

Section 1: 10-K (2007 FORM 10-K)

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, 2007

OR

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

For the transition period from _____ to _____

Commission File 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 Number)

100 Vine Street, Suite 1202, Murfreesboro, Tennessee 37130

(Address of principal executive offices)

37130

(Zip Code)

Company's telephone number, including area code: (615) 890-9100

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

Title of each Class
Shares of Common Stock

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated 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 the definitions of "Large accelerated filer", "Accelerated filer", and "Smaller reporting company" in Rule 12b-2 of the Exchange Act (check one) Large accelerated filer Accelerated filer Non-accelerated filer (do not check if a smaller reporting company) 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 nonaffiliates on June 30, 2007 (based on the closing price of these shares on the New York Stock Exchange) was approximately \$765,356,000. The number of shares of Common Stock outstanding as of February 26, 2008, was 27,754,413.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2008 annual meeting of stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Form 10-K.

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PART I

Forward-Looking Statements

References throughout this document to the Company include National Health Investors, Inc. and its wholly-owned 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 wholly-owned subsidiaries and not any other person. Unless the context indicates otherwise, references herein to "the Company" include all of our wholly-owned 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 limitations, those containing words such as "may", "will", "believes", "anticipates", "expects", "intends", "estimates", "plans", and other similar expressions are forward-looking statements.

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

- * We depend on the operating success of our customers (facility operators) for collection of our revenues;
- * We are exposed to risk that our operators may become subject to bankruptcy or insolvency proceedings;
- * We are exposed to risks related to government regulations and the effect they have on our operators' business;
- * We are exposed to risk that the cash flows of our tenants and mortgagees will be adversely affected by increased liability claims and general and professional liability insurance costs;
- * We depend on the success of future acquisitions;
- * We are exposed to risks related to environmental laws and the costs associated with the liability related to hazardous substances;
- * We depend on the ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;
- * We depend on the ability to continue to qualify as a REIT;
- * We are dependent upon making a smooth transition to a self-managed REIT;

See the notes to the Annual Financial Statements, and "Business" and "Risk Factors" under Item 1 and Item 1A herein for a discussion of various governmental regulations and other operating factors relating to the health care 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 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 1. BUSINESS.

General

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation incorporated in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care industry. As of December 31, 2007, we had ownership interests in real estate and mortgage investments totaling approximately \$329,110,000 and other investments in preferred stock and marketable securities of \$93,948,000 resulting in total invested assets of \$423,058,000. Our mission is to invest in health care real estate which generates current income that will be distributed to

stockholders. We have pursued this mission by making mortgage loans and acquiring properties to lease nationwide, primarily in the long-term health care industry. These investments include long-term care facilities, acute care hospitals, medical office buildings, retirement centers and assisted living facilities, all of which are collectively referred to herein as "Health Care Facilities". We have funded these investments in the past through three sources of capital: (1) current cash flow, including principal prepayments from our borrowers, (2) the sale of equity in the form of common and preferred stock, and (3) debt offerings, including bank lines of credit, the issuance of convertible debt instruments, and the issuance of straight debt. At December 31, 2007, we had no outstanding bank lines of credit or convertible debt instruments.

As of December 31, 2007, we had approximately \$329,110,000 in real estate, mortgage and notes receivable investments in 124 Health Care Facilities located in 17 states consisting of 83 long-term care facilities, 1 acute care hospital, 4 medical office buildings, 15 assisted living facilities, 4 retirement centers and 17 residential projects for the developmentally disabled. These investments consisted of approximately \$141,655,000 aggregate carrying amount of loans to 14 borrowers and \$187,455,000 of real estate investments with 17 lessees. Of these 124 facilities, 41 are leased to National HealthCare Corporation ("NHC"), a publicly-held company and our largest customer. These 41 facilities include 4 centers subleased to and operated by other companies, the lease payments to us being guaranteed by NHC. Our investment in notes receivable at December 31, 2007 included \$7,050,000 from NHC, which was paid in full on January 3, 2008. The original note agreements were with National Health Realty ("NHR"), a publicly-held REIT, who completed a merger with NHC in October 2007.

Effective November 1, 2004, we assigned our Advisory, Administrative Services and Facilities Agreement (the "Advisory Agreement") with NHC to Management Advisory Source, LLC, ("MAS") formed by our President and Board Chairman W. Andrew Adams. We have no ownership in MAS. Pursuant to this Advisory Agreement, services related to investment activities and day-to-day management and operations are provided to us by MAS. Accordingly, MAS is subject to the supervision of and policies established by our Board of Directors. Prior to November 1, 2004, NHC had provided advisory services to us since our inception. On December 3, 2007, we elected to become a self-managed REIT with our own management reporting directly to the Board of Directors. We notified MAS of our intent to terminate the Advisory Agreement effective March 31, 2008. On January 29, 2008, we received notice from Mr. Adams that he intends to resign as President of NHI effective March 31, 2008. Mr. Adams will remain with us as both a director and as Chairman of the Board of Directors.

All of our investments in real estate and notes receivable are 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 for this segment can be found in Item 8 of this annual report.

Types of Health Care Facilities

Long-term care facilities. As of December 31, 2007, we owned and leased 49 licensed long-term care facilities. We also had outstanding first mortgage loans on 34 additional licensed long-term care facilities. All of these facilities provide some combination of skilled and intermediate nursing and rehabilitative care, including speech, physical and occupational therapy. The operators of the long-term care facilities receive payment from a combination of private pay sources and government programs such as Medicaid and Medicare. Long-term care facilities are required to obtain state licenses and are highly regulated at the federal, state and local level. Most long-term care facilities must obtain certificates of need from the state before opening or expanding such facilities.

Acute care hospitals. As of December 31, 2007, we owned and leased 1 acute care hospital. Acute care hospitals provide a wide range of inpatient and outpatient services and are subject to extensive federal, state and local legislation and regulation. Acute care hospitals undergo periodic inspections regarding standards of medical care, equipment and hygiene as a condition of licensure. Services provided by acute care hospitals are generally paid for by a combination of private pay sources and governmental programs.

Medical office buildings. As of December 31, 2007, we owned and leased 4 medical office buildings. Medical office buildings are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. Medical office buildings differ from conventional office buildings due to the special requirements of the tenants and their patients. Each of our owned medical office buildings is leased to one lessee and is either physically attached to or located on an acute care hospital campus. The lessee then 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 its ability to lease the individual office space.

Assisted living facilities. As of December 31, 2007, we owned and leased 14 assisted living facilities and had an outstanding mortgage on 1 additional facility. Assisted living facilities are either free-standing or attached to long-term care or retirement

facilities and provide basic room and board functions for the elderly. Some assisted living projects include licensed long-term care (nursing home) beds. On-site staff personnel are available to assist in minor medical needs on an as-needed basis.

Retirement centers. As of December 31, 2007, we owned and leased 4 retirement centers, 3 of which are leased to NHC and one to Sun Healthcare. Retirement centers 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. Charges for services are paid from private sources without assistance from government programs. Retirement centers may be licensed and regulated in some states, but do not require the issuance of a certificate of need such as is required for long-term care facilities.

Residences for the developmentally disabled. As of December 31, 2007, we had outstanding first mortgage loans on 17 residences for the developmentally disabled. Residences for the developmentally disabled are generally small home-like environments which accommodate 6 to 8 mentally and developmentally disabled persons. These persons obtain custodial care which includes food, lodging, education and transportation services. These community-based services are replacing the large state institutions which have historically provided care to the developmentally disabled. Services to the developmentally disabled are primarily paid for by state Medicaid programs.

Nature of Investments

Our investments are typically structured as either purchase-leaseback transactions or mortgage loans. We also provide construction loans for facilities for which we have already committed to provide long-term financing or which the operator agrees to enter into a lease with us upon completion of the construction. The lease rates of our leases and the interest rates on the mortgage loans and construction loans have historically ranged between 9% and 12% per annum. We typically charge a commitment fee of 1% based on the purchase price of the property of a purchase-leaseback or the total principal loan amount of a mortgage loan. In instances where construction financing has also been supplied, there is generally an additional 1% commitment fee for the construction financing. We believe our lease terms, mortgage loan and construction loan terms are competitive in the market place. Except for certain properties, as described under "Real Estate and Mortgage Write-downs (Recoveries)" in Item 7, all of the operating Health Care Facilities are currently performing under their mortgage loans or leases. Typical characteristics of these transactions are as follows:

Mortgage Loans. In general, the term of our mortgage loans is 10 years with the principal amortized over 20 to 25 years and a balloon payment due at the end of the 10 year term. Most of the loans are at a fixed interest rate; however some have an additional interest component which is based on the escalation of gross revenues at the project level or fixed rate increases. In most cases, the owner of the property has committed to make minimum annual capital improvements for the purpose of maintenance or upgrading their respective facilities.

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 to pay all taxes, utilities, insurance premium costs, repairs and other charges relating to the ownership and operation of the Health Care Facilities. The tenant is generally obligated at its expense to keep all improvements and fixtures and other components of the Health Care Facilities covered by "all risk" insurance in an amount equal to at least the full replacement costs thereof and to maintain specified minimal personal injury and property damage insurance, protecting us as well as the tenant at such Health Care Facilities. The leases also require the tenant to indemnify and hold us harmless from all claims resulting from the use and occupancy of each Health Care Facility by the tenant and related activities, as well as to indemnify us against all costs related to any release, discovery, clean-up and removal of hazardous substances or materials on, or other environmental responsibility, with respect to, each Health Care Facility.

Most of our existing leases contain annual escalators in rent payments. All of the acute care and medical office building properties 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 and medical office building 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 machinery, equipment, furnishings and other personal property.

Construction loans. From time to time, although none are currently outstanding, we also provide construction loans that by their terms convert either into purchase-leaseback transactions or mortgage loans upon the completion of the construction of the facility. The term of such construction loans are for a period which commences upon the closing of such loan 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. 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. No such loans are currently outstanding.

Disposition and Deconsolidation of Assets

We owned and operated 16 long-term health care facilities (the "Foreclosure Properties") that we acquired through foreclosure or through the acceptance of deeds in lieu of foreclosure and subsequently sold the facilities to unrelated not-for-profit entities, providing 100% financing. The operating revenues and expenses of these facilities continued to be recorded in our Consolidated Statements of Income until such time as the down payment and continuing investment criteria of Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" ("SFAS 66") were met, at which time we would account for the sales under the full accrual method. On December 31, 2007, the criteria for recording the sales were met. Net assets having a book value of \$54,350,000 were deconsolidated, mortgage notes receivable of \$66,819,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$12,469,000. On December 31, 2007, we received irrevocable bank letters-of-credit aggregating \$10,200,000 from the borrowers to guarantee down payments on the notes, and commitments to make monthly principal and interest payments to us to amortize the remaining note balances.

Competition and Market Conditions

We compete with real estate partnerships, other REITs and other investors (including, but not limited to, banks, insurance companies, and investment bankers who market securities in mortgage funds) in the acquisition, leasing and financing of health care-related entities primarily on the basis of price, available capital, knowledge of the industry and flexibility of financing structure.

The operators of the Health Care Facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for patients and staff based on quality of care, reputation, physical appearance of facilities, services offered, family preference, physicians, staff and price. They compete with independent operators as well as companies managing multiple facilities, some of which are substantially larger and have greater resources than the operators of the Health Care Facilities. Some of these facilities are operated for profit while others are owned by governmental agencies or tax exempt not-for-profit organizations.

The long-term care facilities to which we provide mortgage loans and which we lease to others 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. Beginning January 1, 2006, CMS (Centers for Medicare and Medicaid Services) implemented major changes to the PPS payment methodology (See Sources of Revenue) that reduced payments to facilities by about 5%. State Medicaid funding is not expected to keep pace with inflation according to industry studies. Additionally, the assisted living industry experienced slower fill up rates on new projects and more competition for their mature projects as overbuilding occurred in certain markets. Any changes in reimbursement methodology that reduces reimbursement to levels that are insufficient to cover the operating costs of our borrowers and lessees could adversely impact us.

Operators

The majority of the Health Care Facilities are operated by the owner or lessee. As a percent of total investments, 33.1% of the Health Care Facilities are operated by publicly-owned companies, while 55.1% are operated by regional health care operators and 11.8% are operated by smaller operators. 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. Operators who operate more than 3% of our total real estate investments are as follows: NHC, THI of Baltimore, Inc., Sunrise Senior Living Services, Inc., Health Services Management, Inc., Community Health Systems, Inc., ElderTrust of Florida, Inc., RGL Development, LLC, Senior Living Management Corporation, LLC, American HealthCare, LLC, and SeniorTrust of Florida, Inc.

NHC Master Agreement to Lease

On December 27, 2005, under an amendment to the Master Lease, NHC exercised its option to extend the existing lease on 41 properties for the second renewal term. These 41 properties include 38 skilled nursing homes (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC under the Master Lease) and 3 retirement centers. The 15 year lease extension began January 1, 2007, and includes 3 additional 5-year renewal options, each at fair market value. Under the terms of the lease, total rent for 2007 was \$33,700,000 (compared to \$31,309,000; \$33,328,000; and \$32,836,000 in 2006).

2005, and 2004, respectively) with rent thereafter escalating by 4% of the increase in each facility's revenue over a 2007 base year.

The Master Agreement is a "triple net lease" under which NHC is responsible for all taxes, utilities, insurance premium costs, repairs (including structural portions of the buildings, constituting a part of the Health Care Facilities) and other charges relating to the ownership and operation of the Health Care Facilities. NHC is obligated at its expense to keep all improvements and fixtures and other components of the Health Care Facilities covered by "all risk" insurance in an amount equal to the full replacement costs thereof, insurance against boiler explosion and similar insurance, flood insurance if the land constituting the Health Care Facility is located within a designated flood plain area and to maintain specified property damage insurance, protecting us as well as NHC at such Health Care Facility. NHC is also obligated to indemnify and hold us harmless from all claims resulting from the use and occupancy of each Health Care Facility by NHC or persons claiming under NHC and related activities, as well as to indemnify us against all costs related to any release, discovery, cleanup and removal of hazardous substances or materials on, or other environmental responsibility, with respect to each Health Care Facility leased by NHC.

Commitments

As of December 31, 2007, we were committed, subject to due diligence and financial performance of the borrowers, to fund approximately \$167,000 in loans in the next year to 4 long-term care facilities at rates of prime plus 2% (9.5% at December 31, 2007).

Sources of Revenues

General. Our revenues are derived primarily from mortgage interest income and rental income. During 2007, mortgage interest income equaled \$11,308,000. Rental income totaled \$51,005,000 of which \$33,700,000 or 66% was from facilities leased by NHC. The source and amount of revenues of our lessees and borrowers are determined by (i) the licensed bed or other capacity of the Health Care Facilities, (ii) the occupancy rate of the Health Care Facilities, (iii) the extent to which the services provided at each Health Care Facility are utilized by the patients, (iv) the mix of private pay, Medicare and Medicaid patients at the Health Care Facilities, and (v) the rates paid by private paying patients and by the Medicare and Medicaid programs.

Governmental and other concerns regarding health care costs have and may continue to result in significant reductions in payments to health care facilities, and there can be no assurance that future payment rates for either governmental or private health care plans will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care have and could continue to adversely affect 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 lessees and borrowers is derived from governmental-funded reimbursement programs, such as Medicare and Medicaid. Reimbursement under these programs is subject to periodic pre- and post-payment review and other audits by federal and state authorities.

Medicare is uniform nationwide and reimburses nursing centers under a fixed payment methodology named the Prospective Payment System ("PPS"). PPS was instituted as mandated by the Balanced Budget Act of 1997. PPS 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 increased each October when the federal fiscal year begins. The acuity classification system is named Resource Utilization Groups III ("RUGs"). PPS as implemented 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. Annual market basket (inflationary) increases have continued to improve payments.

Medicaid is a joint federal and state program designed to provide medical assistance to "medically indigent persons". These 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 Balance Budget Act of 1997. The Boren Amendment provided fair reimbursement protection to nursing facilities. Changes in federal funding and pressure on certain provider taxes 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.

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 its 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 restricts 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 as a health care facility could be jeopardized, which could adversely affect the lessee's or borrower's ability to make lease or debt payments to us and thereby adversely affect us.

Certificates of Need. Certain Health Care Facilities in which we invest are also generally subject to state statutes which may require regulatory approval in the form of a certificate of need ("CON") prior to the addition or construction of new beds, 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 CON's on the operations of our lessees and mortgagees; 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 current income for distribution to our stockholders through investments primarily in health care related facilities, (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. 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, highly-liquid cash accounts, enhanced cash funds, and securities of other publicly-held REITs.

We anticipate making new mortgage and/or real estate investments in 2008. In making new investments, we would 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 and to provide a competitive market return on equity to our investors, (iv) the growth, tax and regulatory environments of the communities in which the properties are located, (v) occupancy and demand for similar health care facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management operating the facilities located on the property; and (vii) the mix of private and government sponsored patients. There can be no assurances that investments containing these attributes will be found or closed.

We will not, without the approval of a majority of the Board of Directors, enter into any joint venture relationships with or acquire from or sell to any director, officer or employee of NHC or 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 they determine 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.

We may incur additional indebtedness in the future to make investments in health care related facilities or business when it is advisable in the opinion of the Board of Directors. We may negotiate other lines of credit or arrange for other short or long-term borrowings from banks. 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.

Advisory Agreement

Management Advisory Source, LLC - Effective November 1, 2004, we assigned our Advisory Agreement with NHC to a new company, Management Advisory Source, LLC ("MAS"), formed by our President and Board Chairman, W. Andrew Adams. We have no ownership in MAS. Pursuant to this agreement, services related to investment activities and day-to-day management and operations are provided to us by MAS. Accordingly, MAS is subject to the supervision of and policies established by our Board of Directors. In 2007, the expense recorded under the Advisory Agreement was \$3,625,000. We believe it to be in our best interest to accentuate our independence from NHC, our largest tenant. Therefore, Mr. Adams, through his company MAS, assumed the responsibilities of the Advisory Agreement. To assure independence from NHC, Mr. Adams resigned as CEO of NHC and terminated his managerial responsibilities with NHC in 2004. From November 1, 2004 to October 1, 2006, Mr. Adams outsourced non-managerial functions of the Advisory Agreement such as payroll processing, accounting, treasury and the like to NHC. Effective October 1, 2006, MAS began to provide these services. Mr. Adams has remained as NHC Board Chairman, focusing on strategic planning, but has no management involvement with NHC. On December 3, 2007, we elected to become a self-managed REIT with our own management reporting directly to the Board of Directors. We notified MAS of our intent to terminate the Advisory Agreement effective March 31, 2008. On January 29, 2008, we received notice from Mr. Adams that he intends to resign as President of NHI effective March 31, 2008. Mr. Adams will remain with us as both a director and as Chairman of the Board of Directors.

NHC - We entered into the Advisory Agreement on October 17, 1991 with NHC as "Advisor" under which NHC provided management and advisory services to us through November 1, 2004. Under the Advisory Agreement, we engaged NHC to use its best efforts (a) to present to us a continuing and suitable investment program consistent with our investment policies adopted by the Board of Directors from time to time; (b) to manage our day-to-day affairs and operations; and (c) to provide administrative services and facilities appropriate for such management. In performing its obligations under the Advisory Agreement, NHC was subject to the supervision of and policies established by our Board of Directors.

The Advisory Agreement was initially for a stated term which expired December 31, 1997. Since then, the Agreement was on a year-to-year term, but terminable on 90 days notice and terminable for cause at any time. For 1993 and later years, the Advisor was entitled to annual compensation which was calculated on a formula related to the increase in funds from operations per common share (as defined in the Advisory Agreement).

Pursuant to the Advisory Agreement, the advisor managed all of our day-to-day affairs and provided all such services through its personnel or contractual agreements. The Advisory Agreement provided that without regard to the amount of compensation received by the Advisor under the Advisory Agreement, the Advisor pay all expenses in performing its obligations including the employment expenses of the personnel providing services to us. The Advisory Agreement further provided that we pay the expenses incurred with respect to and allocable to the prudent operation and business of NHI including any fees, salaries and other employment costs, taxes and expenses paid to our directors, officers and employees who are not also employees of the Advisor.

Acquisition Offer

On October 5, 2006, we received an offer from W. Andrew Adams, our Chairman and CEO, a significant shareholder and President of Management Advisory Source, LLC, our management advisor, to acquire all of our outstanding shares of common stock for \$30 per share, the offer being subject to certain conditions and contingencies. The Board of Directors formed a Special Committee consisting of its four independent directors. The Special Committee hired The Blackstone Group L.P. as its financial advisor to assist in evaluating this or any other proposed transactions. The Special Committee rejected the initial offer. A second offer was made by Mr. Adams to purchase the shares at \$33 per share, and this offer was rejected. On April 4, 2007, Mr. Adams sent to the Special Committee a third offer of \$34 per share. This offer was rejected by the Special Committee on April 6, 2007. On April 17, 2007, we issued a press release in response to apparent market rumors and the large volume of trades in our common stock. The press release announced that we were engaged in preliminary discussions and the exchange of information regarding a possible combination of interests with another company. On June 8, 2007, Mr. Adams notified us of the withdrawal

of his offer. On October 22, 2007, we issued a press release announcing that the Special Committee had decided to cease negotiations with third parties involving the possible sale of the Company, terminate the engagement of The Blackstone Group L.P. as its financial advisor, and dissolve the Special Committee.

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 28, 2008:

<u>Name</u>	<u>Position</u>	<u>Age</u>
W. Andrew Adams	Chairman of the Board and Chief Executive Officer	62
Kenneth D. DenBesten	Senior Vice President, Finance and Secretary	55
Roger R. Hopkins	Chief Accounting Officer	46

W. Andrew Adams (Chairman of the Board and Chief Executive Officer) has been our Chairman of the Board and Chief Executive Officer since our inception in 1991. Mr. Adams was President and CEO of National HealthCare Corporation ("NHC") until he resigned those positions in 2004, remaining as Chairman of its Board. He has served National Health Realty, Inc. ("NHR") since 1997 as President and Chairman of the Board, resigning his position as President in November 2004. Mr. Adams serves on the Board of Directors of SunTrust Bank in Nashville, Tennessee. He received his B.S. and M.B.A. degrees from Middle Tennessee State University.

Kenneth D. DenBesten (Senior Vice President, Finance and Secretary) joined us in 1992 and has served in that capacity since then. He was named our Secretary on December 31, 2006. From 1987 to 1992, he was employed by Physicians Health Care, ultimately as Chief Operating Officer. From 1984 to 1986, he was employed by Health America Corporation as Treasurer, Vice President of Finance and Chief Financial Officer. Mr. DenBesten received a B.S. in business administration and an M.S. in finance from the University of Arizona.

Roger R. Hopkins (Chief Accounting Officer) joined us in 2006 and was named Chief Accounting Officer on December 31, 2006. Until 2006, he was a partner in the Tennessee regional accounting firm of Rodefer Moss & Co, PLLC. He was previously a senior manager in the Nashville, Tennessee office of Deloitte & Touche. Mr. Hopkins received his B.S. degree in accounting from Tennessee Technological University in 1982 and is a Certified Public Accountant.

Investor Information

We maintain a worldwide web site at www.nhinvestors.com. We publish to this web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and press releases. We do not necessarily have these filed the same day as they are filed with the SEC or released to the public, but rather have a policy of placing these on the web site within two (2) business days of public release or SEC filing.

We also maintain the following documents on the web site:

- * The NHI Code of Ethics and Standards of Conduct. This has been adopted for all employees of our Administrative Services Contractor, 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 our staff and investors unrestricted access to our Corporate Compliance Officer, executive officers and directors. The toll free number is 800-526-4064 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. Contact information is: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. The toll free number is 800-942-5909 and the website is www.computershare.com.

The Annual Stockholders' meeting will be held at 4:00 p.m. on April 29th, 2008 at: Center for the Arts, 110 College Street, Murfreesboro, TN.

ITEM 1A. RISK FACTORS.

We depend on the operating success of our customers (facility operators), who operate in the skilled nursing and assisted living industry, for collection of our revenues.

Our skilled nursing, hospital and projects for the developmentally disabled facility operators' revenues are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Our assisted living facility operators' revenues are primarily driven by occupancy and private pay rates. Expenses for these facility types are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Revenues from government reimbursement have, and may continue, to come under pressure due to reimbursement cuts and from federal and state budget shortfalls. Liability insurance and staffing costs continue to increase for our operators. To the extent that any decrease in revenues and/or any increase in operating expenses result in a facility not generating enough cash to make payments to us, the credit of our operator and the value of other collateral would have to be relied upon.

We are exposed to the risk that our operators 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 released 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 government regulations and the effect they have on our operators' business.

Our operators' businesses are affected by government reimbursement and private payor rates. To the extent that any skilled nursing, hospital or project for the developmentally disabled facility receives a significant portion of its revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such facility. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. 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 mortgagees will be adversely affected by increased liability claims and general and professional liability insurance costs.

Long-term care facility operators (assisted living and skilled nursing facilities) 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. In 2004 and 2005, both Texas and Florida adopted skilled nursing facility 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 assisted living and skilled nursing facilities. Thus, general and professional liability insurance coverage may be restricted, very costly or not available, which may adversely affect the facility operators' future operations, cash flows and financial condition and may have a material adverse effect on the facility operators' ability to meet their obligations to us.

We depend on the success of future acquisitions.

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 ongoing 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 are exposed to risks related to environmental laws and the costs associated with the liability related to hazardous substances.

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

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

From time to time, we will have cash available from (1) the proceeds of sales of our securities, (2) principal payments on our loans 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 perhaps our ability to make distributions to stockholders.

We depend on the ability to continue to qualify as a REIT.

We intend to operate as a REIT under 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. Also, if we do not qualify as a REIT, we would not be required to make distributions to stockholders, since a non-REIT is not required to pay dividends to stockholders amounting to at least 90% of its annual REIT taxable income.

