC ("Santé"). This additional loan amount becomes available to the borrower when the 70-bed transitional rehabilitation hospital, completed in March 2011, achieves certain operating metrics. NHI also has the option to purchase and lease back the hospital when it achieves a predetermined level of stabilized net operating income.

We had previously committed to fund a \$3,500,000 expansion and renovation program in connection with our August 2012 acquisition of the senior living campus in Silverdale, Washington leased to Santé. As of December 31, 2013, we had fully funded this commitment, which was added to the basis on which the lease amount is calculated. Also in connection with our Silverdale, Washington senior living campus, we have a contingent commitment to fund two lease inducement payments of \$1,000,000 each. Santé would earn the payments upon obtaining, and maintaining, a specified lease coverage ratio. If earned, the first payment would be due after the second lease year and the second payment would be due after the third lease year. At acquisition, the likelihood that we would incur the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements.

Helix Healthcare

In March 2010, we completed a purchase/leaseback transaction with Helix Healthcare ("Helix") for \$12,500,000. The purchase price includes a conditional payment of \$1,000,000, which is recorded as a purchase liability.

Discovery

As a lease inducement, we have a contingent commitment to fund a series of payments up to \$2,500,000 in connection with our September 2013 lease to Discovery of a senior living campus in Rainbow City, Alabama. Discovery would earn the contingent payments upon obtaining, and maintaining, a specified lease coverage ratio. As earned, the payments would be due in installments of \$750,000 in each of years two and three of the lease with the residual due in year four. As of December 31, 2013, the likelihood that we would incur the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements.

Litigation

Our Health Care 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 Health Care

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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 Health Care 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.

As previously disclosed, in November 2008, the Company was served with a Civil Investigative Demand by the Office of the Tennessee Attorney General ("OTAG"), which indicated that the OTAG was investigating transactions between the Company and three Tennessee not-for-profit corporations. NHI has provided the OTAG with requested information and documents and has been working with the OTAG with respect to this investigation. The investigation with respect to one of the not-for-profit corporations was settled in 2009. A receiver had been appointed for the two remaining not-for-profit corporations, SeniorTrust of Florida, Inc. ("SeniorTrust") and ElderTrust of Florida, Inc ("ElderTrust"). As previously disclosed, the receiver of SeniorTrust and ElderTrust had caused those entities to bring lawsuits against NHI and NHC.

In April 2013, NHI, NHC and the receiver for ElderTrust and SeniorTrust entered into a settlement agreement resolving all remaining issues. The settlement agreement also resolved the OTAG investigation and was approved by the Court on May 3, 2013. Thus, the investigation has now been resolved with respect to all three of the not-for-profit corporations. The settlement agreement provided that SeniorTrust pay NHI \$15,000,000 in cash in full settlement of the notes receivable between NHI and SeniorTrust, which payment was made on June 27, 2013.

The settlement agreement also provided that NHI purchase ElderTrust's seven skilled nursing facilities in Massachusetts and New Hampshire. As consideration for the purchase from ElderTrust, NHI canceled a note receivable from ElderTrust with a principal balance of \$13,741,000 and paid cash in the amount of \$23,676,000, inclusive of closing costs. As discussed in further detail at Note 2, the purchase was completed on August 30, 2013. NHI has leased these facilities to NHC, the current operator.

NOTE 9. INVESTMENT AND OTHER GAINS

The following table summarizes our investment and other gains (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Gain on payoff of mortgage note receivable	\$—	\$4,605	\$—
Gains on sales of marketable securities	—	30	9,899
Gain on purchase liability settlement	3,256	—	—
Other gains	50	242	362
	\$3,306	\$4,877	\$10,261

NOTE 10. SHARE-BASED COMPENSATION

We recognize share-based compensation for all stock options granted over the requisite service period using the fair value of these grants as estimated at the date of grant using the Black-Scholes pricing model, and all restricted stock granted over the requisite service period using the market value of our publicly-traded common stock on the date of grant.

Share-Based Compensation Plans

The Compensation Committee of the Board of Directors ("the Committee") has the authority to select the participants to be granted options; to designate whether the option granted is an incentive stock option ("ISO"), a non-qualified option, or a stock appreciation right; to establish the number of shares of common stock that may be issued upon

exercise of the option; to establish the vesting provision for any award; and to establish the term any award may be outstanding. The exercise price of any ISO's granted will not be less than 100% of the fair market value of the shares of common stock on the date granted and the term of an ISO may not be more than ten years. The exercise price of any non-qualified options granted will not be less than 100% of the fair market value of the shares of common stock on the date granted unless so determined by the Committee.

