

NATIONAL HEALTH INVESTORS INC  
Form 10-K  
February 17, 2015  
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, 2014

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

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, 2014 (based on the closing price of these shares on the New York Stock Exchange) was approximately \$1,970,533,000. There were 37,564,987 shares of the registrant's common stock outstanding as of February 13, 2015.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2015 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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Table of Contents

|  | Page      |
|--|-----------|
| <u>Part I.</u>   |           |
| <u>Forward Looking Statements.</u>   | <u>3</u>  |
| <u>Item 1. Business.</u>   | <u>4</u>  |
| <u>Item 1A. Risk Factors.</u>  | <u>13</u> |
| <u>Item 1B. Unresolved Staff Comments.</u>   | <u>17</u> |
| <u>Item 2. Properties Owned or Associated with Mortgage Loan Investments.</u>  | <u>18</u> |
| <u>Item 3. Legal Proceedings.</u>  | <u>22</u> |
| <u>Item 4. Mine Safety Disclosures.</u>  | <u>22</u> |
| <br><u>Part II.</u>  |           |
| <u>Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities.</u> | <u>23</u> |
| <u>Item 6. Selected Financial Data.</u>  | <u>25</u> |
| <u>Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>                        | <u>26</u> |
| <u>Item 8. Financial Statements and Supplementary Data.</u>  | <u>52</u> |
| <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.</u>                         | <u>82</u> |
| <u>Item 9A. Controls and Procedures.</u>   | <u>82</u> |
| <u>Item 9B. Other Information.</u>   | <u>85</u> |
| <br><u>Part III.</u>   |           |
| <u>Item 10. Directors, Executive Officers and Corporate Governance.</u>  | <u>86</u> |
| <u>Item 11. Executive Compensation.</u>  | <u>86</u> |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.</u>              | <u>86</u> |
| <u>Item 13. Certain Relationships and Related Transactions.</u>  | <u>86</u> |
| <u>Item 14. Principal Accountant Fees and Services.</u>  | <u>86</u> |
| <br><u>Part IV.</u>  |           |
| <u>Item 15. Exhibits and Financial Statement Schedules.</u>  | <u>86</u> |
| <u>Signatures.</u>   | <u>87</u> |
| <u>Exhibit Index.</u>  | <u>88</u> |

Table of Contents

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 tenants and borrowers for collection of our lease and interest income;
- \* We depend on the success of property development and construction activities, which may fail to achieve the operating results we expect;
- \* We are exposed to the risk that our tenants and borrowers may become subject to bankruptcy or insolvency proceedings;
- \* We are exposed to risks related to governmental regulations and payors, principally Medicare and Medicaid, and the effect that lower reimbursement rates would have on our tenants' and borrowers' business;
- \* We are exposed to the risk that the cash flows of our tenants and borrowers would be adversely affected by increased liability claims and liability insurance costs;
- \* We are exposed to risks related to environmental laws and the costs associated with liabilities related to hazardous substances;
- \* We are exposed to the risk that we may not be fully indemnified by our lessees and borrowers against future litigation;
- \* We depend on the success of our future acquisitions and investments;
- \* We depend on our ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;
- \* We may need to incur more debt in the future, which may not be available on terms acceptable to us;

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

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

\* 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 a portion of our debt capital used to finance those investments bear interest at variable rates. This circumstance creates interest rate risk to the Company;

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

3

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## Table of Contents

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

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

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

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., is a self-managed real estate investment trust ("REIT") specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of real estate investments in independent, assisted and memory care communities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments include mortgages and notes, the preferred stock and marketable securities of other REITs, and a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 ("RIDEA"). Through this RIDEA joint venture, we invest in facility operations managed by independent third-parties. We fund our real estate investments primarily through: (1) cash flow, (2) debt offerings, including bank lines of credit and ordinary term debt, and (3) the sale of equity securities.

At December 31, 2014, our continuing operations consisted of investments in real estate and mortgage and other notes receivable involving 183 facilities located in 31 states. These investments involve 106 senior housing communities, 71 skilled nursing facilities, 4 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of \$900,000) consisted of properties with an original cost of approximately \$1,987,949,000, rented under triple-net leases to 24 lessees, and \$63,630,000 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 Facilities

### Senior Housing Communities

As of December 31, 2014, our portfolio included 103 senior housing communities (“SHO”) leased to operators and mortgage loans secured by 3 SHOs. SHOs within our portfolio are either need-driven or discretionary for end users and consist of assisted living facilities, independent living facilities, entrance-fee communities and senior living campuses which are more fully described below.

### Need-Driven Senior Housing

**Assisted Living Facilities.** As of December 31, 2014, our portfolio included 62 assisted living facilities (“ALF”) leased to operators and mortgage loans secured by 3 ALFs. ALFs are free-standing facilities that provide basic room and board functions for elderly residents. As residents typically receive assistance with activities of daily living such as bathing, grooming, memory care services and administering medication, we consider these facilities to be need-driven senior housing. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. Operators of ALFs

## Table of Contents

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.

**Senior Living Campuses.** As of December 31, 2014, our portfolio included 6 senior living campuses ("SLC") leased to operators. SLCs are either freestanding or multi-site campuses that include skilled nursing beds combined with an independent or assisted living facility that provides basic room and board functions for elderly residents. They may also provide assistance to residents with activities of daily living such as bathing, grooming and administering medication and as such are considered need-driven senior housing. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. As the decision to transition to a senior living campus is typically more than a lifestyle choice and is usually driven by the need to receive some moderate level of care, we consider this facility type to be need-driven. Operators of SLCs are typically paid from private sources and from government programs such as Medicare and Medicaid for skilled nursing residents.

### Discretionary Senior Housing

**Entrance-Fee Communities.** As of December 31, 2014, our portfolio included 7 entrance-fee communities ("EFC") leased to operators. Entrance-fee communities, frequently referred to as continuing care retirement communities or CCRCs, typically include a combination of detached homes, an independent living facility, an assisted living facility and a skilled nursing facility on one campus. These communities appeal to residents because there is no need to relocate when health and medical needs change. EFCs are classified as either Type A, B, or C depending upon the amount of healthcare benefits included in the entrance fee. "Type A" EFCs, or "Lifecare" communities include substantially all future healthcare costs. Communities providing a modified healthcare contract offering access to skilled nursing care but only paying for a maximum number of days are referred to as "Type B." Finally, "Type C" EFCs, the type we recently added to our portfolio, are fee-for-service communities which do not provide any healthcare benefits and correspondingly have the lowest entrance fees. However, monthly fees may be higher to reflect the current healthcare components delivered to each resident. EFC licensure is state-specific, but generally the skilled nursing beds included in our EFC portfolio are subject to state licensure and regulation. As the decision to transition to an EFC is typically made as a lifestyle choice and not as the result of a pressing medical concern, we consider the decision to transition to a EFC to be discretionary.

**Independent Living Facilities.** As of December 31, 2014, 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 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. As ILFs typically do not provide assistance with activities of daily living, we consider the decision to transition to an ILF facility to be discretionary.

### Medical Facilities

As of December 31, 2014, our portfolio included 69 medical facilities leased to operators and mortgage loans secured by 8 medical facilities. The medical facilities within our portfolio consist of skilled nursing facilities, hospitals and medical office buildings, which are more fully described below.

**Skilled Nursing Facilities.** As of December 31, 2014, our portfolio included 64 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. As the decision to utilize the services of a SNF is typically made as a the result of a pressing medical concern, we consider this to be a need driven medical facility. The operators of the SNFs receive payment from a combination of private pay sources and



government 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.

Hospitals. As of December 31, 2014, 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. As the decision to utilize the services of a hospital is typically made as a the result of a pressing medical concern, we consider this to be a need driven medical facility.

## Table of Contents

Medical Office Buildings. As of December 31, 2014, our portfolio included 2 medical office buildings (“MOB”) leased to operators. MOBs are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. As the decision to utilize the services of an MOB is typically made as a result of a pressing medical concern, we consider this to be a need driven medical facility. MOBs differ from conventional office buildings due to the special requirements of the tenants. Each of our MOBs is leased to one lessee, and is either physically attached to or located on an acute care hospital campus. The lessee sub-leases individual office space to the physicians or other medical practitioners. The lessee is responsible to us for the lease obligations of the entire building, regardless of their ability to sub-lease the individual office space.

### Nature of Investments

Our investments are typically structured as acquisitions of properties through purchase-leaseback transactions, acquisitions of properties from other real estate investors, mortgage loans or, in operations through structures allowed by 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 purchase option and lease with us upon completion of construction or after the facility is stabilized. The annual lease rates on our leases and the annual interest rates on our mortgage and construction loans ranged between 6.5% and 14% during 2014. 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 properties, 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 properties covered by "all risk" insurance in an amount equal to at least the full replacement cost thereof, and to maintain specified minimal personal injury and property damage insurance, protecting us as well as the tenant. The leases also require the tenant to indemnify and hold us harmless from all claims resulting from the use and occupancy of each 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 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.

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

## Table of Contents

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 facility meets our loan underwriting criteria. The interest rates on our second mortgage loans currently range from 12% to 14% 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 real estate. 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 8% 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.

## 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 real estate.

Operators of our facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for residents and/or patients and staff based on quality of care, reputation, physical appearance of facilities, 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 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 the growth rate of Medicare and/or Medicaid payments to SNFs. State Medicaid funding is not expected to keep pace with inflation according to industry studies. Any changes in government reimbursement methodology that reduce reimbursement to levels that are insufficient to cover the operating costs of our borrowers and lessees could adversely impact us.

## Table of Contents

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

For the year ended December 31, 2014, approximately 26% of our portfolio revenue was from publicly-owned operators, 40% was from regional operators, 5% was from smaller operators and 29% 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, 2014, operators of facilities which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Brookdale Senior Living; Fundamental; Health Services Management; Holiday Retirement; Legend Healthcare; and National HealthCare Corp.

### Major Customers

We have three operators, an affiliate of Holiday Retirement ("Holiday"), 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 2014, a fourth major operator, Senior Living Communities, LLC ("Senior Living"), leased eight retirement communities from us which contractually obligates Senior Living in 2015 to make lease payments which aggregate to more than 17% of our total revenues for 2014.

### Holiday

In December 2013 we acquired 25 independent living facilities from Holiday, an affiliate of Holiday Retirement. We have leased this portfolio to NH Master Tenant, LLC, a subsidiary of Holiday. Our tenant 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.

Of our total revenue from continuing operations, \$43,817,000 (25%) was recorded as rental income from Holiday for the year ended December 31, 2014.

### NHC

NHC is a publicly-held company and the lessee of our legacy properties. We lease 42 facilities to NHC comprised of 3 independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). These facilities are leased to NHC under the terms of an amended Master Lease Agreement dated October 17, 1991 ("the 1991 lease") which includes our 35 remaining legacy properties and a Master Lease Agreement dated August 30, 2013 ("the 2013 lease") which includes seven skilled nursing facilities acquired from ElderTrust of Florida, Inc. on August 31, 2013. Under the terms of the 1991 lease, base annual rental of \$30,750,000 escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. Similarly, the 2013 lease provides for base annual rental of \$3,450,000 plus percentage rent equal to 4% of the increase, if any, in each facility's annual revenue over a 2014 base year.

Of our total revenue from continuing operations, \$36,446,000 (21%), \$34,756,000 (29%) and \$33,056,000 (35%) in 2014, 2013 and 2012, respectively, were derived from the two lease agreements with NHC.

NHC owned 1,630,462 shares of our common stock at December 31, 2014. The chairman of our board of directors is also a director on NHC's board.

#### Bickford

As of December 31, 2014, we owned an 85% equity interest and an affiliate of Bickford, Sycamore Street, LLC, owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 31 assisted living/memory care facilities. The facilities are leased to an operating company, ("OpCo"), in which we retain a non-controlling 85% ownership interest. Our joint venture is structured to comply with the provisions of RIDEA.

The current annual contractual rent from OpCo to PropCo is \$22,595,000, plus fixed annual escalators. During the quarter ended December 31, 2014, PropCo completed construction and received certificates of occupancy on one assisted living facility

Table of Contents

which had been under development. Under the terms of the current development lease agreement, PropCo receives rent of 9% on the total amount of development costs, including land, which totaled \$7,811,000 at December 31, 2014.

Of our total revenue from continuing operations, \$21,421,000 (12%), \$14,586,000 (12%) and \$5,164,000 (6%) were recorded as rental income from Bickford for the years ended December 31, 2014, 2013, and 2012, respectively.

**Senior Living Communities**

On December 17, 2014, we acquired a portfolio of eight retirement communities (the “Senior Living Portfolio”) with a total of 1,671 units from Health Care REIT, Inc. and certain of its affiliates for a cash purchase price of \$476,000,000. The Senior Living Portfolio includes 7 entrance-fee communities and 1 senior living campus.

We have leased the Senior Living Portfolio under a triple-net master lease with an affiliate of Senior Living which will continue to manage the facilities. The 15-year master lease contains two 5-year renewal options and provides for year one cash rent of \$31,000,000, subject to annual escalators of 4% in years two through four and 3% thereafter.

In connection with the Senior Living acquisition, we provided a \$15,000,000 revolving line of credit to Senior Living, the maturity of which mirrors the term of the master lease. Borrowings will be used primarily to finance construction projects within the Senior Living Portfolio, including building additional units. Amounts outstanding under the facility, \$2,816,000 at December 31, 2014, bear interest at an annual rate equal to the 10-year U.S. Treasury rate, 2.17% at December 31, 2014, plus 6%.

**Commitments and Contingencies**

The following table summarizes information as of December 31, 2014 related to our outstanding commitments and contingencies which are more fully described in the notes to the consolidated financial statements, included herein.

|                                      | Asset Class | Type             | Total        | Funded          | Remaining    |
|--------------------------------------|-------------|------------------|--------------|-----------------|--------------|
| <b>Commitments:</b>                  |             |                  |              |                 |              |
| Senior Living Communities            | SHO         | Revolving Credit | \$15,000,000 | \$(2,816,000 )  | \$12,184,000 |
| Capital Funding Group                | Mezz. Note  | Revolving Credit | \$15,000,000 | \$(15,000,000 ) | \$—          |
| Bickford Senior Living               | SHO         | Construction     | \$9,000,000  | \$(7,811,000 )  | \$1,189,000  |
| Chancellor Health Care               | SHO         | Construction     | \$8,000,000  | \$(4,584,000 )  | \$3,416,000  |
| Kentucky River Medical Center        | Hospital    | Renovation       | \$8,000,000  | \$(7,583,000 )  | \$417,000    |
| Santé Partners                       | SHO         | Renovation       | \$3,500,000  | \$(2,621,000 )  | \$879,000    |
| Prestige Senior Living               | SHO         | Renovation       | \$2,000,000  | \$(1,555,000 )  | \$445,000    |
| Holiday Retirement                   | SHO         | Renovation       | \$1,500,000  | \$(1,126,000 )  | \$374,000    |
| Senior Living Management             | SHO         | Renovation       | \$700,000    | \$(13,000 )     | \$687,000    |
| Sycamore Street (Bickford affiliate) | SHO         | Revolving Credit | \$500,000    | \$(500,000 )    | \$—          |
| <b>Contingencies:</b>                |             |                  |              |                 |              |
| Prestige Senior Living               | SHO         | Lease Inducement | \$6,390,000  | \$—             | \$6,390,000  |
| Sycamore Street (Bickford affiliate) | SHO         | Letter-of-credit | \$3,550,000  | \$—             | \$3,550,000  |
| Discovery Senior Living              | SHO         | Lease Inducement | \$2,500,000  | \$—             | \$2,500,000  |
| Santé Partners                       | Hospital    | Loan             | \$2,000,000  | \$—             | \$2,000,000  |
| Santé Partners                       | SHO         | Lease Inducement | \$2,000,000  | \$—             | \$2,000,000  |

**Sources of Revenues**



General. Our revenues are derived primarily from rental income, mortgage and other note interest income and income from our other investments, substantially all of which are in the securities of other healthcare REITs. During 2014, rental income was \$166,279,000 (94%), interest income from mortgages and other notes was \$7,013,000 (4%) and income from our other investments was \$4,217,000 (2%) of total revenue from continuing operations of \$177,509,000. 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 facility, (ii) the occupancy rate of the facility, (iii) the extent to which the services provided at each facility are utilized by the patients, (iv) the mix of private pay, Medicare and Medicaid patients at the facility, and (v) the rates paid by private paying patients and by the Medicare and Medicaid programs.

Table of Contents

Governmental and other concerns regarding health care costs have and may continue to result in significant downward pressure on 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, 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. 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. CMS announced a final rule outlining a 1.4% increase in their Medicare reimbursement for fiscal 2014 beginning on October 1, 2013. CMS announced a final rule that increased Medicare payment to SNF operators by a net 2% for the fiscal year beginning October 1, 2014. The failure of Congress to agree on spending reductions to meet long-term 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

## Table of Contents

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.

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

As described in Item 7 and in the notes to the consolidated financial statements, included herein, we have funded or made commitments to fund new investments in real estate and loans since January 1, 2014 totaling \$780,453,000, and we anticipate making additional investments in 2015 that meet our underwriting criteria. In making new investments, we consider such factors as (i) the geographic area and type of property, (ii) the location, construction quality, condition and design of the property, (iii) the current and anticipated cash flow and its adequacy to meet operational needs, and lease or mortgage obligations to provide a competitive income return to our investors, (iv) the growth, tax and regulatory environments of the communities in which the properties are located, (v) occupancy and demand for similar facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management 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.

Table of Contents

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

## Executive Officers of the Company

The table below sets forth the name, position and age of each of our executive officers. Each executive officer is appointed by the Board of Directors, serves at its pleasure and holds office for a term of one year. There is no "family relationship" among any of the named executive officers or with any director. All information is given as of February 13, 2015:

| Name               | Position                                   | Age |
|--------------------|--|-----|
| J. Justin Hutchens | President and Chief Executive Officer      | 40  |
| Roger R. Hopkins   | Chief Accounting Officer                   | 53  |
| Kristin S. Gaines  | Chief Credit Officer                       | 43  |
| Kevin Pascoe       | Executive Vice President Investments       | 34  |
| Eric Mendelsohn    | Executive Vice President Corporate Finance | 53  |

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 when he 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 and, previously, was a senior manager in the Nashville, Tennessee office of Deloitte & Touche. Mr. Hopkins received a Bachelor of Science 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 a MBA and a Bachelor of Business Administration in Accounting from Middle Tennessee State University.

Kevin Pascoe joined National Health Investors in June 2010. Mr. Pascoe oversees NHI's portfolio of assets, relationship management with existing tenants and conducts operational due diligence on NHI's new investment opportunities. He has over 10 years of health care real estate background including his experience with General Electric - Healthcare Financial Services (2006 – 2010) where he most recently served as a Vice-President. With GE HFS he moved up through the organization while working on various assignments including relationship management, deal restructuring, and special assets. He also was awarded an assignment in the GE Capital Global Risk Rotation Program. Mr. Pascoe holds a Master of Business Administration and a Bachelor of Business Administration in Economics from Middle Tennessee State University.