We are dependent upon making a smooth transition to a self-managed REIT from one that was administratively managed by Management Advisory Source, LLC ("MAS")

MAS, which was formed by our President and Board Chairman W. Andrew Adams, outsourced most functions of the Advisory Agreement such as accounting, monitoring of investments, treasury activities and the like, to NHC from November 1, 2004 to October 1, 2006. Our advisory agreement with MAS was cancellable upon 90 days notice or upon demand in some circumstances. On December 3, 2007, we elected to become a self-managed REIT with our own management reporting directly to the Board of Directors. We notified MAS of our intent to terminate the Advisory Agreement effective March 31, 2008. We will attempt to retain most, if not all, of the existing personnel of MAS to carry on their responsibilities with us. The cancellation of this agreement could, at least temporarily, have a material adverse impact on our business and upon our ability to timely comply with laws and regulations governing a publicly-held REIT.

Other risks.

See the notes to the annual financial statements, and "Business" under Item 1 herein for a discussion of various governmental regulations and other operating factors relating to the health care 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 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

ITEM 2. PROPERTIES OWNED OR ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS.

LONG TERM CARE Center	City	Licensed Beds
ALABAMA		
NHC HealthCare, Anniston	Anniston	151
NHC HealthCare, Moulton	Moulton	136
ARIZONA		
Sunbridge Estrella Care and Rehabilitation**	Avondale	161
FLORIDA		
Ayers Health and Rehabilitation Center	Trenton	120
Bayonet Point Health & Rehabilitation Center	Hudson	180
Bear Creek Nursing Center	Hudson	120
Brooksville Healthcare Center	Brooksville	180
Cypress Cove Care Center	Crystal River	120
Heather Hill HealthCare Center	New Port Richey	120
Osceola Health Care Center	St. Cloud	120
Parkway Health and Rehabilitation Center	Stuart	177
Royal Oak Nursing Center	Dade City	120
The Health Center of Merritt Island	Merritt Island	180
The Health Center of Plant City**	Plant City	180
Savannah Cove of Maitland*	Maitland	39
Savannah Cove of the Palm Beaches*	West Palm Beach	30
GEORGIA		
Ashton Woods Rehabilitation Center	Rossville	157
The Place at Martinez	Augusta	100
The Place at Deans Bridge	Augusta	100
The Place at Pooler	Pooler	122
NHC HealthCare, Rossville	Rossville	112
The Place at Augusta	Augusta	100
IDAHO		
Grangeville Health and Rehabilitation Center	Grangeville	60
Sunbridge Retirement and Rehabilitation for Nampa*	Nampa	46
KANSAS		
Chanute HealthCare Center	Chanute	77
Council Grove HealthCare Center	Council Grove	80
Emporia Rehabilitation Center	Emporia	79
Haysville HealthCare Center	Haysville	119
Larned HealthCare Center*	Larned	54
Sedgwick HealthCare Center	Sedgwick	62
KENTUCKY		
NHC HealthCare, Glasgow*	Glasgow	194
NHC HealthCare, Madisonville	Madisonville	94
MASSACHUSETTS		
John Adams HealthCare Center	Quincy	71
Buckley HealthCare Center	Greenfield	120
Holyoke HealthCare Center	Holyoke	102
Longmeadow of Taunton	Taunton	100

LONG TERM CARE (continued) Center	City	Licensed Beds
MISSOURI		
Charleviox HealthCare Center	St. Charles	142
Columbia HealthCare Center	Columbia	97
Joplin HealthCare Center	Joplin	92
NHC HealthCare, Desloge**	Desloge	120
NHC HealthCare, Joplin	Joplin	126
NHC HealthCare, Kennett**	Kennett	170
NHC HealthCare, Maryland Heights	Maryland Heights	220
NHC HealthCare, St. Charles	St. Charles	120
NEW HAMPSHIRE		
Epsom HealthCare Center	Epsom	108
Maple Leaf HealthCare Center	Manchester	114
Villa Crest HealthCare Center	Manchester	165
NEW JERSEY		
Brighton Gardens of Edison*	Edison	30
SOUTH CAROLINA		
NHC HealthCare, Anderson	Anderson	290
NHC HealthCare, Greenwood	Greenwood	152
NHC HealthCare, Laurens	Laurens	176
TENNESSEE		
NHC HealthCare, Athens	Athens	98
NHC HealthCare, Chattanooga	Chattanooga	207
NHC HealthCare, Columbia	Columbia	106
NHC HealthCare, Dickson*	Dickson	191
NHC HealthCare, Franklin	Franklin	80
NHC HealthCare, Hendersonville	Hendersonville	122
NHC HealthCare, Hillview	Columbia	92
NHC HealthCare, Johnson City	Johnson City	160
NHC HealthCare, Knoxville	Knoxville	139
NHC HealthCare, Lewisburg	Lewisburg	102
NHC HealthCare, McMinnville	McMinnville	150
NHC HealthCare, Milan	Milan	122
NHC HealthCare, Oakwood	Lewisburg	60
NHC HealthCare, Pulaski	Pulaski	102
NHC HealthCare, Scott	Lawrenceburg	62
NHC HealthCare, Sequatchie	Dunlap	120
NHC HealthCare, Smithville*	Smithville	114
NHC HealthCare, Somerville*	Somerville	72
NHC HealthCare, Sparta	Sparta	120
NHC HealthCare, Springfield	Springfield	107
TEXAS		
Forest Lane Healthcare Center	Dallas	120
Heritage Manor - Canton	Canton	110
Heritage Place	Dallas	149
Heritage Oaks	Arlington	204
Hill Country Care Center	Dripping Springs	60
Pecan Tree Manor	Gainesville	122
The Village at Richardson	Dallas	280
Winterhaven Healthcare Center	Houston	160
VIRGINIA		
NHC HealthCare, Bristol**	Bristol	120

LONG TERM CARE (continued)		Licensed
Center	City	Beds
VIRGINIA (continued)		
Heritage Hall- Charlottesville	Charlottesville	120
Heritage Hall- Brookneal	Brookneal	60
Heritage Hall- Lexington	Lexington	60
Heritage Hall- Virginia Beach	Virginia Beach	90
Heritage Hall- Front Royal	Front Royal	60
Heritage Hall- Grundy	Grundy	120
Heritage Hall- Laurel Meadows	Laurel Fork	60
ACUTE CARE PROPERTIES		
KENTUCKY		
Kentucky River Hospital	Jackson	55
MEDICAL OFFICE BUILDINGS		
		Sq. Ft.
FLORIDA		
North Okaloosa	Crestview	27,017
ILLINOIS		
Crossroads	Mt. Vernon	12,910
TEXAS		
Hill Regional	Hillsboro	23,000
Pasadena Bayshore	Pasadena	61,500
RETIREMENT CENTERS		
IDAHO		
Sunbridge Retirement and Rehab for Nampa*	Nampa	117
KANSAS		
Larned HealthCare Center*	Larned	10
MISSOURI		
Lake St. Charles Retirement Center	St. Charles	155
TENNESSEE		
Colonial Hill Retirement Center	Johnson City	63
Parkwood Retirement Apartments	Chattanooga	30
ASSISTED LIVING AND DEVELOPMENTALLY DISABLED		
		Licensed Beds
ARIZONA		
The Place at Gilbert	Gilbert	40
The Place at Glendale	Glendale	30
The Place at Tanque Verde	Tucson	42
The Place at Tucson	Tucson	60
FLORIDA		
19th Street Group Home	Gainesville	6
107th Place Group Home	Belleview	6
Bessent Road Group Home	Starke	6
Claudia Drive Group Home	Jacksonville	6
ASSISTED LIVING AND		

DEVELOPMENTALLY DISABLED (continued)		Licensed
Center	City	Beds
FLORIDA (continued)		
Coletta Drive Group Home	Orlando	6
Frederick Avenue Group Home	Daytona Beach	6
High Desert Court Group Home	Jacksonville	6
Plaza Oval Group Home	Casselberry	6
Rosewood Group Home	Ormond Beach	6
Second Street Group Home	Ocala	6
Spring Street Group Home	Lake City	6
Suffridge Drive Group Home	Bonita Springs	6
Savannah Court of Maitland*	Maitland	112
Indigo Palms at Daytona	Daytona Beach	60
The Place at Maitland	Maitland	116
Savannah Court of Palm Beaches*	West Palm Beach	114
Tunis Street Group Home	Jacksonville	6
Walnut Street Group Home	Starke	6
IDAHO		
Sunbridge Retirement and Rehab for Nampa*	Nampa	22
KANSAS		
Larned HealthCare Center*	Larned	19
KENTUCKY		
NHC HealthCare, Glasgow	Glasgow	12
MISSOURI		
Lake St. Charles Retirement Center	St. Charles	25
NEW HAMPSHIRE		
Heartland Place	Epsom	78
NEW JERSEY		
Brighton Gardens of Edison*	Edison	118
PENNSYLVANIA		
Heritage Hill Senior Community	Weatherly	143
SOUTH CAROLINA		
The Place at Conway	Conway	52
TENNESSEE		
717 Cheatum Street	Springfield	8
305 West Hillcrest Drive	Springfield	8
307 West Hillcrest Drive	Springfield	8
NHC HealthCare, Dickson*	Dickson	20
NHC HealthCare, Somerville*	Somerville	12
NHC HealthCare, Smithville*	Smithville	6
The Place at Gallatin	Gallatin	49
The Place at Kingsport	Kingsport	49
The Place at Tullahoma	Tullahoma	49

*These facilities are listed in multiple categories (numbers of beds are not duplicated elsewhere in this table).

**These facilities collateralize the first mortgage revenue bonds payable by us at December 31, 2007 of \$5,711,000.

ITEM 3. LEGAL PROCEEDINGS.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders during the fourth quarter of 2007.

PART II

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

On October 16, 1996, our Board of Directors, pursuant to powers granted by our charter, changed the limit on the percentage of ownership which any person may have in the outstanding common stock of NHI from a limit of 7.0% (as passed on October 17, 1995) to a limit of 9.9%. The limit on ownership of any other class of stock (including issues convertible into common stock) remains at 9.9% of the outstanding stock.

In order to qualify for the beneficial tax treatment accorded to a REIT, we must make quarterly 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 mortgages 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.

Common Stock Market Prices and Dividends

Our common stock is traded on the New York Stock Exchange under the symbol "NHI". As of January 18, 2008, there were approximately 1,000 holders of record of shares and approximately 11,400 beneficial owners of the 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:

Quarter Ended	2007			2006		
	Sales Price		Cash	Sales Price		Cash
	High	Low	Dividends Declared	High	Low	Dividends Declared
March 31	\$33.49	\$27.72	\$.50	\$27.54	\$25.25	\$.48
June 30	35.54	30.99	.50	27.64	23.03	.48
September 30	34.98	28.21	.50	28.97	24.31	.48
December 31	33.17	27.00	1.35	33.75	28.00	.93

On February 5, 2008, we announced a first quarter dividend of \$.55 per common share to shareholders of record on March 31, 2008, such dividend being reflective of our continued success in managing our portfolio and confidence in our future cash flow. The closing price of our stock on February 22, 2008 was \$30.20.

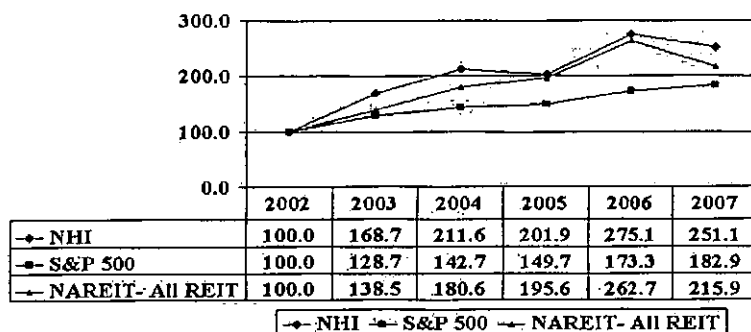
We currently maintain two equity compensation plans: the NHI 1997 Stock Option Plan and the 2005 Stock Option, Restricted Stock and Stock Appreciation Rights Plans. Each of these plans has been approved by our stockholders. The following table provides information as of December 31, 2007 about our common 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	326,000	\$26.00	1,358,800(a)

(a) These shares remain available for grant under the 2005 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 National Association of Real Estate Investment Trusts (NAREIT) Equity Index and the Standard & Poor's 500 Stock Index. The NAREIT Equity Index is comprised of all tax-qualified, equity oriented, real estate investment trusts listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market.

NATIONAL HEALTH INVESTORS, INC. Comparison of Cumulative Total Return



Assumes \$100 inv. 12/31/02 in NHI, S & P 500 and NAREIT- All REIT

ITEM 6. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2007. 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 and accompanying footnotes.

NATIONAL HEALTH INVESTORS, INC.
SELECTED FINANCIAL DATA
(dollars in thousands, except share and per share amounts)

As of and for the Year Ended December 31	2007	2006 ^(a)	2005 ^(a)	2004 ^(a)	2003 ^(a)
Net revenues	\$ 62,313	\$ 61,262	\$ 62,231	\$ 63,804	\$ 72,531
Non-operating income	13,341	12,721	22,331	12,381	5,931
Income from continuing operations	79,041	59,100	50,791	53,653	43,393
Discontinued operations:					
Operating income (loss) - discontinued operations	4,256	4,314	2,844	1,183	(1,120)
Net gain on dispositions and deconsolidation	13,138	5,814	773	1,543	1,535
Net income	96,435	69,228	54,408	56,379	43,808
Dividends to preferred stockholders	-	-	-	(514)	(1,589)
Net income available to common stockholders	96,435	69,228	54,408	55,865	42,219
Earnings per share:					
Basic:					
Income from continuing operations	\$ 2.85	\$ 2.13	\$ 1.83	\$ 1.95	\$ 1.56
Discontinued operations	.63	.37	.13	.10	.02
Net income per common share	3.48	2.50	1.96	2.05	1.58
Diluted:					
Income from continuing operations	\$ 2.84	\$ 2.13	\$ 1.83	\$ 1.93	\$ 1.55
Discontinued operations	.63	.36	.13	.10	.02
Net income per common share	3.47	2.49	1.96	2.03	1.57
BALANCE SHEET DATA:					
Mortgages and other notes receivable, net	\$ 141,655	\$ 99,532	\$ 118,800	\$ 112,072	\$ 149,892
Real estate properties, net	187,455	235,199	263,129	278,170	289,465
Total assets	500,732	598,198	590,589	633,701	626,532
Debt	9,512	113,492	117,252	154,432	162,100
Convertible subordinated debentures	-	-	201	1,116	1,351
Total stockholders' equity	446,138	431,671	424,968	425,539	409,644
OTHER DATA:					
Common shares outstanding	27,752,239	27,752,239	27,830,439	27,545,018	26,770,123
Weighted average common shares:					
Basic	27,703,464	27,744,868	27,699,887	27,257,826	26,727,814
Diluted	27,783,862	27,778,764	27,830,886	27,531,084	26,985,571
Common dividends declared per share	\$ 2.85	\$ 2.37	\$ 1.80	\$ 1.85	\$ 1.70

^(a) Prior period financial information has been reclassified for presentation of operations discontinued during 2007, along with reclassification of certain balance sheet line items to conform to the 2007 presentation.

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" above.

Executive Overview

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation, is a real estate investment trust ("REIT") that invests primarily in income producing health care properties with emphasis on the long-term health care sector. As of December 31, 2007, we had interests in real estate owned and investments in mortgages, preferred stock and marketable securities resulting in total invested assets of \$423,058,000. Founded in 1991, our mission is to invest in health care real estate which generates current income that will be distributed to stockholders. We have pursued this mission by making mortgage loans and acquiring properties to lease nationwide, primarily in the long-term health care industry.

Portfolio

As of December 31, 2007, we had investments in real estate and mortgage notes receivable in 124 health care facilities located in 17 states consisting of 83 long-term care facilities, 1 acute care hospital, 4 medical office buildings, 15 assisted living facilities, 4 retirement centers and 17 residential projects for the developmentally disabled. These investments consisted of approximately \$134,605,000 aggregate carrying value amount of loans to 14 borrowers and \$187,455,000 of real estate investments with 17 lessees.

Of these 124 facilities, 41 are leased to National HealthCare Corporation ("NHC"), a publicly-held company and our largest customer. During 2007, our rental income totaled \$51,005,000 of which \$33,700,000 or 66% was from facilities leased by NHC. These 41 facilities include 4 centers subleased to and operated by other companies, the lease payments of which are guaranteed to us by NHC. NHC was our investment advisor until November 1, 2004.

Consistent with our strategy of diversification, we have increased our portfolio so that the portion of our real estate portfolio leased by NHC has been reduced from 100% of our total portfolio on October 17, 1991 (the date we began operations) to 19.0% of our total real estate portfolio on December 31, 2007, based on the net book value (carrying amount) of these properties. In 1991, these assets were transferred by NHC to us at their then current net book value in a non-taxable exchange. Many of these assets were substantially depreciated as a result of having been carried on NHC's books for as many as 20 years. As a result, we believe that the fair market value of these assets is significantly in excess of their net book value. To illustrate, rental income in 2007 from NHC was \$33,700,000 or approximately 55.2% of our net book value of the facilities leased to NHC. Subsequent additions to the portfolio related to non-NHC investments reflect their higher value based on existing costs at the date the investment was made.

As with all assets in our portfolio, we monitor the financial and operating results of each of these properties on a quarterly basis. In addition to reviewing the consolidated financial results of NHC, the individual center financial results are reviewed including their occupancy, patient mix, state survey results and other relevant information.

At December 31, 2007, 31.7% of the total invested assets of the health care facilities were operated by publicly-held company operators, 56.2% by regional operators, and 12.1% by small operators.

The following tables summarize our portfolio at December 31, 2007:

Portfolio Statistics

	Properties	Investment	
		Percentage	Investment
Real Estate Properties	72	57.0%	\$187,455,000
Mortgages and Notes Receivable	52	40.9%	134,605,000
Total Real Estate Portfolio	124	97.9%	322,060,000
Other Notes Receivable	0	2.1%	7,050,000
Total Portfolio	124	100.0%	\$329,110,000

Real Estate Properties	Properties	Beds	Investments
Long Term Care Centers	49	6,835	\$105,660,000
Assisted Living Facilities	14	1,133	57,761,000
Medical Office Buildings	4	124,427 sq. ft.	9,557,000
Independent Living Facilities	4	458	7,890,000
Hospitals	1	55	6,587,000
Total Real Estate Properties	72		\$187,455,000

Mortgage Notes Receivable	Properties	Beds	Investments
Long Term Care Centers	34	3,581	\$129,530,000
Developmentally Disabled	17	108	3,949,000
Assisted Living Facilities	1	78	1,126,000
Total Mortgage Notes Receivable	52		134,605,000
Total Real Estate Portfolio	124		\$322,060,000

Summary of Facilities by Type	Properties	Percentage of	
		Total Dollars	Total Dollars
Long-term Care Centers	83	73.0%	\$235,190,000
Assisted Living Facilities	15	18.3%	58,887,000
Medical Office Buildings	4	3.0%	9,557,000
Independent Living Facilities	4	2.5%	7,890,000
Hospitals	1	2.0%	6,587,000
Developmentally Disabled	17	1.2%	3,949,000
Total Real Estate Portfolio	124	100.0%	\$322,060,000

Portfolio by Operator Type:

	Properties	Percentage	Dollar Amount
Public	66	31.7%	\$101,983,000
Regional	46	56.2%	181,117,000
Small Operator	12	12.1%	38,960,000
Total Real Estate Portfolio	124	100.0%	\$322,060,000

Public Operators	Percentage of Total Portfolio	Dollar Amount
National HealthCare Corp.	19.0%	\$61,055,000
Community Health Systems, Inc.	3.9%	12,600,000
Sunrise Senior Living, Inc.	3.8%	12,308,000
Sun Healthcare Group, Inc.	2.6%	8,235,000
Res-Care, Inc.	1.2%	3,949,000
HCA - The Healthcare Company	1.2%	3,836,000
Total Public Operators	31.7%	\$101,983,000

Operators who operate more than 3% of our total real estate investments are as follows: NHC, THI of Baltimore, Inc., Sunrise Senior Living, Inc., Health Services Management, Inc., Community Health Systems, Inc., ElderTrust of Florida, Inc., RGL Development, LLC, Senior Living Management Corporation, LLC, American HealthCare, LLC, and SeniorTrust of Florida, Inc.

Areas of Focus

We anticipate making new investments in 2008 while continuing to monitor and improve our existing properties. We continue to cautiously evaluate new portfolio investments and monitor the current prices being offered for health care assets. However, even as we make new investments, we expect to maintain a relatively low level of debt vs. equity compared to our historical levels. New investments may be funded by our liquid investments and, if needed, by external financing. We will make new investments where we believe the spreads over our cost of capital will generate returns to our investors.

We have focused over the last 5 years on increasing our liquidity and lowering our debt. Our debt to capitalization ratio on December 31, 2007 was 2.1%, the lowest level in our 16 year history. Our liquidity is also strong with cash and marketable securities of \$131,172,000 at December 31, 2007. Our total debt outstanding was \$9,512,000 at December 31, 2007. On July 16, 2007, we paid in full our \$100 million unsecured public notes from available cash investments.

On December 27, 2005, we reached an agreement with NHC to extend through December 31, 2021, their current lease on 41 of our real estate properties. These 41 facilities include 4 centers leased to other parties and 3 retirement centers. This extension assures an ongoing relationship with our largest customer.

Disposition of Assets

We owned and operated 16 long-term health care facilities (the "Foreclosure Properties") that we acquired through foreclosure or through the acceptance of deeds in lieu of foreclosure and subsequently sold the facilities (in 2001 and 2004) to unrelated not-for-profit entities, providing 100% financing. While the original sales were recognized for tax purposes under the installment sale method, the operating revenues and expenses of these facilities continued to be recorded in the consolidated statements of income until such time as the down payment and continuing investment criteria of Statement of Financial Accounting Standards No. 66, "Accounting for Sales of Real Estate" ("SFAS 66") were met, at which time we would account for the sales under the full accrual method. No installment payments had been made by the borrowers. On December 31, 2007, the criteria for recording the sales were met. Net assets having a book value of \$54,350,000 were deconsolidated, mortgage notes receivable of \$66,819,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$12,469,000. On December 31, 2007, we received irrevocable bank letters-of-credit aggregating \$10,200,000 from the borrowers to guarantee down payments on the original notes and commitments to make monthly principal and interest payments to us to amortize the remaining note balances.

Critical Accounting Policies

We prepare our interim condensed 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 interim condensed 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:

1) Valuations and impairments to our investments - The majority of our tenants and borrowers are in the long-term health care industry and 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, the long-term health care industry has at times experienced material reductions in government reimbursement.

The long-term health care industry has also experienced a dramatic increase in professional liability claims and in the cost of insurance to cover such claims. These factors combined to cause a number of bankruptcy filings, bankruptcy court rulings and court judgments affecting our lessees and borrowers. In 2005 and prior, we had determined that impairment of certain of our investments had occurred as the result of these events.

Decisions about valuations and impairments of our investments require significant judgments and estimates on the part of management. For real estate properties, the need to recognize an impairment is evaluated on a property by property basis in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" ("SFAS 144"). Recognition of an impairment is based upon estimated undiscounted future cash flows from a

property compared to the carrying amount of the property and may be affected by management's plans, if any, to dispose of the property.

For notes receivable, impairment recognition is based upon an evaluation of the estimated collectibility of loan payments and general economic conditions on a specific loan basis in accordance with Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan - An Amendment of FASB Statements No. 5 and 15" ("SFAS 114"). On a quarterly basis, we review our notes receivable for realizability when events or circumstances, including the non-receipt of 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, 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.

We evaluate our marketable securities for other-than-temporary impairments consistent with the provisions of Statement of Financial Accountant Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") as amended by EITF 03-01 "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". An impairment of a marketable 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.

On December 10, 2007, we were notified by Bank of America that its largest, privately placed, enhanced cash fund called Columbia Strategic Cash Fund (the "Fund") would be closed and liquidated. In addition, (1) cash redemptions were temporarily suspended, although redemptions could be filled through a pro-rata distribution of the underlying securities consisting principally of high-quality corporate debt, mortgage-backed securities and asset-backed securities; (2) the Fund's valuation would be based on the market value of the underlying securities, whereas historically the Fund's valuation was based on amortized cost; and (3) interest would continue to accrue. The carrying value of our investment in the Fund on December 10, 2007 was \$38,359,000. Subsequent to December 10, 2007, and prior to December 31, 2007, we received a pro-rata distribution of underlying securities in the Fund as described above of \$14,382,000 and cash redemptions of principal totaling \$4,665,000. Realized losses on the distribution and redemption of securities and cash amounted to \$236,000. At December 31, 2007, the fair market value of our investment in the Fund was estimated to be \$18,835,000 and the fair market value of our investment in the separate IMA was estimated to be \$14,294,000 for a total of \$33,129,000. Unrealized losses measured as the difference between fair market value and our original investment, at cost, amounted to \$329,000.

We are in regular communication with the manager of the Fund and the IMA in order to monitor the net asset value and the expected cash redemption dates based upon the manager's liquidation strategy. We have been advised by the fund manager that the goal is to make an orderly liquidation of the Fund and IMA with the goal of preserving our original investment. Cash redemptions are estimated by the Fund manager to occur periodically over the next two years. Interest continues to accrue and is paid to us each month into our regular bank account. There may be further declines in the value of our investments in the Fund and the IMA. To the extent that we determine there is a further decline in the fair market value based on up-to-date information provided to us by the Fund manager, we may recognize additional losses in future periods.

While we believe that the carrying amounts of our properties 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.

2) Revenue recognition - mortgage interest and rental income - 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 nonperforming 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 as required under Statement of Financial Accounting Standard No. 13 "Accounting for Leases" ("SFAS 13") 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 revenues, are considered to be contingent rentals and are excluded from minimum lease payments in accordance with SFAS 13.

3) REIT status and taxes - We believe that we have operated our business so as to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code") and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. 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.

Liquidity and Capital Resources

Sources and Uses of Funds

Our primary sources of cash include rent and interest receipts, proceeds from the sales of real property and principal payments on notes receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property acquisitions and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below.