In May 2012, our stockholders approved the 2012 Stock Incentive Plan ("the 2012 Plan") pursuant to which 1,500,000 shares of our common stock were made available to grant as share-based payments to employees, officers, directors or consultants. As of December 31, 2013, there were 1,140,000 shares available for future grants under the 2012 Plan. The individual restricted stock and option grant awards vest over periods up to five years. The term of the options under the 2012 Plan is up to five years from the date of grant.

In May 2005, our stockholders approved the NHI 2005 Stock Option Plan ("the 2005 Plan") pursuant to which 1,500,000 shares of our common stock were made available to grant as share-based payments to employees, officers, directors or consultants. As of December 31, 2013, there were 20,635 shares available for future grants under the 2005 Plan. The individual restricted stock

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and option grant awards vest over periods up to ten years. The term of the options outstanding under the 2005 Plan is up to ten years from the date of grant.

The NHI 1997 Stock Option Plan (“the 1997 Plan”) provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of December 31, 2013, no shares were available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected may result in the reversal of previously recorded compensation expense. The compensation expense reported for the year ended December 31, 2013 was \$2,339,000, all of which related to outstanding stock options, as compared to \$2,168,000 for the year ended December 31, 2012, consisting of \$2,167,000 for stock options and \$1,000 for restricted stock and is included in general and administrative expense in the Consolidated Statements of Income.

Determining Fair Value of Option Awards

The fair value of each option award was estimated on the grant date using the Black-Scholes option valuation model with the weighted average assumptions indicated in the following table. Each grant is valued as a single award with an expected term based upon expected employee and termination behavior. Compensation cost is recognized on the graded vesting method over the requisite service period for each separately vesting tranche of the award as though the award were, in substance, multiple awards. The expected volatility is derived using daily historical data for periods preceding the date of grant. The risk-free interest rate is the approximate yield on the United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

Stock Options

The weighted average fair value per share of options granted was \$6.41, \$6.36 and \$9.91 for 2013, 2012 and 2011, respectively. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2013	2012	2011
Dividend yield	4.5%	6.0%	5.9%
Expected volatility	23.8%	32.0%	4.6%
Expected lives	2.8 years	3.9 years	3.9 years
Risk-free interest rate	0.35%	0.32%	1.11%

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Stock Option Activity

The following tables summarize our outstanding stock options:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
Outstanding December 31, 2010	384,507	\$33.24		
Options granted under 2005 Plan	340,000	\$46.11		
Options exercised under 1997 Plan	(15,000)	\$23.79		
Options exercised under 2005 Plan	(183,417)	\$32.69		
Options forfeited under 2005 Plan	(16,668)	\$41.52		
Outstanding December 31, 2011	509,422	\$42.03		
Options granted under 2005 Plan	340,000	\$47.52		
Options exercised under 1997 Plan	(19,266)	\$33.26		
Options exercised under 2005 Plan	(618,481)	\$43.63		
Outstanding December 31, 2012	211,675	\$46.60		
Options granted under 2005 Plan	360,000	\$64.49		
Options exercised under 2005 Plan	(55,001)	\$45.31		
Outstanding December 31, 2013	516,674	\$59.20	3.77	\$1,417,000
Exercisable December 31, 2013	323,330	\$59.19	3.71	\$901,848

Grant Date	Number of Shares	Exercise Price	Remaining Contractual Life in Years
2/22/2011	15,000	\$45.58	2.15
2/25/2011	33,336	\$46.22	2.15
2/21/2012	108,338	\$47.52	3.15
2/25/2013	360,000	\$64.49	4.16

Outstanding December 31, 2013 516,674

The weighted average remaining contractual life of all options outstanding at December 31, 2013 is 3.8 years. Including outstanding stock options, our stockholders have authorized an additional 1,677,309 shares of common stock that may be issued under the share-based payments plans.

The following table summarizes our outstanding non-vested stock options:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested December 31, 2012	176,675	\$8.09
Options granted under 2012 Plan	360,000	\$6.41
Options vested under 2005 Plan	(343,331)	\$6.97
Non-vested December 31, 2013	193,344	\$6.95

At December 31, 2013, we had \$416,000 of unrecognized compensation cost related to unvested stock options, net of expected forfeitures, which is expected to be recognized over the following periods: 2014 - \$375,000 and 2015 - \$41,000. Stock-based compensation is included in general and administrative expense in the Consolidated Statements

of Income.