Eric Mendelsohn joined NHI in January 2015. He has over 15 years of healthcare real estate and financing experience. Previously, Mr. Mendelsohn was with Emeritus Senior Living for 9 years, most recently as a Senior Vice President of Corporate

## Table of Contents

Development where he was responsible for the financing and acquisition of assisted living properties, home health care companies, administration of joint venture relationships and executing corporate finance strategies. Prior to Emeritus, Mr. Mendelsohn was with the University of Washington as a Transaction Officer where he worked on the development, acquisition and financing of research, clinic and medical properties. Prior to that, Mr. Mendelsohn was a practicing transaction attorney, representing lenders and landlords. Mr. Mendelsohn has a BS from American University in International Relations, a Law Degree from Pepperdine University, and a Masters (LLM) in Banking and Finance from Boston University. Mr. Mendelsohn is a member of the Florida and Washington State Bar Associations.

We have a staff of 12, all serving in our corporate office in Murfreesboro, TN. Essential services such as internal auditing, tax compliance, information technology and legal services are outsourced to third-party professional firms.

### Investor Information

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

We also maintain the following documents on our web site:

The NHI Code of 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 to communicate with NHI executive officers and directors. The toll free number is 877-880-2974 and the communications may be made anonymously, if desired.

The NHI Restated Audit Committee Charter.

The NHI 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.

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](http://www.computershare.com).

The Annual Stockholders’ meeting will be held at 8:00 a.m. local time on Thursday, May 7, 2015 at Stones River Country Club, 1830 NW Broad Street, Murfreesboro, TN.

### ITEM 1A. RISK FACTORS

We depend on the operating success of our tenants and borrowers for collection of our lease and interest income.



Revenues to operators of our 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. Periods of weak economic growth in the U.S. which affect housing sales, investment returns and personal incomes may adversely affect senior housing occupancy rates. Expenses for the facilities are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Liability insurance and staffing costs continue to increase for our operators. To the extent any decrease in revenues and/or any increase in operating expenses 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.

## Table of Contents

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

When we decide to invest in the renovation of an existing property or in the development of a new property, we make assumptions about the future potential cash flows of that property. We estimate our return based on expected occupancy, rental rates and future capital costs. If our projections prove to be inaccurate due to increased capital costs, lower occupancy or other factors, our investment in that property may not generate the cash flow we expected.

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 would 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 facilities receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such facilities. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. Such reductions in Medicare reimbursement will have an adverse effect on the financial operations of our borrowers and lessees who operate SNFs. Changes in health care reimbursement will likely continue to be of paramount importance to federal and state 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 would be adversely affected by increased liability claims and liability insurance costs.

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

Table of Contents

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

Under various federal and state laws, owners or operators of real property may be required to respond to the release of hazardous substances on the property and may be held liable for property damage, personal injuries or penalties that result from environmental contamination. These laws also expose us to the possibility that we may become liable to reimburse the government for damages and costs it incurs in connection with the contamination. Generally, such liability attaches to a person based on the person's relationship to the property. Our tenants or borrowers are primarily responsible for the condition of the property and since we are a passive landlord, we do not "participate in the management" of any property in which we have an interest. Moreover, we review environmental site assessment of the properties that we 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 fully indemnified by our lessees and borrowers against future litigation.

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

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

We are exposed to the risk that our future acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and newly acquired properties might require significant management attention that would otherwise be devoted to our existing business. If we agree to provide construction funding to 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 our ability to reinvest cash in real estate investments in a timely manner and on acceptable terms.

From time to time, we will have cash available from (1) the proceeds of sales of our securities, (2) principal payments on our notes receivable and (3) the sale of properties, including 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 us.

We operate with a policy of incurring debt when, in the opinion of our Board of Directors, it is advisable. Currently, we believe that our current liquidity, availability under our unsecured credit facility, and our capacity to service

additional debt will enable us to meet our obligations, including dividends, and continue to make investments in healthcare real estate. While we currently have a very low debt ratio, in the future, we may increase our borrowings. We may incur additional debt by borrowing under our unsecured credit facility, mortgaging properties we own and/or issuing debt securities in a public offering or in a private transaction. We believe we will be able to raise additional debt and equity capital at reasonable costs to refinance our 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

## Table of Contents

acquisitions. Our continued ability to incur debt and operate our business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in a default under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from a breach of any of these covenants in our debt instruments, could have a material adverse effect on our financial condition and results of operations.

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

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

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 a portion of our debt capital used to finance those investments bear interest at variable rates. This circumstance creates interest rate risk to the Company.

Our business model assumes that we can earn a spread between the returns earned from our investments in real estate as compared to our cost of capital, including debt and/or equity. Current interest rates on our debt are at historically low levels, and, as a result, the spread and our profitability on our investments have been at high levels. We are exposed to interest rate risk in the potential for a narrowing of our spread and profitability if interest rates increase in

the future. Certain of our debt obligations are floating rate obligations with interest rates that vary with the movement of LIBOR or other indexes. Our revenues are derived mainly from fixed rate investments in real estate assets. Although our leases generally contain escalating rent clauses that provide a partial hedge against interest rate fluctuations, if interest rates rise, our interest costs for our existing floating rate debt and any new debt we incur would also increase. This increasing cost of debt could reduce our profitability by increasing the cost of financing our existing portfolio and our investment activity. Rising interest rates could limit our ability to refinance existing debt upon maturity or cause us to pay higher rates upon refinancing. We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities and through the use of derivative instruments, 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

## Table of Contents

and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our reported results of operations in the period in which the impairment charge occurs.

We depend on the ability to continue to qualify for taxation as a 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.



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.

17

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Table of Contents

## ITEM 2. PROPERTIES OWNED OR ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS AS OF DECEMBER 31, 2014

| Center                                       | City             | State | Lease (L)/<br>Mortgage (M) | Licensed<br>Beds |
|--|------------------|-------|----------------------------|------------------|
| <b>SKILLED NURSING</b>                       |                  |       |                            |                  |
| 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              |
| Timberview Care Center                       | Albany           | OR    | L                          | 62               |
| Creswell Health and Rehabilitation Center    | Creswell         | OR    | L                          | 53               |
| Forest Grove Rehabilitation and Care Center  | Forest Grove     | OR    | L                          | 81               |
| 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              |

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|                            |              |    |   |     |
|----------------------------|--------------|----|---|-----|
| 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 |

Table of Contents

| Center   | City           | State | Lease (L)/<br>Mortgage (M) | Licensed<br>Beds |
|--|----------------|-------|----------------------------|------------------|
| <b>SKILLED NURSING</b>                                     |                |       |                            |                  |
| NHC HealthCare, Smithville                                 | Smithville     | TN    | L                          | 120              |
| 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              |
| <b>ASSISTED LIVING</b>                                     |                |       |                            |                  |
| 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               |
| Revere Court Memory Care                                   | Sacramento     | CA    | L                          | 56               |
| Savannah Court of Bartow                                   | Bartow         | FL    | L                          | 30               |
| Savannah Court of Lakeland                                 | Lakeland       | FL    | L                          | 30               |
| Indigo Palms at Maitland                                   | Maitland       | FL    | L                          | 116              |
| Discovery Village at Naples                                | Naples         | FL    | M                          | 120              |
| Brentwood at Fore Ranch                                    | Ocala          | FL    | M                          | 120              |
| Savannah Court of St. Cloud                                | St. Cloud      | 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               |

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|   |             |    |   |     |
|---|-------------|----|---|-----|
| Bickford of Muscatine                   | Muscatine   | IA | L | 45  |
| Bickford of Urbandale                   | Urbandale   | IA | L | 61  |
| Prestige Assisted Living at Autumn Wind | Caldwell    | ID | L | 105 |
| Indianhead Estates                      | Weiser      | ID | L | 25  |
| Bickford of Bourbonnais                 | Bourbonnais | IL | L | 65  |

Table of Contents

| Center  | City           | State | Lease (L)/<br>Mortgage (M) | Licensed<br>Beds |
|---|----------------|-------|----------------------------|------------------|
| <b>ASSISTED LIVING</b>                                |                |       |                            |                  |
| Bickford of Moline                                    | Moline         | IL    | L                          | 28               |
| 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               |
| Bickford of Middletown                                | Middletown     | OH    | L                          | 101              |
| Clackamas View  | Milwaukie      | OR    | L                          | 25               |
| 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              |
| <b>INDEPENDENT LIVING</b>                             |                |       |                            |                  |
| 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              |

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|  |           |    |   |     |
|--|-----------|----|---|-----|
| 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 |
| Standiford Place Independent Senior Living Community | Modesto   | CA | L | 121 |

20

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Table of Contents

| Center   | City          | State | Lease (L)/<br>Mortgage (M) | Licensed<br>Beds  |
|--|---------------|-------|----------------------------|-------------------|
| <b>INDEPENDENT LIVING</b>                                |               |       |                            |                   |
| 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               |
| <b>SENIOR LIVING CAMPUS</b>                              |               |       |                            |                   |
| Linda Valley Care Center                                 | Loma Linda    | CA    | L                          | 181               |
| Osprey Village at Amelia Island Plantation               | Fernandina    | FL    | L                          | 170               |
| 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               |
| Ridgecrest   | Mt. Airy      | NC    | L                          | 84                |
| Homestead Hills  | Winston-Salem | NC    | L                          | 248               |
| Sante Silverdale   | Silverdale    | WA    | L                          | 138               |
| <b>HOSPITALS</b>   |               |       |                            |                   |
| 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                |
| <b>MEDICAL OFFICE</b>                                    |               |       |                            |                   |
| North Okaloosa   | Crestview     | FL    | L                          | Sq. Ft.<br>27,017 |
| Pasadena Bayshore  | Pasadena      | TX    | L                          | 61,500            |
| Corporate Office   | Murfreesboro  | TN    | N/A                        | 7,000             |





Table of Contents

## 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 |   |
|------------|-----------------|-----------------------|----------------------|--|-------------------------------------|---|
| 2015       | 1               | —                     | 60                   | \$313                                  | .2                                  | % |
| 2016       | 4               | —                     | 604                  | 5,365                                  | 2.9                                 | % |
| 2017       | 7               | —                     | 896                  | 7,262                                  | 3.9                                 | % |
| 2018       | 2               | 61,500                | 88                   | 1,080                                  | .6                                  | % |
| 2019       | —               | —                     | —                    | —                                      | —                                   | % |
| 2020       | 6               | 27,017                | 224                  | 2,777                                  | 1.5                                 | % |
| 2021       | 2               | —                     | 344                  | 1,904                                  | 1.0                                 | % |
| 2022       | 4               | —                     | 156                  | 4,055                                  | 2.2                                 | % |
| 2023       | 2               | —                     | 254                  | 2,763                                  | 1.5                                 | % |
| 2024       | 8               | —                     | 379                  | 4,240                                  | 2.3                                 | % |
| Thereafter | 105             | —                     | 12,759               | 154,668                                | 83.9                                | % |

\*Rentable Square Feet represents total square footage in two MOB investments.

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

## ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

Table of Contents

## 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 13, 2015, there were approximately 810 holders of record of shares and approximately 27,800 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:

|             |             |
|-------------|-------------|
| 2014        | 2013        |
| Sales Price | Sales Price |

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| Quarter Ended | High    | Low     | Cash<br>Dividends<br>Declared | High    | Low     | Cash<br>Dividends<br>Declared |
|---------------|---------|---------|-------------------------------|---------|---------|-------------------------------|
| March 31      | \$63.53 | \$54.75 | \$.77                         | \$67.18 | \$57.24 | \$.70                         |
| June 30       | 64.84   | 58.85   | .77                           | 72.99   | 56.20   | .735                          |
| September 30  | 65.29   | 57.00   | .77                           | 65.94   | 53.01   | .735                          |
| December 31   | 71.75   | 56.53   | .77                           | 64.00   | 56.00   | .735                          |

The closing price of our stock on February 13, 2015 was \$71.74.

Table of Contents

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, 2014 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 | 871,671   | \$60.43   | 775,635 <sup>1</sup>  |

<sup>1</sup>These 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 MSCI US REIT Index and the Standard & Poor's 500 Stock Index. The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of Equity REIT securities. The MSCI US REIT Index includes securities with exposure to core real estate (e.g.residential and retail properties) as well as securities with exposure to other types of real estate (e.g.casinos, theaters).

|         | 2009     | 2010     | 2011     | 2012     | 2013     | 2014     |
|---------|----------|----------|----------|----------|----------|----------|
| NHI     | \$100.00 | \$129.22 | \$162.68 | \$181.38 | \$188.71 | \$244.01 |
| MSCI    | \$100.00 | \$128.48 | \$168.12 | \$164.46 | \$168.52 | \$219.71 |
| S&P 500 | \$100.00 | \$115.06 | \$134.38 | \$136.29 | \$180.44 | \$205.14 |

Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2014. 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, |            |            |            |            |
|--|--------------------------|------------|------------|------------|------------|
|  | 2014                     | 2013       | 2012       | 2011       | 2010       |
| Revenues   | \$177,509                | \$117,828  | \$93,317   | \$83,739   | \$79,423   |
| Income from continuing operations                  | 103,052                  | 79,498     | 72,834     | 69,817     | 58,729     |
| Discontinued operations:                           |                          |            |            |            |            |
| Income from operations - discontinued              | —                        | 5,426      | 6,098      | 7,967      | 8,688      |
| Gain on sales of real estate                       | —                        | 22,258     | 11,966     | 3,348      | 2,004      |
| Net income   | 103,052                  | 107,182    | 90,898     | 81,132     | 69,421     |
| Net income attributable to noncontrolling interest | (1,443 )                 | (999 )     | (167 )     | —          | —          |
| Net income attributable to common stockholders     | \$101,609                | \$106,183  | \$90,731   | \$81,132   | \$69,421   |
| PER SHARE DATA:                                    |                          |            |            |            |            |
| Basic earnings per common share:                   |                          |            |            |            |            |
| Income from continuing operations                  | \$3.04                   | \$2.77     | \$2.61     | \$2.52     | \$2.12     |
| Discontinued operations                            | —                        | .97        | .65        | .41        | .39        |
| Net income attributable to common stockholders     | \$3.04                   | \$3.74     | \$3.26     | \$2.93     | \$2.51     |
| Diluted earnings per common share:                 |                          |            |            |            |            |
| Income from continuing operations                  | \$3.04                   | \$2.77     | \$2.61     | \$2.51     | \$2.12     |
| Discontinued operations                            | —                        | .97        | .65        | .41        | .38        |
| Net income attributable to common stockholders     | \$3.04                   | \$3.74     | \$3.26     | \$2.92     | \$2.50     |
| OTHER DATA:  |                          |            |            |            |            |
| Common shares outstanding, end of year             | 37,485,902               | 33,051,176 | 27,857,217 | 27,751,208 | 27,689,392 |
| Weighted average common shares:                    |                          |            |            |            |            |
| Basic  | 33,375,966               | 28,362,398 | 27,811,813 | 27,719,096 | 27,664,482 |
| Diluted  | 33,416,014               | 28,397,702 | 27,838,720 | 27,792,592 | 27,732,959 |
| Regular dividends declared per common share        | \$3.08                   | \$2.90     | \$2.64     | \$2.495    | \$2.36     |
| Special dividends declared per common share        | \$—                      | \$—        | \$.22      | \$.22      | \$—        |
| BALANCE SHEET DATA: (at year end)                  |                          |            |            |            |            |
| Mortgages and other notes receivable, net          | \$63,630                 | \$60,639   | \$84,250   | \$78,672   | \$75,465   |

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|   |             |             |           |           |           |
|---|-------------|-------------|-----------|-----------|-----------|
| Real estate properties, net               | \$1,776,549 | \$1,247,740 | \$535,390 | \$394,795 | \$327,654 |
| Preferred stock and marketable securities | \$53,635    | \$50,782    | \$51,016  | \$49,496  | \$60,608  |
| Assets held for sale, net                 | \$—         | \$—         | \$1,611   | \$29,381  | \$36,853  |
| Total assets                              | \$1,982,960 | \$1,455,820 | \$705,981 | \$579,563 | \$509,341 |
| Debt                                      | \$862,726   | \$617,080   | \$203,250 | \$97,300  | \$37,765  |
| Total equity                              | \$1,049,933 | \$777,160   | \$468,047 | \$443,485 | \$442,500 |

Table of Contents

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., is a self-managed real estate investment trust ("REIT") specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of real estate investments in independent, assisted and memory care communities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments include mortgages and notes, the preferred stock and marketable securities of other REITs, and a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 ("RIDEA"). Through this RIDEA joint venture, we invest in facility operations managed by independent third-parties. We fund our real estate investments primarily through: (1) cash flow, (2) debt offerings, including bank lines of credit and ordinary term debt, and (3) the sale of equity securities.

Portfolio

At December 31, 2014, our continuing operations consisted of investments in real estate and mortgage and other notes receivable involving 183 facilities located in 31 states. These investments involve 106 senior housing communities, 71 skilled nursing facilities, 4 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of \$900,000) consisted of properties with an original cost of approximately \$1,987,949,000, rented under triple-net leases to 24 lessees, and \$63,630,000 aggregate carrying value of mortgage and other notes receivable due from 15 borrowers.

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



Table of Contents

The following tables summarize our investments in real estate and mortgage and other notes receivable as of December 31, 2014 (dollars in thousands):

| Real Estate Properties                    | Properties | Beds/Sq. Ft.* | Revenue   | %     |   |
|---|------------|---------------|-----------|-------|---|
| Need-Driven Senior Housing                |            |               |           |       |   |
| Assisted Living                           | 62         | 3,144         | \$38,939  | 22.5  | % |
| Senior Living Campus                      | 6          | 881           | 7,068     | 4.1   | % |
| Total Need-Driven Senior Housing          | 68         | 4,025         | 46,007    | 26.5  | % |
| Discretionary Senior Housing              |            |               |           |       |   |
| Entrance-Fee Communities                  | 7          | 1,587         | 1,505     | 0.9   | % |
| Independent Living                        | 28         | 3,114         | 45,120    | 26.0  | % |
| Total Discretionary Senior Housing        | 35         | 4,701         | 46,625    | 26.9  | % |
| Total Senior Housing                      | 103        | 8,726         | 92,632    | 53.5  | % |
| Medical Facilities                        |            |               |           |       |   |
| Skilled Nursing Facilities                | 64         | 8,370         | 65,095    | 37.6  | % |
| Hospitals                                 | 3          | 181           | 7,566     | 4.4   | % |
| Medical Office Buildings                  | 2          | 88,517        | * 986     | 0.6   | % |
| Total Medical Facilities                  | 69         |               | 73,647    | 42.5  | % |
| Total Real Estate Properties              | 172        |               | \$166,279 | 96.0  | % |
| Mortgage and Other Notes Receivable       |            |               |           |       |   |
| Need-Driven Senior Housing                | 3          | 310           | \$1,022   | 0.6   | % |
| Medical Facilities                        | 8          | 664           | 2,589     | 1.5   | % |
| Other Notes Receivable                    | —          | —             | 3,402     | 2.0   | % |
| Total Mortgage and Other Notes Receivable | 11         |               | 7,013     | 4.0   | % |
| Total Portfolio                           | 183        |               | \$173,292 | 100.0 | % |
| Portfolio Summary                         | Properties | Beds/Sq. Ft.* | Revenue   | %     |   |
| Real Estate Properties                    | 172        |               | \$166,279 | 96.0  | % |
| Mortgage and Other Notes Receivable       | 11         |               | 7,013     | 4.0   | % |
| Total Portfolio                           | 183        |               | \$173,292 | 100.0 | % |
| Summary of Facilities by Type             |            |               |           |       |   |
| Need-Driven Senior Housing                |            |               |           |       |   |
| Assisted Living                           | 65         | 3,454         | \$39,962  | 23.0  | % |
| Senior Living Campus                      | 6          | 881           | 7,068     | 4.1   | % |
| Total Need-Driven Senior Housing          | 71         | 4,335         | 47,030    | 27.1  | % |
| Discretionary Senior Housing              |            |               |           |       |   |
| Entrance-Fee Communities                  | 7          | 1,587         | 1,505     | 0.9   | % |
| Independent Living                        | 28         | 3,114         | 45,120    | 26.0  | % |
| Total Discretionary Senior Housing        | 35         | 4,701         | 46,625    | 26.9  | % |
| Total Senior Housing                      | 106        | 9,036         | 93,655    | 54.0  | % |
| Medical Facilities                        |            |               |           |       |   |
| Skilled Nursing Facilities                | 71         | 8,964         | 66,480    | 38.4  | % |
| Hospitals                                 | 4          | 251           | 8,769     | 5.0   | % |
| Medical Office Buildings                  | 2          | 88,517        | * 986     | 0.6   | % |
| Total Medical                             | 77         |               | 76,235    | 44.0  | % |
| Other                                     | —          |               | 3,402     | 2.0   | % |

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|                                  |     |           |       |   |
|----------------------------------|-----|-----------|-------|---|
| Total Portfolio                  | 183 | \$173,292 | 100.0 | % |
| Portfolio by Operator Type       |     |           |       |   |
| Public                           | 53  | \$45,696  | 26.4  | % |
| National Chain (Privately-Owned) | 29  | 49,545    | 28.5  | % |
| Regional                         | 91  | 69,455    | 40.1  | % |
| Small                            | 10  | 8,596     | 5.0   | % |
| Total Portfolio                  | 183 | \$173,292 | 100.0 | % |

27

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## Table of Contents

For the year ended December 31, 2014, operators of facilities which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Brookdale Senior Living; Fundamental; Health Services Management; Holiday Retirement; Legend Healthcare; and National HealthCare Corp.