The following is a summary of our sources and uses of cash flows (*dollars in thousands*):

	Year Ended		One Year Change		Year Ended		One Year Change		Two Year Change	
	12/31/07	12/31/06	Dollars	Percentage	12/31/05	Dollars	Percentage	Dollars	Percentage	
Cash and cash equivalents at beginning of period	\$158,815	\$109,519	\$49,296	45%	\$109,065	\$454	-	\$49,750	46%	
Cash provided from (used in) operating activities	66,529	\$7,805	8,724	15%	59,010	(1,205)	(2%)	7,519	13%	
Cash provided from (used in) investing activities	21,431	51,170	(29,739)	(58%)	29,533	21,637	73%	(8,102)	(27%)	
Cash provided from (used in) financing activities	(171,419)	(59,679)	(111,740)	187%	(88,089)	28,410	(32%)	(83,330)	95%	
Cash and cash equivalents at end of period	\$75,356	\$158,815	(\$83,459)	(53%)	\$109,519	\$49,296	45%	\$(34,163)	(32%)	

Separate reporting of cash flows from discontinued operations in the consolidated statement of cash flows is not required under Statement of Financial Accounting Standard No. 95 "Statement of Cash Flows". Cash flows related to the operation of the Foreclosure Properties and other discontinued operations during 2007 were \$8,415,000 provided by operating activities and \$2,419,000 used in investing activities. We have provided purchase financing to the buyers of the Foreclosure Properties and expect net cash flows from payments to us to be approximately \$5,000,000 in 2008.

The notes to the consolidated financial statements describe the significant transactions that impact our cash flows from operating, investing and financing activities.

Operating Activities – Net cash provided by operating activities generally includes our net income adjusted for non-cash items such as depreciation and amortization, working capital changes, investment write-downs and recoveries, gains/losses on the disposition of assets and share-based compensation. Net cash provided by operating activities was \$66,529,000 in 2007 versus \$57,805,000 in 2006, an increase of 15.1%. Net cash provided by operating activities in 2007 consists net income of \$96,435,000, and depreciation of \$11,751,000, reduced primarily by loan and realty recoveries of \$24,238,000, net gains on the disposition and deconsolidation of assets of \$13,138,000, net gain on the sale of marketable securities of \$1,029,000, working capital changes of \$3,334,000, plus smaller items totaling \$82,000. Recoveries of amounts previously written down of \$23,000,000 related to the prepayment in full of two mortgage loans and a recovery of \$1,238,000 related to a final residual payment from a mortgage investment pool (see discussion below in Real Estate, Mortgage and Notes Receivable Write-downs/Recoveries). Net gains on the disposition and deconsolidation of assets and cash deconsolidated from discontinued operations relate to the recording of the original sales of 16 former Foreclosure Properties, as the down payment and continuing investment criteria in SFAS 66 was met on December 31, 2007. Working capital changes affecting cash were primarily due to the timing of collections of receivables, the payments of accounts payable and the decrease in accrued interest payable due to the payoff at par of the principal and interest on our \$100 million unsecured public notes on July 16, 2007.

Net cash provided by operating activities during 2006 of \$57,805,000 consisted primarily of net income of \$69,228,000, and depreciation and amortization of \$12,026,000, reduced primarily by net loan and realty recoveries of \$7,934,000. Recoveries of amounts previously written down of \$9,008,000 related to the mortgage loan payoffs of three borrowers and were offset by one loan write down of \$1,074,000. There was a net gain on the sale of real estate of \$5,814,000 comprised of \$5,690,000 related to the sale of two New Jersey facilities and \$124,000 related to the sale of one Missouri facility. There was a gain on the payoff of

a note receivable of \$1,015,000. Cash used in other operating activities was primarily due to the timing of payments of accounts payable and the increase in capital improvement reserves.

Net cash provided by operating activities during 2005 of \$59,010,000 consisted primarily of net income of \$54,408,000, depreciation of \$12,855,000, loan and realty write-downs of \$7,985,000, reduced primarily by gains on the sale of real estate of \$2,552,000, and recoveries on the sale of marketable securities of \$9,072,000. The loan and realty write-downs consisted of \$2,550,000 related to real estate and \$5,435,000 related to mortgage loans. Cash used in other operating activities was primarily due to the timing of payments of accounts payable and the increase in capital improvement reserves.

Investing Activities - Net cash provided by investing activities was \$21,431,000 in 2007 versus \$51,170,000 in 2006, a decrease of 58.1%. Collections and prepayments on mortgages and other notes receivable in 2007 was \$59,118,000 and consisted of (1) collections of \$5,681,000 as a result of the early payoff from one Florida-based nursing facility, (2) a \$3,500,000 payoff of a short-term real estate loan, (3) collections of \$44,192,000 in principal as a result of an early payoff from HSM of Texas, LLC (see discussion below in Real Estate, Mortgage and Notes Receivable Write-downs/Recoveries), and (4) \$5,745,000 of routine collections. Cash proceeds from the disposition of real estate amounted to \$2,337,000 due primarily from the sale of the Milwaukee, Wisconsin facility of \$2,288,000 and a partial land sale of \$49,000. The cash balance of the Foreclosure Properties deconsolidated at December 31, 2007 was \$14,079,000. During 2007, we made new investments in mortgage and other notes receivable of \$9,716,000 due primarily to our investment in acquiring NHC's interest in a loan receivable from a third party. Sales of marketable securities included the cash proceeds of \$1,007,000 from the sale of common shares of NHR in October 2007. Purchases and other sales of marketable securities relate to transactions in an enhanced cash fund that is managed by a division of our largest depository bank.

Cash flows provided from investing activities during 2006 of \$51,170,000 included collections and prepayments on mortgage and other notes receivable totaling \$36,517,000 which consisted of early payoffs of \$19,664,000 from four borrowers and \$16,853,000 of routine collections related to scheduled maturities and settlements of existing loans. Dispositions of property and equipment provided \$24,215,000 of cash flow related to the sale of two New Jersey facilities for \$17,570,000 and a Missouri facility for \$6,645,000. Investments in mortgages and other notes receivable increased by \$11,063,000 due primarily to the funding of a note receivable from NHR in the original amount of \$10,450,000. Purchases and sales of marketable securities pertained to our transactions in an enhanced cash fund investment.

Cash flows provided by in investing activities in 2005 were \$29,533,000 and included collections and prepayments of mortgage notes receivable of \$9,916,000 and dispositions of property and equipment of \$14,452,000. Investments in real estate properties were \$12,264,000, and funding of mortgage and other notes receivable were \$22,079,000. Our net investments in marketable securities increased by \$39,508,000.

Financing Activities - Net cash used in financing activities was \$171,419,000 in 2007 versus \$59,679,000 in 2006. Principal payments on debt included payoff at par of our \$100 million unsecured public notes on July 16, 2007. Cash paid in dividends were \$67,439,000 and included a special dividend of \$.45 per common share disbursed in January, 2007.

Net cash used in financing activities in 2006 and 2005 consisted primarily of scheduled principal payments on debt of \$3,760,000 and \$37,180,000, respectively, and dividends paid to stockholders of \$52,545,000 and \$53,259,000, respectively. In 2006, cash of \$3,530,000 was used to repurchase and retire 146,200 shares of our common stock.

Liquidity

At December 31, 2007, our liquidity is strong, with cash and highly-liquid marketable securities of \$98,043,000 which is exclusive of \$33,129,000 invested in an enhanced cash fund and in a separate investment management account ("IMA") containing positions in most of the same underlying securities (discussed below). We have a low level of debt at \$9,512,000 and it is serviced through our normal operations. Due to the payoff of our \$100 million in unsecured public notes in 2007, our debt to book capitalization ratio has declined to 2.1%, the lowest level in our 16 year history.

Our liquidity in cash accounts and other readily marketable securities (traded on public exchanges) continues to increase from our normal operating cash flows from core business investments in leases and mortgage notes as shown in our consolidated financial statements. Our investment in the enhanced cash fund and separate IMA is not expected to have an affect on our ability to timely meet our obligations, to pay dividends to shareholders, or make prudent real estate investments when available (see discussion under Critical Accounting Policies above).

We declared total annual dividends of \$2.85 to shareholders of record in 2007, \$2.37 to shareholders of record in 2006, and \$1.80 to shareholders of record in 2005. Dividends declared for the fourth quarter of each fiscal year are paid by the end of the following January and are treated for tax purposes as having been paid in the fiscal year just ended as provided in IRS Code Sec. 857(b)(8). The 2007 and 2006 dividends declared included special dividends of \$.85 and \$.45 per common share, respectively.

Contractual Obligations and Contingent Liabilities

As of December 31, 2007, our contractual payment obligations and commitments were as follows:

Contractual Obligations (in thousands)	Total	Year 1	Years 2-3	Years 4-5	After 5 Years
Debt principal	\$ 9,512	\$ 5,100	\$ 3,432	\$ 470	\$ 510
Debt interest (a)	1,057	539	398	93	27
Loan commitments	167	167	-	-	-
Advisory fees to MAS	256	256	-	-	-
	<u>\$ 10,992</u>	<u>\$ 6,062</u>	<u>\$ 3,830</u>	<u>\$ 563</u>	<u>\$ 537</u>

(a) For variable rate debt, future interest commitments were calculated using interest rates existing at December 31, 2007.

Off Balance Sheet Arrangements

We currently have no outstanding guarantees or letters of credit. We will consider using financial derivative instruments to hedge interest rate exposure. At December 31, 2007, we did not participate in any such financial instruments.

Commitments

At December 31, 2007, we were committed, subject to due diligence and financial performance goals, to fund approximately \$167,000 in health care real estate projects, all of which is expected to be funded within the next 12 months. We currently have sufficient liquidity to finance current investments for which we are committed as well as to repay borrowings at or prior to their maturity.

Real Estate, Mortgage and Notes Receivable Write-downs (Recoveries)

Our borrowers and tenants have experienced financial pressures and difficulties similar to those experienced by the health care industry in general since 1997. 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 costs of professional liability insurance have increased significantly during this same period.

A number of our facility operators and mortgage loan borrowers have experienced bankruptcy. Others have been forced to surrender properties to us in lieu of foreclosure or for certain periods failed to make timely payments on their obligations to us.

The following table summarizes our write-downs and recoveries for the last three years, recorded in accordance with the provisions of SFAS 114 and SFAS 144:

Write-downs (Recoveries) (in thousands)	2007	2006	2005
Real estate	\$ -	\$ -	\$ 2,550
Mortgages & Notes Receivable (net)	(24,238)	(7,934)	5,435
	<u>\$(24,238)</u>	<u>\$(7,934)</u>	<u>\$ 7,985</u>

During 2007, two mortgage notes receivable were paid off, resulting in recoveries of amounts previously written down of \$23,000,000. In addition, a recovery from a previous write down of our investment in a mortgage investment pool amounted to \$1,238,000. The early payoff of the HSM of Texas loan resulted in \$21,300,000 of recoveries of amounts previously written down in 2000, 2001, and 2002 due to significant non-payment issues with the original borrower. The original borrower and personal guarantor filed bankruptcy, then the facilities were sold to HSM of Texas. The new owner significantly improved the operations of the facilities due in large part to increased reimbursement rates to long-term care centers by the State of Texas. In 2007, HSM of Texas was able to obtain refinancing at a lower interest rate to pay off our notes.

During 2006, three mortgage notes receivable were paid off, resulting in recoveries of amounts previously written down of \$9,008,000. One working capital note with an outstanding balance of \$1,074,000 was written down due to non-payment.

During 2005, we recorded impairment losses of \$2,550,000 and accrued maintenance expenses of \$2,852,000 related to two Florida facilities. We also recorded write downs of \$5,435,000 to mortgage notes receivable from three borrowers.

See Note 4 to our financial statements for details of the properties identified as impaired real estate investments and non-performing loans. We believe that the carrying amounts of our real estate properties are recoverable and notes receivable are

realizable (including those identified as impaired or non-performing) 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.

Security Recoveries

The following table summarizes our security recoveries for the last three years, recorded in accordance with the provisions of SFAS 115:

Recoveries (in thousands)	2007	2006	2005
Securities	\$ -	\$ -	\$5,022

Assisted Living Concepts, Inc. (ALC) common stock was called in January 2005 resulting in a gain of \$9,072,000 which is included in non-operating income in the consolidated statements of income for 2005 described as \$5,022,000 of security recoveries and \$4,050,000 of realized gains. These securities were previously identified as impaired in 2001.

Results of Operations

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

In accordance with SFAS 144, the results of operations for facilities sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retroactively reflect the disposition of these facilities had no impact on previously reported net income.

Net income for the year ended December 31, 2007 is \$96,435,000 versus \$69,228,000 in 2006, an increase of 39.3% due primarily to the recoveries in 2007 of amounts previously written down of \$24,238,000 compared to \$7,934,000 in 2006, and net gains on the disposition and deconsolidation of assets of \$13,138,000 in 2007 compared to \$5,814,000 in 2006 (described more fully below). Fully diluted earnings per common share are \$3.47 in 2007 versus \$2.49 in 2006, an increase of \$.98 or 39.3%.

Total revenues for the year ended December 31, 2007 are \$62,313,000 versus \$61,262,000 in 2006, an increase of 1.7%. Our revenues consist of mortgage interest income from our borrowers and rental income from leases of our owned facilities. Mortgage interest income decreased \$3,673,000 or 24.5% due to the increased collections and prepayments of our mortgage notes portfolio. Collections and prepayments during 2007 were \$59,118,000 versus \$36,517,000 in 2006. Mortgage interest income is expected to increase in 2008 as we anticipate collection of interest income on notes recorded on December 31, 2007 related to the sale of the Foreclosure Properties. Rental income increased \$4,724,000 or 10.2% due mainly to negotiating better lease terms with new and existing tenants of our facilities which accounted for \$5,386,000, but was offset by the loss of \$662,000 in rental income from the two New Jersey facilities sold in 2006. The new master lease with NHC increased rental income by \$2,391,000 during 2007. Our lease with NHC includes an annual increase of 4% of the increase in each facility's revenues over the 2007 base year. We did not purchase or develop any new facilities during 2007 for which we could expect new rental income in 2008.

Total expenses (excluding loan and realty recoveries which are required to be shown as reduction of expenses for financial statement purposes) are \$20,851,000 for the year ended December 31, 2007 versus \$22,817,000 for 2006, a decrease of 8.6% due primarily to lower interest expense. For 2007, interest expense is \$4,625,000 versus \$8,126,000 in 2006, a decrease of 43.1%. In July 2007, we paid in full our \$100 million unsecured public notes having an interest rate of 7.3%. Unless we increase our borrowings, we expect interest expense to decline further in 2008. For 2007, legal expense is \$1,079,000 versus \$582,000 in 2006, an increase of 85.4% due to the consideration of various strategic alternatives to enhance stockholder value in our common shares. Net loan and realty recoveries are reported as a decrease in expenses and amounted to \$24,238,000 in 2007 as two mortgage notes receivable were paid off, the largest recovery of \$21,300,000 being the payoff of the HSM-Texas note of \$44,500,000. Another recovery of \$1,700,000 related to the payoff of a mortgage note of \$5,721,000 from a former American Medical Associates facility in Florida. A recovery from a previous write down of our investment in a mortgage investment pool amounted to \$1,238,000. Loan and realty recoveries of \$9,008,000 in 2006 related to the payoff of three mortgage notes receivable, and were offset by a write down of \$1,074,000 on a note receivable due to non-payment. On December 3, 2007, we elected to become a self-managed REIT and notified our investment and administrative manager, MAS, of our intent to terminate our agreement effective March 31, 2008. We incurred management fees to MAS of \$3,625,000 in 2007 for their services. While we currently expect to be able to operate with a similar cost structure for general and administrative services in 2008, our plans are not yet finalized and we are unable to predict such costs fully.

Non-Operating Income -

Non-operating income primarily includes dividends and interest on our investments in cash and marketable securities and realized gains and losses on the sales of our marketable securities. Non-operating income is \$13,341,000 in 2007 versus \$12,721,000, a 4.9% increase. In October 2007, we realized a gain on the sale of our 111,800 shares of NHR common stock when NHR was acquired by NHC. In exchange for each NHR share owned, shareholders received \$9 cash plus NHC convertible preferred stock having a value of \$13.66 per share. In October 2006, the payoff of mortgage loans on two former American Medical Associates facilities resulted in a gain of \$1,015,000.

Discontinued Operations -

On December 31, 2007, we recognized the sale of the 16 foreclosure properties in New England, Missouri and Kansas and recorded mortgage notes receivable secured by the properties with a carrying value of \$66,819,000. The sale resulted in a net gain on sale and deconsolidation of \$12,469,000. The net carrying value of the assets and liabilities deconsolidated was \$54,350,000.

In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of \$669,000. Net proceeds were \$2,288,000 and the carrying value of the property and equipment sold was \$1,619,000.

In May 2006, we sold the Regal and Royal nursing facilities in New Jersey for net cash proceeds of \$17,570,000 and recognized a gain of \$5,690,000.

In March 2006, we received \$5,482,000 from the sale by the current owner of a nursing facility in Town & Country, Missouri. The carrying amount of this facility was \$5,358,000. This property was sold in December 2004 to a not-for-profit entity and we provided 100% financing. As a result of having received final proceeds related to this facility during 2006, we recognized the December 2004 sale of this property and recognized a \$124,000 gain.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

In accordance with SFAS 144, the results of operations for facilities sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retroactively reflect the disposition of these facilities had no impact on previously reported net income.

Net income for the year ended December 31, 2006 was \$69,228,000 versus \$54,408,000 for the same period in 2005, an increase of 27.2% due primarily to net loan and realty recoveries of \$7,934,000 versus net loan and realty losses of \$10,837,000 in 2006. Diluted earnings per common share increased \$2.49 in 2007 versus \$1.96 in 2006, an increase of 27%.

Total revenues for the year ended December 31, 2006 were \$61,262,000 versus \$62,231,000 in 2005, a decrease of 1.5%. Mortgage interest income decreased \$3,245,000 or 17.8% due to the increased collections and prepayments of our mortgage notes portfolio. Collections and prepayments during 2006 were \$36,517,000 versus \$9,916,000 in 2006 due to scheduled maturities, settlements and early payoffs in our mortgage loan portfolio. Revenues from rental income increased \$2,276,000 or 5.2% in 2006 as compared to 2005 due primarily to the significant improvements in the operations of our owned facilities with one lessee who began to make monthly rent payments of \$225,000 per month.

Total expenses (excluding the effects of loan and realty recoveries and losses) for the year ended December 31, 2006 were \$22,817,000 versus \$22,934,000 in 2005, a slight decrease from the prior year. Interest expense decreased \$193,000 or 2.3% in 2006 as compared to 2005 primarily due to the payment of debt of \$37,180,000 in 2005. Net loan and realty recoveries are reported as a decrease in expenses and amounted to \$7,934,000 in 2006 as a result of loan recoveries of amounts previously written down of \$9,008,000 compared to net loan and realty losses of \$10,837,000 in 2005. Loan recoveries in 2006 were \$9,008,000, less loan write-downs of \$1,074,000 related to non-payment by one borrower.

Non-Operating Income -

Non-operating income was \$12,721,000 in 2006 versus \$22,331,000 in 2005, a 43% decrease due primarily to two transactions. In 2005, \$4,525,000 of fire insurance proceeds and gains from the sale of real estate damaged in a fire was included in non-operating income. In addition, a gain of \$9,072,000 on the sale (as a result of merger) of ALC common stock for cash (described as \$5,022,000 of security recoveries and \$4,050,000 of realized gains) is included in non-operating income in 2005.

Discontinued Operations -

In February 2005, a facility in Dallas, Texas, was sold for cash proceeds of \$7,911,000 and a loss of \$851,000 was recognized. In January 2005, a facility in Charlotte was sold for cash proceeds of \$3,571,000 and a gain was recognized of \$1,624,000.

Funds From Operations

Our funds from operations ("FFO") on a diluted basis is \$94,912,000 for the year ended December 31, 2007, versus \$74,221,000 in 2006, an increase of 27.9%. The increase in FFO was primarily due to an increase of \$16,304,000 in loan and realty recoveries of amounts previously written down. FFO represents net earnings available to common stockholders, excluding the effects of asset dispositions, plus depreciation associated with real estate investments. Diluted FFO assumes, if dilutive, the conversion of convertible subordinated debentures, the conversion of cumulative convertible preferred stock and the exercise of stock options using the treasury stock method.

We believe that FFO is an important supplemental measure of operating performance for a real estate investment trust. Because the historical cost accounting convention used for real estate assets requires straight-line 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, presentation of operating results for a real estate investment trust 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 real estate investment trust industry to address this issue. Our measure may not be comparable to similarly titled measures used by other REITs. Consequently, our funds from operations 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 FFO, caution should be exercised when comparing our FFO to that of other REITs. Funds from operations in and of itself does not represent cash generated from operating activities in accordance with GAAP (funds from operations does 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 in the United States, as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

We have complied with the SEC's interpretation that recurring impairments taken on real property may not be added back to net income in the calculation of FFO. The SEC's position is that recurring impairments on real property are not an appropriate adjustment.

The net gain on sale of real estate and the deconsolidation of the Foreclosure Property previously consolidated due to the requirements of SFAS 66 is not an element of FFO in 2007.

The following table reconciles net income to funds from operations:

Year Ended December 31, (dollar amounts in thousands, except per share amounts)	2007	2006	2005
Net income	\$96,435	\$69,228	\$54,408
Dividends to preferred stockholders	—	—	—
Net income available to common stockholders	96,435	69,228	54,408
Elimination of non-cash items in net income:			
Real estate depreciation	8,788	7,623	8,346
Real estate depreciation in discontinued operations	2,869	3,184	3,172
Gain on partial land sale – continuing operations	(42)	—	—
Gain on dispositions and deconsolidation – discontinued operations	(13,138)	(5,814)	(2,554)
Basic funds from operations available to common stockholders	94,912	74,221	63,372
Interest on convertible subordinated debentures	—	—	81
Diluted funds from operations available to common stockholders	\$94,912	\$74,221	\$63,453
Basic funds from operations per share	\$ 3.43	\$ 2.68	\$ 2.29
Diluted funds from operations per share	3.42	2.67	2.28
Shares for basic funds from operations per share	27,703,464	27,744,868	27,699,887
Shares for diluted funds from operations per share	27,783,862	27,778,764	27,830,886

Impact of Inflation

During the past three years, inflation has not significantly affected our earnings because of relatively moderate inflation rates. Inflation may affect us in the future by changing the underlying value of our real estate or by impacting our cost of financing its operations.

Our revenues are generated primarily from long-term investments with fixed rates of return. These investments are financed through a combination of equity, long-term borrowings, and, as needed, line of credit arrangements. During periods of rising interest rates, our ability to grow may be adversely affected because yields on new investments may increase more slowly than new borrowing costs. Certain of our leases offer some degree of inflation protection by requiring increases in rental income based upon increases in the revenues of the tenants.

Impact of New Accounting Standards

See Note 2 to the consolidated financial statements for the impact of new accounting standards.

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

Interest Rate Risk

Our cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less. Most of our mortgage and other notes receivable bear interest at fixed interest rates. Our investment in preferred stock represents an investment in the preferred stock of another real estate investment trust and yields dividends at a fixed rate of 8.5%. As a result of the short-term nature of our cash instruments and because the interest rates on our investments in notes receivable and preferred stock are fixed, a hypothetical 10% change in interest rates has no impact on our future earnings and cash flows related to these instruments.

As of December 31, 2007, \$9,512,000 of our debt bears interest at variable rates. A hypothetical 10% increase in interest rates would reduce our future earnings and cash flows related to these debt instruments by \$106,000. A hypothetical 10% decrease in interest rates would increase our future earnings and cash flows related to these debt instruments by \$106,000.

We are subject to risks associated with debt financing, including the risk that our existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of existing indebtedness. Certain of our loan agreements require the maintenance of specified financial ratios. Accordingly, in the event that we are unable to raise additional equity or borrow money because of those limitations, our ability to make additional investments may be limited.

We do not use derivative instruments to hedge interest rate risks. The future use of such instruments will be subject to strict approvals by our senior officers.