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The intrinsic value of the total options exercised for the years ended December 31, 2013, 2012 and 2011 was \$1,084,000 or \$19.71 per share; \$5,527,000 or \$8.67 per share, and \$2,567,000 or \$12.94 per share, respectively.

Restricted Stock Activity

The following table summarizes our restricted stock activity:

	Number of Shares	Weighted Average Remaining Vesting Period (Years)	Aggregate Intrinsic Value
Non-vested at December 31, 2010	3,175	0.54	\$ 143,000
Vested during the period	(1,925))	
Non-vested at December 31, 2011	1,250	0.10	\$ 55,000
Vested during the period	(1,250))	
Non-vested at December 31, 2012	—		
Vested during the period	—		
Non-vested at December 31, 2013	—		

At December 31, 2013, we had no unrecognized compensation cost related to unvested restricted stock.

NOTE 11. DISCONTINUED OPERATIONS

We have reclassified, for all periods presented, the operations of facilities meeting the accounting criteria for properties being sold or held for sale as discontinued operations.

In December 2013, we sold three older skilled nursing facilities to affiliates of our current tenant, Fundamental, for \$18,500,000. The properties had a carrying value of \$17,068,000. We plan to defer recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the internal Revenue Code. Our lease revenue from these facilities was \$3,316,000, \$3,231,000, and \$3,067,000 for the years ended December 31, 2013, 2012, and 2011, respectively. Pursuant to the purchase option, rents associated with the two remaining properties will be fixed at \$250,000 per month, without escalation, through the first renewal term in February 2016.

In January 2011, we completed the sale of a skilled nursing facility in Texas to the current tenant, Fundamental, for \$4,500,000 that had a carrying value of \$4,039,000. Our lease revenue from the facilities was \$43,000 for the year ended December 31, 2011.

In October 2013, our current tenant, Weatherly Associates, LLC, exercised their option to purchase a senior housing facility in Pennsylvania for \$5,315,000. The sale was completed in December 2013. The property had a carrying value of \$3,591,000 resulting in a gain for financial statement purposes. We plan to defer recognition of the tax gain on the sale of this facility by utilizing the like-kind exchange rules under Section 1031 of the Internal Revenue Code. Our lease revenue from the facility was \$353,000, \$403,000, and \$403,000 for the years ended December 31, 2013, 2012, and 2011, respectively.

In August 2013 we sold six older skilled nursing facilities to NHC for \$21,000,000 and recorded a gain for financial statement purposes of \$19,370,000 after selling costs of \$19,000. Our lease revenue from the facilities was \$2,294,000, \$3,368,000 and \$3,377,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

In December 2012, our tenant, Sunrise Senior Living, exercised its option to purchase our assisted living facility in Edison, New Jersey. Our lease revenue from the facility was \$1,302,000 and \$1,372,000 for the years ended December 31, 2012 and 2011, respectively.

In August 2011, we sold an assisted living facility located in Daytona Beach, Florida to the current tenant. The net gain on the sale of these facilities was \$1,048,000 for financial statement purposes. Our lease revenue from the facilities was \$202,000 and for the year ended December 31, 2011.

In February 2011, we sold two medical office buildings to our current tenant. The net gain on the sale of these facilities was \$1,838,000 for financial statement purposes. Our lease revenue from the facilities was \$41,000 for the year ended December 31, 2011.

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Income from discontinued operations is summarized below (in thousands):

	Year Ended December 31,		
	2013	2012	2011
Revenues:			
Rental income	\$5,962	\$8,304	\$8,505
Other income	21	3	4
Expenses:			
Depreciation	557	2,209	542
Operating income	5,426	6,098	7,967
Gain on sale of real estate	22,258	11,966	3,348
Total discontinued operations	\$27,684	\$18,064	\$11,315
Weighted average common shares outstanding:			
Basic	28,362,398	27,811,813	27,719,096
Diluted	28,397,702	27,838,720	27,792,592
Discontinued operations income per share:			
Basic	\$.97	\$.65	\$.41
Diluted	\$.97	\$.65	\$.41

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NOTE 12. EARNINGS AND DIVIDENDS PER SHARE

The weighted average number of common shares outstanding during the reporting period is used to calculate basic earnings per common share. Diluted earnings per common share assume the exercise of stock options and vesting of restricted shares using the treasury stock method, to the extent dilutive.