As of December 31, 2014, our average effective annualized rental income was \$7,870 per bed for SNFs, \$13,057 per unit for ALFs, \$14,489 per unit for ILFs, \$24,383 per unit for EFCs, \$41,798 per bed for hospitals, and \$11 per square foot for MOBs.

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, 2014, such investments had a carrying value of \$53,635,000.

### Areas of Focus

We are evaluating and will potentially make additional investments during 2015 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 those partners and for NHI.

Following the recent Federal Reserve policy statement assuring near-zero interest rates for a “considerable time,” we expect debt costs to remain attractive in the near term and, as a result, increased competition for healthcare assets should continue. Within our industry, demand for healthcare real estate has been intensified by the availability of senior unsecured debt at historically low rates. As a result of the availability of debt and equity capital, a multitude of buyers seeking investment opportunities, including unlisted REITs and private equity funds, threaten to result in an oversold market and have led NHI to more value-based investment judgments.

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

For the year ended December 31, 2014, approximately 37% 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. 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 recent investment focus has been on acquiring need-driven and senior housing assets (including assisted living and memory care facilities, senior living campuses, independent living facilities and entrance-fee communities).

As a result of the Holiday investment we made in December 2013, our revenue from skilled nursing facilities, as a percentage of continuing operations revenue, has continued to decline. Our December 2014 acquisition of eight Senior Living communities further broadens the private payor model within our portfolio and reduces our exposure to the Government single-payor model. These acquisitions represent continued diversification across asset types and further exemplify our strategy of focusing on well-established tenants who are recognized leaders in their industries. Considering individual tenant lease revenue as a percentage of total revenue, Bickford Senior Living is our largest assisted living/memory care tenant, an affiliate of Holiday Retirement is our largest independent living tenant,

National HealthCare Corporation is our largest skilled nursing tenant and for 2015 Senior Living Communities is expected to be our largest entrance-fee community tenant.

Our shift toward private payor facilities, as well as our recent expansion into the discretionary senior housing market, has resulted in a portfolio that is relatively balanced between medical facilities, need-driven senior housing and discretionary senior housing. The following table illustrates this shift by comparing our total lease revenue for 2013 compared to a full year of lease revenue for leases in place as of December 31, 2014 (in thousands):

28

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Table of Contents

|                              | Year Ended December 31, |      |         |      |
|------------------------------|-------------------------|------|---------|------|
|                              | 2013                    | %    | 2014*   | %    |
| Medical Facilities           | 67,314                  | 64%  | 74,427  | 36%  |
| Need-Driven Senior Housing   | 36,386                  | 34%  | 48,824  | 24%  |
| Discretionary Senior Housing | 2,329                   | 2%   | 83,815  | 40%  |
|                              | 106,029                 | 100% | 207,066 | 100% |

\* This is the lease revenue our portfolio would generate if all lease contracts were in effect for the twelve-month calendar year, regardless of the commencement date, maturity date, or renewals. Therefore, this amount is used for financial analysis purposes, and is not indicative of actual or expected results.

If longer term borrowing rates increase as we expect, 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 have led to an increase in asset prices and likely will lead to increased lease rates, as well. Our cost of capital has increased as we execute our plan to transition some of our short term revolving borrowings into debt instruments with longer maturities and fixed 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.

In 2015, we plan to announce our participation in an at-the market ("ATM") equity program whereby we may sell our common shares on an as-needed basis. ATMs are a type of shelf-based offering which provide issuers the ability to sell publicly traded shares at the prevailing market price at the time and amount of their choosing. An ATM program offers an effective way to match-fund our smaller acquisitions by exercising control over the timing and size of transactions at a more favorable cost of capital as compared to larger follow-on offerings. By raising funds through the ATM along with borrowings from our credit facility, we expect to continue to maintain our leverage ratio as one of the lowest in our peer group. We continue to explore other various funding sources including bank term loans, convertible debt, traditional equity placement, unsecured bonds and senior notes, debt private placement and secured government agency financing.

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

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

|         | 2014   | 2013   | 2012   |   |
|---------|--------|--------|--------|---|
| Regular | \$3.08 | \$2.90 | \$2.64 |   |
| Special | \$—    | \$—    | \$0.22 | 1 |
|         | \$3.08 | \$2.90 | \$2.86 |   |

<sup>1</sup> 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 6.8x for the year ended December 31, 2014 (see page 50 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 4.1x.

## Table of Contents

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 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., as well. We therefore 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.

Strong demographic trends provide the context for continued growth in 2015 and the years ahead. We plan to fund any new real estate and mortgage investments during 2015 using our liquid assets and debt financing. Should the weight of additional debt as a result of new acquisitions suggest the need to rebalance our capital structure, we would then expect to access the capital markets through an ATM or other equity offerings. Our disciplined investment strategy implemented through measured increments of debt and equity sets the stage for annual dividend growth, continued low leverage, a portfolio of diversified, high-quality assets, and business relationships with experienced tenants and borrowers who we make our priority. These continue to be the key drivers of our business plan.

### Critical Accounting Policies

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

We consider an accounting estimate or assumption critical if:

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

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

### Valuations and Impairments

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

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

For 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



## Table of Contents

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 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 so 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

## Table of Contents

a legal entity deemed to be a variable interest entity ("VIE") when we determine that we are the VIE's primary beneficiary. All material inter-company transactions and balances have been eliminated in consolidation.

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

### Real Estate Properties

Real property 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.

### Significant Operators

We have three operators, NHC, Bickford and Holiday, from whom we individually derive at least 10% of our income from operations. Beginning in December 2014, a fourth major operator, Senior Living Communities, LLC ("Senior Living"), leased eight retirement communities from us which contractually obligates Senior Living in 2015 to make lease payments which will be recorded as revenues that aggregate to more than 22% of our total revenues for 2014.

### Holiday

In December 2013 we acquired 25 independent living facilities from Holiday, an affiliate of Holiday Retirement. We have leased this portfolio to NH Master Tenant, LLC, a subsidiary of Holiday. Our tenant 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.

Of our total revenue from continuing operations, \$43,817,000 (25%) was recorded as rental income from Holiday for the year ended December 31, 2014.

### NHC

As of December 31, 2014, we leased 42 health care facilities under two master leases to NHC, a publicly-held company and the lessee of our legacy properties. The facilities leased to NHC consist 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 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.

The 1991 lease has been amended to extend the lease expiration 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 1991 lease, the base annual rental is \$30,750,000 and rent escalates by 4% of the increase, if any, in each facility's revenue over

Table of Contents

a 2007 base year. The 2013 lease provides for a base annual rental of \$3,450,000 and has a lease expiration of August 2028. Under the terms of the 2013 lease, rent escalates 4% of the increase in each facility's revenue over the 2014 base year. For both the 1991 lease and the 2013 lease, we refer to this additional rent component as "percentage rent." During the last three years of the 2013 lease, NHC will have the option to purchase the facilities for \$49,000,000.

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

|   | Year Ended December 31, |         |         |
|---|-------------------------|---------|---------|
|   | 2014                    | 2013    | 2012    |
| Current year                                | \$2,292                 | \$2,275 | \$1,530 |
| Prior year final certification <sup>1</sup> | 15                      | 746     | 997     |
| Total percentage rent                       | \$2,307                 | \$3,021 | \$2,527 |

<sup>1</sup> 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.

Of our total revenue from continuing operations, \$36,446,000 (21%), \$34,756,000 (29%) and \$33,056,000 (35%) in 2014, 2013 and 2012, respectively, were derived from NHC.

### Bickford

As of December 31, 2014, we owned an 85% equity interest and an affiliate of Bickford, Sycamore Street, LLC ("Sycamore"), owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 31 assisted living/memory care facilities. The facilities are leased to an operating company, ("OpCo"), in which we retain a non-controlling 85% ownership interest. Our joint venture is structured to comply with the provisions of RIDEA.

On October 31, 2014, our subsidiary, PropCo, acquired a 101-unit assisted living facility located in Middletown, Ohio for \$16,488,000, including \$65,000 in transaction costs and assumption of secured debt at an interest rate of 2.9% with an outstanding principal balance of \$9,535,000 and an estimated fair value of \$7,858,000. The facility was leased to OpCo under an existing master lease and provides for fixed annual escalators. Because the facility was owner-occupied, the acquisition was accounted for as an asset purchase.

The current annual contractual rent from OpCo to PropCo is \$22,595,000, plus fixed annual escalators. During the quarter ended December 31, 2014, PropCo completed major construction and received a certificate of occupancy on an assisted living facility which had been 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 \$7,811,000 at December 31, 2014.

OpCo is continuing the lease-up of 3 facilities, 2 of which opened in the fourth quarter of 2013. Once the facilities stabilize, an annual rental amount will be determined between the parties. NHI has an exclusive right to Bickford's future acquisitions, development projects and refinancing transactions.

On February 5, 2015, we announced a new development program pursuant to which our RIDEA joint venture with Bickford will develop five senior housing communities in Illinois and Virginia. Construction is slated to start in early 2015 with openings planned for 2016. The total estimated project cost is \$55,000,000. Each community will consist of 60 private-pay assisted living and memory care units managed by Bickford Senior Living.

Of our total revenue from continuing operations, \$21,421,000 (12%), \$14,586,000 (12%) and \$5,164,000 (6%) were recorded as rental income from Bickford for the years ended December 31, 2014, 2013, and 2012, respectively.

As of December 31, 2014, the carrying value of our investment in the operating company, OpCo, was \$9,424,000. 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.

Table of Contents

The results of operations for OpCo include the impact of startup operations for the newly constructed facilities currently in lease-up which are expected to show net losses until fully stabilized.

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

|   | Year Ended December 31, |          |         |
|---|-------------------------|----------|---------|
|   | 2014                    | 2013     | 2012    |
| Revenues                                      | \$65,704                | \$42,636 | \$6,335 |
| Operating expenses, including management fees | 43,389                  | 27,419   | 4,329   |
| Lease expenses                                | 21,859                  | 14,579   | 1,937   |
| Depreciation and amortization                 | 539                     | 256      | 16      |
| Net Income (Loss)                             | \$(83 )                 | \$382    | \$53    |

Our RIDEA structure is designed to follow the fundamental elements of a triple-net lease. Within the RIDEA, we continue to foresee organic growth potential from improving operations, but our agreements with Bickford also enforce growth through a hybrid feature providing a preferred payment stream subject to 3% escalation and payable first to NHI among the joint venture partners. As operations season and lease-up among our new developments is completed, we expect our equity share of RIDEA operating income to become a more visible component of our comprehensive income.

In July 2013, we extended a \$9,200,000 loan to Sycamore 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. We are monitoring the performance of this portfolio which currently has an NOI that would presume a capitalization rate on PropCo's purchase option price in excess of 7.5%, and trending upward. The loan and the purchase option constitute variable interests of NHI in Sycamore, which is a VIE. However, because NHI is not its primary beneficiary, Sycamore is not subject to consolidation.

### Senior Living Communities

On December 17, 2014, we acquired a portfolio of eight retirement communities (the "Senior Living Portfolio") with a total of 1,671 units from Health Care REIT, Inc. and certain of its affiliates for a cash purchase price of \$476,000,000. The Senior Living Portfolio includes 7 entrance-fee communities and 1 senior living campus.

Because the Senior Living portfolio was previously leased by Health Care REIT, Inc., we accounted for acquisition of the 100% interest in the Senior Living Portfolio using the acquisition method as prescribed by FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations. As part of this transaction, we recognized all identifiable tangible assets at fair value on the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed \$32,410,000 of the purchase price to fair value of the land, \$443,590,000 to the fair value of building and improvements and expensed \$89,000 in transaction costs at closing.

We have leased the Senior Living Portfolio under a triple-net master lease with an affiliate of Senior Living which will continue to manage the facilities. The 15-year master lease contains two 5-year renewal options and provides for year one cash rent of \$31,000,000, subject to annual escalators of 4% in years two through four and 3% thereafter.

In connection with the Senior Living acquisition, we provided a \$15,000,000 revolving line of credit to Senior Living, the maturity of which mirrors the term of the master lease. Borrowings will be used primarily to finance construction projects within the Senior Living Portfolio, including building additional units. Amounts outstanding under the

facility, \$2,816,000 at December 31, 2014, bear interest at an annual rate equal to the 10-year U.S. Treasury rate, 2.17% at December 31, 2014, plus 6%.



Table of Contents

## Investment Highlights

Since January 1, 2014, we have made or announced the following real estate and note investments (\$ in thousands):

|                           | Properties | Asset Class   | Amount    |
|---------------------------|------------|---------------|-----------|
| Lease Investments         |            |               |           |
| Senior Living Communities | 8          | SHO           | \$476,000 |
| Bickford Senior Living    | 6          | SHO           | 71,488    |
| Prestige Senior Living    | 4          | 3 SNF & 1 SHO | 45,115    |
| Chancellor Health Care    | 2          | SHO           | 17,150    |
| Senior Living Management  | 1          | SHO           | 700       |
| Note Investments          |            |               |           |
| Life Care Services        | 1          | SHO           | 154,500   |
| Senior Living Communities | N/A        | N/A           | 15,000    |
| Sycamore                  | N/A        | N/A           | 500       |
|                           |            |               | \$780,453 |

## Prestige

In March 2014 we completed a \$40,115,000 purchase of 3 skilled nursing facilities in Oregon totaling 196 beds and a 105-unit assisted living facility in Idaho from Prestige Senior Living ("Prestige"). We have a commitment to fund contingent earn-out payments up to a maximum of \$6,390,000 based on the achievement of certain financial metrics as measured periodically through December 31, 2015. Because the facilities were owner-occupied, we accounted for the acquisition as an asset purchase. At acquisition, we estimated probable contingent payments of \$3,000,000 to be likely and have, accordingly, reflected that amount in the Consolidated Balance Sheet. Contingent payments earned will be an addition to the lease base when funded.

We have leased the 4 facilities to Prestige with a 15-year term at an initial rate of 8.4% plus fixed annual escalators. In addition, at two of the Oregon facilities we have committed to invest \$2,000,000 for capital improvements which are expected to be completed by June 30, 2015. This investment will be added to the basis on which the lease amount is calculated.

## Chancellor

On September 30, 2014, we completed a \$5,650,000 acquisition of a 25-unit assisted living facility in Milwaukie, Oregon and leased the facility to Chancellor Health Care, LLC ("Chancellor") for an initial term of 15 years with two ten-year renewal options. The initial lease rate is 8.0% with fixed annual escalators. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase.

In June 2014 we acquired a 56-unit assisted living/memory care facility in Sacramento, California for \$11,500,000 and leased the facility to Chancellor for an initial term of 15 years, plus renewal options. The initial lease rate is 8.0% with fixed annual escalators. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase.

## Life Care Services

On February 10, 2015, we finalized our agreement to lend Life Care Services, through its LCS-Westminster Partnership III LLP ("LCS-WP") up to \$154,500,000. The loans convey a mortgage interest and serve to facilitate the construction of Phase II of Timber Ridge at Talus ("Timber Ridge"), a Type-A Entrance-Fee Community in the Seattle area.

The loans take the form of two notes under a master credit agreement. The senior loan ("Note A") will total \$60,000,000 at a 6.75% interest rate with 10 basis-point escalators after year three, and has a term of 10 years. We funded \$33,100,000 of Note A at closing. Note A is interest-only and is locked to prepayment for three years. After year three, the prepayment penalty starts at 5% and declines 1% per year. The loan will be freely prepayable during the last 6 months of its term. The second note ("Note B") is a construction loan for up to \$94,500,000 at an interest rate of 8% and a five year maturity. We anticipate funding Note B over twenty months and will be repaid with entrance fees once Phase II opens.

NHI has a purchase option on the property for the greater of fair market value or \$115,000,000. A purchase option window of fifteen months contingently opens in year five or upon earlier stabilization, as defined in our agreement. The purchase option

35

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## Table of Contents

constitutes a variable interest in Phase II of the Timber Ridge project, creating an interest in specified assets of LCS-WP but not in LCS-WP as a whole. Since LCS-WP is not a VIE, the specified Timber Ridge assets are not be subject to the consolidation guidance governing VIEs.

### 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 ended December 31, 2014, we had 1 expiring lease which was renewed with the existing tenant on substantially similar lease terms.

In September 2014 we entered into an agreement with our current tenant, Senior Living Management, to fund up to \$700,000 in renovations to our Greensboro, Georgia assisted living facility. When the renovations are complete, the total amount will be added to the lease base. As of December 31, 2014, \$13,000 had been funded.

In May 2014 in exchange for a nineteen-month extension to September 2026, we have agreed to a rent adjustment on our White Pine Senior Living lease beginning in January 2015 which will result in decreased cash rent of approximately \$33,000 per month over the original lease term ending February 2025.

In February 2015, we transitioned the lease of four assisted living facilities in Louisiana to our tenant, Senior Living Management. The termination of the prior lease resulted in a write-off for accounting purposes during 2014 of \$932,000 in straight-line rent receivable. The scheduled lease payments are the same as in the former lease. The current lease has an initial term of 15 years plus fixed annual escalators after the first year. In addition, we agreed to fund up to \$280,000 in renovations and improvements which will be added to the lease basis used to determine monthly rent.

### 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. The Centers for Medicare & Medicaid Services ("CMS") released a final rule that provides a 2% increase in their Medicare reimbursement for fiscal 2015 beginning on October 1, 2014. We expect 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.