Equity Price Risk

We consider our investments in marketable securities of \$55,816,000 at December 31, 2007 as available-for-sale securities and unrealized gains and losses are recorded in stockholders' equity in accordance with SFAS 115. The investments in marketable securities are recorded at their fair market value based on quoted market prices. Thus, there is exposure to equity price risk, which is the potential change in fair value due to a change in quoted market prices. Hypothetically, a 10% change in quoted market prices would result in a related \$5,582,000 change in the fair value of our investments in marketable securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of National Health Investors, Inc. as of December 31, 2007 and 2006 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. 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 presentation of the financial statements. 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, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

We were also engaged to audit, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of National Health Investors, Inc.'s internal control over financial reporting as of December 31, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 28, 2008

NATIONAL HEALTH INVESTORS, INC.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

December 31,	2007	2006
Assets		
Real estate properties:		
Land	\$ 26,314	\$ 30,067
Buildings and improvements	283,093	346,033
Construction in progress	-	307
	309,407	376,407
Less accumulated depreciation	(121,952)	(141,208)
Real estate properties, net	187,455	235,199
Mortgage and other notes receivable, net	141,655	99,532
Investment in preferred stock	38,132	38,132
Cash and cash equivalents	75,356	158,815
Marketable securities	55,816	44,463
Accounts receivable, net	1,899	8,871
Deferred costs and other assets	419	13,186
Total Assets	\$ 500,732	\$ 598,198
Liabilities		
Unsecured public notes	\$ -	\$ 100,000
Notes and bonds payable	9,512	13,492
Accounts payable and other accrued expenses	7,434	23,685
Accrued interest	45	3,378
Dividends payable	37,466	25,809
Deferred income	137	163
Total Liabilities	54,594	166,527
Commitments and contingencies		
Stockholders' Equity		
Common stock, \$01 par value; 40,000,000 shares authorized; 27,752,239 shares, issued and outstanding	278	278
Capital in excess of par value	462,278	461,735
Cumulative net income	778,872	682,437
Cumulative dividends	(809,658)	(730,562)
Unrealized gains on marketable securities	14,368	17,783
Total Stockholders' Equity	446,138	431,671
Total Liabilities and Stockholders' Equity	\$ 500,732	\$ 598,198

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

NATIONAL HEALTH INVESTORS, INC.
Consolidated Statements of Income
(In thousands, except share and per share amounts)

Year Ended December 31	2007	2006	2005
Revenues:			
Mortgage interest income	\$ 11,308	\$ 14,981	\$ 18,226
Rental income	51,005	46,281	44,005
	62,313	61,262	62,231
Expenses:			
Interest expense	4,625	8,126	8,319
Depreciation	9,143	8,442	8,966
Amortization of loan costs	75	135	174
Legal expense	1,079	582	570
Franchise, excise, and other taxes	273	204	595
General and administrative	5,656	5,328	4,310
Loan and realty losses (recoveries)	(24,238)	(7,934)	10,837
	(3,387)	14,883	33,771
Income before non-operating income	65,700	46,379	28,460
Non-operating income (investment interest and other)	13,341	12,721	22,331
Income from continuing operations	79,041	59,100	50,791
Discontinued operations			
Income from operations - discontinued	4,256	4,314	2,844
Net gain on dispositions and deconsolidation	13,138	5,814	773
Income from discontinued operations	17,394	10,128	3,617
Net income	\$ 96,435	\$ 69,228	\$ 54,408
Weighted average common shares outstanding:			
Basic	27,703,464	27,744,868	27,699,887
Diluted	27,783,862	27,778,764	27,830,886
Earnings per share:			
Basic:			
Income from continuing operations	\$ 2.85	\$ 2.13	\$ 1.83
Discontinued operations	.63	.37	.13
Net income per common share	\$ 3.48	\$ 2.50	\$ 1.96
Diluted:			
Income from continuing operations	\$ 2.84	\$ 2.13	\$ 1.83
Discontinued operations	.63	.36	.13
Net income per common share	\$ 3.47	\$ 2.49	\$ 1.96

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

NATIONAL HEALTH INVESTORS, INC.
Consolidated Statements of Cash Flows
(In thousands)

Year Ended December 31	2007	2006	2005
Cash flows from operating activities:			
Net income	\$ 96,435	\$ 69,228	\$ 54,408
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	11,751	12,026	12,855
Provision for loan and realty losses (recoveries)	(24,238)	(7,934)	7,985
Net gain on dispositions and deconsolidations of discontinued operations	(13,138)	(5,814)	(773)
Gain on asset disposals in non-operating income	(42)	—	(1,779)
Gain on notes receivable	(468)	(1,015)	—
Share-based compensation	543	519	—
Net realized gain and recovery on sales of marketable securities	(1,029)	—	(9,072)
Amortization of loan costs	75	135	174
Interest on debenture conversions	—	—	10
Deferred income	—	—	109
Amortization of deferred income	(26)	(217)	(252)
Changes in operating assets and liabilities:			
Accounts receivable	(204)	(629)	476
Deferred costs and other assets	(618)	(3,057)	(4,142)
Accounts payable and other accrued expenses	821	(5,441)	(971)
Accrued interest	(3,333)	4	(18)
Net cash provided by operating activities	66,529	57,805	59,010
Cash flows from investing activities:			
Investment in mortgage and other notes receivable	(9,716)	(11,063)	(22,079)
Collection of mortgage and other notes receivable	9,245	16,853	4,492
Prepayment of mortgage notes receivable	49,873	19,664	5,424
Acquisition of and construction of real estate properties	(2,491)	(2,499)	(12,264)
Disposition of property and equipment	2,337	24,215	14,452
Cash balances deconsolidated from discontinued operations	(14,079)	—	—
Purchases of marketable securities	(351,747)	(478,176)	(474,750)
Sales of marketable securities	338,009	482,176	514,258
Net cash provided by investing activities	21,431	51,170	29,533
Cash flows from financing activities:			
Payments on notes and bonds	(103,980)	(3,760)	(37,180)
Redemption of convertible subordinated debentures	—	(201)	—
Dividends paid to stockholders	(67,439)	(52,545)	(53,259)
Repurchase of common stock	—	(3,530)	—
Sale of common stock	—	357	2,350
Net cash used in financing activities	(171,419)	(59,679)	(88,089)
Increase (decrease) in cash and cash equivalents	(83,459)	49,296	454
Cash and cash equivalents, beginning of year	158,815	109,519	109,065
Cash and cash equivalents, end of year	\$ 75,356	\$158,815	\$109,519

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

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

	Common Stock		Capital in Excess of Par Value		Cumulative Dividends	Unrealized (Losses) Gains on Marketable Securities	Total Stockholders' Equity
	Shares	Amount	Par Value	Net Income			
Balances at December 31, 2004	27,545,018	\$275	\$461,119	\$558,801	\$(614,786)	\$20,130	\$425,539
Comprehensive income:							
Net income	-	-	-	54,408	-	-	54,408
Unrealized losses on marketable securities	-	-	-	-	-	(8,308)	(8,308)
Total comprehensive income	-	-	-	54,408	-	(8,308)	46,100
Shares repurchased and retired	-	-	-	-	-	-	-
Shares issued:							
Stock options exercised	154,729	2	2,348	-	-	-	2,350
Shares issued in conversion of convertible debentures to common stock	130,692	1	922	-	-	-	923
Cash dividends:							
Dividends to common stockholders, \$1.80 per share	-	-	-	-	(49,944)	-	(49,944)
Balances at December 31, 2005	27,830,439	278	464,389	613,209	(664,730)	11,822	424,968
Comprehensive income:							
Net income	-	-	-	69,228	-	-	69,228
Unrealized gains on marketable securities	-	-	-	-	-	5,961	5,961
Total comprehensive income	-	-	-	69,228	-	5,961	75,189
Shares repurchased and retired	(146,200)	(1)	(3,529)	-	-	-	(3,530)
Shares issued:							
Stock options exercised	15,000	-	357	-	-	-	357
Restricted stock	53,000	1	(1)	-	-	-	-
Share-based compensation	-	-	519	-	-	-	519
Cash Dividends:							
Dividends to common stockholders, \$2.37 per share	-	-	-	-	(65,832)	-	(65,832)
Balances at December 31, 2006	27,752,239	278	461,735	682,437	(730,562)	17,783	431,671
Comprehensive income:							
Net income	-	-	-	96,435	-	-	96,435
Other comprehensive income:							
Unrealized holding loss arising during period	-	-	-	-	-	(2,386)	(2,386)
Less: reclassification adjustment for gains included in net income	-	-	-	-	-	(1,029)	(1,029)
Net loss recognized in other comprehensive income	-	-	-	-	-	(3,415)	(3,415)
Total comprehensive income	-	-	-	96,435	-	(3,415)	93,020
Compensation related items:							
Share-based compensation	-	-	543	-	-	-	543
Cash Dividends:							
Dividends to common stockholders, \$2.85 per share	-	-	-	-	(79,096)	-	(79,096)
Balances at December 31, 2007	27,752,239	\$ 278	\$ 462,278	\$778,872	\$(809,658)	\$ 14,368	\$ 446,138

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

NATIONAL HEALTH INVESTORS, INC.
Notes to Consolidated Financial Statements

NOTE 1. ORGANIZATION

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation incorporated on July 24, 1991, is a real estate investment trust ("REIT"). Our revenue is derived primarily from interest income on mortgage loans, rent generated on leased properties and income on other investments. We invest in health care properties including long-term care centers, acute care hospitals, medical office buildings, assisted living facilities and retirement centers. These properties are located in 17 states throughout the U.S. and are operated by qualified health care providers.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include our accounts and our wholly-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated.

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

Real Estate Properties - We record properties at cost, including capitalized interest during construction periods. We use the straight-line method of depreciation for buildings and improvements over their estimated remaining useful lives as follows:

Buildings	40 years
Improvements	5 to 25 years

In accordance with Financial Accounting Standards Board ("FASB") Statement No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*" ("SFAS 144"), we evaluate the recoverability of the carrying values of its properties on a property-by-property basis. On a quarterly basis, we review its 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 is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property. In accordance with SFAS 144, the results of operation of facilities sold have been reported in discontinued operations for the current and prior periods shown. There is no change to reported net income for the prior periods as a result of this standard.

Mortgage and Other Notes Receivable - In accordance with FASB Statement No. 114, "*Accounting by Creditors for Impairment of a Loan - An Amendment of FASB Statements No. 5 and 15*" ("SFAS 114"), We evaluate the carrying values of its mortgage and other notes receivable on an instrument-by-instrument basis. On a quarterly basis, we review our notes receivable for recoverability when events or circumstances, including the non-receipt of 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, 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.

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. Therefore, we will not be subject to federal income tax provided we distribute at least 90% of our REIT taxable income to our stockholders and meet other requirements to continue to qualify as a REIT. Accordingly, no provision for federal income taxes has been made in the consolidated financial statements. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on our financial position, results of operations and cash flows.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the basis of assets, recognition of commitment fees, estimated useful lives used to compute depreciation expense and in the treatment of accrued interest expense that existed at the time debentures were converted to common stock.

Concentration of Credit Risks - Our credit risks primarily relate to cash and cash equivalents, investments in high yielding cash funds, and investments in preferred stock, mortgages 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 exceed federally-insured limits. We have not experienced any losses in such accounts. Our mortgage and other notes receivable consists primarily of secured loans with health care facilities as discussed in Note 4. The investment in preferred stock is in one entity as discussed in Note 6. High yielding cash funds, also known as enhanced cash funds, are invested primarily in high-quality corporate debt, mortgage-backed securities, and asset-backed securities, as described in Note 7.

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 various collateral 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. See Notes 4, 6, and 7 for additional information on notes receivable, investment in preferred stock, and investment in enhanced cash funds.

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 in accordance with FASB No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). We evaluate our marketable securities for other-than-temporary impairments consistent with the provisions of SFAS 115. 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 financings are amortized by the effective interest method over the term of the related debt.

Deferred Income - Deferred income primarily includes non-refundable loan commitment fees received by us, which are amortized into income by the effective interest method over the expected period of the related loans. In the event that a potential borrower chooses not to borrow funds from us, the related commitment fees are recognized into income when the commitment expires.

In management's opinion, these loan commitment fees approximate the loan commitment fees that we would currently charge to enter into similar agreements based on the terms of the agreements and the creditworthiness of the parties, and the committed interest rates are approximately the same as current levels of interest rates.

Reclassifications - We have previously carried certain negative receivable balances in our consolidated balance sheet. At December 31, 2007, we reclassified these amounts for all periods presented from accounts receivable to accounts payable and other accrued expenses, resulting in a net increase in total assets and total liabilities of \$2,734,000 as of December 31, 2006. The accompanying Consolidated Statements of Cash Flows have been reclassified to reflect these activities.

At December 31, 2007, we determined that our investment in a privately-placed enhanced cash fund (which was historically classified as a cash equivalent in our consolidated balance sheet), should be classified as available-for-sale marketable securities. Based on our re-evaluation of this investment, we have reclassified cash and marketable securities in our Consolidated Balance Sheet as of December 31, 2006 in the amount of \$18,950,000. The accompanying Consolidated Statements of Cash Flows has been adjusted to reflect the reclassification of purchases and sales of securities in this enhanced cash fund.

Rental Income - Base rental income is recognized by us on a straight-line basis over the term of the lease. Under certain of our leases, we receive additional contingent rent, which is based on the increase in revenues of a 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 assured since the target threshold has been achieved. Revenue from minimum lease payments under our leases is recognized on a straight-line basis as required under FASB Statement No. 13 "Accounting For Leases" ("SFAS 13") 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 revenues, are considered to be contingent rentals and are excluded from minimum lease payments in accordance with SFAS 13.

We identify leases 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.

Mortgage Interest Income - Mortgage interest income is recognized by us based on the interest rates and principal amounts outstanding of the mortgage notes receivable. Under certain of its mortgages, we receive additional contingent interest, which is based on the increase in the current year revenues of a borrower over a base year. We recognize contingent interest income annually when, based on the actual revenues of the borrower, receipt of such income is assured since the target threshold has been achieved. We identify loans 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.

Investment Interest and Other Income - Investment interest and other income includes dividends when declared and interest when earned from investments in preferred stock and marketable securities, realized gains and losses on sales of marketable securities using the specific-identification method, interest on cash and cash equivalents and amortization of deferred income.

Stock-Based Compensation - We account for stock-based compensation arrangements under FASB Statement 123 "Share-Based Payments" ("SFAS 123R"). See Note 12 for additional disclosures about our stock-based compensation.

Comprehensive Income - FASB Statement No. 130, "Reporting Comprehensive Income", requires that changes in the amounts of certain items, including unrealized gains and losses on certain securities, be shown in the consolidated financial statements. We report our comprehensive income in the consolidated statements of stockholders' equity.

Segment Disclosures - FASB Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes standards for the manner in which public business enterprises report information about operating segments. We are in the business of owning and financing health care properties. We are managed as one reporting unit, rather than multiple reporting units, for internal purposes and for internal decision making. Therefore, we have concluded that we operate as a single segment.

New Accounting Pronouncements - In July 2006, the FASB issued Interpretation No. 48 "Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 requires that the financial statements reflect expected future tax consequences of such positions presuming the taxing authorities' full knowledge of the position and all relevant facts, but without considering time values. FIN 48 was adopted by us and became effective beginning January 1, 2007. The implementation of FIN 48 has not had a material impact on our consolidated financial statements.

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). This standard defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. The new FASB rule does not supersede all applications of fair value in other pronouncements, but creates a fair value hierarchy and prioritizes the inputs to valuation techniques for use in most pronouncements. It requires companies to assess the significance of an input to the fair value measurement in its entirety. SFAS 157 also requires companies to disclose information to enable users of financial statements to assess the inputs used to develop the fair value measurements. SFAS 157 is effective for fiscal periods beginning after November 15, 2007. We do not expect this new standard to have a material impact on its consolidated financial statements.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard amends FASB Statement No. 115, "Accounting for Certain Investment in Debt and Equity Securities," with respect to accounting for a transfer to the trading category for all entities with available-for-sale and trading securities electing the fair value option. This standard allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. SFAS 159 is effective for fiscal years beginning after November 15, 2007. If elected, the implementation of SFAS 159 is not expected to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued Statement No. 160, *"Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51"* ("SFAS 160"). SFAS 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this standard requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. This standard also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. This standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. SFAS 160 is not expected to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), *"Business Combinations"* ("SFAS 141R"). Under SFAS 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141R will change the accounting treatment for certain specific items, including: acquisition costs will be generally expensed as incurred; noncontrolling interests (formerly known as "minority interests" -- see SFAS 160 discussion above) will be valued at fair value at the acquisition date; acquired contingent liabilities will be recorded at fair value at the acquisition date and subsequently measured at either the higher of such amount or the amount determined under existing guidance for non-acquired contingencies; in-process research and development will be recorded at fair value as an indefinite-lived intangible asset at the acquisition date; restructuring costs associated with a business combination will be generally expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date generally will affect income tax expense. This statement also includes a substantial number of new disclosure requirements. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, we are required to record and disclose business combinations, if any, following existing GAAP until January 1, 2009. We have not concluded on the impact of this new standard on our consolidated financial statements.

NOTE 3. REAL ESTATE

The following table summarizes our real estate properties by type of facility and by state as of December 31, 2007 and 2006:

(Dollar amounts in thousands)

2007

Facility Type and State	Number of Facilities	Land	Buildings, Improvements & Construction in Progress	Accumulated Depreciation	Mortgage Notes Payable
<i>Long-Term Care:</i>					
Alabama	2	\$ 95	\$ 5,165	\$ 3,298	\$ —
Arizona	1	453	6,678	2,055	1,590
Florida	4	2,306	37,437	20,374	641
Georgia	1	52	865	787	—
Idaho	1	122	2,491	768	—
Kansas	1	305	2,247	267	—
Kentucky	2	231	2,182	1,472	—
Missouri	5	1,165	23,070	13,255	1,725
South Carolina	3	572	11,527	7,727	—
Tennessee	20	1,835	41,297	25,769	—
Texas	8	2,280	47,409	9,560	—
Virginia	1	176	2,510	1,478	1,755
Total Long-Term Care	49	9,592	182,878	86,810	5,711
<i>Acute Care:</i>					
Kentucky	1	540	10,163	4,116	—
Total Acute Care	1	540	10,163	4,116	—
<i>Medical Office Buildings:</i>					
Florida	1	165	3,349	1,669	—
Illinois	1	—	1,925	505	—
Texas	2	631	9,677	4,016	—
Total Medical Office Buildings	4	796	14,951	6,190	—
<i>Assisted Living:</i>					
Arizona	4	1,757	13,622	3,035	—
Florida	4	7,095	21,544	8,937	—
New Jersey	1	4,229	13,030	4,659	—
Pennsylvania	1	439	3,960	231	—
South Carolina	1	344	2,877	644	—
Tennessee	3	871	7,062	1,562	—
Total Assisted Living	14	14,735	62,095	19,068	—
<i>Retirement Centers:</i>					
Idaho	1	243	4,182	1,265	—
Missouri	1	344	3,181	1,775	—
Tennessee	2	64	5,643	2,728	—
Total Retirement Centers	4	651	13,006	5,768	—
Total	72	\$ 26,314	\$ 283,093	\$ 121,952	\$ 5,711

2006

Facility Type and State	Number of Facilities	Land	Buildings, Improvements & Construction in Progress	Accumulated Depreciation	Mortgage Notes Payable
<i>Long-Term Care:</i>					
Alabama	2	\$ 95	\$ 5,165	\$ 3,197	\$ —
Arizona	1	453	6,678	1,862	1,780
Florida	4	2,306	37,437	19,143	837
Georgia	1	52	865	754	—
Idaho	1	122	2,491	702	—
Kansas	7	658	12,931	2,446	—
Kentucky	2	231	2,182	1,387	—
Massachusetts	4	1,189	18,873	9,810	—
Missouri	8	1,515	29,224	13,860	2,225
New Hampshire	3	1,473	23,398	12,385	—
South Carolina	3	572	11,527	7,418	—
Tennessee	20	1,835	41,297	24,516	—
Texas	8	2,280	47,409	8,156	—
Virginia	1	176	2,510	1,407	2,100
Wisconsin	1	170	1,604	138	—
Total Long-Term Care	66	13,127	243,591	107,181	6,942
<i>Acute Care:</i>					
Kentucky	1	540	10,163	3,804	—
Total Acute Care	1	540	10,163	3,804	—
<i>Medical Office Buildings:</i>					
Florida	1	165	3,349	1,576	—
Illinois	1	—	1,925	451	—
Texas	2	631	9,677	3,737	—
Total Medical Office Buildings	4	796	14,951	5,764	—
<i>Assisted Living:</i>					
Arizona	4	1,757	13,622	2,695	—
Florida	4	7,095	21,232	8,312	—
New Jersey	1	4,229	13,030	4,340	—
Pennsylvania	1	439	3,960	132	—
South Carolina	1	344	2,877	572	—
Tennessee	3	871	7,062	1,387	—
Total Assisted Living	14	14,735	61,783	17,438	—
<i>Retirement Centers:</i>					
Idaho	1	243	4,182	1,154	—
Missouri	1	344	3,181	1,683	—
New Hampshire	1	218	2,846	1,618	—
Tennessee	2	64	5,643	2,566	—
Total Retirement Centers	5	869	15,852	7,021	—
Total	90	\$ 30,067	\$ 346,340	\$ 141,208	\$ 6,942

Certain of our real estate properties are pledged as collateral on individual mortgage notes payable, as noted in the tables above.

The following table summarizes our real estate properties by leased facilities and operating foreclosure facilities at December 31, 2007 and 2006, respectively (in thousands):

	2007			2006		
	Leased	Operating	Total	Leased	Operating	Total
Land	\$ 26,314	\$ -	\$ 26,314	\$ 26,491	\$ 3,576	\$ 30,067
Buildings and improvements	283,093	-	283,093	284,382	61,651	346,033
Construction in progress	-	-	-	2	305	307
	309,407	-	309,407	310,875	65,532	376,407
Less accumulated depreciation	(121,952)	-	(121,952)	(113,825)	(27,383)	(141,208)
Real estate properties, net	\$187,455	\$ -	\$187,455	\$197,050	\$ 38,149	\$235,199

Foreclosure Properties

We have previously treated the New England, Kansas and Missouri properties described below as foreclosure properties for federal income tax purposes. With certain elections, unqualified income generated by the properties is expected to be treated as qualified income for up to six years from the purchase date for purpose of the income-source tests that must be satisfied by REITs to maintain their tax status. All of the properties have been recognized as sold or disposed of for tax purposes. However, as described below, the operations of the New England, Kansas and Missouri properties continued to be included in our consolidated financial statements until their sale for financial reporting purposes effective December 31, 2007.

New England Properties - During 1999, we assumed the operations of seven New England facilities. During 2001, we sold these properties to a not-for-profit entity and provided 100% financing consisting of 6.9% first mortgage proceeds totaling \$40,526,000, maturing in August 2011. For financial reporting purposes, we did not record the sale of the assets, and continued to record the results of operations of these properties each period up until December 31, 2007 as described below. For tax reporting purposes, the sale had been recognized in 2001 with gain on sale to be recorded under the installment method as cash payments are received. For financial reporting purposes, sale proceeds received from the buyer would be reported as a deposit until the down payment and continuing investment criteria of FASB No. 66, "Accounting for Sales of Real Estate" ("SFAS 66") were met, at which time we would report the sale under the full accrual method. No installment payments had been made by the borrower. On December 31, 2007, the criteria for recording the sale was met. Net assets having a book value of \$39,411,000 were deconsolidated, mortgage notes receivable of \$40,526,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$1,115,000 and recorded in discontinued operations. We received an irrevocable bank letter of credit from the borrower of \$6,100,000 on December 31, 2007 to guarantee the down payment on the notes (which we received on January 18, 2008, along with an additional down payment of \$8,900,000, all of which came from the borrower's bank accounts) and a commitment from the borrower to make monthly principal and interest payments to us beginning in January 2008 in an annual amount aggregating \$3,700,000 to amortize the loan. Our continuing involvement with these facilities is solely as a creditor. The facilities are currently managed by subsidiaries of NHC.

The results of operations for the New England facilities have been reclassified to retroactively reflect the disposition of these facilities as discontinued operations for all periods presented. Amounts included in operating income of discontinued operations and amounts included in the consolidated balance sheets applicable to the New England facilities are summarized as follows (in thousands):

	Year Ended December 31		
	2007	2006	2005
Income Statement:			
Facility operating revenue	\$57,869	\$56,391	\$53,304
Facility operating expenses	\$2,998	51,125	49,080
Interest expense	4	9	8
Depreciation	2,753	2,682	2,551
Total Expenses	55,755	53,816	51,639
Net income	\$ 2,114	\$ 2,575	\$ 1,665
	December 31		
Balance Sheet	2007	2006	2005
Real estate properties, net	\$ -	\$24,184	\$25,969
Cash and cash equivalents	-	2,752	3,045
Accounts receivable, net	-	4,491	3,241
Other assets	-	12,083	9,157
Accounts payable and other accrued expenses	-	6,212	6,689

Kansas and Missouri Properties - In July 2001, we assumed the operations of eight nursing homes in Kansas and Missouri and have included the operating results of these facilities in our consolidated financial statements since that date. During 2004, we sold the properties to a not-for-profit entity for \$26,293,000 and provided 100% financing. Proceeds consisted of an 8.5% note for \$16,513,000 maturing December 31, 2014 and a note for \$9,780,000 with interest at 3% through December 31, 2007 and at prime plus 1% thereafter, maturing December 31, 2014. For financial reporting purposes, we did not record the sale of the assets and continued to record the results of operations of these properties each period up until December 31, 2007 as described below. For tax reporting purposes, the sale had been recognized in 2004 with gain on sale to be recorded under the installment method as cash payments are received. For financial reporting purposes, sale proceeds received from the buyer would be reported as a deposit until the down payment and continuing investment criteria of SFAS 66 were met, at which time we would account for the sale under the full accrual method. No installment payments had been made by the borrower. On December 31, 2007, the criteria for recording the sale was met. Net assets having a book value of \$14,939,000 were deconsolidated, mortgage notes receivable of \$26,293,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$11,354,000 and recorded in discontinued operations. We received an irrevocable bank letter of credit of \$4,100,000 on December 31, 2007 from the borrower to guarantee the down payment on the notes (which we received on January 18, 2008 from the borrower's bank accounts) and a commitment from the borrower to make monthly principal and interest payments to us beginning in January 2008 in an annual amount aggregating \$1,300,000 to amortize the loan. Our continuing involvement with these facilities is solely as a creditor. The facilities are currently managed by subsidiaries of NHC.

In July 2001, we assumed the operations of a nursing facility known as Town & Country, Missouri. During 2006, we received \$5,482,000 in cash as full payment for sale of this facility. The carrying amount of this facility was \$5,358,000 composed of net realty of \$6,520,000, reduced by net liabilities of \$1,162,000. We originally sold the property in December 2004 to a not-for-profit entity and provided 100% financing. As a result of having received final proceeds related to this facility, we recorded the December 2004 sale of this property and recognized a \$124,000 gain in 2006.

The results of operations for the Kansas and Missouri facilities have been reclassified to retroactively reflect the disposition of these facilities as discontinued operations for all periods presented. Amounts included in operating income of discontinued operations and amounts included in the consolidated balance sheets applicable to the Kansas and Missouri facilities are summarized as follows (in thousands):

	Year Ended December 31		
Income Statement:	2007	2006	2005
Facility operating revenue	\$35,474	\$35,331	\$31,389
Facility operating expenses	33,295	33,498	30,373
Interest (income) expense	3	(4)	172
Depreciation	715	727	622
Total expenses	34,013	34,221	31,167
Net income	\$ 1,460	\$ 1,110	\$ 222

	December 31		
Balance sheet	2007	2006	2005
Real estate properties, net	\$ -	\$13,965	\$20,544
Cash and cash equivalents	-	5,403	3,422
Accounts receivable, net	-	2,543	2,946
Other assets	-	371	492
Accounts payable and other accrued expenses	-	8,819	9,579

Impairment of Real Estate

Marriott Senior Living Services - In July 2003, we reached an agreement with Marriott Senior Living Services ("Marriott") to terminate their leases with us on four assisted living facilities, two of which are located in Florida, one in Texas and one in New Jersey. The four facilities were leased to new operators. The Dallas facility was sold in February, 2005.