The following table summarizes the average number of common shares and the net income used in the calculation of basic and diluted earnings per common share (in thousands, except share and per share amounts):

	Year Ended December 31,		
	2013	2012	2011
Income from continuing operations attributable to common stockholders	\$78,499	\$72,667	\$69,817
Discontinued operations	27,684	18,064	11,315
Net income attributable to common stockholders	\$106,183	\$90,731	\$81,132
BASIC:			
Weighted average common shares outstanding	28,362,398	27,811,813	27,719,096
Income from continuing operations per common share	\$2.77	\$2.61	\$2.52
Discontinued operations per common share	.97	.65	.41
Net income per common share	\$3.74	\$3.26	\$2.93
DILUTED:			
Weighted average common shares outstanding	28,362,398	27,811,813	27,719,096
Stock options and restricted shares	35,304	26,907	73,496
Average dilutive common shares outstanding	28,397,702	27,838,720	27,792,592
Income from continuing operations per common share	\$2.77	\$2.61	\$2.51
Discontinued operations per common share	.97	.65	.41
Net income per common share	\$3.74	\$3.26	\$2.92
Incremental shares excluded since anti-dilutive:			
Stock options with an exercise price in excess of the average market price for our common shares	23,883	—	16,758
Regular dividends declared per common share	\$2.90	\$2.64	\$2.495
Special dividends declared per common share ¹	\$—	\$.22	\$.22

¹ Special dividends are paid in January following the year in which they are declared

NOTE 13. INCOME TAXES

Beginning with our inception in 1991, we have elected to be taxed as a REIT under the Internal Revenue Code (the "Code"). We have elected that our subsidiary established on September 30, 2012 in connection with the Bickford arrangement (which holds our ownership interest in an operating company) be taxed as a taxable REIT subsidiary ("TRS") under provisions of the Code. The TRS is subject to federal and state income taxes like those applicable to regular corporations. Aside from such income taxes which may be applicable to the taxable income in the TRS, we will not be subject to 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.

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Per share dividend payments to common stockholders for the last three years are characterized for tax purposes as follows:

(Unaudited)	2013	2012	2011
Ordinary income	\$2.85895	\$2.62870	\$2.32042
Capital gain	0.16493	0.01130	0.32494
Return of capital	0.09612	—	0.06964
Dividends paid per common share	\$3.12	\$2.64	\$2.715

Our consolidated provision for state and federal income tax for the years ended 2013, 2012, and 2011 was \$267,000, \$137,000, and \$96,000, respectively. For the years ended 2013, 2012, and 2011 we had no material deferred state or federal income tax.

Current taxes for 2013 of \$128,000 relates to our equity interest in the unconsolidated operating company whose interest is owned by our TRS described above, plus \$139,000 from a franchise tax levied by the state of Texas that has attributes of an income tax. For 2012, tax expense of \$20,000 relates to our equity interest in the unconsolidated operating company and \$117,000 relates to the Texas franchise tax. The tax expense for 2011 relates entirely to such tax levied in Texas. Our income taxes described above are combined in franchise, excise and other taxes in our Consolidated Statements of Income.

We made state income tax payments of \$129,000, \$96,000, and \$82,000 for the years ended December 31, 2013, 2012 and 2011, respectively.

NOTE 14. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial assets and liabilities measured at fair value (based on the hierarchy of the three levels of inputs described in Note 1) on a recurring basis include marketable securities, derivative financial instruments and contingent consideration arrangements. Marketable securities consist of common stock of other healthcare REITs. Derivative financial instruments include our interest rate swap agreements. Contingent consideration arrangements relate to certain provisions of recent real estate purchase agreements involving both business combinations.

Marketable securities. We utilize quoted prices in active markets to measure debt and equity securities; these items are classified as Level 1 in the hierarchy and include the common and preferred stock of other healthcare REITs.

Derivative financial instruments. Derivative financial instruments are valued in the market using discounted cash flow techniques. These techniques incorporate Level 1 and Level 2 inputs. The market inputs are utilized in the discounted cash flow calculation considering the instrument's term, notional amount, discount rate and credit risk. Significant inputs to the derivative valuation model for interest rate swaps are observable in active markets and are classified as Level 2 in the hierarchy.