36

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Table of Contents

## Results of Operations

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

|   | Years ended December 31, |         | Period Change |         |    |
|---|--------------------------|---------|---------------|---------|----|
|   | 2014                     | 2013    | \$            | %       |    |
| Revenues:   |                          |         |               |         |    |
| Rental income   |                          |         |               |         |    |
| ILFs leased to an affiliate of Holiday Retirement   | \$31,915                 | \$787   | \$31,128      | NM      |    |
| ALFs leased to RIDEA joint venture with Bickford  | 20,946                   | 14,219  | 6,727         | 47.3    | %  |
| 3 SNFs and 1 ALF leased to Prestige Senior Living   | 2,544                    | —       | 2,544         | NM      |    |
| SNFs newly leased to NHC (7 ElderTrust facilities)  | 3,450                    | 350     | 3,100         | NM      |    |
| SNFs leased to Fundamental Long Term Care   | 5,519                    | 3,494   | 2,025         | 58.0    | %  |
| ALFs leased to Chancellor Health Care   | 2,489                    | 1,207   | 1,282         | 106.2   | %  |
| 7 EFCs and 1 SLC leased to Senior Living Communities                                      | 1,206                    | —       | 1,206         | NM      |    |
| ALFs leased to Brookdale Senior Living  | 4,912                    | 4,215   | 697           | 16.5    | %  |
| ALF leased to Discovery Senior Living   | 942                      | 249     | 693           | NM      |    |
| Other new and existing leases   | 75,892                   | 75,037  | 855           | 1.1     | %  |
|   | 149,815                  | 99,558  | 50,257        | 50.5    | %  |
| Straight-line rent adjustments, new and existing leases                                   | 16,464                   | 6,471   | 9,993         | 154.4   | %  |
| Total Rental Income   | 166,279                  | 106,029 | 60,250        | 56.8    | %  |
| Interest income from mortgage and other notes   |                          |         |               |         |    |
| Sycamore Street (Bickford affiliate)  | 1,137                    | 531     | 606           | NM      |    |
| ElderTrust  | —                        | 644     | (644)         | (100.0) | )% |
| SeniorTrust   | —                        | 475     | (475)         | (100.0) | )% |
| Other new and existing mortgages  | 5,876                    | 5,983   | (107)         | (1.8)   | )% |
| Total Interest Income from Mortgage and Other Notes                                       | 7,013                    | 7,633   | (620)         | (8.1)   | )% |
| Investment income and other   | 4,217                    | 4,166   | 51            | 1.2     | %  |
| Total Revenue   | 177,509                  | 117,828 | 59,681        | 50.7    | %  |
| Expenses:   |                          |         |               |         |    |
| Depreciation  |                          |         |               |         |    |
| ILFs leased to an affiliate of Holiday Retirement   | 12,915                   | —       | 12,915        | NM      |    |
| ALFs leased to RIDEA joint venture with Bickford  | 6,680                    | 4,229   | 2,451         | 58.0    | %  |
| 3 SNFs and 1 ALF leased to Prestige Senior Living   | 892                      | —       | 892           | NM      |    |
| SNFs newly leased to NHC (7 ElderTrust facilities)  | 896                      | 299     | 597           | 199.7   | %  |
| ALFs leased to Chancellor Health Care   | 739                      | 342     | 397           | 116.1   | %  |
| Other new and existing assets   | 15,956                   | 15,231  | 725           | 4.8     | %  |
| Total Depreciation  | 38,078                   | 20,101  | 17,977        | 89.4    | %  |
| Interest expense and amortization of debt issuance costs                                  | 25,882                   | 9,191   | 16,691        | NM      |    |
| Unamortized debt premium recognized in income   | (1,655)                  | ) —     | (1,655)       | ) NM    |    |
| Debt issuance costs expensed due to credit facility modifications                         | 2,145                    | 416     | 1,729         | NM      |    |
| Legal   | 209                      | 784     | (575)         | (73.3)  | )% |
| Loan and realty (recoveries) losses, net  | —                        | 1,976   | (1,976)       | ) NM    |    |
| Other expenses  | 9,727                    | 9,492   | 235           | 2.5     | %  |
|   | 74,386                   | 41,960  | 32,426        | 77.3    | %  |
| Income before equity-method investee, discontinued operations and noncontrolling interest | 103,123                  | 75,868  | 27,255        | 35.9    | %  |
| Income (loss) from equity-method investee   | (71)                     | ) 324   | (395)         | ) NM    |    |
| Investment and other gains  | —                        | 3,306   | (3,306)       | ) NM    |    |

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|  |           |           |           |          |
|--|-----------|-----------|-----------|----------|
| Income from continuing operations                  | 103,052   | 79,498    | 23,554    | NM       |
| Income from discontinued operations                | —         | 5,426     | (5,426)   | ) NM     |
| Gain on sale of real estate                        | —         | 22,258    | (22,258)  | ) NM     |
| Net income   | 103,052   | 107,182   | (4,130)   | ) (3.9)% |
| Net income attributable to noncontrolling interest | (1,443)   | ) (999)   | ) (444)   | ) NM     |
| Net income attributable to common stockholders     | \$101,609 | \$106,183 | \$(4,574) | ) (4.3)% |

NM - not meaningful

37

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Table of Contents

Financial highlights of the year ended December 31, 2014, compared to 2013 were as follows:

Rental income increased \$60,250,000 primarily as a result of new real estate investments. During 2013 we completed \$748,939,000 of new real estate investments. During 2014 we completed \$555,453,000 of new real estate investments. The increase in rental income included a \$9,993,000 increase in straight-line rent adjustments. Generally accepted accounting principles require rental income to be recognized on a straight-line basis over the term of the lease to give effect to scheduled rent escalators. Future increases in rental income depend on our ability to make new investments which meet our underwriting criteria.

Interest income from mortgage and other notes decreased \$620,000 primarily due to the settlement of outstanding notes receivable balances from ElderTrust and SeniorTrust, partially offset by interest income on a note receivable from Sycamore which began in July 2013. Unless we continue to make new investments in loans, our interest income will continue to decrease due to the normal amortization and scheduled maturities of our loans.

Depreciation expense recognized in continuing operations increased \$17,977,000 compared to the prior year primarily due to new real estate investments completed during 2013 and 2014.

Interest expense relates to borrowings on our credit facility, the convertible senior notes issued in March 2014 and debt assumed in the acquisition of real estate. The \$16,691,000 increase in interest expense and amortization of debt issuance costs resulted from (a) the issuance of 3.25% coupon convertible debt of \$200,000,000 to reduce lower interest borrowings on our revolving credit facility, and (b) expanded borrowings used to fund new real estate investments in 2014. We expect to partially fund additional healthcare real estate investments in 2015 with borrowings from our bank credit facility. During the first quarter of 2014, we made modifications to our credit facility and as a result have written off \$2,145,000 of previously unamortized debt issuance costs. Upfront fees and other debt-related costs are amortized over the term of the credit facility. On December 31, 2014, we repaid two Fannie Mae mortgage loans and, as a result, recognized the remaining unamortized debt premium balance of \$1,655,000.

Legal expenses were \$575,000 lower in 2014 when compared to 2013 primarily as a result of litigation which reached final settlement in April 2013.

During 2013 we recorded an impairment of \$4,037,000 related to a mortgage note receivable. 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.

The results of operations for facilities sold, including the gain or loss on such sales, have been reported for periods prior to the adoption of ASU 2014-08 as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

Table of Contents

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 RIDEA joint venture with Bickford  | \$ 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     |    |
| ALFs 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     |    |
| Sycamore (Bickford affiliate)   | 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 RIDEA joint venture with Bickford  | 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                      | 108      | 332           | NM     |    |
| Other new and existing assets   | 14,172                   | 13,094   | 1,078         | 8.2    | %  |
| Total Depreciation  | 20,101                   | 14,772   | 5,329         | 36.1   | %  |
| Interest expense and amortization of loan costs   |                          |          |               |        |    |
| General and administrative  | 9,229                    | 3,492    | 5,737         | NM     |    |
| Loan and realty (recoveries) losses, net  | 9,254                    | 7,799    | 1,455         | 18.7   | %  |
| Other expenses  | 1,976                    | (2,195)  | 4,171         | NM     |    |
|   | 1,400                    | 1,537    | (137)         | (8.9)  | )% |
|   | 41,960                   | 25,405   | 16,555        | 65.2   | %  |
| Income before equity-method investment, discontinued operations and noncontrolling interest | 75,868                   | 67,912   | 7,956         | 11.7   | %  |
| Income from equity-method investment  | 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) | )% |
| Gain on sale of real estate   | 22,258                   | 11,966   | 10,292        | NM     |    |
| Net income  | 107,182                  | 90,898   | 16,284        | 17.9   | %  |
| Net income attributable to noncontrolling interest  | (999)                    | (167)    | (832)         | NM     |    |



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|  |           |          |          |      |   |
|--|-----------|----------|----------|------|---|
| Net income attributable to common stockholders | \$106,183 | \$90,731 | \$15,452 | 17.0 | % |
|--|-----------|----------|----------|------|---|

NM - not meaningful

39

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Table of Contents

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 increased by \$207,000 due to our loans with Capital Funding Group and Sycamore but most of the increase was offset by (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.

- 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.

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. The 2012 recovery represents the net of an initial impairment of \$2,300,000 recorded against our SeniorTrust note receivable collected in 2013 and the recovery of \$4,495,000 on a note secured by three SNFs in Georgia.

In 2013, investment and other gains included the write-off of a \$3,256,000 contingent purchase liability that was not required to be paid. Also in 2013 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 11 to the consolidated financial statements. In 2012 gains related primarily to a recovery on a previously written-off mortgage note receivable.

The results of operations for facilities sold, including the gain or loss on such sales, have been reported for periods prior to the adoption of ASU 2014-08 as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

Table of Contents

## 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 |          |
|--|------------|------------|-----------------|----------|------------|-----------------|----------|
|  | 12/31/2014 | 12/31/2013 | \$              | %        |            | 12/31/12        | \$       |
| Cash and cash equivalents at beginning of period | \$ 11,312  | \$ 9,172   | \$ 2,140        | 23.3 %   | 15,886     | \$ (6,714 )     | (42.3 )% |
| Net cash provided by operating activities        | 126,143    | 104,193    | 21,950          | 21.1 %   | 86,266     | 17,927          | 20.8 %   |
| Net cash used in investing activities            | (540,316 ) | (625,824 ) | 85,508          | (13.7 )% | (99,810 )  | (526,014 )      | NM       |
| Net cash provided by financing activities        | 406,148    | 523,771    | (117,623)       | NM       | 6,830      | 516,941         | NM       |
| Cash and cash equivalents at end of period       | \$ 3,287   | \$ 11,312  | \$ (8,025 )     | (70.9 )% | 9,172      | \$ 2,140        | 23.3 %   |

Operating Activities – Net cash provided by operating activities for the year ended December 31, 2014 increased primarily as a result of the collection of lease payments on new real estate investments completed during 2013 and 2014.

Investing Activities – Net cash flows used in investing activities for the year ended December 31, 2014 decreased slightly compared to 2013 primarily due to a slight decrease in real estate investment activity completed during 2014.

Financing Activities – Net cash flows provided by financing activities for the year ended December 31, 2014 decreased slightly compared to 2013 primarily due to a slight decrease in our capital needs resulting from slightly lower real estate investment activity during 2014, partially offset by \$100,650,000 in dividends paid to stockholders.

## Liquidity

At December 31, 2014, \$94,790,000 was available in cash, highly-liquid marketable securities and borrowing capacity on our revolving credit facility. As of January 15, 2015, with the placement of \$225,000,000 in senior unsecured notes and the use of the proceeds to free availability on our revolving credit facility, further discussed below, we had approximately \$320,000,000 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 \$37 and \$44 during the quarter ended December 31, 2014. Cash collected from our loans and leases is used to pay debt service, the expenses of operating the REIT, our dividends to stockholders and to make new real estate investments.

In March 2014 we issued \$200,000,000 of 3.25% senior unsecured convertible notes due April 2021 (the "Notes"). Interest is payable April 1st and October 1st of each year. The Notes are convertible at an initial conversion rate of

13.926 shares of common stock per \$1,000 principal amount, representing a conversion price of approximately \$71.81 per share for a total of approximately 2,785,200 underlying shares. The conversion rate is subject to adjustment upon the occurrence of certain events, as defined in the indenture governing the Notes, but will not be adjusted for any accrued and unpaid interest except in limited circumstances. Upon conversion, NHI's conversion obligation may be satisfied, at our option, in cash, shares of common stock or a combination of cash and shares of common stock. Because the conversion price was in excess of the average stock price for the year, the impact of the conversion option was anti-dilutive to the year-end earnings per share calculation and as such had no effect on our earnings per share. As of February 13, 2015 our stock price closed at \$71.74. If current prices increase above the initial \$71.81 conversion price, some dilution will be attributable to the conversion feature going forward.

As discussed in Note 7 to the consolidated financial statements, accounting rules require that we split the Notes into a debt component and an equity component. The value of the debt component is based upon the estimated fair value of a similar debt instrument without the conversion feature at the time of issuance and was estimated to be approximately \$192,238,000. The \$7,762,000 difference between the contractual principal on the debt and the value allocated to the debt was recorded as an equity component and represents the estimated value of the conversion feature of the instrument. The excess of the contractual principal amount of the debt over its estimated fair value is amortized to interest expense using the effective interest method, with 3.9% as the effective interest rate, over the term of the Notes.

Table of Contents

The total cost of issuing the Notes was \$6,063,000, of which \$5,788,000 was allocated to the debt component and is subject to amortization over the estimated term of the notes. The remaining \$275,000 was allocated to the equity component.

On March 27, 2014, we entered into an amended \$700,000,000 senior unsecured credit facility. The facility can be expanded, subject to certain conditions, up to an additional \$130,000,000. The amended credit facility provides for: (1) a \$450,000,000 unsecured, revolving credit facility that matures in March 2019 (inclusive of an embedded 1-year extension option) with interest at 150 basis points over LIBOR; (2) a \$130,000,000 unsecured term loan that matures in June 2020 with interest at 175 basis points over LIBOR of which interest of 3.91% is fixed with an interest rate swap agreement; and (3) two existing term loans which remain in place totaling \$120,000,000, maturing in June 2020 and bearing interest at 175 basis points over LIBOR, a notional amount of \$40,000,000 being fixed at 3.29% until 2019 and \$80,000,000 being fixed at 3.86% until 2020. The employment of interest rate swaps for our fixed term debt leaves only our revolving credit facility exposed to variable rate risk. Our decision to amend our credit facility was made for the purpose of extending the maturity of a portion of our terms loans to over six years and to expand the amount of funds available to draw on our revolving credit facility.

At December 31, 2014, we had \$76,000,000 available to draw on the revolving portion of the credit facility. The unused commitment fee is 40 basis points per annum. The unsecured credit facility requires that we maintain certain financial ratios within limits set by our creditors. To date, these ratios, which are calculated quarterly, have been 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.

In July and September 2014 we obtained mortgage loans totaling \$38,007,000 from the U.S. Department of Housing and Urban Development secured by nine properties in our joint venture with an affiliate of Bickford. The mortgage notes require monthly payments of principal and interest of 4.65% in the first year and 4.3% thereafter (inclusive of mortgage insurance premium) and mature in August and October 2049.

In October 2014 we assumed a HUD mortgage loan with an outstanding principal balance of \$9,535,000 and an estimated fair value of \$7,858,000. The HUD mortgage requires monthly payments of principal and interest of 2.9% (inclusive of mortgage insurance premium) and matures in October 2047.

The aggregate outstanding balance of our HUD mortgage loans as of December 31, 2014 was \$47,352,000.

On December 5, 2014 we completed a public offering of 4,427,500 shares of common stock at a price to the public of \$63.80 per share. The net proceeds from the offering were approximately \$270,798,000, after deducting underwriting discounts and commissions and other offering expenses. We used the net proceeds from the offering to fund a portion of the acquisition of the Senior Living Communities portfolio in December 2014.

As part of the Care acquisition in 2013, we assumed Fannie Mae mortgage loans bearing interest at a blended rate of 6.89% and set to mature on July 1, 2015, with interest maintenance penalties expiring on December 31, 2014. We repaid those loans in the amount of \$77,267,000 on December 31, 2014 without penalty using funds from our revolving credit facility.

On January 15, 2015 we issued \$125,000,000 of 8-year notes with a coupon of 3.99% and \$100,000,000 of 12-year notes with a coupon of 4.51% to a leading provider of private placement fixed rate debt. The notes are unsecured and require quarterly payments of interest only until maturity. We used the proceeds from the notes to pay down borrowings on our revolving credit facility.

As described earlier, in 2015 we plan to announce our participation in an at-the-market (“ATM”) equity program whereby we may sell our common shares on an as-needed basis. We continue to explore other various funding sources including bank term loans, convertible debt, traditional equity placement, unsecured bonds and senior notes, debt private placement and secured government agency financing.

To mitigate our exposure to interest rate risk, we have entered into the following interest rate swap contracts on three of our term loans as of December 31, 2014 (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        | \$(98 )    |
| June 2013    | June 2020     | 3.86%      | 1-month LIBOR | \$80,000        | \$(1,814 ) |
| March 2014   | June 2020     | 3.91%      | 1-month LIBOR | \$130,000       | \$(3,281 ) |

Table of Contents

We periodically refinance the borrowings on our revolving credit facility into longer-term debt instruments. We consider secured debt from U.S. Govt. agencies, including HUD, private placements of unsecured debt, and public offerings of debt and equity. We anticipate that our historically low cost of debt capital will rise in the near to mid-term, as the federal government 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, 2014 and thereafter. We declared total dividends (regular and special) of \$3.08 per common share in 2014, \$2.90 per common share in 2013, and \$2.86 per common share in 2012. 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 dividends declared included a special dividend of \$.22 per common share due to a recovery of a previous writedown at the end of December 2012. 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 additional information on our letter of credit with Sycamore, an affiliate of Bickford, see our discussion in this section under Contingent Liabilities, 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, 2014, due to this involvement, would be limited to our equity interest.

Contractual Obligations and Contingent Liabilities

As of December 31, 2014, 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<br>year | 1-3 years | 3-5 years | More than<br>5 years |
|---------------------------------------|-------------|---------------------|-----------|-----------|----------------------|
| Debt, including interest <sup>1</sup> | \$1,030,721 | \$25,140            | \$75,391  | \$657,553 | \$272,637            |
| Real estate purchase liabilities      | 3,000       | 3,000               | —         | —         | —                    |
| Construction commitments              | 7,407       | 7,407               | —         | —         | —                    |
| Loan commitments                      | 12,184      | 12,184              | —         | —         | —                    |
|                                       | \$1,053,312 | \$47,731            | \$75,391  | \$657,553 | \$272,637            |

<sup>1</sup> Interest is calculated based on the interest rate at December 31, 2014 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, 2014. The calculation also includes an unused commitment fee of .40%.

Commitments and Contingencies

The following table summarizes information as of December 31, 2014 related to our outstanding commitments and contingencies which are more fully described in the notes to the consolidated financial statements.