As a result of further defaults of covenants in the facility leases and continued deferred maintenance of the facilities, we recorded an impairment of \$2,550,000 during 2005 on the two Florida facilities. We had previously recorded an impairment of \$5,400,000 during 2003 on one of the Florida facilities. Further maintenance analysis resulted in the recording of an additional \$2,852,000 of accrued maintenance expense in 2005 related to the two facilities. Lease income of \$2,477,000, \$1,603,000, and

\$1,582,000 was recognized on these facilities for the years ended December 31, 2007, 2006, and 2005, respectively. We believe that the carrying amount of the remaining three properties at December 31, 2007 of \$24,308,000 is recoverable.

NOTE 4. MORTGAGE AND OTHER NOTES RECEIVABLE

The following is a summary of mortgage and other notes receivable by type (*dollar amounts in thousands*):

	December 31,	
	2007	2006
Mortgage loans	\$134,605	\$90,782
Other loans - NHC	7,050	8,750
	\$141,655	\$99,532

The following is a summary of the terms and amounts of mortgage and other notes receivable (*dollar amounts in thousands*):

Final Payment Date	Number of Loans	Payment Terms in 2007	Original Face Amount of Mortgage	December 31,	
				2007	2006
2008	1	Monthly payment of \$398, including interest at 11.5%. Balloon payment due at maturity.	\$ 25,900	\$ 26,518	\$ 21,972
2009	1	Monthly payment of interest only at Prime plus 2.0%	300	132	119
2008	1	Monthly payment of \$50, including interest at 10%. Balloon payment due at maturity.	5,196	3,949	4,130
2009	1	Monthly payment of \$70, including interest at 9.5%. Balloon payment due at maturity.	7,900	6,817	6,991
2009	1	Monthly payment of \$46, including interest at 8%. Note B accrues interest at 6% with balance due at maturity.	6,000	—	3,526
2009, 2014	2	Monthly payment of \$353, including interest at 10.5% on Note A and Prime Rate on Note B. Balloon payments due at maturity.	50,000	—	23,228
2013	1	Monthly payment of \$22, including interest at 6.5%. Balloon payment at maturity.	5,158	869	933
2010	1	Monthly payment of \$120, including interest at 9.0%. Balloon payment due at maturity.	12,162	8,628	8,784
2019	1	Monthly payment of interest only 9.0%	2,500	2,500	2,500
2027-2032	7	Monthly payments of \$19 to \$32, which include Interest ranging from 8.0 to 9.6%	20,774	18,373	18,599
2011	8	Monthly payments of \$9 to \$69, which include interest at 6.9% (An irrevocable letter-of-credit guaranteed \$6.1 million of principal At December 31, 2007)	40,526	40,526	—
2014	8	Monthly payments of \$8 to \$25, which includes interest at 8.5% (An irrevocable letter-of-credit guaranteed \$4.1 million of principal At December 31, 2007), and includes \$9.7 million with interest at 3.0% due at maturity	26,293	26,293	—
Term Loans					
2008	1	Monthly payment of interest only at LIBOR plus 1% in addition to quarterly principal payments of \$425.	10,450	7,050	8,750
			\$ 213,159	\$ 141,655	\$ 99,532

The mortgage notes receivable are generally first mortgage notes secured by the real estate of long-term health care centers, homes for the developmentally disabled, and assisted living facilities in the states of Florida, Georgia, Kansas, Massachusetts, Missouri, New Hampshire, Texas, and Virginia.

The mortgage notes receivable are secured by first mortgages on the real property and UCC liens on the personal property of the facilities. Certain of the notes receivable are also secured by guarantees of significant parties and by cross-collateralization on properties with the same respective owner.

National HealthCare Corporation ("NHC") – On May 4, 2007, we exercised our right to call NHC's participation (approximately 22%) with us in a mortgage loan with a borrower in exchange for the payment in cash of \$6,255,000 which represented NHC's portion of the principal and interest outstanding on the loan. At December 31, 2007, the remaining principal balance of the loan was \$26,518,000.

On February 3, 2006, we purchased by assignment a \$10,450,000 bank term loan owed by National Health Realty, Inc. ("NHR"), a publicly-held real estate investment trust that merged with NHC in October 2007 (see Note 7). The assigned loan as amended requires monthly interest payments at the interest rate of 30-day LIBOR plus 1.00% (6.25% at December 31, 2007) and quarterly principal payments of \$425,000. The unpaid principal balance at December 31, 2007, of \$7,050,000 was paid in full on January 3, 2008.

Loan Write-downs

Allgood HealthCare, Inc. ("Allgood") – We had two loans secured by five Georgia nursing home properties that were operated by Allgood. In January 2003, the borrowers filed for bankruptcy protection. We reported a \$2,000,000 write-down of one of the loans in the first quarter of 2005 to adjust the loan to its estimated net realizable value. The loan was paid during 2006 and is discussed in the "Loan Recoveries" section below. Estate proceeds of \$1,247,000 received in 2006 were applied to one of the loans.

In December 2005, two of these facilities were sold by the Bankruptcy Trustee pursuant to a plan of liquidation. Prior to the sale, we assigned our right to credit bid our mortgages to a third party operator who was the successful purchaser of these facilities. We provided the purchaser with \$4,000,000 of first mortgage financing and agreed to loan up to a total of \$800,000 of working capital. We had a first lien on all assets of the borrowers, including accounts receivable.

Effective July 1, 2006, two of the remaining properties were sold by the Bankruptcy Trustee to affiliates of the purchaser of the first two properties. We provided the purchaser with long-term first mortgage financing totaling \$12,162,000 collateralized by all four facilities and we received an option to purchase the facilities. The note bears interest at 9% and matures July 1, 2016. The commitment to loan working capital was reduced from \$800,000 to \$300,000 (working capital balance of \$133,000 at December 31, 2007) and can be used by any of the four facilities.

Prior to December 31, 2006, we gave notice to the purchasers of the four facilities of our intent to exercise its purchase option for the four facilities in the amount of \$12,162,000. On March 1, 2007, the election to purchase the four facilities was rescinded after a new financing agreement was finalized. Under the new agreement, the \$12,162,000 first mortgage was increased to \$14,300,000 and the working capital loan was reduced to \$300,000. The first mortgage loan bears interest at 9%. Principal is amortized over a 25-year period and matures on January 31, 2010. The working capital loan bears interest at prime plus 2%, with principal due at maturity on January 1, 2009. Management believes that the remaining carrying amount of the loans of \$8,760,000 at December 31, 2007 is supported by the value of the underlying collateral.

Milwaukee South Healthcare, LLC – Management's analysis of the future expected cash flows consistent with SFAS 114, payment history, historical occupancy and operating income of the facility resulted in a write-down in 2006 of \$1,074,000 related to our working capital loan to the operator of this leased facility. The carrying amount of the loan at December 31, 2006 was zero. As described in Note 17, we sold this facility on May 1, 2007 to a third party and recognized a gain of \$669,000.

Loan Recoveries

American Medical Associates, Inc. ("AMA") – On May 1, 2004, we provided financing to purchasers of three Florida-based nursing homes formerly owned by AMA and previously financed by us. The amount of the new mortgage loans totaled \$14,450,000 and the notes were to mature May 14, 2009. The notes were recorded net of the \$5,200,000 recorded loss on notes to AMA in 2002. Management's analysis of future expected cash flows consistent with SFAS 114, historical occupancy and operating income of the project resulted in additional net impairments of \$2,000,000 in 2005. Loans secured by two of the properties were paid during 2006, inclusive of \$4,935,000 in recoveries, and a gain of \$1,015,000.

In March 2007, the remaining AMA mortgage loans secured by the last of three AMA properties were fully paid. We received \$5,721,000 in cash, representing the full principal balances and accrued interest on the loans. As a result, we recorded recoveries of \$1,700,000 and a gain on settlement of the note of \$468,000.

The average recorded investment in the AMA loans was \$4,603,000 and \$5,781,000 for the years ended December 31, 2007 and 2006, respectively. The related amount of interest income recognized (representing cash received) on the loans was \$72,000, \$1,377,000 and \$1,118,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

Health Services Management of Texas LLC ("HSM") - On July 11, 2007, we received payoff at par of a mortgage loan investment in the amount of \$44,500,000. The recovery of amounts previously written down related to this loan amounted to \$21,300,000.

The average recorded investment in the HSM loan was \$23,060,000 and \$23,650,000 for the years ended December 31, 2007 and 2006, respectively. The related amount of interest income recognized (representing cash received) on the loan was \$2,575,000, \$3,774,000, and \$3,819,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

SouthTrust - On December 6, 2007, we received a final residual payment related to a mortgage pool investment. The recovery of amounts previously written down related to this investment amounted to \$1,238,000. Recovery of any amounts previously written down had been highly doubtful. There was no carrying value of this investment at any time during 2006 or 2007.

Miracle Hill Nursing and Convalescent Center ("Miracle Hill") - In September 1996, we provided financing to Miracle Hill. Management's past analysis of the future expected cash flows consistent with SFAS 114, past, current and anticipated operating income of the project, and liquidity of the facility resulted in the recording of a \$2,000,000 write-down of this mortgage loan in the second quarter of 2005. In November 2006, the Miracle Hill note matured and was fully paid off, at which time we recorded a loan recovery of \$2,000,000.

The average recorded investment in the Miracle Hill loan was \$2,194,000 for the year ended December 31, 2006. The related amount of interest income recognized (representing cash received) on the loan was \$504,000 and \$508,000 for the years ended December 31, 2006 and 2005, respectively.

Allgood HealthCare, Inc. ("Allgood") - On July 1, 2006, one of the five original properties was sold to a third party operator by the Bankruptcy Trustee with us consenting to such sale. We provided the purchaser with short-term mortgage financing totaling \$5,692,000. The note matured and was paid in full on December 31, 2006, at which time we recorded a loan recovery of \$2,073,000.

Alachua and Oakview - In 2005, we recorded recoveries of amounts previously written down of \$565,000 related to loans to two Florida facilities.

NOTE 5. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. We calculate the fair values of other financial instruments using quoted market prices and discounted cash flow techniques. At December 31, 2007 and 2006, there were no material differences between the carrying amounts and fair values of our financial instruments.

NOTE 6. INVESTMENT IN PREFERRED STOCK

In September 1998, we purchased two million shares of the cumulative preferred stock of LTC Properties, Inc. ("LTC"), a publicly-held REIT. The nonvoting preferred stock is convertible into common stock at a 1:1 ratio. The preferred stock has an annual cumulative coupon rate of 8.5% payable quarterly and a liquidation preference of \$19.25 per share. Dividend revenue amounted to \$3,241,000 in 2007, 2006, and 2005, respectively. The preferred stock is not redeemable by us or LTC. The preferred stock, which is not listed on a stock exchange, is considered a non-marketable security accounted for under Accounting Principles Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock," and is recorded at cost in the consolidated balance sheets. Amounts to be received from the 8.5% coupon rate are recorded as investment income when the dividend is declared. The carrying value of the preferred stock consists of its cost and was \$38,132,000 at December 31, 2007 and 2006, respectively.

In addition to its investment in the preferred stock of LTC, we hold 774,800 shares of common stock of LTC (with a fair value and carrying value of \$19,409,000 and \$21,160,000 at December 31, 2007 and 2006, respectively), which is included in marketable securities (See Note 7).

NOTE 7. INVESTMENT IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities. Unrealized gains and losses on available-for-sale securities are recorded in stockholders' equity in accordance with SFAS 115. Realized gains and losses from securities sales are determined on the specific identification of the securities.

Marketable securities consist of the following (in thousands):

December 31,	2007		2006	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale	\$41,448	\$55,816	\$26,680	\$44,463

Gross unrealized gains and gross unrealized losses related to available-for-sale securities are as follows (in thousands):

	2007	2006
Gross unrealized gains	\$ 14,785	\$ 17,856
Gross unrealized losses	(417)	(73)
Total	\$ 14,368	\$ 17,783

At December 31, 2007, available-for-sale marketable securities consist of the common stock of other publicly traded REITs having a fair value of \$21,122,000, convertible preferred stock of NHC having a fair market value of \$1,565,000, and investments in enhanced cash funds of \$33,129,000. None of these available-for-sale marketable securities have stated maturity dates.

During 2007, 2006 and 2005, we received and recognized \$5,103,000, \$6,476,000, and \$4,838,000, respectively, of dividend and interest income from our marketable securities. Such income is included in non-operating income in the consolidated statements of income.

In October 2007, National Health Realty, Inc. ("NHR") was merged into National HealthCare Corporation ("NHC"). In exchange for each share of NHR stock owned, shareholders received \$9 cash plus NHC convertible preferred stock valued at \$13.66 per share. At this date, we owned 111,800 shares of NHR common stock. The realized gain of \$1,266,000 was recorded in non-operating income.

On December 10, 2007, we were notified by Bank of America that its largest, privately-placed, enhanced cash fund called Columbia Strategic Cash Fund (the "Fund") would be closed and liquidated. In addition, (1) cash redemptions were temporarily suspended, although redemptions could be filled through a pro-rata distribution of the underlying securities, consisting principally of high-quality corporate debt, mortgage-backed securities and asset-backed securities; (2) the Fund's valuation would be based on the market value of the underlying securities, whereas historically the Fund's valuation was based on amortized cost; and (3) interest would continue to accrue. The carrying value of our investment in the Fund on December 10, 2007 was \$38,359,000. Subsequent to December 10, 2007 and prior to December 31, 2007, we received a pro-rata distribution of underlying securities in the Fund as described above of \$14,382,000 to a separate investment management account ("IMA") and cash redemptions of principal totaling \$4,665,000. Prior to December 31, 2007, realized losses on the distribution and redemption of securities and cash amounted to \$236,000. At December 31, 2007, the fair market value of our investment in the Fund was estimated to be \$18,835,000 and the fair market value of our investment in the separate IMA was estimated to be \$14,294,000 for a total of \$33,129,000. Unrealized losses measured as the difference between fair market value and our original investment, at cost, amounted to \$329,000.

Management had previously classified investments in the enhanced cash fund as cash equivalents due to the characteristics of the Fund as being highly liquid, and transactions between the Fund and our bank operating account being settled the same day. Due to the event described above, management re-evaluated the nature of the investment, and determined that the investment should be reclassified as available-for-sale marketable securities for all periods presented in the consolidated financial statements.

NOTE 8. NOTES AND BONDS PAYABLE

Debt consists of the following:

December 31,	Weighted Average Interest Rate	Final Maturities	Principal Amount	
			2007	2006
Unsecured public notes, interest payable semi-annually, principal due at maturity	Fixed, 7.3%	2007	\$ -	\$100,000,000
First mortgage revenue bonds, principal payable in periodic installments, interest payable monthly	Variable, 5.6%	2008 to 2014	5,711,000	6,942,000
Senior notes, principal and interest payable quarterly	Variable, 5.8%	2009	3,801,000	6,550,000
			\$ 9,512,000	\$113,492,000

The 7.3% unsecured notes (the "Notes") totaling \$100 million matured on July 16, 2007 and were fully paid off in cash at no gain or loss. The Notes were senior unsecured obligations of ours and ranked equally with our other unsecured senior debt.

Certain debt agreements require maintenance of specified financial ratios. We have met all such covenants as of December 31, 2007.

The aggregate principal maturities of all debt as of December 31, 2007 are as follows:

2008	\$ 5,100,000
2009	1,616,000
2010	1,816,000
2011	230,000
2012	240,000
Thereafter	510,000
	\$ 9,512,000

NOTE 9. CONVERTIBLE SUBORDINATED DEBENTURES

2000 Senior Debentures - Through a rights offering to its common stockholders on December 29, 2000, we issued \$20,000,000 of senior subordinated convertible debentures (the "2000 senior debentures") due on January 1, 2006. The 2000 senior debentures paid interest at the greater of the prime rate plus 1% or 9%. All outstanding debentures were redeemed on January 1, 2006.

NOTE 10. COMMITMENTS AND CONTINGENCIES

At December 31, 2007, we were committed, subject to due diligence and financial performance goals, to fund approximately \$167,000 in health care real estate projects, all of which are expected to be funded within the next 12 months. The commitments include additional mortgage investments for four long-term health care centers at interest rates of prime plus 2.0%.

We believe that we have operated our business so as to qualify as a REIT under Section 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. 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 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.

The Health Care Facilities are subject to claims and suits in the ordinary course of business. Our lessees and mortgagees have indemnified and will continue to indemnify us against all liabilities arising from the operation of the Health Care Facilities and will indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be

lawsuits pending against certain of the owners and/or lessees of the Health Care Facilities, management believes that the ultimate resolution of any pending proceedings would have no material adverse effect on our financial position, operations and cash flows.

NOTE 11. LIMITS ON COMMON STOCK OWNERSHIP

Our charter limits the percentage of ownership that any person may have in the outstanding securities of the Company to 9.9% of the total outstanding securities. This limit is a provision of our charter and is necessary in order to reduce the possibility of our failing to meet the stock ownership requirements for qualification as a REIT under the Internal Revenue Code of 1986, as amended.

NOTE 12. STOCK-BASED COMPENSATION

Effective January 1, 2006, we adopted FASB No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), using the modified prospective application transition method. Under this method, compensation cost is recognized, beginning January 1, 2006, based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date, and based on Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), for all awards granted to employees prior to January 1, 2006 that remained unvested on the effective date. Prior to January 1, 2006, we applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations in accounting for our employee stock benefit plans. Accordingly, no compensation cost was recognized for stock options granted under the plans because the exercise prices for options granted were equal to the quoted market prices on the option grant dates and all option grants were to employees or directors. Results for prior periods have not been restated.

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 any 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 2005, our shareholders approved the 2005 Stock Option, Restricted Stock and Stock Appreciation Rights Plan ("the 2005 Plan") pursuant to which 1,500,000 shares of our common stock were available to grant as share-based payments to employees, officers, directors or consultants. As of December 31, 2007, 1,358,800 shares are available for future grants under this plan. The restricted stock granted in 2006 vests over five years and the options granted in 2007 and 2006 have varied vesting periods up to five years. The term of the options outstanding under the 2005 Plan is five years from the date of grant.

The NHI 1997 Stock Option Plan ("the 1997 Plan") provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of December 31, 2007, no shares are available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

The compensation expense reported for share-based compensation related to the 2005 Plan and the 1997 Plan totaled \$543,000 and \$519,000 for the years ended December 31, 2007 and 2006, respectively, consisting of \$327,000 and \$345,000 for restricted stock and \$216,000 and \$174,000 for stock options which is included in general and administrative expense in the Consolidated Statements of Income.

Determining Fair Value Under SFAS No. 123(R)

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. Generally, awards are subject to cliff vesting. 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 \$2.59 and \$1.95 for 2007 and 2006, respectively. For purposes of pro forma disclosures of 2005 net income and earnings per share as required by SFAS 123(R), as amended, the estimated fair value of the options is amortized to expense over the requisite service period. 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 used for grants in 2007 and 2006:

	2007	2006	2005
Dividend yield	8.32%	8.71%	8.80%
Expected volatility	20.42%	22.93%	21.69%
Expected lives	2.5 years	2.7 years	5 years
Risk-free interest rate	4.64%	4.83%	3.81%
Expected forfeiture rate	0.00%	0.00%	0.00%

Stock Option Activity

The following table summarizes option activity:

December 31, 2004	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value
<i>(in thousands)</i>				
Outstanding December 31, 2004	226,729		17.08	
Options granted under 1997 Plan	63,000		26.20	
Options exercised under 1997 Plan	(154,729)		15.19	
Outstanding December 31, 2005	135,000		23.50	
Options granted under 2005 Plan	86,000		25.32	
Options granted under 1997 Plan	60,000		23.79	
Options exercised under 1997 Plan	(15,000)		23.79	
Outstanding December 31, 2006	266,000		24.14	
Options granted under 1997 Plan	57,800		34.25	
Options granted under 2005 Plan	2,200		34.25	
Outstanding December 31, 2007	326,000	\$26.00	2.787	\$ 619
Exercisable December 31, 2007	260,332	\$26.20	2.649	\$ 443

Grant Date	Options Outstanding	Exercise Price	Remaining Contractual Life in Years
4/24/03	30,000	\$16.35	0.333
4/20/04	45,000	\$23.90	1.083
5/3/05	60,000	\$26.78	2.417
3/9/06	50,000	\$26.10	3.167
5/1/06	11,000	\$23.62	3.333
5/2/06	45,000	\$23.79	3.333
7/21/06	25,000	\$24.50	3.500
5/16/07	60,000	\$34.25	4.417
	326,000		2.787

The weighted average remaining contractual life of all options outstanding at December 31, 2007 is 2.787 years. Our stockholders have authorized an additional 1,684,800 shares of common stock that may be issued under the share-based payments plans.

At December 31, 2007, there were outstanding unvested options to purchase 65,668 shares with a weighted average grant date fair value of \$2.05 per share. As of December 31, 2007, we had \$54,000 of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be recognized over the following periods: 2008-\$37,000; 2009-\$12,000; 2010-\$4,000; and 2011-\$1,000.

The closing market price of our common stock at December 31, 2007 was \$27.90 per share. The intrinsic value of total options outstanding at December 31, 2007 was \$1.90 per share or \$619,000. The intrinsic value of options exercisable at December 31, 2007 was \$1.70 per share or \$443,000.

Restricted Stock Activity

The following table summarizes restricted stock activity:

	Number of Shares	Weighted Average Grant Price	Weighted Average	
			Remaining Contractual Life (Years)	Aggregate Intrinsic Value <i>(in thousands)</i>
Restricted Stock granted in 2006 under 2005 Plan and Non-vested at December 31, 2006	53,000	\$ 25.96		
Non-vested at December 31, 2007	48,700	n/a	2.646	\$ 1,359
Vested December 31, 2007	4,300	n/a	—	120

Grant Date	Shares Outstanding	Grant Price	Remaining Contractual Life in Years
3/9/06	50,000	\$26.10	2.645
5/2/06	3,000	\$23.62	2.667
	53,000		

The weighted average remaining contractual life of all restricted shares outstanding at December 31, 2007 is 2.646 years. The closing market price of our common stock at December 31, 2007 was \$27.90 per share, which is the implied intrinsic value of the restricted stock.

At December 31, 2007, we had \$704,000 of total unrecognized compensation cost related to unvested restricted stock issued which is expected to be recognized over the following periods: 2008-\$261,000; 2009-\$220,000; 2010-\$191,000; and 2011-\$32,000.

Prior Period Presentations

Prior to 2006, our share-based compensation plan was accounted for using the intrinsic value method prescribed in APB No. 25 and related Interpretations. No share-based compensation was reflected in net income for the year ended December 31, 2005. All stock options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. There were no restricted stock grants issued prior to this year. Had compensation cost for the plan been determined based on the fair value at the grant dates for awards under the plan consistent with the method of SFAS No. 123(R), our 2005 net income and basic and diluted net income per share would have been changed to amounts indicated below:

	2005
<i>(dollars in thousands, except per share amounts)</i>	
Net income - as reported	\$54,408
Less compensation cost that would be recognized under fair value method	(112)
Net income - pro forma	\$54,296
Net earnings per share - as reported	
Basic	\$ 1.96
Diluted	\$ 1.96
Net earnings per share - pro forma	
Basic	\$ 1.96
Diluted	\$ 1.95

NOTE 13. SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information is as follows:

(in thousands)

<u>Years Ended December 31,</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash payments for interest expense	\$ 7,860	\$ 7,368	\$ 7,444
During 2005, \$915 of convertible			
subordinated debentures were converted			
into 130,692 shares of NHL's common stock			
Convertible subordinated debentures	\$ —	\$ —	\$ (915)
Financing costs	—	—	2
Accrued interest	—	—	(10)
Common stock	—	—	1
Capital in excess of par value	—	—	922

As described in Note 3, on December 31, 2007, we recorded the previous sale of 16 facilities that were, prior to that time, required to be consolidated into our financial statements under the requirements of SFAS 66 since they previously did not qualify as a sale for financial reporting purposes. Accounts increased (decreased) as follows:

(in thousands)

<u>As of Ended December 31,</u>	<u>2007</u>
Mortgage notes receivable, net	\$66,819
Real estate properties, net	(36,857)
Accounts receivable, net	(7,176)
Deferred costs and other assets	(13,310)
Accounts payable and other accrued expenses	(17,072)

NOTE 14. EARNINGS PER SHARE

Basic earnings per share is based on the weighted average number of common shares outstanding during the year. Net income is reduced by dividends to holders of cumulative convertible preferred stock.

Diluted earnings per share assumes, if dilutive, the conversion of convertible subordinated debentures, the conversion of cumulative convertible preferred stock and the exercise of stock options using the treasury stock method. Net income is increased for interest expense on the convertible subordinated debentures, if dilutive.