Contingent consideration. Contingent consideration arrangements are classified as Level 3 and are valued using unobservable inputs about the nature of the contingent arrangement and the counter-party to the arrangement, as well as our assumptions about the probability of full settlement of the contingency.

Assets and liabilities measured at fair value on a recurring basis are as follows (in thousands):

	Balance Sheet Classification	Fair Value Measurement	
		December 31, 2013	December 31, 2012
Level 1			
Common stock of other healthcare REITs	Marketable securities	\$12,650	\$12,884

Level 2			
Interest rate swap asset	Other assets	\$975	\$—
Interest rate swap liability	Accrued expenses	\$—	\$1,241
Level 3			
Contingent consideration	Real estate purchase liabilities	\$—	\$3,256

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The following table presents a reconciliation of Level 3 liabilities measured at fair value on a recurring basis for the years ended December 31, 2013 and 2012 (in thousands):

	Fair Value Beginning of Period	Transfers Into Level 3	Realized Gains and (Losses)	Purchases, Issuances and Settlements	Fair Value at End of Period	Total Period Losses Included in Earnings Attributable to the Change in Unrealized Losses Relating to Assets Held at End of Year
2013						
Contingent consideration	\$3,256	\$—	\$—	\$(3,256)) \$—	\$—
2012						
Contingent consideration	\$5,478	\$—	\$—	\$(2,222)	) \$3,256	\$—

Carrying values and fair values of financial instruments that are not carried at fair value at December 31, 2013 and December 31, 2012 in the Consolidated Balance Sheets are as follows (in thousands):

	Carrying Amount		Fair Value Measurement	
	2013	2012	2013	2012
Level 2				
Variable rate debt	\$537,000	\$203,250	\$537,000	\$203,250
Fixed rate debt	\$80,080	\$—	\$79,365	\$—
Level 3				
Mortgage and other notes receivable	\$60,639	\$84,250	\$67,201	\$93,835

The fair value of mortgage and other notes receivable is based on credit risk and discount rates that are not observable in the marketplace and therefore represents a Level 3 measurement.

Fixed rate debt. Fixed rate debt is classified as Level 2 and its value is based on quoted prices for similar instruments or calculated utilizing model derived valuations in which significant inputs are observable in active markets.

Carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The fair value of our borrowings under our credit facility are reasonably estimated at their carrying value at December 31, 2013 and December 31, 2012, due to the predominance of floating interest rates, which generally reflect market conditions.

NOTE 15. LIMITS ON COMMON STOCK OWNERSHIP

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 ensures that any transfer which 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 stockholder being allowed to own, either directly or indirectly pursuant to certain tax attribution rules, more than 9.9% of the Company's common 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 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 stock purchase program pursuant to which the Company announced that it would purchase up to 1,000,000 shares of its common stock in the public market from its stockholders.

A separate agreement was entered into with each of 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 Internal Revenue Code. The Agreement permits the Excepted Holders to own common 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

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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. This prohibition is designed to protect the Company's status as a REIT for tax purposes.

NOTE 16. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth selected quarterly financial data for the two most recent fiscal years (in thousands, except per share amounts).

2013	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Net revenues	\$27,104	\$27,089	\$30,845	\$32,790
Investment and other gains	22	14	3	3,267
Income from continuing operations attributable to common stockholders	14,050	18,300	22,035	24,114
Discontinued operations	1,693	1,621	20,709	3,661
Net income attributable to common stockholders	\$15,743	\$19,921	\$42,744	\$27,775
Weighted average common shares outstanding:				
Basic	27,876,176	27,876,176	27,876,176	29,831,176
Diluted	27,911,584	27,913,727	27,905,545	29,860,614
Earnings per common share:				
Basic:				
Income from continuing operations attributable to common stockholders	\$.50	\$.65	\$.79	\$.81
Discontinued operations	.06	.06	.74	.12
Net income attributable to common stockholders	\$.56	\$.71	\$1.53	\$.93
Diluted:				
Income from continuing operations attributable to common stockholders	\$.50	\$.65	\$.79	\$.81
Discontinued operations	.06	.06	.74	.12
Net income attributable to common stockholders	\$.56	\$.71	\$1.53	\$.93