43

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Table of Contents

|                                      | Asset Class | Type             | Total         | Funded          | Remaining     |
|--------------------------------------|-------------|------------------|---------------|-----------------|---------------|
| Commitments:                         |             |                  |               |                 |               |
| Senior Living Communities            | SHO         | Revolving Credit | \$ 15,000,000 | \$(2,816,000 )  | \$ 12,184,000 |
| Capital Funding Group                | Mezz. Note  | Revolving Credit | \$ 15,000,000 | \$(15,000,000 ) | \$—           |
| Bickford Senior Living               | SHO         | Construction     | \$9,000,000   | \$(7,811,000 )  | \$ 1,189,000  |
| Chancellor Health Care               | SHO         | Construction     | \$8,000,000   | \$(4,584,000 )  | \$ 3,416,000  |
| Kentucky River Medical Center        | Hospital    | Renovation       | \$8,000,000   | \$(7,583,000 )  | \$ 417,000    |
| Santé Partners                       | SHO         | Renovation       | \$3,500,000   | \$(2,621,000 )  | \$ 879,000    |
| Prestige Senior Living               | SHO         | Renovation       | \$2,000,000   | \$(1,555,000 )  | \$ 445,000    |
| Holiday Retirement                   | SHO         | Renovation       | \$1,500,000   | \$(1,126,000 )  | \$ 374,000    |
| Senior Living Management             | SHO         | Renovation       | \$700,000     | \$(13,000 )     | \$ 687,000    |
| Sycamore Street (Bickford affiliate) | SHO         | Revolving Credit | \$500,000     | \$(500,000 )    | \$—           |
| Contingencies:                       |             |                  |               |                 |               |
| Prestige Senior Living               | SHO         | Lease Inducement | \$6,390,000   | \$—             | \$ 6,390,000  |
| Sycamore Street (Bickford affiliate) | SHO         | Letter-of-credit | \$3,550,000   | \$—             | \$ 3,550,000  |
| Discovery Senior Living              | SHO         | Lease Inducement | \$2,500,000   | \$—             | \$ 2,500,000  |
| Santé Partners                       | Hospital    | Loan             | \$2,000,000   | \$—             | \$ 2,000,000  |
| Santé Partners                       | SHO         | Lease Inducement | \$2,000,000   | \$—             | \$ 2,000,000  |

## Bickford

During the quarter ended December 31, 2014, our consolidated subsidiary, PropCo, completed major construction and received certificates of occupancy on one assisted living facility which had been under development. In February 2014 we provided a \$2,785,000 letter of credit for the benefit of our joint venture partner, Sycamore, which holds a minority interest in PropCo. In December 2014 we increased the amount of the letter of credit to \$3,550,000.

In June 2014 we entered into a \$500,000 revolving loan with our joint venture partner, Sycamore, to fund pre-development expenses related to potential future projects. Interest is payable monthly at 10% and the note matures in August 2015. At December 31, 2014 the revolving loan was fully drawn.

## 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 began construction in 2014 and had funded \$4,231,000 as of December 31, 2014. The initial lease term is for 15 years at an annual rate of 9% plus a fixed annual escalator. 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 began renovations in 2014 and as of December 31, 2014 had funded \$353,000. We receive rent income on funds advanced for both construction projects.

## 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, 2014, incurring 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 meeting future performance measures. In March 2014 upon satisfactory achievement of the required operating metrics, we made the full \$1,600,000 payment to Fundamental.

44

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## Table of Contents

### 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. In December 2014, upon satisfactory achievement of the required operating metrics, we made the full \$1,000,000 payment to Helix.

### Holiday Retirement

In connection with our December 2013 purchase/leaseback of 25 independent living facilities from Holiday Retirement, we have committed to fund up to \$1,500,000 of capital improvements to the acquired facilities. As of December 31, 2014, we had funded \$1,126,000 toward this commitment.

### Kentucky River

In March 2012, we entered into a 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, 2014 were \$7,583,000.

### Prestige

We have agreed to fund capital improvements of up to \$2,000,000 in connection with two of the facilities we lease to Prestige. The capital improvements will be an addition to our original investment in the properties when funded and will be included in the lease base. As of December 31, 2014, we had funded \$1,555,000 of this commitment. Additionally, we have committed to fund contingent earn out payments up to a maximum of \$6,390,000 based on the achievement of certain financial metrics as measured periodically through December 31, 2015. At acquisition, we estimated probable contingent payments of \$3,000,000 to be likely and have reflected that amount in the consolidated financial statements. Contingent payments earned will be included in the lease base when funded.

### Santé

We have a \$2,000,000 loan 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 are committed to fund a \$3,500,000 expansion and renovation program at our Silverdale, Washington senior living campus and as of December 31, 2014 had funded \$2,621,000, which was added to the basis on which the lease amount is calculated. 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 attaining and sustaining 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, incurring the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements.

### Senior Living Communities

In connection with the Senior Living acquisition, we are providing a \$15,000,000 revolving line of credit, the maturity of which will mirror the term of the master lease. Borrowings will be used to finance construction projects within the Senior Living Portfolio, including building additional units. Up to \$5,000,000 of the facility may be used to meet general working capital needs. Amounts outstanding under the facility, \$2,816,000 at December 31, 2014, bear interest at an annual rate equal to the 10-year U.S. Treasury rate, 2.17% at December 31, 2014, plus 6%.

#### Senior Living Management

In September 2014 we entered into an agreement with our current tenant, Senior Living Management, to fund up to \$700,000 for renovations to our Greensboro, Georgia assisted living facility. When the renovations are complete, the total amount will be added to the lease base. As of December 31, 2014, \$13,000 of this commitment had been funded.

Table of Contents

Litigation

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

46

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## Table of Contents

### FFO, AFFO & FAD

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

### Funds From Operations - FFO

Our FFO per diluted common share for the year ended December 31, 2014 increased \$0.49 (13%) over the same period in 2013. Our normalized FFO for the year ended December 31, 2014 increased \$0.56 (15%) over the same period in 2013, primarily as the result of our new real estate investments in 2013 and 2014. FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT") and applied by us, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures, if any. The Company's computation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or have a different interpretation of the current NAREIT definition from that of the Company; therefore, caution should be exercised when comparing our Company's FFO to that of other REITs. Diluted FFO assumes the exercise of stock options and other potentially dilutive securities. Normalized FFO excludes from FFO certain items which, 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.

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

### Adjusted Funds From Operations - AFFO

Our normalized AFFO per diluted common share for the year ended December 31, 2014 increased \$0.32 (9%) over the same period in 2013 due primarily to the impact of real estate investments completed during 2013 and 2014. In addition to the adjustments included in the calculation of normalized FFO, normalized AFFO excludes the impact of any straight-line rent revenue, amortization of the original issue discount on our convertible senior notes and amortization of debt issuance costs.

Normalized AFFO is an important supplemental measure of operating performance for a REIT. GAAP requires a lessor to recognize contractual lease payments into income on a straight-line basis over the expected term of the lease. This straight-line adjustment has the effect of reporting lease income that is significantly more or less than the

contractual cash flows received pursuant to the terms of the lease agreement. GAAP also requires the original issue discount of our convertible senior notes and debt issuance costs to be amortized as non-cash adjustments to earnings. Normalized AFFO is useful to our investors as it reflects the growth inherent in the contractual lease payments of our real estate portfolio.

#### Funds Available for Distribution - FAD

Our normalized FAD per diluted common share for the year ended December 31, 2014 increased \$0.30 (9%) over the same period in 2013 due primarily to the impact of real estate investments completed during 2013 and 2014. In addition to the adjustments included in the calculation of normalized AFFO, normalized FAD excludes the impact of non-cash stock based compensation. Normalized FAD is an important supplemental measure of operating performance for a REIT as a useful indicator of the ability to distribute dividends to shareholders.

Table of Contents

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, |            |            |
|--|--------------------------|------------|------------|
|  | 2014                     | 2013       | 2012       |
| Net income attributable to common stockholders                       | \$101,609                | \$106,183  | \$90,731   |
| Elimination of certain non-cash items in net income:                 |                          |            |            |
| Depreciation in continuing operations                                | 38,078                   | 20,101     | 14,772     |
| Depreciation related to noncontrolling interest                      | (1,002)                  | (634)      | (87)       |
| Depreciation in discontinued operations                              | —                        | 557        | 2,209      |
| Net gain on sales of real estate                                     | —                        | (22,258)   | (11,966)   |
| Funds from operations  | \$138,685                | \$103,949  | \$95,659   |
| Investment gains   | —                        | (3,256)    | (4,760)    |
| Debt issuance costs expensed due to credit facility modifications    | 2,145                    | 416        | —          |
| Write-off of unamortized debt premium                                | (1,655)                  | —          | —          |
| Non-cash write-off of straight-line rent receivable                  | 932                      | —          | 963        |
| Write-offs and expenses due to early lease termination               | —                        | —          | 297        |
| Acquisition costs under business combination accounting              | 89                       | 208        | —          |
| Legal settlement   | —                        | —          | 365        |
| Loan impairment and recoveries of previous write-downs               | —                        | 1,976      | (2,195)    |
| Other items, net   | —                        | —          | (271)      |
| Normalized FFO   | \$140,196                | \$103,293  | \$90,058   |
| Straight-line lease revenue, net                                     | (16,463)                 | (6,560)    | (3,664)    |
| Non-cash write-off of straight-line rent receivable                  | (932)                    | —          | (963)      |
| Straight-line lease revenue, net, related to noncontrolling interest | 71                       | 55         | —          |
| Amortization of original issue discount                              | 798                      | —          | —          |
| Amortization of debt issuance costs                                  | 1,782                    | 663        | 320        |
| Normalized AFFO  | \$125,452                | \$97,451   | \$85,751   |
| Non-cash stock based compensation                                    | 2,020                    | 2,339      | 2,168      |
| Normalized FAD   | \$127,472                | \$99,790   | \$87,919   |
| <b>BASIC</b>   |                          |            |            |
| Weighted average common shares outstanding                           | 33,375,966               | 28,362,398 | 27,811,813 |
| FFO per common share   | \$4.16                   | \$3.67     | \$3.44     |
| Normalized FFO per common share                                      | \$4.20                   | \$3.64     | \$3.24     |
| Normalized AFFO per common share                                     | \$3.76                   | \$3.44     | \$3.08     |
| Normalized FAD per common share                                      | \$3.82                   | \$3.52     | \$3.16     |
| <b>DILUTED</b>   |                          |            |            |
| Weighted average common shares outstanding                           | 33,416,014               | 28,397,702 | 27,838,720 |
| FFO per common share   | \$4.15                   | \$3.66     | \$3.44     |
| Normalized FFO per common share                                      | \$4.20                   | \$3.64     | \$3.23     |
| Normalized AFFO per common share                                     | \$3.75                   | \$3.43     | \$3.08     |
| Normalized FAD per common share                                      | \$3.81                   | \$3.51     | \$3.16     |

NOTE: FFO per diluted common share for the years ended December 31, 2013 and 2012 differs by \$.08 and \$.06, respectively, from the amounts previously reported as a result of our revised interpretation of the NAREIT definition of FFO. Normalized FFO per diluted common share for the years ended December 31, 2013 and 2012 differs by \$.09



and \$.05, respectively, from the amounts previously reported in our periodic filings as a result of our revised interpretation of the NAREIT definition of FFO. Normalized AFFO per diluted common share for the years ended December 31, 2013 and 2012 differ by \$.10 and \$.07, respectively, from the amounts previously reported as a result of our revised interpretation of the NAREIT definition of FFO. Normalized FAD per diluted common share for the years ended December 31, 2013 and 2012 differs by \$.02 and \$.01, respectively, from the amounts previously reported as a result of changes we made to our definition of FAD. See our Form 8-K dated May 5, 2014 which describes these revisions.

Table of Contents

## 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:

|   | December 31, |            |             |
|---|--------------|------------|-------------|
|   | 2014         | 2013       | 2012        |
| Net income  | \$ 103,052   | \$ 107,182 | \$ 90,898   |
| Interest expense at contractual rates                             | 23,878       | 8,944      | 3,380       |
| Franchise, excise and other taxes                                 | 620          | 616        | 771         |
| Depreciation in continuing and discontinued operations            | 38,078       | 20,658     | 16,981      |
| Amortization of debt issuance costs and bond discount             | 2,580        | 247        | 320         |
| Net gain on sales of real estate                                  | —            | (22,258    | ) (11,966 ) |
| Investment gains  | —            | (3,256     | ) (4,760 )  |
| Debt issuance costs expensed due to credit facility modifications | 2,145        | 416        | —           |
| Write-off of unamortized debt premium                             | (1,655       | ) —        | —           |
| Non-cash write-off of straight-line rent receivable               | 932          | —          | 963         |
| Write-offs and expenses due to early lease termination            | —            | —          | 297         |
| Acquisition costs under business combination accounting           | 89           | 208        | —           |
| Legal settlement  | —            | —          | 365         |
| Loan impairment and recoveries of previous write-downs            | —            | 1,976      | (2,195 )    |
| Other items, net  | —            | —          | (271 )      |
| Adjusted EBITDA   | \$ 169,719   | \$ 114,733 | \$ 94,783   |

The table above does not include the full year impact of our eight retirement communities we recently acquired from Senior Living Communities. If we were to reflect the full year impact of our Senior Living Portfolio, adjusted EBITDA would have been \$209,039,000. Our consolidated debt-to-Adjusted EBITDA ratio of 4.1x discussed on page 30 is based on this adjusted EBITDA figure.

Table of Contents

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

## Interest Rate Risk

At December 31, 2014, we were exposed to market risks related to fluctuations in interest rates on approximately \$374,000,000 of variable-rate indebtedness (excludes \$250,000,000 of variable-rate debt that has been hedged through interest-rate swap contracts) and on our mortgage and other notes receivable. The unused portion (\$76,000,000 at December 31, 2014) 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, 2014, net interest expense would increase or decrease annually by approximately \$1,870,000 or \$.05 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, 2014    |            |                   | December 31, 2013    |            |                   |   |
|-------------------------------------|----------------------|------------|-------------------|----------------------|------------|-------------------|---|
|                                     | Balance <sup>1</sup> | % of total | Rate <sup>4</sup> | Balance <sup>1</sup> | % of total | Rate <sup>4</sup> |   |
| Fixed rate:                         |                      |            |                   |                      |            |                   |   |
| Convertible senior notes            | \$ 200,000           | 23.0       | % 3.25            | % —                  | —          | —                 |   |
| Unsecured term loans <sup>2</sup>   | 250,000              | 28.7       | % 3.79            | % 120,000            | 19.5       | % 3.67            | % |
| HUD mortgage loans <sup>3</sup>     | 47,352               | 5.4        | % 4.04            | % —                  | —          | —                 |   |
| Secured mortgage loan               | —                    | —          | —                 | 71,090               | 11.6       | % 6.85            | % |
| Secured mortgage loan               | —                    | —          | —                 | 7,234                | 1.2        | % 7.20            | % |
| Variable rate:                      |                      |            |                   |                      |            |                   |   |
| Unsecured term loan                 | —                    | —          | —                 | 250,000              | 40.6       | % 1.97            | % |
| Unsecured revolving credit facility | 374,000              | 42.9       | % 1.66            | % 167,000            | 27.1       | % 1.87            | % |
|                                     | \$ 871,352           | 100.0      | % 2.77            | % \$ 615,324         | 100.0      | % 2.90            | % |

<sup>1</sup> Differs from carrying amount due to unamortized discount.

<sup>2</sup> Includes three term loans in 2014 and two term loans in 2013; rate is a weighted average

<sup>3</sup> Includes 10 HUD mortgages; rate is a weighted average inclusive of a mortgage insurance premium

<sup>4</sup> Total is weighted average rate

The unsecured term loans in the table above give effect to \$40,000,000, \$80,000,000, and \$130,000,000 notional amount interest rate swaps with maturities of April 2019, June 2020 and June 2020, respectively, that effectively convert 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 fixed-rate loans to changes in interest rates, the following summary shows the effects on fair value ("FV") assuming a parallel shift of 50 basis points ("bps") in market interest rates for a contract with similar maturities as of December 31, 2014 (dollar amounts in thousands):

50

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Table of Contents

|                          | Balance   | Fair Value <sup>1</sup> | FV reflecting change in interest rates |           |
|--------------------------|-----------|-------------------------|--|-----------|
| Fixed rate:              |           |                         | -50 bps                                | +50 bps   |
| Convertible senior notes | \$200,000 | \$203,812               | \$209,738                              | \$198,066 |
| HUD mortgage loans       | 47,352    | 50,338                  | 55,789                                 | 48,587    |

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

At December 31, 2014, the fair value of our mortgage loans receivable, discounted for estimated changes in the risk-free rate, was approximately \$72,435,000. A 50 basis point increase in market rates would decrease the estimated fair value of our mortgage loans by approximately \$1,135,000, while a 50 basis point decrease in such rates would increase their estimated fair value by approximately \$1,189,000.

## 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 \$15,503,000 at December 31, 2014, 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 \$1,550,000 change in the fair value of our investments in marketable securities.