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

Year Ended December 31,	2007	2006	2005
BASIC:			
Weighted average common shares outstanding	27,703,464	27,744,868	27,699,887
Income from continuing operations available to common stockholders	\$79,041	\$59,100	\$50,791
Discontinued operations	17,394	10,128	3,617
Net income available to common stockholders	\$96,435	\$69,228	\$54,408
Income from continuing operations per common share	\$ 2.85	\$ 2.13	\$ 1.83
Discontinued operations per common share	.63	.37	.13
Net income per common share	\$ 3.48	\$ 2.50	\$ 1.96
DILUTED:			
Weighted average common shares	27,703,464	27,744,868	27,699,887
Stock options	58,954	28,415	29,604
Restricted stock shares	21,444	5,481	—
Convertible subordinated debentures	—	—	101,395
Average dilutive common shares outstanding	27,783,862	27,778,764	27,830,886
Income from continuing operations	\$79,041	\$59,100	\$50,791
Interest on convertible subordinated debentures	—	—	81
Income from continuing operations available to common stockholders	79,041	59,100	50,872
Discontinued operations	17,394	10,128	3,617
Net income available to common stockholders assuming conversion of convertible subordinated debentures to common stock, if dilutive	\$96,435	\$69,228	\$54,489
Income from continuing operations per common share	\$ 2.84	\$ 2.13	\$ 1.83
Discontinued operations per common share	.63	.36	.13
Net income per common share	\$ 3.47	\$ 2.49	\$ 1.96
Incremental shares excluded since anti-dilutive:			
Stock options	4,936	50,000	—

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share", the above incremental shares were excluded from the computation of diluted earnings per share since inclusion of these incremental shares in the calculation would have been anti-dilutive.

NOTE 15. COMMON STOCK DIVIDENDS (Unaudited)

Dividend payments per share to common stockholders are characterized in the following manner for tax purposes in 2007:

Dividend Payment Date	Taxable as Ordinary Income	Taxable as Capital Gain	Unrecaptured Section 1250 Gain ⁽¹⁾	Totals
May 10, 2007	\$.477604	\$.022396	\$.000922	\$.500
August 10, 2007	.477604	.022396	.000922	.500
November 9, 2007	.477604	.022396	.000922	.500
January 31, 2008	1.327603	.022397	.000923	1.350
	\$2.760415	\$.089585	\$.003689	\$2.850

⁽¹⁾ These amounts are included in the capital gain.

NOTE 16. RELATIONSHIP WITH NATIONAL HEALTHCARE CORPORATION*Leases*

Lease extension - On December 27, 2005, under an amendment to the master lease, NHC exercised its option to extend the existing lease on 41 properties for the second renewal term. The 41 properties include 4 centers leased to other parties, the lease payments of which are guaranteed to us by NHC under the Master Lease. The 15-year lease extension began January 1, 2007, and includes 3 additional 5-year renewal options, each at fair market value. Under the terms of the lease, base rent for 2007 totaled \$33,700,000 with rent thereafter escalating by 4% of the increase in facility revenue over a 2007 base year. The lease was scheduled to expire on December 31, 2006 unless extended by NHC. The terms of the existing lease remained in place for 2006, as discussed below.

Initial lease - On October 17, 1991, concurrent with NHC's conveyance of real property to us, we leased to NHC 40 long-term care facilities and 3 retirement centers. Each lease was for an initial term expiring December 31, 2001, with two additional five-year renewal terms at the option of NHC, assuming no defaults. During 2000, NHC exercised its option to extend the lease term for the first five-year renewal term under the same terms and conditions as the initial term. We account for this lease as an operating lease.

During the initial term and the first renewal term ended on December 31, 2006, NHC was obligated to pay annual base rent on all 41 facilities of \$15,238,000. The leases also obligated NHC to pay as debt service rent all payments of interest and principal due under each mortgage to which the conveyance of the facilities was subject. Payments for debt previously serviced were required for the shorter of the remaining life of the mortgage or lease term.

In addition to base rent and debt service rent, NHC paid percentage rent to us equal to 3% of the increase in the gross revenue of each facility through December 31, 2006. Effective January 1, 2000, we amended our lease agreements with NHC to provide for the calculation of percentage rent based on quarterly revenue increases rather than annual revenue increases. We recognized \$4,829,000 and \$4,525,000 of percentage rent from NHC during 2006 and 2005, respectively. There was no percentage rent recognized in 2007.

Each lease with NHC is a "triple net lease" under which NHC is responsible for paying all taxes, utilities, insurance premium costs, repairs and other charges relating to the ownership of the facilities. NHC is obligated at its expense to maintain adequate insurance on the facilities' assets.

One of our owned nursing home properties, leased to a subsidiary of NHC and located in Nashville, Tennessee, was damaged by fire on September 25, 2003 which resulted in the loss of life or critical injury to a number of patients. The lease required NHC to indemnify and hold us harmless from any and all demands and claims arising from its use of the property.

A provision of the lease allowed that if substantial damage occurred during the lease term, NHC could terminate the lease with respect to the damaged property. During October 2004, NHC exercised its right to terminate the lease on the Nashville facility. The lease termination entitled us to receive all property insurance proceeds paid as a result of the fire. We retained the right to

the bed license following lease termination. Prior to the fire, we received annualized rent of \$250,000 per year on the Nashville facility. We received \$2,654,000 in insurance proceeds in 2005. We sold the Nashville facility in May 2005 (See Note 17).

Our rental income was \$51,005,000 (\$33,700,000 from NHC) in 2007; \$46,281,000 (\$31,309,000 from NHC) in 2006; and \$44,005,000 (\$33,328,000 from NHC) in 2005.

During 2000, NHC subleased four Florida facilities to unrelated third parties. Although NHC's rent obligations pursuant to the master lease were unchanged, NHC received a credit for rents paid to us on the 4 subleased Florida centers by the current lessees.

Future minimum lease payments - At December 31, 2007, the future minimum lease payments (excluding percentage rent) to be received by us under our operating leases are as follows:

	NHC	Others	Total
2008	\$33,700,000	\$14,926,000	\$48,626,000
2009	\$33,700,000	\$13,031,000	\$46,731,000
2010	\$33,700,000	\$8,762,000	\$42,462,000
2011	\$33,700,000	\$6,838,000	\$40,538,000
2012	\$33,700,000	\$5,135,000	\$38,835,000
Thereafter	\$303,300,000	\$16,709,000	\$320,009,000

Advisory Agreements

Management Advisory Source, LLC - Effective November 1, 2004, we assigned our Advisory Agreement with NHC to a new company, Management Advisory Source, LLC ("MAS"), formed by our President and Board Chairman W. Andrew Adams. Pursuant to this agreement, services related to investment activities and day-to-day management and operations are provided to us by MAS. Accordingly, MAS is subject to the supervision of and policies established by our Board of Directors. We have no ownership in MAS. The expense recorded under the Advisory Agreement was approximately \$3,625,000, \$3,499,000 and \$3,599,000 in 2007, 2006 and 2005, respectively. We believe it to be in our best interest to accentuate our independence from NHC, its largest tenant. Therefore, Mr. Adams assumed the responsibilities of the Advisory Agreement. To assure independence from NHC, Mr. Adams resigned as CEO of NHC and terminated his managerial responsibilities with NHC in 2004. From November 1, 2004 to October 1, 2006, Mr. Adams outsourced non-managerial functions of the Advisory Agreement such as payroll processing, accounting, financing and the like to NHC. Effective October 1, 2006, MAS began to provide these services. Mr. Adams has remained as NHC Board Chairman, focusing on strategic planning, but has no management involvement with NHC. On December 3, 2007, we elected to become a self-managed REIT with our own management reporting directly to the Board of Directors. We notified MAS of our intent to terminate the Advisory Agreement effective March 31, 2008. On January 29, 2008, we received notice from Mr. Adams that he intends to resign as President effective March 31, 2008. Mr. Adams will remain with us as both a director and as Chairman of the Board of Directors.

NHC - Since its inception until November 1, 2004, we had an Advisory Agreement with NHC whereby services related to investment activities and day-to-day management and operations were provided to us by NHC. As Advisor, NHC was subject to the supervision of and policies established by our Board of Directors. For its services under the Advisory Agreement, NHC was entitled to annual compensation of \$2,383,000 in 2004. The annual compensation was reduced by any compensation paid by us to our executive officers, if any, and could be deferred under certain circumstances.

Facility Management Services - Subsidiaries of NHC manage foreclosure properties for management fees equal to a weighted average of 5.35% of net revenues of the foreclosure properties. Management fees totaled \$5,022,000, \$4,903,000, and \$5,045,000, for the years ended December 31, 2007, 2006 and 2005, respectively.

Ownership of Common Stock - At December 31, 2007, NHC owned 1,630,462 shares of our common stock. At December 31, 2007, we owned 111,800 shares of NHC convertible preferred stock.

NOTE 17. DISCONTINUED OPERATIONS

Foreclosure Properties - As described in Note 3, on December 31, 2007, we recognized the sale of the 16 foreclosure properties and recorded mortgage notes receivable secured by the properties with a carrying value of \$66,819,000. The transition resulted in a net gain on sale and deconsolidation of \$12,469,000. The net carrying value of the assets and liabilities deconsolidated was \$54,350,000.

Milwaukee South Healthcare Center - In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of \$669,000. Net proceeds were \$2,288,000 and the carrying value of the property and equipment sold was \$1,619,000.

Regal and Royal Healthcare - In May 2006, two New Jersey nursing facilities were sold generating net cash proceeds of \$17,570,000 and a gain recognized of \$5,690,000.

Town and Country - In March 2006, we received \$5,482,000 from the sale by the current owner of a nursing facility in Town & Country, Missouri. The carrying amount of this facility was \$5,358,000 composed of net realty of \$6,520,000, reduced by net liabilities of \$1,162,000. This property was sold in December 2004 to a not-for-profit entity and we provided 100% financing. As a result of having received final proceeds related to this facility during 2006, we recognized the December 2004 sale of this property and recognized a \$124,000 gain.

Marriott Senior Living - In February 2005, a facility in Dallas, Texas, was sold for cash proceeds of \$7,911,000 and a loss of \$851,000 was recognized.

Manor House of Charlotte - In January 2005, a facility in Charlotte was sold for cash proceeds of \$3,571,000 and a gain was recognized of \$1,624,000.

For 2007, 2006 and 2005, we have reclassified the operations, including the net gain on the sale of these facilities, as discontinued operations in accordance with SFAS 144. Income from discontinued operations related to these facilities is as follows:

<i>(in thousands, except per share amounts)</i>	Year Ended December 31,		
	2007	2006	2005
Revenues:			
Rental income	\$ 667	\$ 662	\$ 1,786
Facility operating revenue	93,383	91,529	93,410
	94,050	92,191	95,196
Expenses:			
Interest	7	5	237
Depreciation	3,485	3,584	3,889
Franchise, excise, and other taxes	-	26	27
Facility operating expenses	86,302	84,262	88,199
	89,794	87,877	92,352
Operating income	4,256	4,314	2,844
Gain on sale of assets	13,138	5,814	773
Total discontinued operations	\$ 17,394	\$ 10,128	\$ 3,617
Discontinued operations per common share:			
Basic	\$.63	\$.37	\$.13
Diluted	\$.63	\$.36	\$.13

NOTE 18. NON-OPERATING INCOME

Non-operating income is outlined in the table below:

	Year Ended December 31		
	2007	2006	2005
	<i>(in thousands)</i>		
Dividends	\$ 4,654	\$ 4,626	\$ 4,521
Equity in income - investees	—	26	—
Realized gains on sales of securities	1,029	—	4,050
Recovery of securities written down	—	—	5,022
Interest income	7,066	6,889	4,049
Gain on settlement of notes receivable	468	1,015	—
Insurance proceeds and gain on sale of Nashville facility	—	—	4,433
Other	124	165	256
	\$13,341	\$12,721	\$22,331

Nashville Facility - During October 2004, a subsidiary of NHC exercised its right to terminate the lease on one of our owned nursing home properties located in Nashville, Tennessee that was damaged by a fire on September 25, 2003. The lease termination entitled us to receive all property insurance proceeds paid as a result of the fire. We retained the right to the bed license following lease termination. Prior to the fire, we received annualized rent of \$250,000 per year on the Nashville facility. In 2005, we received \$2,654,000 in insurance proceeds and sold the Nashville facility in May 2005 for net cash proceeds of \$2,971,000, resulting in a gain of \$1,779,000.

NOTE 19. 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*).

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
2007				
Net Revenues	\$15,487	\$16,224	\$15,589	\$15,013
Non-operating Income	3,694	3,390	2,720	3,537
Income from continuing operations	14,661	13,143	35,419	15,818
Discontinued operations -				
Income from operations - discontinued	820	1,169	1,119	1,148
Net gain on dispositions and deconsolidation	—	669	—	12,469
Net income	15,481	14,981	36,538	29,435
Earnings per share:				
Basic:				
Income from continuing operations	.53	.47	1.28	.57
Discontinued operations	.03	.07	.04	.49
Net income per common share	.56	.54	1.32	1.06
Diluted:				
Income from continuing operations	.53	.47	1.27	.57
Discontinued operations	.03	.07	.04	.49
Net income	.56	.54	1.31	1.06
2006				
Net Revenues	\$15,237	\$15,817	\$14,755	\$15,453
Non-operating income	2,402	2,822	3,170	4,327
Income from continuing operations	12,192	13,078	12,380	21,450
Discontinued operations -				
Income from operations - discontinued	304	1,012	999	1,999
Net gain on sale of real estate	124	5,690	—	—
Net income	12,620	19,780	13,379	23,449
Earnings per share:				
Basic:				
Income from continuing operations	.43	.47	.44	.78
Discontinued operations	.02	.24	.04	.07
Net income per common share	.45	.71	.48	.85
Diluted:				
Income from continuing operations	.43	.47	.44	.78
Discontinued operations	.02	.24	.04	.06
Net income	.45	.71	.48	.84

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 retroactively reflect the dispositions of certain facilities as discontinued operations for all periods presented.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures - Based on their evaluation as of December 31, 2007, the CEO and principal accounting officer of the Company have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-K. No change in our internal control over financial reporting occurred during our last fiscal quarter that materially affected, or is reasonably likely to affect, our internal control over financial reporting.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of National Health Investors, Inc. (the "Company") 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, 2007 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2007. The Company's independent auditors, BDO Seidman, LLP, have issued an attestation report on the effectiveness of the Company's internal control over financial reporting included herein.

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, 2007, based on criteria established in Internal Control – Integrated Framework 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 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, 2007, 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, 2007 and 2006, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2007 and our report dated February 28, 2008 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 28, 2008

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

Incorporated by reference from the information in our proxy statement for the 2008 Annual Meeting, which we will file within 120 days of the end of the fiscal year to which this report relates.

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, 2007, 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.

ITEM 11. EXECUTIVE COMPENSATION.

Incorporated by reference from the information in our proxy statement for the 2008 Annual Meeting, 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 STOCKHOLDERS MATTERS.

Incorporated by reference from the information in our proxy statement for the 2008 Annual Meeting, 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 proxy statement for the 2008 Annual Meeting, 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 proxy statement for the 2008 Annual Meeting, 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 listed in Exhibit 13.

- (3) Exhibits

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

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/ W. Andrew Adams
W. Andrew Adams
Chief Executive Officer

Date: February 28, 2008

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ W. Andrew Adams</u> W. Andrew Adams	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 28, 2008
<u>/s/ Roger R. Hopkins</u> Roger R. Hopkins	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2008
<u>/s/ Richard F. LaRoche, Jr.</u> Richard F. LaRoche, Jr.	Director	February 28, 2008
<u>/s/ Robert A. McCabe, Jr.</u> Robert A. McCabe, Jr.	Director	February 28, 2008
<u>/s/ Robert T. Webb</u> Robert T. Webb	Director	February 28, 2008
<u>/s/ Ted H. Welch</u> Ted H. Welch	Director	February 28, 2008

NATIONAL HEALTH INVESTORS, INC.
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

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	Bylaws	Incorporated by reference to Exhibit 3.2 to Form S-11 Registration Statement No. 33-41863
4.1	Form of Common Stock Certificate	Incorporated by reference to Exhibit 39 to Form S-11 Registration Statement No. 33-41863
4.2	Form of Preferred Convertible Stock Certificate	Incorporated by reference to Exhibit 60 to Form S-3 Registration Statement No. 33-72370
4.3	Form of Debenture due 2006 (10%)	Incorporated by reference to Exhibit 38 to Form S-11 Registration Statement No. 33-41863
4.4	Form of Indenture Governing the Debentures	Incorporated by reference to Exhibit 4.3 to Form S-4 Registration Statement No. 33-41863
4.6	Form of Debenture due 2006 (7%)	Incorporated by reference to Exhibit 1 to Form S-3 Registration Statement No. 33-72370
4.7	First Supplemental Indenture Dated December 15, 1995	Incorporated by reference to Exhibit 4.7 to Form 10-K dated February 26, 1996

10.1	Material Contracts	Incorporated by reference from Exhibits 10.1 thru 10.9 to Form S-4 Registration Statement No. 33-41863
10.2	Amendment No. 5 to Master Agreement to Lease dated December 27, 2005, effective January 1, 2007.	Incorporated by reference to Exhibit 10.2 to Form 10-K dated March 10, 2006
10.3	Advisory, Administrative Services and Facilities Agreement between National Health Investors, Inc. and Management Advisory Source, LLC dated November 1, 2004	Incorporated by reference to Exhibit 10.3 to Form 10-K dated March 10, 2006
10.4	1991 Stock Option Plan	Incorporated by reference from Exhibit 10.12 to Form S-4 Registration No. 33-41863
10.5	1997 Stock Option Plan	Incorporated by reference from the 1997 Proxy Statement as filed
10.6	2005 Stock Option Plan	Incorporated by reference from Exhibit 4.10 to the Company's registration statement on Form S-8 filed August 4, 2005.
13	Financial Statement Schedules	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed Herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Accounting Officer	Filed Herewith
32	Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer and Principal Accounting Officer	Filed Herewith

[\(Back To Top\)](#)

Section 2: EX-13 (EXHIBIT 13)

EXHIBIT 13
NATIONAL HEALTH INVESTORS, INC.
INDEX TO FINANCIAL STATEMENT SCHEDULES

Financial Statement Schedules

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

Schedule III - Real Estate and Accumulated Depreciation

Schedule IV - Mortgage Loans on Real Estate

Report of Independent Registered Public Accounting Firm

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

The audits referred to in our report dated February 28, 2008 relating to the consolidated financial statements of National Health Investors, Inc., which is contained in Item 8 of this Form 10-K, included the audits of the financial statement schedules listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based upon our audits.

In our opinion such financial statement schedules present fairly, in all material respects, the information set forth therein.

/s/ BDO Scidman, LLP

Nashville, Tennessee
February 28, 2008

NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005
(in thousands)

Description	Balance Beginning of Period	Additions Charged to Costs and Expenses (1)	Deductions	Balance End of Period
For the year ended December 31, 2007 - Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2006 - Loan loss allowance	\$ —	\$1,074	\$1,074	\$ —
For the year ended December 31, 2005 - Loan loss allowance	\$ —	\$6,000	\$6,000	\$ —

(1) In the Consolidated Statements of Income, we report the net amount of our provision for loan and realty losses and our recoveries of amounts previously written down. For 2007, net recoveries were \$24,238 and there was no provision for losses during the year. For 2006, net recoveries were \$7,934 comprised of recoveries of \$9,008 offset by provision for loan losses of \$1,074. For 2005, the net provision was \$10,837 comprised of a provision for loan losses of \$6,000, a provision for realty losses of \$2,550, a provision for maintenance expense of \$2,852, offset by recoveries of \$565.

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2007

Column A	Column B	Column C	Column D		Column E			Column F	Column G	Column H	
Properties	Initial Cost to Company		Cost capitalized subsequent to acquisition		Gross amount at which carried at close of period			Accumulated Depreciation	Date of Construction	Date Acquired	
	Encumbrances	Land	Buildings & Improvements	Improvements	Carrying Costs	Land	Buildings & Improvements				Total
<i>(dollars in thousands)</i>											
Health Care Centers (2) Alabama	\$ —	\$ 95	\$ 5,165	\$ —	\$ —	\$ 95	\$ 5,165	\$ 5,260	\$ 3,298	N/A	10/17/91
Health Care Centers (1) Arizona	1,590	453	6,678	—	—	453	6,678	7,131	2,055	N/A	8/13/96
Health Care Centers (4) Florida	641	2,306	37,437	—	—	2,306	37,437	39,743	20,374	N/A	10/17/91 & 12/31/99
Health Care Centers (1) Georgia	—	52	865	—	—	52	865	917	787	N/A	10/17/91
Health Care Centers (1) Idaho	—	122	2,491	—	—	122	2,491	2,613	768	N/A	8/13/96
Health Care Centers (1) Kansas	—	305	2,247	—	—	305	2,247	2,552	267	N/A	8/1/01 & 10/31/04
Health Care Centers (2) Kentucky	—	231	2,182	—	—	231	2,182	2,413	1,472	N/A	10/17/91
Health Care Centers (5) Missouri	1,725	1,165	23,070	—	—	1,165	23,070	24,235	13,255	N/A	10/17/91 & 8/1/01
Health Care Centers (3) South Carolina	—	572	11,527	—	—	572	11,527	12,099	7,727	N/A	10/17/91
Health Care Centers (20) Tennessee	—	1,835	41,297	—	—	1,835	41,297	43,132	25,769	N/A	10/17/91

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2007

Column A	Column B	Column C	Column D		Column E			Column F	Column G	Column H	
Properties	Encumbrances	Initial Cost to Company		Cost capitalized subsequent to acquisition		Gross amount at which carried at close of period			Accumulated Depreciation	Date of Construction	Date Acquired
		Land	Buildings & Improvements	Improvements	Carrying Costs	Land	Buildings & Improvements	Total			
Health Care Centers (8) Texas	—	2,280	47,409	—	—	2,280	47,409	49,689	9,560	N/A	9/1/01 & 3/16/05
Health Care Centers (1) Virginia	1,755	176	2,510	—	—	176	2,510	2,686	1,478	N/A	10/17/91
Acute Care Hospital (1) Kentucky	—	540	10,163	—	—	540	10,163	10,703	4,116	N/A	6/12/92
Medical Office Building (1) Florida	—	165	3,349	—	—	165	3,349	3,514	1,669	N/A	6/30/93
Medical Office Building (1) Illinois	—	—	1,925	—	—	—	1,925	1,925	555	12/31/98	N/A
Medical Office Building (2) Texas	—	631	9,677	—	—	631	9,677	10,308	4,016	1/1/95 & 7/31/97	N/A
Assisted Living Centers (4) Arizona	—	1,757	13,622	—	—	1,757	13,622	15,379	3,035	N/A	12/31/98 & 3/31/99
Assisted Living Centers (4) Florida	—	7,095	21,232	312	—	7,095	21,544	28,639	8,937	N/A	8/6/96, 12/31/98 & 1/1/99
Assisted Living Centers (1) New Jersey	—	4,229	13,030	—	—	4,229	13,030	17,259	4,659	N/A	8/6/96
Assisted Living Centers (1) Pennsylvania	—	439	3,960	—	—	439	3,960	4,399	231	N/A	9/1/05
Assisted Living Centers (1) South Carolina	—	344	2,877	—	—	344	2,877	3,221	644	N/A	12/31/98

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2007

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H				
Properties	Encumbrances	Initial Cost to Company			Cost capitalized subsequent to acquisition	Gross amount at which carried at close of period			Accumulated Depreciation	Date of Construction	Date Acquired
		Land	Buildings & Improvements	Improvements	Carrying Costs	Land	Buildings & Improvements	Total			
Assisted Living Centers (3) Tennessee	—	871	7,062	—	—	871	7,062	7,933	1,562	N/A	12/31/98 & 3/31/99
Retirement Center (1) Idaho	—	243	4,182	—	—	243	4,182	4,425	1,265	N/A	8/13/96
Retirement Center (1) Missouri	—	344	3,181	—	—	344	3,181	3,525	1,775	N/A	10/17/91
Retirement Centers (2) Tennessee	—	64	5,643	—	—	64	5,643	5,707	2,728	N/A	10/17/91
	\$5,711	\$26,314	\$282,781	\$ 312	\$ —	\$26,314	\$283,093	\$309,407	\$121,952		

NOTES TO SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

- (A) See Notes 3 and 16 of Notes to Consolidated Financial Statements.
(B) Depreciation is calculated using estimated depreciation lives up to 40 years for all completed facilities.
(C) Subsequent to NHC's transfer of the original real estate properties in 1991, we have purchased from NHC \$33,909,000 of additions to those properties. As the additions were purchased from NHC rather than developed by us, the \$33,909,000 has been included in Column C - Initial Cost to us.

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	December 31		
	2007	2006	2005
Investment in Real Estate:			
Balance at beginning of period	\$376,407	\$394,913	\$402,067
Additions through cash expenditures	2,491	2,499	12,264
Additions in exchange for rights under mortgage notes receivable	—	—	—
Sale of properties for cash	(69,491)	(21,005)	(16,868)
Impairment write-downs	—	—	(2,550)
Other	—	—	—
Balance at end of year	\$309,407	\$376,407	\$394,913
Accumulated Depreciation:			
Balance at beginning of period	\$141,208	\$131,784	\$123,897
Addition charged to costs and expenses	11,751	12,026	12,855
Sale of properties	(31,007)	(2,602)	(4,968)
Balance at end of year	\$121,952	\$141,208	\$131,784

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE
DECEMBER 31, 2007

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H
Description	Interest Rate	Final Maturity Date	Monthly Payment Terms	Prior Liens	Original Face Amount of Mortgages	Carrying Amount of Mortgages	Principal Amount of Loan Subject To Delinquent Principal or Interest
First Mortgage Loans:							
Florida	11.5%	2008	\$398,000	None	\$25,900,000	\$ 26,518,000	None
Georgia	Prime + 2.0%	January, 2009	Int. only	None	800,000	132,000	None
Georgia(A)	9.0%	January, 2009	120,000	None	12,162,000	8,628,000	None
Atlanta, Georgia (A)	6.5%	September, 2013	22,000	None	5,158,000	869,000	None
TN and FL Homes	10.00%	November, 2008	50,000	None	5,196,000	3,949,000	None
Osceola, Florida	9.5%	January, 2009	70,000	None	7,900,000	6,817,000	None
Dripping Springs, Gainesville, Texas	9.0%	March, 2019	19,000	None	2,500,000	2,500,000	None
7 Mortgages, Virginia (\$2,134,000 to \$3,935,000 each)	8.0%-9.6%	August 2027 to June 2032	165,000	None	20,774,000	18,373,000	None
8 Mortgages, Massachusetts and New Hampshire (\$1,125,000 to \$9,005,000 each)	6.9%	August 2011	9,000 to 69,000	None	40,526,000	40,526,000	None
8 Mortgages, Kansas and Missouri (\$707,000 to \$2,082,000 each) (B)	3.0% to 8.5%	December 2014	8,000 to 25,000	None	26,293,000	26,293,000	None
						\$134,605,000	

NOTES TO SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

- (A) We have reduced the carrying amount of this mortgage loan by a reserve or write-off calculated in accordance with the provisions of Statement of Financial Accounting Standards 114, "Accounting by Creditors for Impairment of a Loan - An Amendment of FASB Statements No. 5 and 15". The reserve or write-off is based on our knowledge of the general economic condition in the long-term health care industry and the cash flows of the long-term health care facilities that service the mortgage loan.
- (B) Note A in the amount of \$16,513,000 is at 8.5%. Note B in the amount of \$9,780,000 is at 3% with all principal and interest due at maturity.
- (1) See Note 4 of Notes to Consolidated Financial Statements.
- (2) For tax purposes, the cost of investments is the carrying amount.
- (3) Non-mortgage notes receivable unrelated to real estate of \$7,050,000 at December 31, 2007 are not reported on this schedule.

NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE (continued)
 FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	December 31		
	2007	2006	2005
	<i>(in thousands)</i>		
Reconciliation of mortgage loans			
Balance at beginning of period	\$90,782	\$115,901	\$109,046
Additions:			
New mortgage loans	74,835	11,063	22,079
Total Additions	74,835	11,063	22,079
Deductions during period:			
Loans written off	—	—	5,435
Collection of principal, net	31,012	36,182	9,789
Total Deductions	31,012	36,182	15,224
Balance at end of period	\$134,605	\$90,782	\$115,901

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Section 3: EX-23 (EXHIBIT 23)

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

National Health Investors, Inc.
 Murfreesboro, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 33-72370 and No. 33-85398) and on Form S-8 (No. 333-127179) of National Health Investors, Inc. of our reports dated February 28, 2008, relating to the consolidated financial statements, financial statement schedules and the effectiveness of National Health Investors, Inc.'s internal control over financial reporting, which is included in this Annual Report on Form 10-K.

/s/ BDO Seidman, LLP

Nashville, Tennessee
 February 28, 2008

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Section 4: EX-32 (EXHIBIT 32)

Exhibit 32

Certification of Annual Report on Form 10-K
 of National Health Investors, Inc.
 For The Year Ended December 31, 2006

The undersigned hereby certify, pursuant to 18 U.S.C. Section 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned's best knowledge and belief, the Annual Report on Form 10-K for National Health Investors, Inc. ("Issuer") for the period ended December 31, 2007 as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

- (a) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

This Certification accompanies the Annual Report on Form 10-K of the Issuer for the annual period ended December 31, 2007.

This Certification is executed as of February 28, 2008.

/s/ W. Andrew Adams

W. Andrew Adams
Chairman, Board of Directors and
Chief Executive Officer

/s/ Roger R. Hopkins

Roger R. Hopkins
Chief Accounting Officer
(Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to National Health Investors, Inc. and will be retained by National Health Investors, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 5: EX-31 (EXHIBIT 31.1)

EXHIBIT 31.1 CERTIFICATION

I, W. Andrew Adams, certify that:

1. I have reviewed this annual report on Form 10-K of National Health Investors, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function);
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

- b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2008

/s/ W. Andrew Adams
W. Andrew Adams
Chairman, Board of Directors and
Chief Executive Officer

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Section 6: EX-31 (EXHIBIT 31.2)

EXHIBIT 31.2 CERTIFICATION

I, Roger R Hopkins, certify that:

1. I have reviewed this annual report on Form 10-K of National Health Investors, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function);
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2008

/s/ Roger R. Hopkins
Roger R. Hopkins
Chief Accounting Officer
(Principal Accounting Officer)

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Section 1: 10-K (FORM 10-K 2009)

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, 2009

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 001-10822

National Health Investors, Inc.

(Exact name of registrant as specified in its charter)

Maryland <small>(State or other jurisdiction of incorporation or organization)</small>	62-1470956 <small>(I.R.S. Employer Identification No.)</small>
222 Robert Rose Drive, Murfreesboro, Tennessee <small>(Address of principal executive offices)</small>	37129 <small>(Zip Code)</small>
(615) 890-9100 <small>(Registrant's telephone number, including area code)</small>	

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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 (§ 229.405) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 Act). Yes No

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2009 (based on the closing price of these shares on the New York Stock Exchange) was approximately \$689,315,000. There were 27,629,505 shares of the registrant's common stock outstanding as of February 18, 2010.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2010 annual meeting of stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Form 10-K.

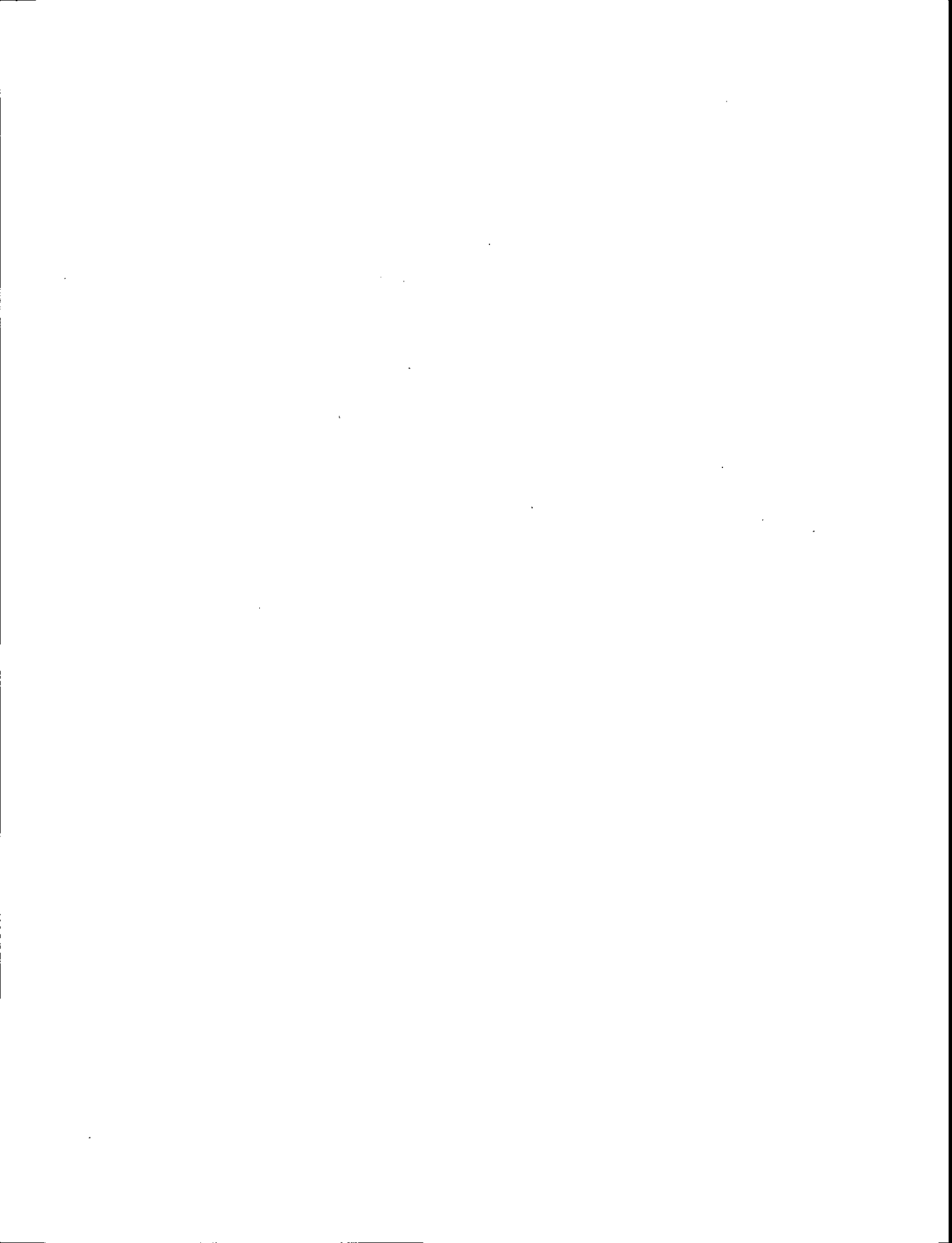


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Part I

Forward-Looking Statements

References throughout this document to the Company include National Health Investors, Inc. and its wholly-owned 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 wholly-owned subsidiaries and not any other person. Unless the context indicates otherwise, references herein to "the Company" include all of our wholly-owned 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 limitations, those containing words such as "may", "will", "believes", "anticipates", "expects", "intends", "estimates", "plans", and other similar expressions are forward-looking statements.

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

- * We depend on the operating success of our customers (facility operators) for collection of our revenues during this time of uncertain economic conditions in the U.S.;
- * We are exposed to risk that our tenants and mortgagees may become subject to bankruptcy or insolvency proceedings;
- * We are exposed to risks related to government regulations and the effect they have on our tenants' and mortgagees' business;
- * We are exposed to risk that the cash flows of our tenants and mortgagees will be adversely affected by increased liability claims and general and professional liability insurance costs;
- * We are exposed to risks related to environmental laws and the costs associated with the liability related to hazardous substances;
- * We depend on the success of future acquisitions and investments;
- * We depend on the ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;
- * We may incur more debt and intend to replace our current credit facility with longer term debt in the future, which long term debt may not be available on terms acceptable to the Company;
- * We are exposed to the risk that the illiquidity of real estate investments could impede our ability to respond to adverse changes in the performance of our properties;
- * We are exposed to the risk that our assets may be subject to impairment charges;
- * We depend on the ability to continue to qualify as a real estate investment trust;
- * We have ownership limits in our charter contains with respect to our common stock and other classes of capital stock;
- * 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 Financial Statements, and "Business" and "Risk Factors" under Item 1 and Item 1A herein for a discussion of various governmental regulations and other operating factors relating to the health care industry and the risk factors

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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 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 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. ("NHI" or the "Company"), a Maryland corporation incorporated in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care industry. As of December 31, 2009, we had ownership interests in real estate and mortgage investments (excluding assets held for sale) with a carrying value totaling approximately \$318,449,000 and other investments in preferred stock and marketable securities of \$59,454,000 resulting in total invested assets of \$377,903,000. Our mission is to invest in health care real estate which generates current income that will be distributed to stockholders. We have pursued this mission by acquiring properties to lease nationwide and making mortgage loans, primarily in the long-term health care industry. These investments include skilled nursing facilities, assisted living facilities, medical office buildings, independent living facilities and acute care hospitals, all of which are collectively referred to herein as "Health Care Facilities". We have funded these investments in the past through three sources of capital: (1) current cash flow, including principal prepayments from our borrowers, (2) the sale of equity securities, and (3) debt offerings, including bank lines of credit, the issuance of convertible debt instruments, and the issuance of ordinary debt. At December 31, 2009, we had no outstanding debt.

At December 31, 2009, our continuing operations consisted of investments in real estate and mortgage notes receivable in 108 health care facilities located in 20 states consisting of 78 skilled nursing facilities, 21 assisted living facilities, 4 medical office buildings, 4 independent living facilities and 1 acute care hospital. These investments consisted of approximately \$223,861,000 of net real estate investments with 16 lessees and \$94,588,000 aggregate carrying value of mortgage notes receivable from 14 borrowers. There are 75 health care facilities leased to operators, 41 of which are leased to National HealthCare Corporation ("NHC"), a publicly-held company and our largest customer. These 41 facilities include 4 centers subleased to and operated by other companies, the lease payments to us being guaranteed by NHC.

Beginning with our inception in 1991, NHC provided advisory services to us under an Advisory, Administrative Services and Facilities Agreement (the "Advisory Agreement"). Effective November 1, 2004, we assigned the Advisory Agreement with NHC to Management Advisory Source, LLC ("MAS"), formed by our Chief Executive Officer and Board Chairman W. Andrew Adams. We have no ownership in MAS. Pursuant to this Advisory Agreement, services related to investment activities and day-to-day management and operations were provided to us by MAS. Accordingly, MAS was subject to the supervision of and policies established by our Board of Directors. On December 3, 2007, we elected to become a self-managed REIT, with our own management reporting directly to the Board of Directors, and we terminated the Advisory Agreement with MAS on March 31, 2008. Under a consulting agreement with our Board of Directors, Mr. Adams continues to serve as Chief Executive Officer and remains the Chairman of the Board of Directors. On February 25, 2009, Justin Hutchens assumed the positions of President and Chief Operating Officer.

All of our investments in real estate and notes receivable are 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 for this segment can be found in Item 7 of this Annual Report.

Types of Health Care Facilities

Skilled nursing facilities. As of December 31, 2009, we owned and leased 47 licensed skilled nursing facilities, 34 of which are operated by NHC. We also had mortgage loans on 31 licensed skilled nursing facilities. These facilities provide some combination of skilled and intermediate nursing and rehabilitative care, including speech, physical and occupational therapy. The operators of the skilled nursing facilities receive payment from a combination of private pay sources and government programs such as Medicaid and Medicare. Skilled nursing facilities are required to obtain state licenses and are highly regulated at the federal, state and local level. Most skilled nursing facilities must obtain certificates of need from the state before opening or expanding such facilities. Some skilled nursing facilities include assisted living beds.

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Assisted Living Facilities. As of December 31, 2009, we owned and leased 19 assisted living facilities and had mortgage loans on 2 other facilities. Assisted living facilities are either free-standing or are attached to skilled nursing or retirement facilities and provide basic room and board functions for the elderly. Some assisted living projects include licensed skilled nursing beds. On-site staff personnel are available to assist in minor medical needs on an as-needed basis.

Medical office buildings. As of December 31, 2009, we owned and leased 4 medical office buildings. Medical office buildings are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. Medical office buildings differ from conventional office buildings due to the special requirements of the tenants. Each of our medical office buildings is leased to one lessee, and is either physically attached to or located on an acute care hospital campus. The lessee then 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 its ability to sub-lease the individual office space.

Independent living facilities. As of December 31, 2009, we owned and leased 4 independent living facilities, 3 of which are leased to NHC and one to Sun Healthcare. Independent living facilities 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. Charges for services are paid from private sources without assistance from government programs. Independent living facilities may be licensed and regulated in some states, but do not require the issuance of a certificate of need such as is required for skilled nursing facilities.

Acute care hospital. As of December 31, 2009, we owned and leased 1 acute care hospital. Acute care hospitals provide a wide range of inpatient and outpatient services and are subject to extensive federal, state and local legislation and regulation. Acute care hospitals undergo periodic inspections regarding standards of medical care, equipment and hygiene as a condition of licensure. Services provided by acute care hospitals are generally paid for by a combination of private pay sources and governmental programs.

Nature of Investments

Our investments are typically structured as acquisition of properties with in-place leases, acquisition of properties through purchase-leaseback transactions or mortgage loans. We have also provided construction loans for facilities for which we were already committed to provide long-term financing or for which the operator agreed to enter into a lease with us upon completion of the construction. The lease rates of our leases and interest rates on our mortgage and construction loans have typically ranged between 9% and 12% per annum. We normally charge a commitment fee of 1% based on the purchase price of the property in a purchase-leaseback transaction or the total principal amount of a mortgage loan. In instances where construction financing has also been supplied, there is generally an additional 1% commitment fee. We believe our lease and loan terms are competitive within our peer group. Except as described in Note 4 of our consolidated financial statements, at December 31, 2009 all of our Health Care Facilities were performing under the terms of their mortgage loans or leases. Typical characteristics of these transactions are as follows:

Mortgage Loans. In general, our mortgage loans have a maturity of at least 10 years with the principal amortized over 20 to 25 years and a balloon payment due at maturity. Most of the loans are at a fixed interest rate; however some have an additional interest component which is based on the escalation of gross revenues of the facility or fixed rate increases. In most cases, the owner of the facility has 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.

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

Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income is recognized on a straight-line basis over the term of the lease. All of the acute care and medical office building properties 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

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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 and medical office building 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 machinery, equipment, furnishings and other personal property.

Construction loans. From time to time, although none are currently outstanding, we also provide construction loans that by their terms convert either into purchase-leaseback transactions or mortgage loans upon the completion of the construction of the facility. The terms of such construction loans are for a period which commences upon the closing of such loans and terminate 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. 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.

Investment in Preferred Stock and Marketable Securities. 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 are invested for real estate purposes. At December 31, 2009, our investments in preferred and common shares of publicly-held REITs were \$58,317,000 and our investments in other available for sale marketable securities were \$1,137,000. Refer to Notes 5 and 6 of our consolidated financial statements for further information.

Competition and Market Conditions

We compete with real estate partnerships, other REITs and other investors (including, but not limited to, banks, insurance companies, and investment banks who market securities in mortgage funds) in the acquisition, leasing and financing of health care-related entities primarily on the basis of price, available capital, knowledge of the industry and flexibility of financing structure.

The operators of the Health Care Facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for patients and staff based on quality of care, reputation, physical appearance of facilities, services offered, family preference, physicians, staff and price. They compete with independent operators as well as companies managing multiple facilities, some of which are substantially larger and have greater resources than the operators of the Health Care Facilities. Some of these facilities are operated for profit while others are owned by governmental agencies or tax exempt not-for-profit organizations.

The skilled nursing facilities to which we provide mortgage loans and which we lease to others 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 skilled nursing facility services to replace the cost-based reimbursement system significantly reduced Medicare reimbursement to skilled nursing facility providers. While Congress subsequently took steps to mitigate the impact of the prospective payment system on skilled nursing facilities, other federal legislative policies have been adopted and continue to be proposed that would reduce Medicare and/or Medicaid payments to nursing facilities. State Medicaid funding is not expected to keep pace with inflation according to industry studies.

Any changes in government reimbursement methodology that reduces reimbursement to levels that are insufficient to cover the operating costs of our borrowers and lessees could adversely impact us. The assisted living industry generally relies 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.

Operators

The majority of the Health Care Facilities are operated by the owner or lessee. As a percent of total investments at net book value, approximately 26% of the Health Care Facilities are operated by publicly-owned companies, 66% are operated by regional health care operators and 8% are operated by smaller operators. 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. At December 31, 2009, operators who operate more than 3% of our total real estate investments at net book value were as follows:

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National HealthCare Corp.; Community Health Systems, Inc.; RGL Development, LLC; Legend Healthcare, LLC; American HealthCare, LLC; Senior Living Management Corporation, LLC; Health Services Management, Inc.; ElderTrust of Florida, Inc.; Sunrise Senior Living, Inc.; SeniorTrust of Florida, Inc.; and Bickford Senior Living.

NHC Master Agreement to Lease

On December 27, 2005, under an amendment to the Master Agreement, NHC exercised its option to extend the existing lease on 41 properties for the second renewal term. These 41 properties include 38 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC under the Master Agreement) and 3 independent living facilities. The 15-year lease extension began January 1, 2007, and includes 3 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 the tenant at its expense. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. We refer to this additional rent component as "percentage rent".

The Master Agreement is a "triple net lease" under which NHC is responsible for all taxes, utilities, insurance premium costs, repairs (including structural portions of the buildings) and other charges relating to the ownership and operation of the Health Care Facilities. NHC is obligated at its expense to keep all improvements and fixtures and other components of the Health Care Facilities covered by "all risk" insurance in an amount equal to the full replacement costs thereof, insurance against boiler explosion and similar insurance, flood insurance if the land constituting the Health Care Facility is located within a designated flood plain area and to maintain specified property damage insurance, protecting us as well as NHC at such Health Care Facility. NHC is also obligated to indemnify and hold us harmless from all claims resulting from the use and occupancy of each Health Care Facility by NHC or persons claiming under NHC and related activities, as well as to indemnify us against all costs related to any release, discovery, cleanup and removal of hazardous substances or materials on, or other environmental responsibility, with respect to each Health Care Facility leased by NHC.

Our rental income in 2009 was \$55,076,000 (\$34,782,000 from NHC); in 2008 was \$48,339,000 (\$33,700,000 from NHC); and in 2007 was \$46,198,000 (\$33,700,000 from NHC).

Commitments

As of December 31, 2009, we had pending commitments related to two health care real estate projects: (1) one of our leases contains a provision whereby we will fund up to \$750,000 of certain capital improvements and operating equipment purchases with the total being added to the base amount from which the lease payment is calculated, and (2) we were committed to fund an additional \$250,000 on a mortgage note receivable. We have sufficient liquidity to fund these commitments and to finance new investments.

In December 2009, we agreed to purchase the six Florida properties (which are leased to a third-party for \$6.2 million annually, plus escalators over the initial lease term expiring in 2014) from CFA for a total of \$67 million.

Sources of Revenues

General. Our revenues are derived primarily from rental income and mortgage interest income. During 2009, rental income equaled \$55,076,000 of which \$34,782,000 or 63% was from facilities leased by NHC. Mortgage interest income totaled \$9,145,000. The source and amount of revenues of our lessees and borrowers are determined by (i) the licensed beds or other capacity of the Health Care Facilities, (ii) the occupancy rate of the Health Care Facilities, (iii) the extent to which the services provided at each Health Care Facility are utilized by the patients, (iv) the mix of private pay, Medicare and Medicaid patients at the Health Care Facilities, and (v) the rates paid by private paying patients and by the Medicare and Medicaid programs.

Governmental and other concerns regarding health care costs have and may continue to result in significant reductions in payments to health care facilities, and there can be no assurance that future payment rates for either governmental or private health care plans will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care have and could continue to adversely affect 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.

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Medicare and Medicaid. A significant portion of the revenue of our lessees and borrowers is derived from governmental-funded reimbursement programs, such as Medicare and Medicaid. Reimbursement under these programs is subject to periodic pre- and post-payment review and other audits by federal and state authorities. Medicare is uniform nationwide and reimburses nursing centers under a fixed payment methodology named the PPS. PPS was instituted as mandated by the Balanced Budget Act of 1997. PPS 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 increased each October when the federal fiscal year begins. The acuity classification system is named Resource Utilization Groups III ("RUGs"). PPS as implemented 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 would reduce Medicare and/or Medicaid payments to nursing facilities.

Medicaid is a joint federal and state program designed to provide medical assistance to "eligible needy persons". These 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 and pressure on certain provider taxes coupled with state budget problems have produced an uncertain environment. Industry studies predict the Medicaid crisis will continue with states required contribution to Medicare Part D and anticipated budget deficits. States will more than likely be unable to keep pace with nursing center inflation. States are under pressure to pursue other alternatives to long term care such as community and home based services. Furthermore, several of the states in which we have investments have actively sought to reduce or slow the increase of Medicaid spending for nursing home care.

Medicare and Medicaid programs are highly regulated and subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations and administrative and judicial interpretations of existing law. Moreover, as health care facilities have experienced increasing pressure from private payors attempting to control health care costs, reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Healthcare reimbursement will likely continue to be of significant importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our lessees' and borrowers' costs of doing business and on the amount of reimbursement by government and other third-party payors.

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 its 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 as a health care facility could be jeopardized, which could adversely affect the lessee's or borrower's ability to make lease or debt payments to us and thereby adversely affect us.

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Certificates of Need. Certain Health Care Facilities in which we invest are also generally subject to state statutes which may require regulatory approval in the form of a certificate of need ("CON") prior to the addition or construction of new beds, 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 mortgagees; 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 current income for distribution to our stockholders through investments primarily in health care related facilities, (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. There can be no assurance that these objectives will be realized. Our investment policies include making investments in real estate and mortgage notes receivable, highly-liquid cash accounts, and securities of other publicly-held REITs.

We made new investments in real estate and mortgage assets during 2009 totaling \$89,070,000 and we anticipate making additional investments in 2010 that meet our risk profile. In making new investments, we would 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 and to provide a competitive market return on equity to our investors, (iv) the growth, tax and regulatory environments of the communities in which the properties are located, (v) occupancy and demand for similar health care facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management operating the facilities located on the property and (vii) the mix of private and government-sponsored patients. There can be no assurances that investments containing these attributes will be found or closed.

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

The Board of Directors, without the approval of the stockholders, may alter our investment policies if they determine that such a change is in our best interests and our stockholders' best interests. The methods of implementing our investment policies may vary as new investment and financing techniques are developed or for other reasons.

Future investments in health care related facilities or businesses may utilize borrowed funds when it is advisable in the opinion of the Board of Directors. We may negotiate lines of credit or arrange for other short or long-term borrowings from banks. 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 18, 2010:

<u>Name</u>	<u>Position</u>	<u>Age</u>
W. Andrew Adams	Chairman of the Board and Chief Executive Officer	64
J. Justin Hutchens	President and Chief Operating Officer	35
Roger R. Hopkins	Chief Accounting Officer	48

W. Andrew Adams has been our Chairman of the Board and Chief Executive Officer since our inception in 1991. Mr. Adams was President and Chief Executive Officer of National HealthCare Corporation ("NHC") until he resigned those positions in 2004. He remains on its Board of Directors, and served as Chairman of the Board until 2008. Mr. Adams served as President of National Health Realty, Inc. ("NHR") from 1997 until November 2004 and served as Chairman of the Board until NHR was

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acquired by NHC in 2007. Mr. Adams serves on the Board of Directors of SunTrust Bank in Nashville, Tennessee. He received his B.S. and M.B.A. degrees from Middle Tennessee State University.

J. Justin Hutchens was appointed as the President and Chief Operating Officer of NHI on February 25, 2009. Prior to joining NHI, he held both regional and national management positions with assisted living and long-term care operating companies. Mr. Hutchens has national operating experience as the Senior Vice-President & COO of Summerville Senior Living in 2003 until the Summerville merger with Emeritus Senior Living (NYSE:ESC) in 2007 at which time he was appointed the Executive Vice-President & COO role of Emeritus. He received a B.S. degree in Human Services from the University of Northern Colorado in Greeley, CO. Mr. Hutchens undertook his graduate studies in Management at Regis University in Denver, CO. He completed an Executive Management Program studying Measurement and Control of Organizational Performance at the University of Michigan in Ann Arbor, MI.