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2012	Quarter Ended			
	March 31,	June 30,	September 30,	December 31,
Net revenues	\$23,135	\$20,916	\$23,396	\$25,870
Investment and other gains	37	35	46	4,759
Income from continuing operations attributable to common stockholders	16,355	15,859	13,282	27,171
Discontinued operations	1,994	1,068	1,068	13,934
Net income attributable to common stockholders	\$18,349	\$16,927	\$14,350	\$41,105
Weighted average common shares outstanding:				
Basic	27,776,104	27,792,834	27,830,311	27,848,002
Diluted	27,803,222	27,820,831	27,862,582	27,868,245
Earnings per common share:				
Basic:				
Income from continuing operations attributable to common stockholders	\$.59	\$.57	\$.48	\$.98
Discontinued operations	.07	.04	.04	.50
Net income attributable to common stockholders	\$.66	\$.61	\$.52	\$1.48
Diluted:				
Income from continuing operations attributable to common stockholders	\$.59	\$.57	\$.48	\$.97
Discontinued operations	.07	.04	.04	.50
Net income attributable to common stockholders	\$.66	\$.61	\$.52	\$1.47

Certain quarterly financial information shown above differs from amounts previously reported in the Forms 10-Q and Form 10-K for those periods due to reclassifications to retrospectively reflect the dispositions or planned dispositions of certain facilities as discontinued operations for all periods presented.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Control and Procedures. As of December 31, 2013, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (“CEO”) and Chief Accounting Officer (“CAO”), of the effectiveness of the design and operation of management’s disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) to ensure information required to be disclosed in our filings under the Securities and Exchange Act of 1934, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms; and (ii) accumulated and communicated to our management, including our CEO and our CAO, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives, and management is necessarily required to apply its judgment when evaluating the cost-benefit relationship of potential controls and procedures. Based upon the evaluation, the CEO and CAO concluded that the design and operation of these disclosure controls and procedures were effective as of December 31, 2013.

There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in management’s evaluation during the three months ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of National Health Investors, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2013 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992). Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2013. The Company's independent registered public accounting firm, BDO USA, LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited National Health Investors, Inc.'s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control – Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). National Health Investors, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Management's Annual Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, National Health Investors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of National Health Investors, Inc. as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2013 and our report dated February 14, 2014 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Nashville, Tennessee
February 14, 2014

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ITEM 9B. OTHER INFORMATION.

On February 14, 2014, the Board of Directors of the Company amended its Bylaws to make the definition of "independent director" consistent with the requirements of the New York Stock Exchange. Section 2.04.1 of the Bylaws now provides that at least a majority of the Directors shall at all times (except temporarily pending the filling of a vacancy as hereinafter provided) be persons ("Independent Directors") who do not have any relationship with the Company that would prevent such person from serving on the Audit Committee of the Board of Directors of a corporation having stock listed on the New York Stock Exchange.

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PART III.

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

We have filed with the New York Stock Exchange (“NYSE”) the Annual CEO Certification regarding the Company’s compliance with the NYSE’s Corporate Governance listing standards as required by Section 303A.12(a) of the NYSE Listed Company Manual. Additionally, we have filed as exhibits to this Annual Report on Form 10-K for the year ended December 31, 2013, the applicable certifications of our Chief Executive Officer and our Chief Accounting Officer as required under Section 302 of the Sarbanes-Oxley Act of 2002.

Incorporated by reference from the information in our definitive proxy statement for the 2014 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference from the information in our definitive proxy statement for the 2014 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

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

Incorporated by reference from the information in our definitive proxy statement for the 2014 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference from the information in our definitive proxy statement for the 2014 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Incorporated by reference from the information in our definitive proxy statement for the 2014 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

PART IV.

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) (1) Financial Statements

The Consolidated Financial Statements are included in Item 8 and are filed as part of this report.

(2) Financial Statement Schedules

The Financial Statement Schedules and Report of Independent Registered Public Accounting Firm on Financial Statement Schedules are listed in Exhibit 99.1.

(3) Exhibits

Exhibits required as part of this report are listed in the Exhibit Index.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NATIONAL HEALTH INVESTORS, INC.