Table of Contents

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, 2014 and 2013 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, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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, 2014, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 17, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Nashville, Tennessee  
February 17, 2015

Table of Contents

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

|  | December 31, |             |
|--|--------------|-------------|
|  | 2014         | 2013        |
| Assets:  |              |             |
| Real estate properties:  |              |             |
| Land   | \$127,566    | \$91,770    |
| Buildings and improvements   | 1,854,855    | 1,320,567   |
| Construction in progress   | 6,428        | 9,665       |
|  | 1,988,849    | 1,422,002   |
| Less accumulated depreciation  | (212,300)    | (174,262)   |
| Real estate properties, net  | 1,776,549    | 1,247,740   |
| Mortgage and other notes receivable, net   | 63,630       | 60,639      |
| Investment in preferred stock, at cost   | 38,132       | 38,132      |
| Cash and cash equivalents  | 3,287        | 11,312      |
| Marketable securities  | 15,503       | 12,650      |
| Straight-line rent receivable  | 35,154       | 18,691      |
| Equity-method investment and other assets  | 50,705       | 66,656      |
| Total Assets   | \$1,982,960  | \$1,455,820 |
| Liabilities and Equity:  |              |             |
| Debt   | \$862,726    | \$617,080   |
| Real estate purchase liabilities   | 3,000        | 2,600       |
| Accounts payable and accrued expenses  | 15,718       | 8,011       |
| Dividends payable  | 28,864       | 24,293      |
| Lease deposit liabilities  | 21,648       | 22,775      |
| Deferred income  | 1,071        | 3,901       |
| Total Liabilities  | 933,027      | 678,660     |
| Commitments and Contingencies  |              |             |
| National Health Investors Stockholders' Equity:  |              |             |
| Common stock, \$.01 par value; 60,000,000 and 40,000,000 shares authorized;<br>37,485,902 and 33,051,176 shares issued and outstanding, respectively | 375          | 330         |
| Capital in excess of par value   | 1,033,896    | 753,635     |
| Cumulative net income in excess (deficit) of dividends   | (569)        | 3,043       |
| Accumulated other comprehensive income   | 6,223        | 9,538       |
| Total National Health Investors Stockholders' Equity   | 1,039,925    | 766,546     |
| Noncontrolling interest  | 10,008       | 10,614      |
| Total Equity   | 1,049,933    | 777,160     |
| Total Liabilities and Equity   | \$1,982,960  | \$1,455,820 |

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

Table of Contents

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

|  | Year Ended December 31, |            |            |
|--|-------------------------|------------|------------|
|  | 2014                    | 2013       | 2012       |
| Revenues:  |                         |            |            |
| Rental income  | \$166,279               | \$106,029  | \$81,482   |
| Interest income from mortgage and other notes  | 7,013                   | 7,633      | 7,426      |
| Investment income and other  | 4,217                   | 4,166      | 4,409      |
|  | 177,509                 | 117,828    | 93,317     |
| Expenses:  |                         |            |            |
| Depreciation   | 38,078                  | 20,101     | 14,772     |
| Interest   | 26,372                  | 9,229      | 3,492      |
| Legal  | 209                     | 784        | 766        |
| Franchise, excise and other taxes  | 620                     | 616        | 771        |
| General and administrative   | 9,107                   | 9,254      | 7,799      |
| Loan and realty losses (recoveries), net   | —                       | 1,976      | (2,195)    |
|  | 74,386                  | 41,960     | 25,405     |
| Income before equity-method investee, investment and other gains,<br>discontinued operations and noncontrolling interest | 103,123                 | 75,868     | 67,912     |
| Income (loss) from equity-method investee  | (71)                    | 324        | 45         |
| Investment and other gains   | —                       | 3,306      | 4,877      |
| Income from continuing operations  | 103,052                 | 79,498     | 72,834     |
| Discontinued operations  |                         |            |            |
| Income from operations - discontinued  | —                       | 5,426      | 6,098      |
| Gain on sale of real estate  | —                       | 22,258     | 11,966     |
| Income from discontinued operations  | —                       | 27,684     | 18,064     |
| Net income   | 103,052                 | 107,182    | 90,898     |
| Less: net income attributable to noncontrolling interest   | (1,443)                 | (999)      | (167)      |
| Net income attributable to common stockholders   | \$101,609               | \$106,183  | \$90,731   |
| Weighted average common shares outstanding:  |                         |            |            |
| Basic  | 33,375,966              | 28,362,398 | 27,811,813 |
| Diluted  | 33,416,014              | 28,397,702 | 27,838,720 |
| Earnings per common share:   |                         |            |            |
| Basic:   |                         |            |            |
| Income from continuing operations attributable to common stockholders  | \$3.04                  | \$2.77     | \$2.61     |
| Discontinued operations  | —                       | .97        | .65        |
| Net income per common share attributable to common stockholders  | \$3.04                  | \$3.74     | \$3.26     |
| Diluted:   |                         |            |            |
| Income from continuing operations attributable to common stockholders  | \$3.04                  | \$2.77     | \$2.61     |
| Discontinued operations  | —                       | .97        | .65        |
| Net income per common share attributable to common stockholders  | \$3.04                  | \$3.74     | \$3.26     |

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





Table of Contents

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

|  | Year Ended December 31, |            |           |   |
|--|-------------------------|------------|-----------|---|
|  | 2014                    | 2013       | 2012      |   |
| Net income   | \$ 103,052              | \$ 107,182 | \$ 90,898 |   |
| Other comprehensive income:  |                         |            |           |   |
| Change in unrealized gains on securities                               | 2,853                   | (234       | ) 1,645   |   |
| Less: reclassification adjustment for gains in net income              | —                       | —          | (30       | ) |
| Increase (decrease) in fair value of cash flow hedge                   | (2,032                  | ) 3,563    | (1,017    | ) |
| Less: reclassification adjustment for amounts recognized in net income | (4,136                  | ) (1,346   | ) (224    | ) |
| Total other comprehensive income (loss)                                | (3,315                  | ) 1,983    | 374       |   |
| Comprehensive income   | 99,737                  | 109,165    | 91,272    |   |
| Less: comprehensive income attributable to noncontrolling interest     | (1,443                  | ) (999     | ) (167    | ) |
| Comprehensive income attributable to common stockholders               | \$ 98,294               | \$ 108,166 | \$ 91,105 |   |

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

Table of Contents

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

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2014                    | 2013       | 2012       |
| Cash flows from operating activities:   |                         |            |            |
| Net income  | \$ 103,052              | \$ 107,182 | \$ 90,898  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                         |            |            |
| Depreciation  | 38,078                  | 20,658     | 16,981     |
| Amortization  | 2,611                   | 247        | 320        |
| Straight-line rental income   | (16,463 )               | (6,560 )   | (3,664 )   |
| Unamortized debt premium written off  | (1,655 )                | —          | —          |
| Write-off of debt issuance costs  | 2,145                   | 416        | —          |
| Loan and realty losses (recoveries), net  | —                       | 1,976      | (2,195 )   |
| Gain on sale of real estate   | —                       | (22,258 )  | (11,966 )  |
| Gain on payoff of mortgage note   | —                       | —          | (4,605 )   |
| Gain on purchase liability settlement   | —                       | (3,256 )   | —          |
| Net realized gains on sales of marketable securities                              | —                       | —          | (30 )      |
| Share-based compensation  | 2,020                   | 2,339      | 2,168      |
| (Income) loss from equity-method investee   | 71                      | (324 )     | (45 )      |
| Change in operating assets and liabilities:                                       |                         |            |            |
| Equity-method investment and other assets   | (2,334 )                | (659 )     | (745 )     |
| Accounts payable and accrued expenses   | 1,448                   | 2,495      | (512 )     |
| Deferred income   | (2,830 )                | 1,937      | (339 )     |
| Net cash provided by operating activities   | 126,143                 | 104,193    | 86,266     |
| Cash flows from investing activities:   |                         |            |            |
| Investment in mortgage and other notes receivable                                 | (4,447 )                | (11,082 )  | (16,241 )  |
| Collection of mortgage and other notes receivable                                 | 1,456                   | 18,976     | 17,463     |
| Investment in real estate   | (520,505 )              | (635,971 ) | (110,601 ) |
| Investment in real estate development   | (8,455 )                | (11,926 )  | —          |
| Investment in renovations of existing real estate                                 | (4,211 )                | (6,773 )   | —          |
| Payments into facility repair escrows   | (1,554 )                | —          | —          |
| Investment in equity-method investment  | —                       | —          | (8,309 )   |
| Payment of real estate purchase liability   | (2,600 )                | —          | (5,222 )   |
| Proceeds from disposition of real estate properties                               | —                       | 20,952     | 22,975     |
| Proceeds from sales of marketable securities                                      | —                       | —          | 125        |
| Net cash used in investing activities   | (540,316 )              | (625,824 ) | (99,810 )  |
| Cash flows from financing activities:   |                         |            |            |
| Net change in borrowings under revolving credit facilities                        | 207,000                 | 103,000    | (33,300 )  |
| Proceeds from convertible senior notes  | 200,000                 | —          | —          |
| Proceeds from issuance of secured debt  | 38,007                  | —          | —          |
| Borrowings on term loan   | 130,000                 | 330,000    | 120,000    |
| Payments of term loans  | (328,515 )              | (99,655 )  | —          |
| Debt issuance costs   | (8,443 )                | (5,867 )   | (766 )     |
| Proceeds from equity offering, net  | 270,798                 | 282,542    | —          |
| Proceeds from exercise of stock options   | —                       | 146        | (2 )       |

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|  |          |           |           |   |
|--|----------|-----------|-----------|---|
| Distributions to noncontrolling interest         | (2,049   | ) (1,250  | ) (177    | ) |
| Dividends paid to stockholders                   | (100,650 | ) (85,145 | ) (78,925 | ) |
| Net cash provided by financing activities        | 406,148  | 523,771   | 6,830     |   |
| Increase (decrease) in cash and cash equivalents | (8,025   | ) 2,140   | (6,714    | ) |
| Cash and cash equivalents, beginning of period   | 11,312   | 9,172     | 15,886    |   |
| Cash and cash equivalents, end of period         | \$3,287  | \$11,312  | \$9,172   |   |

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

Table of Contents

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

|   | Year Ended December 31, |          |           |
|---|-------------------------|----------|-----------|
|   | 2014                    | 2013     | 2012      |
| Supplemental disclosure of cash flow information:                       |                         |          |           |
| Interest paid, net of amounts capitalized                               | \$22,172                | \$7,964  | \$3,240   |
| 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 | \$—       |
| Tax deferred exchange funds applied to investment in real estate        | \$23,813                | \$—      | \$—       |
| Conditional consideration in asset acquisition                          | \$3,000                 | \$1,600  | \$—       |
| Accounts payable increase due to investments in real estate             | \$2,091                 | \$3,086  | \$—       |
| Accounts payable increase due to escrow deposits                        | \$2,062                 | \$—      | \$—       |
| Assumption of debt in real estate acquisition, at fair value            | \$7,858                 | \$80,528 | \$19,250  |
| Noncontrolling interest conveyed in acquisition                         | \$—                     | \$—      | \$10,964  |
| Increase (decrease) in fair value of cash flow hedge                    | \$(2,032)               | \$3,563  | \$(1,017) |
| 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.

Table of Contents

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

|  | Common Stock |        |                                | Cumulative                                  |  | Total  |                         |              |
|--|--------------|--------|--------------------------------|---|--|--|-------------------------|--------------|
|  | Shares       | Amount | Capital in Excess of Par Value | Net Income in Excess (Deficit) of Dividends | Accumulated Other Comprehensive Income | National Health Investors Stockholders' Equity | Noncontrolling Interest | Total Equity |
| 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        |
| Assignment of net assets in equity-method investee | —            | —      | 817                            | —   | —                                      | 817  | —                       | 817          |
| Dividends declared, \$2.90 per common              | —            | —      | —                              | (84,645)                                    | —                                      | (84,645)                                       | —                       | (84,645)     |

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|   |            |        |              |            |          |              |           |              |
|---|------------|--------|--------------|------------|----------|--------------|-----------|--------------|
| share                                       |            |        |              |            |          |              |           |              |
| Balances at December 31, 2013               | 33,051,176 | \$ 330 | \$ 753,635   | \$ 3,043   | \$ 9,538 | \$ 766,546   | \$ 10,614 | \$ 777,160   |
| Total comprehensive income                  | —          | —      | —            | 101,609    | (3,315 ) | 98,294       | 1,443     | 99,737       |
| Distributions to noncontrolling interest    | —          | —      | —            | —          | —        | —            | (2,049 )  | (2,049 )     |
| Issuance of common stock, net               | 4,427,500  | 44     | 270,754      | —          | —        | 270,798      | —         | 270,798      |
| Shares issued on stock options exercised    | 7,226      | 1      | —            | —          | —        | 1            | —         | 1            |
| Share-based compensation                    | —          | —      | 2,020        | —          | —        | 2,020        | —         | 2,020        |
| Debt conversion feature                     | —          | —      | 7,487        | —          | —        | 7,487        | —         | 7,487        |
| Dividends declared, \$3.08 per common share | —          | —      | —            | (105,221 ) | —        | (105,221 )   | —         | (105,221 )   |
| Balances at December 31, 2014               | 37,485,902 | \$ 375 | \$ 1,033,896 | \$ (569 )  | \$ 6,223 | \$ 1,039,925 | \$ 10,008 | \$ 1,049,933 |

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

Table of Contents

NATIONAL HEALTH INVESTORS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2014

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 sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of real estate investments in independent, assisted and memory care communities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments include mortgages and notes, the preferred stock and marketable securities of other REITs, and a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 ("RIDEA"). Through this RIDEA joint venture, we invest in facility operations, managed by independent third-parties. We fund our real estate investments primarily through: (1) cash flow, (2) debt offerings, including bank lines of credit and ordinary term debt, and (3) the sale of equity securities.

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, 2014, we held interests in two unconsolidated VIEs, for neither of which were we 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

## Table of Contents

models. The inputs we use in these models are based on assumptions that are within a reasonable range of current market rates for the respective investments.

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. Determining the fair value of our equity-method investments involves 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.

**Earnings 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 using the treasury stock method, to the extent dilutive. Diluted earnings per share also incorporate the potential dilutive impact of our 3.25% convertible senior notes due 2021. We apply the if-converted method to our convertible debt instruments, the effect of which is that conversion will not be assumed for purposes of computing diluted earnings (loss) per share if the effect would be anti-dilutive.

**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

## Table of Contents

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 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 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.

Table of Contents

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.

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, 2014, 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, 2014, 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. Gains and losses are reclassified from accumulated other comprehensive income into earnings once the underlying hedged transaction 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.

Table of Contents

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 2011 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.

Reclassifications - The results of operations for facilities sold, including the gain or loss on such sales, have been reported for periods prior to the adoption of ASU 2014-08 as discontinued operations in the Consolidated Statements of Income. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

New Accounting Pronouncements - In the first quarter of 2014, we adopted ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. Under ASU 2014-08, disposals will be reported as discontinued operations only when the disposal represents a strategic shift that will have a major effect on our operations and financial results. Previously, we reported the disposition of components that were either reporting units, subsidiaries, or asset groups as discontinued operations. ASU 2014-08 is effective for all disposals (or classifications as held for sale) of components that occur on or after December 15, 2014. We have elected early adoption, under which terms we will prospectively apply ASU 2014-08 and report as discontinued operations only those disposals (or classifications as held for sale) that have not been previously reported.

In May 2014 the FASB issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 provides a principles-based approach for a broad range of revenue generating transactions, including the sale of real estate, which will generally require more estimates and more judgment and more disclosures than under current guidance. Because this ASU specifically excludes lease contracts from its scope, its application is not expected to impact our recognition of rental income on a straight-line basis. ASU 2014-09 is effective for public entities for annual periods beginning after December 15, 2016, including interim periods therein. Early adoption is prohibited. We have yet to determine the method by which ASU 2014-09 will be adopted in 2017 and we are continuing to study the effect that our eventual adoption of this standard will have on our reported financial position and results of operation, the extent of which cannot be reasonably estimable at this time.

## NOTE 2. REAL ESTATE

As of December 31, 2014, we owned 172 health care real estate properties located in 31 states and consisting of 103 senior housing communities, 64 skilled nursing facilities, 3 hospitals and 2 medical office buildings. Our senior housing properties include assisted living facilities, senior living campuses, independent living facilities, and entrance-fee communities. These investments (excluding our corporate office of \$900,000) consisted of properties with an original cost of approximately \$1,987,949,000, rented under triple-net leases to 24 lessees.

## Acquisitions and New Leases of Real Estate

During the year ended December 31, 2014, we made the following real estate investments and commitments as described below (dollars in thousands):

| Operator | Properties | Asset Class | Amount |
|----------|------------|-------------|--------|
|----------|------------|-------------|--------|



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|                           |   |               |           |
|---------------------------|---|---------------|-----------|
| Senior Living Communities | 8 | SHO           | \$476,000 |
| Bickford Senior Living    | 1 | SHO           | 16,488    |
| Prestige Senior Living    | 4 | 3 SNF & 1 SHO | 45,115    |
| Chancellor Health Care    | 2 | SHO           | 17,150    |
| Senior Living Management  | 1 | SHO           | 700       |
|                           |   |               | \$555,453 |

Senior Living Communities

On December 17, 2014, we acquired, from Senior Living Communities, LLC (“Senior Living”), a portfolio of eight retirement communities (the “Senior Living Portfolio”) with a total of 1,671 units, for a cash purchase price of \$476,000,000 from Health Care REIT, Inc. and certain of its affiliates.

Table of Contents

Because the Senior Living Portfolio was previously leased by Health Care REIT, Inc., we accounted for acquisition of the 100% interest in the Senior Living Portfolio using the acquisition method as prescribed by FASB Accounting Standards Codification ("ASC") Topic 805, Business Combinations. As part of this transaction, we recognized all identifiable tangible assets at fair value on the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed \$32,410,000 of the purchase price to fair value of the land, \$443,590,000 to the fair value of building and improvements and expensed \$89,000 in transaction costs at closing.

We have leased the Senior Living Portfolio under a triple-net master lease with an affiliate of Senior Living which will continue to manage the facilities. The 15-year master lease contains two 5-year renewal options and provides for initial cash rent of \$31,000,000, subject to annual escalators of 4% in years two through four and 3% thereafter. In accordance with the lease agreement, Senior Living has funded a \$10,000,000 escrow which serves as security for Senior Living's performance under the master lease.

For the eight Senior Living 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 as if the acquisition date had been January 1, 2013 (in thousands except per share amounts):

|   | 2014      | 2013      |
|---|-----------|-----------|
| Revenue                                     | \$215,398 | \$157,250 |
| Net income                                  | \$119,929 | \$125,460 |
| Net income available to common stockholders | \$118,486 | \$124,461 |
| Basic earnings per common share             | \$3.16    | \$3.80    |
| Diluted earnings per common share           | \$3.16    | \$3.79    |

Supplemental pro forma information above includes revenues from the newly executed Senior Living lease recognized on a straight-line basis, depreciation, and appropriate interest costs.

For the year ended December 31, 2014, we had recorded \$1,533,000 in lease revenue and had net earnings of \$1,403,000 from this acquisition.

## Prestige

In March 2014 we completed a \$40,115,000 purchase of 3 skilled nursing facilities in Oregon totaling 196 beds and a 105-unit assisted living facility in Idaho from Prestige Senior Living ("Prestige"). We have a commitment to fund contingent earn-out payments up to a maximum of \$6,390,000 based on the achievement of certain financial metrics as measured periodically through December 31, 2015. Because the facilities were owner-occupied, we accounted for the acquisition as an asset purchase. At acquisition, we estimated probable contingent payments of \$3,000,000 to be likely and have, accordingly, reflected that amount in the Consolidated Balance Sheet. Contingent payments earned will be an addition to the lease base when funded.

We have leased the 4 facilities to Prestige with a 15-year term at an initial rate of 8.4% plus fixed annual escalators. In addition, at two of the Oregon facilities we have committed to invest \$2,000,000 for capital improvements which are expected to be completed by June 30, 2015. This investment will be added to the basis on which the lease amount is calculated.

## Chancellor

On September 30, 2014, we completed a \$5,650,000 acquisition of a 25-unit assisted living facility in Milwaukie, Oregon and leased the facility to Chancellor Health Care, LLC ("Chancellor") for an initial term of 15 years with two

10-year renewal options. The initial lease rate is 8.0% with fixed annual escalators. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase.

In June 2014 we acquired a 56-unit assisted living/memory care facility in Sacramento, California for \$11,500,000 and leased the facility to Chancellor for an initial term of 15 years, plus renewal options. The initial lease rate is 8.0% with fixed annual escalators. Because the facility was owner-occupied, we accounted for the acquisition as an asset purchase.

## Table of Contents

### Bickford

As of December 31, 2014, we owned an 85% equity interest and an affiliate of Bickford, Sycamore Street, LLC ("Sycamore") owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 31 assisted living/memory care facilities. The facilities are leased to an operating company, ("OpCo"), in which we retain a non-controlling 85% ownership interest. Our joint venture is structured to comply with the provisions of RIDEA.

On October 31, 2014, our subsidiary, PropCo, acquired a 101-unit assisted living facility located in Middletown, Ohio for \$16,488,000, including \$65,000 in transaction costs and assumption of secured debt at an interest rate of 2.9% with an outstanding principal balance of \$9,535,000 and an estimated fair value of \$7,858,000. The facility was leased to OpCo under an existing master lease and provides for fixed annual escalators. Because the facility was owner-occupied, the acquisition was accounted for as an asset purchase.

The current annual contractual rent from OpCo to PropCo, excluding the development properties, is \$22,595,000, plus fixed annual escalators. During the quarter ended December 31, 2014, PropCo completed major construction and received a certificate of occupancy on an assisted living facility which had been under development. OpCo is continuing the lease-up of 3 facilities, 2 of which opened in the fourth quarter of 2013. Once the facilities stabilize, an annual rental amount will be determined between the parties. Under the terms of the current development lease agreement, PropCo receives rent of 9% on the total amount of development costs, including land, which totaled \$7,811,000 at December 31, 2014. NHI has an exclusive right to Bickford's future acquisitions, development projects and refinancing transactions.

Of our total revenue from continuing operations, \$21,421,000 (12%), \$14,586,000 (12%) and \$5,164,000 (6%) were recorded as rental income from Bickford for the years ended December 31, 2014, 2013, and 2012, respectively.

On February 5, 2015, we announced a new development program pursuant to which our RIDEA joint venture with Bickford will develop five senior housing communities in Illinois and Virginia. Construction is slated to start in early 2015 with openings planned for 2016. The total estimated project cost is \$55,000,000. Each community will consist of 60 private-pay assisted living and memory care units managed by Bickford Senior Living.

### Holiday

In December 2013 we acquired 25 independent living facilities from Holiday, an affiliate of Holiday Retirement. We have leased this portfolio to NH Master Tenant, LLC, a subsidiary of Holiday. Our tenant 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.

Of our total revenue from continuing operations, \$43,817,000 (25%) was recorded as rental income from Holiday for the year ended December 31, 2014.

### NHC

As of December 31, 2014, we leased 42 health care facilities under two master leases to NHC, a publicly-held company and the lessee of our legacy properties. The facilities leased to NHC consist 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 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.

The 1991 lease has been amended to extend the lease expiration 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 1991 lease, the base annual rental is \$30,750,000 and rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. The 2013 lease provides for a base annual rental of \$3,450,000 and has a lease expiration of August 2028. Under the terms of the 2013 lease, rent escalates 4% of the increase in each facility's revenue over the 2014 base year. For both the 1991 lease and the 2013 lease, we refer to this additional rent component as "percentage rent." During the last three years of the 2013 lease, NHC will have the option to purchase the facilities for \$49,000,000.

Table of Contents

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

|   | Year Ended December 31, |         |         |
|---|-------------------------|---------|---------|
|   | 2014                    | 2013    | 2012    |
| Current year                                | \$2,292                 | \$2,275 | \$1,530 |
| Prior year final certification <sup>1</sup> | 15                      | 746     | 997     |
| Total percentage rent                       | \$2,307                 | \$3,021 | \$2,527 |

<sup>1</sup> 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.

Of our total revenue from continuing operations, \$36,446,000 (21%), \$34,756,000 (29%) and \$33,056,000 (35%) in 2014, 2013 and 2012, respectively, were derived from NHC.

## Senior Living Management

In September 2014 we entered into an agreement with our current tenant, Senior Living Management, to fund up to \$700,000 in renovations to our Greensboro, Georgia assisted living facility. When the renovations are complete, the total amount will be added to the lease base. As of December 31, 2014, \$13,000 had been funded.

In February 2015, we transitioned the lease of four assisted living facilities in Louisiana to our tenant, Senior Living Management. The termination of the prior lease resulted in a write-off for accounting purposes during 2014 of \$932,000 in straight-line rent receivable. The scheduled lease payments are the same as in the former lease. The current lease has an initial term of 15 years plus fixed annual escalators after the first year. In addition, we agreed to fund up to \$280,000 in renovations and improvements which will be added to the lease basis used to determine monthly rent.

## Future Minimum Lease Payments

At December 31, 2014, 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):

|            |             |
|------------|-------------|
| 2015       | \$182,195   |
| 2016       | 183,255     |
| 2017       | 183,353     |
| 2018       | 172,155     |
| 2019       | 167,924     |
| Thereafter | 1,531,958   |
|            | \$2,420,840 |

## 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, |         |
|--|--------------------|---------|
|  | 2014               | 2013    |
| Equity-method investment in OpCo         | \$9,424            | \$9,494 |
| Debt issuance costs                      | 11,491             | 7,366   |
| Accounts receivable and other assets     | 3,818              | 2,502   |
| Replacement reserve and tax escrows      | 4,324              | 706     |
| Lease escrow deposits                    | 21,648             | 22,775  |
| Escrow deposit for tax deferred exchange | —                  | 23,813  |

\$50,705

\$66,656

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

66

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Table of Contents

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, 2014, 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, 2014 and 2013.

At December 31, 2014, we held lease escrow deposits of \$21,648,000 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 which commenced in December 2013 and is payable to Holiday at the end of the lease term. The additional \$374,000 represents net amounts reserved for specified capital improvements after reimbursements of \$1,126,000 to Holiday.

Reserves for replacement, insurance and tax escrows include amounts required to be held on deposit in accordance with regulatory agreements governing our Fannie Mae and HUD mortgages.

In March 2014 we utilized \$23,813,000 held with a qualified intermediary to provide a portion of the funding for the Prestige acquisition discussed in Note 2.

**NOTE 4. MORTGAGE AND OTHER NOTES RECEIVABLE**

At December 31, 2014, we had investments in mortgage notes receivable with a carrying value of \$34,850,000 secured by real estate and UCC liens on the personal property of 11 facilities and other notes receivable with a carrying value of \$28,780,000 guaranteed by significant parties to the notes or by cross-collateralization of properties with the same owner. At December 31, 2013, we had investments in mortgage notes receivable with a carrying value of \$34,926,000 and other notes receivable with a carrying value of \$25,713,000. No allowance for doubtful accounts was considered necessary at December 31, 2014 or 2013.

In connection with the Senior Living acquisition, discussed in Note 2, we are providing a \$15,000,000 revolving line of credit, the maturity of which will mirror the term of the master lease. Borrowings will be used to finance construction projects within the Senior Living Portfolio, including building additional units. Up to \$5,000,000 of the facility may be used to meet general working capital needs. Amounts outstanding under the facility, \$2,816,000 at December 31, 2014, bear interest at an annual rate equal to the 10-year U.S. Treasury rate, 2.17% at December 31, 2014, plus 6%.



In July 2013 we extended a \$9,200,000 loan with our joint venture partner, Sycamore Street, LLC (“Sycamore”), an affiliate of Bickford to fund a portion of their acquisition of six senior housing communities consisting of 342 units. The loan is guaranteed by principals of Sycamore and has a two year maturity plus a one year extension option and 12% annual interest. Also, in June 2014 we entered into a \$500,000 revolving loan to Sycamore, to fund pre-development expenses related to potential future projects. Interest is payable monthly at 10% and the note matures in August 2015. At December 31, 2014, this revolving loan was fully drawn. As a result of the June 2013 loan, PropCo acquired a \$97,000,000 purchase option on the properties which is exercisable over the term of the loan.

These loans and the related purchase option constitute variable interests, and we have concluded that Sycamore meets the accounting criteria to be considered a VIE. However, because we do not control Sycamore, 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 support given to Sycamore at historical cost. Sycamore is intended to be self-financing, and our direct support has been limited to the loans described herein and a \$3,550,000 letter of credit for the benefit of Sycamore. Further, a decision to furnish additional direct support would be at our

Table of Contents

discretion and not obligatory. As a result, we believe our maximum exposure to loss at December 31, 2014, due to our investment in Sycamore, would be limited to the amount of our loans and letter of credit.

In September 2012 we evaluated the recoverability of mortgage notes receivable from SeniorTrust of Florida, Inc., a Tennessee non-profit organization. As a result of that evaluation, and a further assessment in March 2013, we recorded impairments of \$2,300,000 and \$4,037,000 in 2012 and 2013, respectively. In June 2013 we received full payment in satisfaction of the remaining balance of \$15,000,000 on these 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 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 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, 2014, 2013 and 2012, 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, 2014 was \$43.17 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.

Marketable securities consist of the following (in thousands):

| December 31, 2014 | December 31, 2013 |
|-------------------|-------------------|
| Fair Value        | Fair Value        |

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|  | Amortized<br>Cost |          | Amortized<br>Cost |          |
|--|-------------------|----------|-------------------|----------|
| Common stock of other healthcare REITs | \$4,088           | \$15,503 | \$4,088           | \$12,650 |

Gross unrealized gains related to available-for-sale securities were \$11,415,000 at December 31, 2014 and \$8,562,000 at December 31, 2013.

During 2014, 2013 and 2012 we recognized \$716,000, \$667,000, and \$628,000, respectively, of dividend income from our marketable securities and have included these amounts in investment income and other in the Consolidated Statements of Income.

Table of Contents

## NOTE 7. DEBT

Debt consists of the following (in thousands):

|   | As of December 31, |           |
|---|--------------------|-----------|
|   | 2014               | 2013      |
| Convertible senior notes - unsecured (net of discount of \$6,963) | \$193,037          | \$—       |
| Revolving credit facility - unsecured                             | 374,000            | 167,000   |
| Bank term loans - unsecured                                       | 250,000            | 370,000   |
| HUD mortgage loans (net of discount of \$1,662)                   | 45,689             | —         |
| Fannie Mae term loans - secured (including premium of \$1,756)    | —                  | 80,080    |
|   | \$862,726          | \$617,080 |

In March 2014 we issued \$200,000,000 of 3.25% senior unsecured convertible notes due April 2021 (the "Notes"). Interest is payable April 1st and October 1st of each year. The Notes are convertible at an initial conversion rate of 13.926 shares of common stock per \$1,000 principal amount, representing a conversion price of approximately \$71.81 per share for a total of approximately 2,785,200 underlying shares. The conversion rate is subject to adjustment upon the occurrence of certain events, as defined in the indenture governing the Notes, but will not be adjusted for any accrued and unpaid interest except in limited circumstances. The conversion option is considered an "optional net-share settlement conversion feature," meaning that upon conversion, NHI's conversion obligation may be satisfied, at our option, in cash, shares of common stock or a combination of cash and shares of common stock. Because the conversion price is in excess of the average stock price for the year, the impact of the conversion option is currently anti-dilutive to the earnings per share calculation and as such has no effect on our earnings per share.

The embedded conversion options (1) do not require net cash settlement, (2) are not conventionally convertible but can be classified in stockholders' equity under ASC 815-40, and (3) are considered indexed to NHI's own stock. Therefore, the conversion feature satisfies the conditions to qualify for an exception to the derivative liability rules, and the Notes are split into debt and equity components. The value of the debt component is based upon the estimated fair value of a similar debt instrument without the conversion feature at the time of issuance and was estimated to be approximately \$192,238,000. The \$7,762,000 difference between the contractual principal on the debt and the value allocated to the debt was recorded as an equity component and represents the estimated value of the conversion feature of the instrument. The excess of the contractual principal amount of the debt over its estimated fair value, the original issue discount, is amortized to interest expense using the effective interest method over the estimated term of the Notes, projected to extend through October 2020, at issuance. The effective interest rate used to amortize the debt discount and the debt component of the issue costs for the Notes was approximately 3.9% based on our estimated non-convertible borrowing rate at the date the Notes were issued.

The total cost of issuing the Notes was \$6,063,000, of which \$5,788,000 was allocated to the debt component and is subject to amortization over the estimated term of the notes. The remaining \$275,000 was allocated to the equity component.

In March 2014, we entered into an amended \$700,000,000 senior unsecured credit facility. The facility can be expanded, subject to certain conditions, up to an additional \$130,000,000. The amended credit facility provides for: (1) a \$450,000,000 unsecured, revolving credit facility that matures in March 2019 (inclusive of an embedded 1-year extension option) with interest at 150 basis points over LIBOR; (2) a \$130,000,000 unsecured term loan that matures in June 2020 with interest at 175 basis points over LIBOR; and (3) two existing term loans which remain in place totaling \$120,000,000, maturing in June 2020 and bearing interest at 175 basis points over LIBOR. The employment of interest rate swaps for our fixed term debt leaves only our revolving credit facility exposed to variable rate risk. Our swaps and the financial instruments to which they relate are described in the table below, under the caption "Interest Rate Swap Agreements."

At December 31, 2014, we had \$76,000,000 available to draw on the revolving portion of the credit facility. The unused commitment fee is 40 basis points per annum. The unsecured credit facility requires that we maintain certain financial ratios within limits set by our creditors. To date, these ratios, which are calculated quarterly, have been within the limits required by the credit facility agreements.

On December 31, 2014, we paid off Fannie Mae mortgage loans with remaining principal balances of \$70,131,000 and \$7,136,000 using funds drawn from our revolving credit facility.

In July and September 2014 we obtained mortgage loans totaling \$38,007,000 from the U.S. Department of Housing and Urban Development secured by nine properties in our joint venture with an affiliate of Bickford. The mortgage notes require monthly

Table of Contents

payments of principal and interest of 4.65% in the first year and 4.3% thereafter (inclusive of mortgage insurance premium) and mature in August and October 2049.

In October 2014 we assumed a HUD mortgage loan with an outstanding principal balance of \$9,535,000 and an estimated fair value of \$7,858,000. The HUD mortgage requires monthly payments of principal and interest of 2.9% (inclusive of mortgage insurance premium) and matures in October 2047.

The aggregate outstanding balance of our HUD mortgage loans as of December 31, 2014 was \$47,352,000.

The following table summarizes interest expense (in thousands):

|   | Year Ended December 31, |         |         |
|---|-------------------------|---------|---------|
|   | 2014                    | 2013    | 2012    |
| Interest expense at contractual rates                             | \$23,878                | \$8,944 | \$3,380 |
| Capitalized interest  | (576 )                  | (378 )  | (208 )  |
| Amortization of debt premiums, discounts and issuance costs       | 2,580                   | 247     | 320     |
| Unamortized premium written off as a result of debt payoff        | (1,655 )                | —       | —       |
| Debt issuance costs expensed due to credit facility modifications | 2,145                   | 416     | —       |
| Total interest expense  | \$26,372                | \$9,229 | \$3,492 |

## Interest Rate Swap Agreements

We have entered into interest rate swap agreements to fix the interest rates on our bank term loans. The critical terms of this swap agreement are essentially identical to those of the 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. Gains and losses are reclassified from accumulated other comprehensive income into earnings once the underlying hedged transaction is recognized in earnings. 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, 2014 (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        | \$(98 )    |
| June 2013    | June 2020     | 3.86%      | 1-month LIBOR | \$80,000        | \$(1,814 ) |
| March 2014   | June 2020     | 3.91%      | 1-month LIBOR | \$130,000       | \$(3,281 ) |

See Note 14 for fair value disclosures about our interest rate swap agreements.

## NOTE 8. COMMITMENTS AND CONTINGENCIES

## Bickford

During the quarter ended December 31, 2014, our consolidated subsidiary, PropCo, completed major construction and received certificates of occupancy on one assisted living facility which had been under development. Our costs incurred to date, including land, were \$7,811,000. In February 2014 we entered into a commitment of \$2,785,000 on a letter of credit for the benefit of our joint venture partner, Sycamore, an affiliate of Bickford, which holds a minority interest in PropCo. In December 2014 we increased the amount of our commitment on the letter of credit to \$3,550,000.

In June 2014 we entered into a \$500,000 revolving loan with Sycamore to fund pre-development expenses related to potential future projects. Interest is payable monthly at 10% and the note matures in August 2015. At December 31, 2014 the revolving loan was fully drawn.

## Table of Contents

### 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 began construction 2014 and had funded \$4,231,000 as of December 31, 2014. The initial lease term is for 15 years at an annual rate of 9% plus a fixed annual escalator. 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 began renovations in 2014 and as of December 31, 2014 had funded \$353,000. We receive rent income on funds advanced for both construction projects.

### 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, 2014, incurring 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 meeting future performance measures. In March 2014 upon satisfactory achievement of the required operating metrics, we made the full \$1,600,000 payment to Fundamental.

### 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. In December 2014 we made the full \$1,000,000 payment to Helix.

### Holiday Retirement

In connection with our December 2013 purchase/leaseback of 25 independent living facilities from Holiday Retirement, we we collected escrow deposits of \$1,500,000 for capital improvements to the acquired facilities. As of December 31, 2014, we had funded \$1,126,000 toward this commitment.

### Kentucky River

In March 2012, we entered into a 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 be completed in 2015. Total construction costs incurred as of December 31, 2014 were \$7,583,000.

### Prestige



We have agreed to fund capital improvements of up to \$2,000,000 in connection with two of the facilities we lease to Prestige. The capital improvements will be an addition to our original investment in the properties when funded and will be included in the lease base. As of December 31, 2014, we had funded \$1,555,000 of this commitment.

Additionally, we have committed to fund contingent earn out payments up to a maximum of \$6,390,000 based on the achievement of certain financial metrics as measured periodically through December 31, 2015. At acquisition, we estimated probable contingent payments of \$3,000,000 to be likely and have reflected that amount in the consolidated financial statements. Contingent payments earned will be included in the lease base when funded.

#### Santé

We have a \$2,000,000 loan 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

## Table of Contents

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 are committed to fund a \$3,500,000 expansion and renovation program at our Silverdale, Washington senior living campus and as of December 31, 2014 had funded \$2,621,000, which was added to the basis on which the lease amount is calculated. 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 attaining and sustaining 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, incurring the contingent payments was not considered probable. Accordingly, no provision for these payments is reflected in the consolidated financial statements.

### Senior Living Communities

In connection with the Senior Living acquisition, we are providing a \$15,000,000 revolving line of credit to Senior Living, the maturity of which will mirror the term of the master lease. Borrowings will be used to finance construction projects within the Senior Living Portfolio, including building additional units. Up to \$5,000,000 of the facility may be used to meet general working capital needs. Amounts outstanding under the facility, \$2,816,000 at December 31, 2014, bear interest at an annual rate equal to the 10-year U.S. Treasury rate, 2.17% at December 31, 2014, plus 6%.

### Senior Living Management

In September 2014 we entered into an agreement with our current tenant, Senior Living Management, to fund up to \$700,000 for renovations to our Greensboro, Georgia assisted living facility. When the renovations are complete, the total amount will be added to the lease base. As of December 31, 2014, \$13,000 of this commitment had been funded.

### Litigation

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

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):

72

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Table of Contents

|  | Year Ended December 31, |         |         |
|--|-------------------------|---------|---------|
|  | 2014                    | 2013    | 2012    |
| Gain on payoff of mortgage note receivable | \$—                     | \$—     | \$4,605 |
| Gains on sales of marketable securities    | —                       | —       | 30      |
| Gain on purchase liability settlement      | —                       | 3,256   | —       |
| Other gains                                | —                       | 50      | 242     |
|  | \$—                     | \$3,306 | \$4,877 |

## 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, 2014, there were 755,000 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 ten 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, 2014, there were 20,635 shares available for future grants under the 2005 Plan. The individual restricted stock 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.

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 years ended December 31, 2014, 2013 and 2012 was \$2,020,000 and \$2,339,000, \$2,168,000, respectively, 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 \$4.93, \$6.41 and \$6.36 for 2014, 2013 and 2012, respectively.