BY: /s/ J. Justin Hutchens
 J. Justin Hutchens
 President, Chief Executive Officer
 and Director

Date: February 14, 2014

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

Signature	Title	Date
/s/ J. Justin Hutchens J. Justin Hutchens	President, Chief Executive Officer and Director (Principal Executive Officer)	February 14, 2014
/s/ Roger R. Hopkins Roger R. Hopkins	Chief Accounting Officer (Principal Financial Officer and Principal Accounting Officer)	February 14, 2014
/s/ W. Andrew Adams W. Andrew Adams	Chairman of the Board	February 14, 2014
/s/ James R. Jobe James R. Jobe	Director	February 14, 2014
/s/ Robert A. McCabe, Jr. Robert A. McCabe, Jr.	Director	February 14, 2014
/s/ Robert T. Webb Robert T. Webb	Director	February 14, 2014

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FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013

EXHIBIT INDEX

Exhibit No.	Description	Page No. or Location
3.1	Articles of Incorporation	Incorporated by reference to Exhibit 3.1 to Form S-11 Registration Statement No. 33-41863
3.2	Amendment to Articles of Incorporation dated as of May 1, 2009	Incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed March 23, 2009
3.3	Restated Bylaws as amended November 5, 2012	Incorporated by reference to Exhibit 3.3 to Form 10-K filed February 15, 2013
3.4	Amendment No. 1 to Restated Bylaws dated February 14, 2014	Filed herewith
4.1	Form of Common Stock Certificate	Incorporated by reference to Exhibit 39 to Form S-11 Registration Statement No. 33-41863
10.1	Material Contracts	Incorporated by reference to Exhibits 10.1 thru 10.9 to Form S-4 Registration Statement No. 33-41863
10.2	Amendment No. 5 to the Company's Master Agreement to Lease with NHC	Incorporated by reference to Exhibit 10.2 to Form 10-K dated March 10, 2006
10.3	Amendment No. 6 to the Company's Master Agreement to Lease with NHC	Incorporated by reference to Exhibit 10.1 to Form 10-Q dated November 4, 2013
10.4	Amended and Restated Amendment No. 6 to the Company's Master Agreement to Lease with NHC.	Filed herewith
*10.5	1997 Stock Option Plan	Incorporated by reference to the 1997 Proxy Statement as filed
*10.6	2005 Stock Option Plan	Incorporated by reference to Exhibit 4.10 to the Company's registration statement on Form S-8 filed August 4, 2005
*10.7	2012 Stock Option Plan	Incorporated by reference to Exhibit A to the Company's Proxy Statement filed March 23, 2012
*10.8		

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	First Amendment to the 2005 Stock Option, Restricted Stock & Stock Appreciation Rights Plan	Incorporated by reference to Appendix A to the Company's Proxy Statement filed March 17, 2006
*10.9	Second Amendment to the 2005 Stock Option, Restricted Stock & Stock Appreciation Rights Plan	Incorporated by reference to Exhibit B to the Company's Proxy Statement filed March 23, 2009
10.10	Excepted Holder Agreement - W. Andrew Adams	Incorporated by reference to Exhibit 10.6 to Form 10-K dated February 24, 2009
10.11	Excepted Holder Agreement between the Company and Andrea Adams Brown with Schedule A identifying substantially identical agreements and setting forth the material details in which such agreements differ from this agreement.	Incorporated by reference to Exhibit 10.2 to Form 10-Q dated November 3, 2010
*10.12	Consulting Agreement with W. Andrew Adams	Incorporated by reference to Exhibit 10.8 to Form 10-K dated February 24, 2009

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*10.13	Amended and Restated Consulting Agreement	Incorporated by reference to Exhibit 10.1 to Form 10-Q dated May 5, 2009
*10.14	Amendment No. 1 dated March 10, 2010 to the Amended and Restated Consulting Agreement dated February 25, 2009 by and between NHI and W. Andrew Adams	Incorporated by reference to Exhibit 10.1 to Form 10-Q dated May 7, 2010
*10.15	Employment Agreement with J. Justin Hutchens	Incorporated by reference to Exhibit 10.2 to Form 10-Q dated May 5, 2009
*10.16	Amendment No. 1 dated March 10, 2010 to the Employment Agreement dated February 25, 2009 by and between NHI and J. Justin Hutchens	Incorporated by reference to Exhibit 10.2 to Form 10-Q dated May 7, 2010
10.17	Agreement with Care Foundation of America, Inc.	Incorporated by reference to Exhibit 10.11 to Form 10-K dated February 22, 2010
10.18	\$100,000,000 credit facility dated February 1, 2010 by and between NHI and certain subsidiaries and Regions bank, as agent	Incorporated by reference to Exhibit 10.3 to Form 10-Q dated May 7, 2010
10.19	\$50 million term loan and a \$50 million revolving credit facility with Regions Bank dated November 3, 2010	Incorporated by reference to Exhibit 10.17 to Form 10-K dated February 16, 2010
*10.20	Second Amendment dated December 29, 2010 to the Employment Agreement dated February 25, 2009 by and between NHI and J. Justin Hutchens.	Filed herewith
*10.21	Third Amendment dated May 3, 2011 to the Employment Agreement dated February 25, 2009 by and between NHI and J. Justin Hutchens	Incorporated by reference to Exhibit 10.1 to Form 10-Q for the quarterly period ended June 30, 2011
10.22	Contract to Acquire Properties dated October 31, 2011 by and between National Health Investors, Inc. and Firehole River Real Estate Holdings - Greenville, Ltd., Firehole River Real Estate Holdings - West Houston, Ltd., Legend Oaks - Ennis, LLC, Legend Greenville Healthcare, LLC, Legend Oaks - West Houston, LLC and Legend Oaks - North Houston, LLC	Incorporated by reference to Exhibit 10.1 to Form 10-Q dated November 7, 2011
10.23	Credit Agreement, dated as of November 1, 2011, by and among the Company, Wells Fargo Bank, National Association, as Administrative Agent, and the other lenders named therein.	Incorporated by reference to Exhibit 10.2 to Form 10-Q dated November 7, 2011
10.24	Amended and Restated Credit Agreement dated as of May 1, 2012 among the Corporation, as borrower, the lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent,	Incorporated by reference to Exhibit 10.1 to Form 10-Q dated August 3, 2012

swing line lender and issuing bank.

- | | | |
|-------|---|---|
| 10.25 | Extension of Master Agreement to Lease dated December 28, 2012. | Incorporated by reference to Exhibit 10.22 to Form 10-K dated February 15, 2013 |
| 10.26 | Membership Interest Purchase Agreement dated as of June 24, 2013 among Care Investment Trust Inc., Care YBE Subsidiary LLC and NHI-Bickford RE, LLC. | Incorporated by reference to Exhibit 10.1 to Form 10-Q dated August 5, 2013 |
| 10.27 | Second Amended and Restated Credit Agreement entered into as of June 28, 2013, by and among National Health Investors, Inc., Each Lender from Time to Time Party Hereto, and Wells Fargo Bank, National Association, as Administrative Agent, the Swing Line Lender and the Issuing Bank. | Incorporated by reference to Exhibit 10.2 to Form 10-Q dated August 5, 2013 |

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10.28	First Amendment dated as of December 23, 2013 to the Second Amended and Restated Credit Agreement dated as of June 28, 2013 by and among National Health Investors, Inc. and Wells Fargo Bank, National Association, as Administrative Agent for the Lenders party to the Credit Agreement.	Incorporated by reference to Exhibit 10.1 to Form 8-K dated December 23, 2013
10.29	Master Lease dated as of December 23, 2013 between NHI-REIT of Next House, LLC, Myrtle Beach Retirement Residence LLC and Voorhees Retirement Residence LLC, individually and collectively as Landlord, and NH Master Tenant LLC, as Tenant.	Incorporated by reference to Exhibit 10.2 to Form 8-K dated December 23, 2013
10.30	Guarantee of Lease Agreement dated as of December 23, 2013 between NHI-REIT of Next House, LLC, Myrtle Beach Retirement Residence LLC and Voorhees Retirement Residence LLC, individually and collectively as Landlord, and Holiday AL Holdings, LP as Guarantor.	Incorporated by reference to Exhibit 10.3 to Form 8-K dated December 23, 2013
10.31	Purchase Agreement dated as of November 18, 2013 between the Registrant and certain subsidiaries of Holiday Acquisition Holdings LLC.	Filed herewith
10.32	Amendment No. 7 to Master Agreement to Lease with NHC	Filed herewith
21	Subsidiaries	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed Herewith
32	Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed Herewith
99.1	Financial Statement Schedules	Filed herewith
**101.INS	XBRL Instance Document	
**101.SCH	XBRL Taxonomy Extension Schema Document	

- **101.CAL XBRL Taxonomy Extension Calculation Linkbase Document
- **101.LAB XBRL Taxonomy Extension Label Linkbase Document
- **101.PRE XBRL Taxonomy Extension Presentation Linkbase Document
- **101.DEF XBRL Taxonomy Extension Definition Linkbase Document

* Indicates management contract or compensatory plan or arrangement.

** As provided in Rule 406T of Regulation S-T, this information shall not be deemed “filed” for purposes of Sections 11 and 12 of the Securities Act and Section 18 of the Securities Exchange Act or otherwise subject to liability under those sections.