Table of Contents

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:

|                         |           |           |           |
|-------------------------|-----------|-----------|-----------|
|                         | 2014      | 2013      | 2012      |
| Dividend yield          | 5.0%      | 4.5%      | 6.0%      |
| Expected volatility     | 21.5%     | 23.8%     | 32.0%     |
| Expected lives          | 2.8 years | 2.8 years | 3.9 years |
| Risk-free interest rate | 0.63%     | 0.35%     | 0.32%     |

## Stock Option Activity

The following tables summarize our outstanding stock options:

|                                   | Number<br>of Shares | Weighted Average<br>Exercise Price | Weighted Average<br>Remaining<br>Contractual Life (Years) | Aggregate<br>Intrinsic<br>Value |
|-----------------------------------|---------------------|------------------------------------|---|---------------------------------|
| 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                            |   |                                 |
| Options granted under 2012 Plan   | 400,000             | \$61.31                            |   |                                 |
| Options exercised under 2005 Plan | (26,670 )           | \$47.52                            |   |                                 |
| Options exercised under 2012 Plan | (3,333 )            | \$61.31                            |   |                                 |
| Options forfeited under 2012 Plan | (15,000 )           | \$64.49                            |   |                                 |
| Outstanding December 31, 2014     | 871,671             | \$60.43                            | 3.41  | \$8,308,000                     |
| Exercisable December 31, 2014     | 644,990             | \$59.79                            | 3.25  | \$6,559,000                     |

| Grant<br>Date                 | Number<br>of Shares | Exercise<br>Price | Remaining<br>Contractual<br>Life in Years |
|-------------------------------|---------------------|-------------------|---|
| 2/22/2011                     | 15,000              | \$45.58           | 1.15                                      |
| 2/25/2011                     | 33,336              | \$46.22           | 1.15                                      |
| 2/21/2012                     | 81,668              | \$47.52           | 2.15                                      |
| 2/25/2013                     | 345,000             | \$64.49           | 3.16                                      |
| 2/25/2014                     | 396,667             | \$61.31           | 4.16                                      |
| Outstanding December 31, 2014 | 871,671             |                   |   |

The weighted average remaining contractual life of all options outstanding at December 31, 2014 is 3.4 years. Including outstanding stock options, our stockholders have authorized an additional 1,647,306 shares of common stock that may be issued under the share-based payments plans.



Table of Contents

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

|                                 | Number of<br>Shares | Weighted Average Grant Date<br>Fair Value |
|---------------------------------|---------------------|---|
| Non-vested December 31, 2013    | 193,344             | \$6.95                                    |
| Options granted under 2012 Plan | 400,000             | \$4.93                                    |
| Options vested under 2012 Plan  | (306,657            | ) \$5.34                                  |
| Options vested under 2005 Plan  | (60,006             | ) \$7.23                                  |
| Non-vested December 31, 2014    | 226,681             | \$5.64                                    |

At December 31, 2014, we had \$366,943 of unrecognized compensation cost related to unvested stock options, net of expected forfeitures, which is expected to be recognized over the following periods: 2015 - \$330,619 and 2016 - \$36,324. Stock-based compensation is included in general and administrative expense in the Consolidated Statements of Income.

The intrinsic value of the total options exercised for the years ended December 31, 2014, 2013 and 2012 was \$465,000 or \$15.51 per share; \$1,084,000 or \$19.71 per share, and \$5,527,000 or \$8.67 per share, respectively.

**NOTE 11. DISCONTINUED OPERATIONS**

We have reclassified, for periods before adoption of ASU 2014-08, the operations of facilities meeting the accounting criteria for properties 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 and recorded a gain of \$1,269,000 for financial statement purposes. Our lease revenue from these facilities was \$3,316,000 and \$3,231,000 for the years ended December 31, 2013 and 2012, 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 October 2013, our 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, and we recorded a gain of \$1,619,000 for financial statement purposes. Our lease revenue from the facility was \$352,000 and \$403,000 for the years ended December 31, 2013 and 2012, respectively.

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





Table of Contents

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

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2014                    | 2013       | 2012       |
| Revenues:                                   |                         |            |            |
| Rental income                               | \$—                     | \$5,962    | \$8,304    |
| Other income                                | —                       | 21         | 3          |
| Expenses:                                   |                         |            |            |
| Depreciation                                | —                       | 557        | 2,209      |
| Operating income                            | —                       | 5,426      | 6,098      |
| Gain on sale of real estate                 | —                       | 22,258     | 11,966     |
| Total discontinued operations               | \$—                     | \$27,684   | \$18,064   |
| Weighted average common shares outstanding: |                         |            |            |
| Basic                                       | 33,375,966              | 28,362,398 | 27,811,813 |
| Diluted                                     | 33,416,014              | 28,397,702 | 27,838,720 |
| Discontinued operations income per share:   |                         |            |            |
| Basic                                       | \$—                     | \$.97      | \$.65      |
| Diluted                                     | \$—                     | \$.97      | \$.65      |

Table of Contents

## NOTE 12. EARNINGS AND DIVIDENDS PER COMMON 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 conversion price within our convertible debt was in excess of the average stock price for the year, thus the impact of the conversion option was anti-dilutive to the year-end earnings per share calculation and as such had no effect on our earnings per share. If current prices increase above the initial conversion price, some dilution will be attributable to the conversion feature going forward.

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, |            |            |
|--|-------------------------|------------|------------|
|  | 2014                    | 2013       | 2012       |
| Income from continuing operations attributable to common stockholders                            | \$ 101,609              | \$ 78,499  | \$ 72,667  |
| Discontinued operations  | —                       | 27,684     | 18,064     |
| Net income attributable to common stockholders   | \$ 101,609              | \$ 106,183 | \$ 90,731  |
| <b>BASIC:</b>  |                         |            |            |
| Weighted average common shares outstanding   | 33,375,966              | 28,362,398 | 27,811,813 |
| Income from continuing operations per common share   | \$ 3.04                 | \$ 2.77    | \$ 2.61    |
| Discontinued operations per common share   | —                       | .97        | .65        |
| Net income per common share  | \$ 3.04                 | \$ 3.74    | \$ 3.26    |
| <b>DILUTED:</b>  |                         |            |            |
| Weighted average common shares outstanding   | 33,375,966              | 28,362,398 | 27,811,813 |
| Stock options and restricted shares  | 40,048                  | 35,304     | 26,907     |
| Average dilutive common shares outstanding   | 33,416,014              | 28,397,702 | 27,838,720 |
| Income from continuing operations per common share   | \$ 3.04                 | \$ 2.77    | \$ 2.61    |
| Discontinued operations per common share   | —                       | .97        | .65        |
| Net income per common share  | \$ 3.04                 | \$ 3.74    | \$ 3.26    |
| Incremental shares excluded since anti-dilutive:   |                         |            |            |
| Stock options with an exercise price in excess of the average market price for our common shares | 13,831                  | 23,883     | —          |
| Regular dividends declared per common share  | \$ 3.08                 | \$ 2.90    | \$ 2.64    |
| Special dividends declared per common share <sup>1</sup>   | \$ —                    | \$ —       | \$ .22     |

<sup>1</sup> 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.

Table of Contents

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

| (Unaudited)                     | 2014      | 2013      | 2012     |
|---------------------------------|-----------|-----------|----------|
| Ordinary income                 | \$2.53548 | \$2.85895 | \$2.6287 |
| Capital gain                    | —         | 0.16493   | 0.0113   |
| Return of capital               | 0.54452   | 0.09612   | —        |
| Dividends paid per common share | \$3.08    | \$3.12    | \$2.64   |

Our consolidated provision for state and federal income tax for the years ended 2014, 2013, and 2012 was \$133,000, \$267,000, and \$137,000, respectively. For the years ended 2014, 2013, and 2012 we had no material deferred state or federal income tax.

All of our current taxes for 2014 relates to a franchise tax levied by the state of Texas that has attributes of an income tax. For 2013, tax expense of \$128,000 relates to our equity interest in the unconsolidated operating company whose interest is owned by our TRS described above, and \$139,000 relates to the Texas franchise tax. The tax expense for 2012 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 \$139,000, \$129,000, and \$96,000 for the years ended December 31, 2014, 2013, and 2012, 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 primarily 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, 2014      | December 31, 2013 |

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|  |                                  |          |          |
|--|----------------------------------|----------|----------|
| Level 1                                |                                  |          |          |
| Common stock of other healthcare REITs | Marketable securities            | \$15,503 | \$12,650 |
| Level 2                                |                                  |          |          |
| Interest rate swap asset               | Other assets                     | \$—      | \$975    |
| Interest rate swap liability           | Accrued expenses                 | \$5,193  | \$—      |
| Level 3                                |                                  |          |          |
| Contingent consideration               | Real estate purchase liabilities | \$3,000  | \$2,600  |

78

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Table of Contents

The following table presents a reconciliation of Level 3 liabilities measured at fair value on a recurring basis for the years ended December 31, 2014 and 2013 (in thousands):

|                          | Fair Value<br>Beginning<br>of Period | Transfers<br>Into<br>Level 3 | Realized<br>Gains<br>and<br>(Losses) | Purchases,<br>Issuances<br>and<br>Settlements | Fair<br>Value at<br>End of<br>Period | Total Period Losses<br>Included in Earnings<br>Attributable to the<br>Change in Unrealized<br>Losses Relating to<br>Assets Held at End of<br>Year |
|--------------------------|--------------------------------------|------------------------------|--------------------------------------|---|--------------------------------------|---|
| 2014                     |                                      |                              |                                      |   |                                      |   |
| Contingent consideration | \$2,600                              | \$—                          | \$—                                  | \$400   | \$3,000                              | \$—   |
| 2013                     |                                      |                              |                                      |   |                                      |   |
| Contingent consideration | \$4,256                              | \$—                          | \$—                                  | \$(1,656)                                     | \$2,600                              | \$—   |

Carrying values and fair values of financial instruments that are not carried at fair value at December 31, 2014 and 2013 in the Consolidated Balance Sheets are as follows (in thousands):

|                                     | Carrying Amount |           | Fair Value Measurement |           |
|-------------------------------------|-----------------|-----------|------------------------|-----------|
|                                     | 2014            | 2013      | 2014                   | 2013      |
| Level 2                             |                 |           |                        |           |
| Variable rate debt                  | \$624,000       | \$537,000 | \$624,000              | \$537,000 |
| Fixed rate debt                     | \$238,726       | \$80,080  | \$254,150              | \$79,365  |
| Level 3                             |                 |           |                        |           |
| Mortgage and other notes receivable | \$63,630        | \$60,639  | \$72,435               | \$67,201  |

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, 2014 and 2013, 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 exceeds the threshold limit specified in the Agreement. The purpose of these agreements is to ensure that the Company does not



Table of Contents

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).

| 2014  | Quarter Ended |            |               |              |
|---|---------------|------------|---------------|--------------|
|   | March 31,     | June 30,   | September 30, | December 31, |
| Net revenues  | \$43,136      | \$44,160   | \$44,478      | \$45,735     |
| Investment and other gains  | —             | —          | —             | —            |
| Income from continuing operations attributable to common stockholders | 23,533        | 25,294     | 25,250        | 27,532       |
| Discontinued operations   | —             | —          | —             | —            |
| Net income attributable to common stockholders                        | \$23,533      | \$25,294   | \$25,250      | \$27,532     |
| Weighted average common shares outstanding:                           |               |            |               |              |
| Basic   | 33,051,415    | 33,052,750 | 33,055,992    | 34,343,706   |
| Diluted   | 33,085,232    | 33,087,283 | 33,088,570    | 34,402,969   |
| Earnings per common share:  |               |            |               |              |
| Basic:  |               |            |               |              |
| Income from continuing operations attributable to common stockholders | \$ .71        | \$ .77     | \$ .76        | \$ .80       |
| Discontinued operations   | —             | —          | —             | —            |
| Net income attributable to common stockholders                        | \$ .71        | \$ .77     | \$ .76        | \$ .80       |
| Diluted:  |               |            |               |              |
| Income from continuing operations attributable to common stockholders | \$ .71        | \$ .76     | \$ .76        | \$ .80       |
| Discontinued operations   | —             | —          | —             | —            |
| Net income attributable to common stockholders                        | \$ .71        | \$ .76     | \$ .76        | \$ .80       |

Table of Contents

| 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        |

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.

Table of Contents

NOTE 17. SUBSEQUENT EVENTS

Loan Investment

On February 10, 2015, we finalized our agreement to lend Life Care Services, through its LCS-Westminster Partnership III LLP (“LCS-WP”) up to \$154,500,000. The agreement conveys a mortgage interest and will facilitate the construction of Phase II of Timber Ridge at Talus (“Timber Ridge”), a Type-A Continuing Care Retirement Community in the Seattle area.

The loans take the form of two notes under a master credit agreement. The senior loan (“Note A”) will total \$60,000,000 at a 6.75% interest rate with 10 basis-point escalators after year three, and has a term of 10 years. We funded \$33,100,000 of Note A at closing. Note A is interest-only and is locked to prepayment for three years. After year three, the prepayment penalty starts at 5% and declines 1% per year. The loan will be freely prepayable during the last 6 months of its term. The second note (“Note B”) is a construction loan for up to \$94,500,000 at an interest rate of 8% and a 5 year maturity. We anticipate funding Note B over twenty months and will be repaid with entrance fees once Phase II opens.

NHI has a purchase option on the property for the greater of fair market value or \$115,000,000. A purchase option window of fifteen months will contingently open in year five or upon earlier stabilization, as defined. The purchase option constitutes a variable interest in Phase II of the Timber Ridge project, creating an interest in specified assets of LCS-WP but not in LCS-WP as a whole. Since LCS-WP is not a VIE, the specified Timber Ridge assets are not subject to the consolidation guidance governing Variable Interest Entities.

Refinancing

On January 15, 2015 we issued \$125,000,000 of 8-year notes with a coupon of 3.99% and \$100,000,000 of 12-year notes with a coupon of 4.51% to a leading provider of private placement fixed rate debt. The notes are unsecured and require quarterly payments of interest only until maturity. We used the proceeds from the notes to pay down borrowings on our revolving credit facility.

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, 2014, 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, 2014.

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, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

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, 2014 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (2013). Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2014. 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.

Table of Contents

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, 2014, based on criteria established in Internal Control – Integrated Framework (2013) 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, 2014, 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, 2014 and 2013, 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, 2014 and our report dated February 17, 2015 expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Nashville, Tennessee  
February 17, 2015

84

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Table of Contents

ITEM 9B. OTHER INFORMATION.

None.

85

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Table of Contents

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, 2014, 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 2015 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 2015 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 2015 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 2015 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 2015 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.

Table of Contents

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 17, 2015

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<br>J. Justin Hutchens       | President, Chief Executive Officer<br>and Director<br>(Principal Executive Officer)           | February 17, 2015 |
| /s/ Roger R. Hopkins<br>Roger R. Hopkins           | Chief Accounting Officer<br>(Principal Financial Officer and Principal Accounting<br>Officer) | February 17, 2015 |
| /s/ W. Andrew Adams<br>W. Andrew Adams             | Chairman of the Board   | February 17, 2015 |
| /s/ James R. Jobe<br>James R. Jobe                 | Director  | February 17, 2015 |
| /s/ Robert A. McCabe, Jr.<br>Robert A. McCabe, Jr. | Director  | February 17, 2015 |
| /s/ Robert T. Webb<br>Robert T. Webb               | Director  | February 17, 2015 |

Table of ContentsNATIONAL HEALTH INVESTORS, INC.  
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014

## 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         | Amendment to Articles of Incorporation approved by shareholders on May 2, 2014  | Incorporated by reference to Exhibit 3.3 to Form 10-Q dated August 4, 2014                              |
| 3.4         | Restated Bylaws as amended November 5, 2012   | Incorporated by reference to Exhibit 3.3 to Form 10-K filed February 15, 2013                           |
| 3.5         | Amendment No. 1 to Restated Bylaws dated February 14, 2014  | Incorporated by reference to Exhibit 3.4 to Form 10-K filed February 14, 2014                           |
| 4.1         | Form of Common Stock Certificate  | Incorporated by reference to Exhibit 39 to Form S-11 Registration Statement No. 33-41863                |
| 4.2         | Indenture, dated as of March 25, 2014, between National Health Investors, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee  | Incorporated by reference to Exhibit 4.1 to Form 8-K dated March 31, 2014                               |
| 4.3         | First Supplemental Indenture, dated as of March 25, 2014, to the Indenture, dated as of March 25, 2014, between National Health Investors, Inc. and The Bank of New York Mellon Trust Company, N.A., as Trustee | Incorporated by reference to Exhibit 4.2 to Form 8-K dated March 31, 2014                               |
| 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.   | Incorporated by reference to Exhibit 10.4 to Form 10-K filed February 14, 2014                          |

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| *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 | 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                       |

Table of Contents

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| 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 | Employment Agreement with J. Justin Hutchens   | Incorporated by reference to Exhibit 10.2 to Form 10-Q dated May 5, 2009                            |
| *10.13 | 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                            |
| 10.14  | Agreement with Care Foundation of America, Inc.  | Incorporated by reference to Exhibit 10.11 to Form 10-K dated February 22, 2010                     |
| 10.15  | \$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                            |
| 10.16  | \$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                     |
| *10.17 | Second Amendment dated December 29, 2010 to the Employment Agreement dated February 25, 2009 by and between NHI and J. Justin Hutchens.  | Incorporated by reference to Exhibit 10.20 to Form 10-K filed February 14, 2014                     |
| *10.18 | 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 |
| 10.19  | 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                       |
| 10.20  | 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                       |
| 10.21  | Amended and Restated Credit Agreement dated as of May 1, 2012 among the Corporation, as borrower, the  | Incorporated by reference to Exhibit 10.1 to Form 10-Q dated August 3, 2012                         |

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lenders from time to time party thereto and Wells Fargo Bank, National Association, as administrative agent, swing line lender and issuing bank.

- 10.22 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
- 10.23 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
- 10.24 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

Table of Contents

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| 10.25  | 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   |
| 10.26  | 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   |
| 10.27  | 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   |
| 10.28  | Purchase Agreement dated as of November 18, 2013 between the Registrant and certain subsidiaries of Holiday Acquisition Holdings LLC.   | Incorporated by reference to Exhibit 10.31 to Form 10-K filed February 14, 2014 |
| 10.29  | Amendment No. 7 to Master Agreement to Lease with NHC   | Incorporated by reference to Exhibit 10.32 to Form 10-K filed February 14, 2014 |
| *10.30 | Amended and Restated Employment Agreement effective as of February 14, 2014 by and between National Health Investors, Inc. and Justin Hutchens  | Incorporated by reference to Exhibit 10.2 to Form 10-Q dated May 5, 2014        |
| 10.31  | Asset Purchase Agreement dated December 1, 2014 with Senior Living Communities, LLC and certain of its affiliates, relating to the acquisition of a portfolio of eight retirement communities   | Filed herewith  |
| 10.32  | \$225 million Note Purchase Agreement dated January 13, 2015 with Prudential Capital Group and certain of its affiliates  | Filed herewith  |
| 12.1   | Statement Regarding Computation of Ratio of Earnings to Fixed Charges and Ratio of Fixed Charges and Preferred Stock Dividends  | 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 Filed Herewith  
of the Sarbanes-Oxley Act of 2002

31.2 Certification of Principal Financial Officer pursuant to 18  
U.S.C Section 1350, as adopted pursuant to Section 302 Filed Herewith  
of the Sarbanes-Oxley Act of 2002

32 Certification of Chief Executive Officer and Principal  
Financial Officer pursuant to 18 U.S.C. Section 1350, as Filed Herewith  
adopted pursuant to Section 906 of the Sarbanes-Oxley  
Act of 2002

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

90

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Table of Contents

\*\*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.