Roger R. Hopkins joined us in 2006 and was named Chief Accounting Officer on December 31, 2006. Until 2006, he was a partner in the Tennessee regional accounting firm of Rodefer Moss & Co, PLLC. He was previously a senior manager in the Nashville, Tennessee office of Deloitte & Touche. Mr. Hopkins received his B.S. degree in accounting from Tennessee Technological University in 1982 and is a Certified Public Accountant.

We have a staff of 9, all serving in our corporate office. Essential services such as internal auditing, tax compliance, information technology and legal services are outsourced to third-party professional firms.

Investor Information

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

We also maintain the following documents on the 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 our employees and stockholders unrestricted access to our Internal Auditor, executive officers and directors. The toll free number is 800-526-4064 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. Contact information is: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. The toll free number is 800-942-5909 and the website is www.computershare.com.

The Annual Stockholders' meeting will be held at 11:00 a.m. local time on May 7, 2010 at the Center for the Arts, 110 College Street, Murfreesboro, TN.

ITEM 1A. RISK FACTORS.

We depend on the operating success of our customers (facility operators), whose business is focused in the skilled nursing and assisted living industry, for collection of our revenues during this time of uncertain economic conditions in the U.S.

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Revenues to operators of the Health Care Facilities are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts and from widely-publicized federal and state budget shortfalls and constraints. Overall weak economic conditions in the U.S. which affect housing sales, investment returns and personal incomes may adversely affect occupancy rates of assisted living facilities that generally rely on private pay residents. Expenses for the Health Care Facilities are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Liability insurance and staffing costs continue to increase for our operators. To the extent any decrease in revenues and/or any increase in operating expenses results in a facility not generating enough cash to make scheduled payments to us, our revenues, net income and funds from operations would be adversely affected. Such events and circumstances would cause us to evaluate whether there was an impairment of the real estate or mortgage loan that should be charged to earnings. Such impairment would be measured as the amount by which the carrying amount of the asset exceeded its fair value. Consequently, we might be unable to maintain or increase our current dividend and the market price of our stock may decline.

We are exposed to the risk that our tenants and mortgagees 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 government regulations and the effect they have on our tenants' and mortgagees' business.

Our operators' businesses are affected by government reimbursement and private payor rates. To the extent that any of our Health Care Facilities receive a significant portion of its revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such facilities. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. 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 mortgagees will be adversely affected by increased liability claims and general and professional liability insurance costs.

Long-term care facility operators (assisted living and skilled nursing facilities) 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 skilled nursing facility 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

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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 assisted living and skilled nursing facilities. Thus, general and professional liability insurance coverage may be restricted, very costly or not available, which may adversely affect the facility operators' future operations, cash flows and financial condition and may have a material adverse effect on the facility operators' ability to meet their obligations to us.

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

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

We depend on the success of future acquisitions and investments.

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

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

From time to time, we will have cash available from (1) the proceeds of sales of our securities, (2) principal payments on our loans 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 perhaps our ability to make distributions to stockholders.

We may incur more debt and intend to replace our current credit facility with longer term debt in the future, which long term debt may not be available on terms acceptable to the Company.

We operate with a policy of incurring debt when, in the opinion of our Board of Directors, it is advisable. Currently, we believe that our low debt levels, availability under our unsecured credit facility and cash balance, will enable us to meet our obligations and continue to make investments. 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. In addition, our new unsecured credit facility matures in February 2011. We intend to replace any amounts drawn under that credit facility with longer term debt. 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, however, at present there is a significant contraction in financial liquidity globally. In these circumstances, 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.

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

Real estate investments are relatively illiquid and, therefore, our ability to quickly sell or exchange any of our properties in response to changes in economic and other conditions may be limited. All of our properties are "special purpose" properties that cannot be readily converted to general residential, retail or office use. Health Care Facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Transfers of operations of Health Care Facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be less than the net book value or the amount owing on any related mortgage loan, than would be the case if the property were 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 income and cash flows from operations would be adversely affected.

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

We periodically but not less than quarterly evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our results of operations and a non-cash impact on funds from operations in the period in which the write-off occurs.

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

We intend to operate as a REIT under the Internal Revenue Code of 1986, as amended (the "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. Also, if we do not qualify as a REIT, we would not be required to make distributions to stockholders, since a non-REIT is not required to pay dividends to stockholders amounting to at least 90% of its annual REIT taxable income.

We have ownership limits in our charter contains with respect to our common stock and other classes of capital stock.

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. Under our charter, subject to certain exceptions, no person or entity may 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 to members of the Carl E. Adams family. 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.

Certain provisions of Maryland law, our charter and our bylaws have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control, even if these transactions involve 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

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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 these 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 common 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

Table of Contents**ITEM 2. PROPERTIES OWNED OR ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS.**

SKILLED NURSING Center	City	Lease (L)/ Mortgage (M)	Licensed Beds
ALABAMA			
NHC HealthCare, Anniston	Anniston	L	151
NHC HealthCare, Moulton	Moulton	L	136
ARIZONA			
Sunbridge Estrella Care & Rehabilitation	Avondale	L	161
FLORIDA			
Ayers Health & Rehabilitation Center	Trenton	M	120
Bayonet Point Health & Rehabilitation Center	Hudson	L	180
Bear Creek Nursing Center	Hudson	M	120
Brooksville Healthcare Center	Brooksville	M	180
Cypress Cove Care Center	Crystal River	M	120
Heather Hill Healthcare Center	New Port Richey	M	120
Parkway Health & Rehabilitation Center	Stuart	L	177
Royal Oak Nursing Center	Dade City	M	120
The Health Center of Merritt Island	Merritt Island	L	180
The Health Center of Plant City	Plant City	L	180
GEORGIA			
Ashton Woods Rehabilitation Center	Atlanta	M	157
NHC HealthCare, Rossville	Rossville	L	112
The Place at Deans Bridge	Augusta	M	100
The Place at Martinez	Augusta	M	100
The Place at Pooler	Pooler	M	122
IDAHO			
Grangeville Health and Rehabilitation Center	Grangeville	L	60
KANSAS			
Chanute HealthCare Center	Chanute	M	77
Council Grove HealthCare Center	Council Grove	M	80
Haysville HealthCare Center	Haysville	M	119
Larned HealthCare Center	Larned	M	83
Sedgwick HealthCare Center	Sedgwick	M	62
KENTUCKY			
NHC HealthCare, Glasgow	Glasgow	L	206
NHC HealthCare, Madisonville	Madisonville	L	94
MASSACHUSETTS			
Buckley HealthCare Center	Greenfield	M	120
Holyoke Health Care Center	Holyoke	M	102
John Adams HealthCare Center	Quincy	M	71
Longmeadow of Taunton	Taunton	M	100
MISSOURI			
Charleviox HealthCare Center	St. Charles	M	142

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SKILLED NURSING (continued)

Center	City	Lease (L) Mortgage (M)	Licensed Beds
Columbia HealthCare Center	Columbia	M	97
Joplin HealthCare Center	Joplin	M	92
NHC Healthcare, Desloge	Desloge	L	120
NHC Healthcare, Joplin	Joplin	L	126
NHC Healthcare, Kennett	Kennett	L	170
NHC Healthcare, Maryland Heights	Maryland Heights	L	220
NHC HealthCare, St. Charles	St. Charles	L	120
NEW HAMPSHIRE			
Epsom HealthCare Center	Epsom	M	108
Maple Leaf HealthCare Center	Manchester	M	114
Villa Crest HealthCare Center	Manchester	M	165
SOUTH CAROLINA			
NHC Healthcare, Anderson	Anderson	L	290
NHC Healthcare, Greenwood	Greenwood	L	152
NHC HealthCare, Laurens	Laurens	L	176
UniHealth Post-Acute Care-Orangeburg	Orangeburg	L	88
TENNESSEE			
NHC Healthcare, Athens	Athens	L	98
NHC Healthcare, Chattanooga	Chattanooga	L	207
NHC HealthCare, Columbia	Columbia	L	106
NHC HealthCare, Dickson	Dickson	L	211
NHC HealthCare, Franklin	Franklin	L	80
NHC Healthcare, Hendersonville	Hendersonville	L	122
NHC Healthcare, Hillview	Columbia	L	92
NHC Healthcare, Johnson City	Johnson City	L	160
NHC Healthcare, Knoxville	Knoxville	L	139
NHC Healthcare, Lewisburg	Lewisburg	L	102
NHC HealthCare, McMinnville	McMinnville	L	150
NHC HealthCare, Milan	Milan	L	122
NHC Healthcare, Oakwood	Lewisburg	L	60
NHC HealthCare, Pulaski	Pulaski	L	102
NHC Healthcare, Scott	Lawrenceburg	L	62
NHC HealthCare, Sequatchie	Dunlap	L	120
NHC HealthCare, Smithville	Smithville	L	120
NHC Healthcare, Somerville	Somerville	L	84
NHC Healthcare, Sparta	Sparta	L	120
NHC HealthCare, Springfield	Springfield	L	107
TEXAS			
Legend Oaks Healthcare and Rehabilitation Center (Northwest)	Houston	L	125
Forest Lane Healthcare Center*	Dallas	L	120
Heritage Manor of Canton*	Canton	L	110
Heritage Oaks*	Arlington	L	204
Heritage Place*	Mesquite	L	149
Hill Country Care Center	Dripping Springs	L	60
Legend Oaks Healthcare and Rehabilitation Center (East)	Houston	L	125
Legend Healthcare & Rehabilitation	Paris	L	120

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SKILLED NURSING (continued)

Center	City	Lease (L)/ Mortgage (M)	Licensed Beds
Pecan Tree Manor	Gainesville	L	122
Legend Oaks Healthcare and Rehabilitation Center	San Antonio	L	125
The Village at Richardson*	Richardson	L	280
Winterhaven Healthcare Center*	Houston	L	160
VIRGINIA			
Heritage Hall - Brookneal	Brookneal	M	60
Heritage Hall - Grundy	Grundy	M	120
Heritage Hall - Laurel Meadows	Laurel Fork	M	60
Heritage Hall - Virginia Beach	Virginia Beach	M	90
Heritage Hall - Front Royal	Front Royal	M	60
Heritage Hall - Lexington	East Lexington	M	60
NHC HealthCare, Bristol	Bristol	L	120
ASSISTED LIVING			
ARIZONA			
The Place at Gilbert	Gilbert	L	40
The Place at Glendale	Glendale	L	38
The Place at Tanque Verde	Tucson	L	42
The Place at Tucson	Tucson	L	60
FLORIDA			
Indigo Palms at Daytona	Daytona Beach	L	60
Indigo Palms at Maitland	Maitland	L	116
Savannah Court of Maitland	Maitland	L	151
Savannah Court of Palm Beaches	W. Palm Beach	L	144
ILLINOIS			
Bickford of Peoria	Peoria	L	32
MICHIGAN			
Bickford of Battle Creek	Battle Creek	L	46
Bickford of Lansing	Lansing	L	46
Bickford of Midland	Midland	L	46
Bickford of Saginaw	Saginaw	L	46
MINNESOTA			
Traditions	Owatonna	M	70
NEW JERSEY			
Brighton Gardens of Edison	Edison	L	148
OREGON			
East Cascade Retirement Community	Madras	M	76
PENNSYLVANIA			
Heritage Hill Senior Community	Weatherly	L	143
SOUTH CAROLINA			
The Place at Conway	Conway	L	52

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ASSISTED LIVING (continued) Center	City	Lease (L)/ Mortgage (M)	Licensed Beds
TENNESSEE			
The Place at Gallatin	Gallatin	L	49
The Place at Kingsport	Kingsport	L	49
The Place at Tullahoma	Tullahoma	L	49
ACUTE CARE			
KENTUCKY			
Kentucky River Hospital	Jackson	L	55
INDEPENDENT LIVING CENTERS			
IDAHO			
Sunbridge Retirement & Rehab for Nampa	Nampa	L	183
MISSOURI			
Lake St. Charles Retirement Center	St. Charles	L	180
TENNESSEE			
Colonial Hill Retirement Center	Johnson City	L	63
Parkwood Retirement Apartments	Chattanooga	L	30
MEDICAL OFFICE BUILDINGS			
FLORIDA			
North Okaloosa	Crestview	L	27,017
ILLINOIS			
Crossroads	Mt. Vernon	L	12,910
TEXAS			
Hill Regional	Hillsboro	L	23,000
Pasadena Bayshore	Pasadena	L	61,500
CORPORATE OFFICE			
TENNESSEE	Murfreesboro	N/A	7,000

*Facility was classified as held for sale at December 31, 2009

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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. Leases associated with facilities held for sale at December 31, 2009 are not considered below. We expect that prior to maturity, we will negotiate new terms of a lease to either the current tenant or another qualified operator.

10-YEAR LEASE EXPIRATIONS

Year	Leases Expiring	Rentable Square Feet*	Number of Beds	Annualized Gross Rent ** (in thousands)	Percentage of Annualized Gross Rent
2010	1	-	60	275	0.45%
2011	3	35,910	404	2,566	4.19%
2012	1	-	55	2,817	4.61%
2013	2	27,017	148	1,765	2.89%
2014	-	-	-	-	-
2015	-	-	-	-	-
2016	2	-	295	1,815	2.97%
2017	1	-	116	585	0.96%
2018	2	61,500	88	1,083	1.77%
2019	2	-	325	885	1.45%
Thereafter	3	-	6,637	49,379	80.71%

*Rentable Square Feet represents total square footage in four medical office building investments.

**Annualized Gross Rent reflects 2009 actual rent income (exclusive of straight-line rent adjustments).

EM 3. LEGAL PROCEEDINGS.

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

On December 31, 1999, NHI acquired six Florida properties from the Chapter 11 bankruptcy trustee for York Hannover Nursing Centers, Inc. On January 1, 2000, NHI sold those properties to Care Foundation of America, Inc., a Tennessee nonprofit corporation ("CFA") for \$32.7 million, (\$6.8 million of which was ultimately due to National HealthCare Corporation ("NHC"), which had contributed to the purchase price consideration, under the terms of an inter-creditor agreement between NHI and NHC), with NHI financing 100% of the purchase price, and the debt having an original maturity date of July 1, 2001. The maturity date of the debt was subsequently extended several times over the years, with the most recent extension making the balance of \$22,936,000 due December 31, 2008. On December 30, 2008, CFA filed for Chapter 11 bankruptcy in the U.S. District Court for the Middle District of Tennessee (Case No. 08-12367). On January 2, 2009, CFA filed an adversary proceeding complaint against NHI in the bankruptcy case (the "CFA Adversary Proceeding"). As disclosed in Note 9 of the notes to the consolidated financial statements, CFA's complaint alleged in part that NHI exercised dominion and control over CFA's board of directors from 1999 until sometime in 2008 and that NHI had used that control to cause CFA to buy and finance the six Florida homes on terms that were not fair to CFA. CFA also alleged that these transactions constituted "excess benefit transactions" as defined in Section 4958 of the Internal Revenue Code. NHI denied CFA's claims and filed a counterclaim seeking a declaratory judgment as to the validity and enforceability of CFA's outstanding secured debt to NHI. In June 2009, the bankruptcy court granted a motion to intervene filed by the Tennessee Attorney General's Office. In December 2009, NHI agreed to purchase the six Florida properties (which are leased to a third-party for \$6.2 million annually, plus escalators over the initial lease term expiring in 2014) from CFA for a total of \$67 million; CFA agreed to pay the full amount of its outstanding balance due to NHI as a credit against the purchase price (CFA had continued to pay interest of 9.5% on the principal amount due during the bankruptcy); and the parties agreed to dismiss with prejudice their respective claims in the CFA Adversary Proceeding. The transaction and the resolution of the claims were approved by both the bankruptcy court and the Tennessee Attorney General's Office. The transaction closed on February 1, 2010.

In November 2008, NHI was served with a Civil Investigative Demand by the Office of the Tennessee Attorney General ("OTAG"), which indicated that that OTAG was investigating transactions between NHI and three Tennessee nonprofit corporations, including CFA. NHI has provided OTAG with requested information and documents. OTAG has agreed as part of the resolution of the CFA Adversary Proceeding that it will take no further action based on NHI's relationship with CFA. At this time, however, NHI does not know whether OTAG will commence any legal proceedings with respect to any transaction with any other nonprofit corporation or, if so, what relief will be sought.

On October 20, 2009, Burt Shearer Trustee, as trustee of the Shearer Family Living Trust, filed a shareholder derivative complaint (M.D. Tenn. Case No. 09-991), naming as defendants NHI directors W. Andrew Adams, Robert A. McCabe, Jr., Robert T. Webb, and Ted H. Welch and as a nominal defendant NHI. On January 19, 2010, the plaintiff filed an amended complaint. The amended complaint asserts that the allegations made in the CFA Adversary Proceeding are true and that the individual defendants are responsible for the wrongdoing alleged by CFA in that proceeding and have thus breached their fiduciary duties to NHI. The derivative amended complaint alleges that, as a result of that breach of duty, NHI has sustained damages in an amount not specified. The amended complaint seeks no relief from NHI itself.

PART II

ITEM 4. 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 real estate investment trust is protected for federal income tax purposes. One of these provisions prohibits any stockholder from owning, 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. 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 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 real estate investment trust 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 real estate investment trust for tax purposes.

In order to qualify for the beneficial tax treatment accorded to a REIT, we must make quarterly 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 mortgages 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.

Common Stock Market Prices and Dividends

Our common stock is traded on the New York Stock Exchange under the symbol "NHI". As of February 18, 2010, there were approximately 1,000 holders of record of shares and approximately 12,800 beneficial owners of the shares.

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

<u>Quarter Ended</u>	<u>2009</u>			<u>2008</u>		
	<u>Sales Price</u>		<u>Cash</u>	<u>Sales Price</u>		<u>Cash</u>
	<u>High</u>	<u>Low</u>	<u>Dividends</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
March 31	\$28.94	\$21.00	\$.55	\$33.45	\$27.18	\$.63
June 30	29.46	24.40	.55	32.83	27.96	.55
September 30	34.58	26.05	.55	35.00	27.52	.55
December 31	37.90	29.50	.65	33.84	17.10	.69

The closing price of our stock on February 18, 2010 was \$36.07.

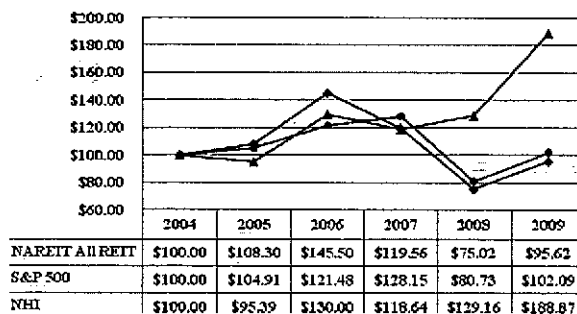
We currently maintain two equity compensation plans: the NHI 1997 Stock Option Plan ("the 1997 Plan") and the 2005 Stock Option, Restricted Stock and Stock Appreciation Rights Plan ("the 2005 Plan"). Each of these plans has been approved by our stockholders. The following table provides information as of December 31, 2009 about our common stock that may be issued upon grants of restricted stock and the exercise of options under our existing equity compensation plans.

	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</u>
Equity compensation plans approved by security holders	253,836	\$27.72	1,078,967(a)

(a) These shares remain available for grant under the 2005 Plan.

The following graph demonstrates the performance of the cumulative total return to the stockholders of our common stock during the previous five years in comparison to the cumulative total return on the FTSE NAREIT All REITs Index and the Standard & Poor's 500 Stock Index. The FTSE NAREIT All REITs Index is comprised of all tax-qualified real estate investment trusts that are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List. The FTSE NAREIT All REITs Index is not free float adjusted, and constituents are not required to meet minimum size and liquidity criteria.

NATIONAL HEALTH INVESTORS, INC.
Comparison of Cumulative Total Return



ITEM 5. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2009. 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 6.

NATIONAL HEALTH INVESTORS, INC.
SELECTED FINANCIAL DATA
(dollars in thousands, except share and per share amounts)

STATEMENT OF INCOME DATA:	Years Ended December 31,				
	2009	2008 ^(a)	2007 ^(a)	2006 ^(a)	2005 ^(a)
Net revenues	\$ 64,221	\$ 58,005	\$ 57,506	\$ 57,382	\$ 58,757
Non-operating income	8,581	6,487	12,464	12,721	22,331
Income from continuing operations	58,136	51,579	75,571	56,561	48,850
Discontinued operations:					
Operating income (loss) - discontinued operations	6,093	5,931	7,726	6,853	4,785
Net gain on dispositions and deconsolidation	-	-	13,138	5,814	773
Net income	<u>\$ 64,229</u>	<u>\$ 57,510</u>	<u>\$ 96,435</u>	<u>\$ 69,228</u>	<u>\$ 54,408</u>
PER SHARE DATA:					
Basic earnings per share:					
Income from continuing operations	\$ 2.11	\$ 1.86	\$ 2.73	\$ 2.04	\$ 1.76
Discontinued operations	0.22	0.22	0.75	0.46	0.20
Net income per common share	<u>\$ 2.33</u>	<u>\$ 2.08</u>	<u>\$ 3.48</u>	<u>\$ 2.50</u>	<u>\$ 1.96</u>
Diluted earnings per share:					
Income from continuing operations	\$ 2.10	\$ 1.86	\$ 2.72	\$ 2.04	\$ 1.76
Discontinued operations	0.22	0.21	0.75	0.45	0.19
Net income per common share	<u>\$ 2.32</u>	<u>\$ 2.07</u>	<u>\$ 3.47</u>	<u>\$ 2.49</u>	<u>\$ 1.95</u>
OTHER DATA:					
Common shares outstanding	27,629,505	27,580,319	27,752,239	27,752,239	27,830,439
Weighted average common shares:					
Basic	27,586,338	27,706,106	27,703,464	27,744,868	27,699,887
Diluted	27,618,300	27,731,951	27,783,862	27,778,764	27,830,886
Common dividends declared per share ^(b)	\$ 2.30	\$ 2.42	\$ 2.85	\$ 2.37	\$ 1.80
BALANCE SHEET DATA: (at year end)					
Mortgages and other notes receivable, net	\$ 94,588	\$ 108,640	\$ 141,655	\$ 99,532	\$ 118,800
Real estate properties, net	223,861	181,332	187,455	235,199	263,129
Total assets	459,360	457,106	500,732	598,198	590,589
Debt	-	3,987	9,512	113,492	117,252
Convertible subordinated debentures	-	-	-	-	201
Total stockholders' equity	434,612	429,615	446,138	431,671	424,968

^(a) Prior period financial information has been reclassified for presentation of operations discontinued during 2009, along with reclassification of certain balance sheet line items to conform to the 2009 presentation.
^(b) Including special dividends

ITEM 6. 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" above.

Executive Overview

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation incorporated in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care industry. As of December 31, 2009, we had ownership interests in real estate and mortgage investments (excluding assets held for sale) with a carrying value totaling approximately \$318,449,000 and other investments in preferred stock and marketable securities of \$59,454,000 resulting in total invested assets of \$377,903,000. Our mission is to invest in health care real estate which generates current income that will be distributed to stockholders. We have pursued this mission by acquiring properties to lease nationwide and making mortgage loans, primarily in the long-term health care industry.

Portfolio

At December 31, 2009, our continuing operations consisted of investments in real estate and mortgage notes receivable in 108 health care facilities located in 20 states consisting of 78 skilled nursing facilities, 21 assisted living facilities, 4 medical office buildings, 4 independent living centers, and 1 acute care hospital. These investments consisted of approximately \$223,861,000 of net real estate investments with 16 lessees and \$94,588,000 aggregate carrying value of loans to 14 borrowers.

Of these 108 facilities, 41 are leased to NHC, a publicly-held company and our largest customer. During 2009, our rental income totaled \$55,076,000, of which \$34,782,000 or 63% was from facilities leased by NHC. These 41 facilities include 4 centers subleased to and operated by other companies, the lease payments of which are guaranteed to us by NHC. NHC was our investment advisor until November 1, 2004.

Consistent with our strategy of diversification, we have increased our portfolio so that the portion of our real estate portfolio leased by NHC has been reduced from 100% of our total portfolio on October 17, 1991 (the date we began operations) to 16.8% of our total real estate portfolio on December 31, 2009, based on the net book value (carrying amount) of these properties. In 1991, these assets were transferred by NHC to us at their then current net book value in a non-taxable exchange. Many of these assets were substantially depreciated as a result of having been carried on NHC's books for as many as 20 years. As a result, we believe that the current fair market value of these assets is significantly in excess of their net book value. To illustrate, rental income in 2009 from NHC was \$34,782,000 or approximately 65.2% of our net book value of the facilities leased to NHC. Subsequent additions to the portfolio related to non-NHC investments reflect their higher value based on existing costs at the date the investment was made.

As with all assets in our portfolio, we monitor the financial and operating results of each of the NHC properties on a quarterly basis. In addition to reviewing the consolidated financial results of NHC, the individual center financial results are reviewed including their occupancy, patient mix, state survey results and other relevant information.

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The following tables summarize our investments in real estate (excluding corporate office and assets held for sale) and mortgage notes receivable as of December 31, 2009:

Real Estate Properties	Properties	Beds/Sq. Ft.*	Net Investment
Skilled Nursing Facilities	47	6,260	\$ 118,528,000
Assisted Living Facilities	19	1,357	82,643,000
Medical Office Buildings	4	124,427	8,739,000
Independent Living Facilities	4	456	7,177,000
Hospitals	1	55	5,998,000
Total Real Estate Properties	75		223,085,000
Mortgage Notes Receivable			
Skilled Nursing Facilities	31	3,481	90,102,000
Assisted Living Facilities	2	146	4,486,000
Total Mortgage Notes Receivable	33	3,627	94,588,000
Total Portfolio	108		\$ 317,673,000
Portfolio Summary			
	Properties	Investment Percentage	Net Investment
Real Estate Properties	75	70.2%	\$ 223,085,000
Mortgage Notes Receivable	33	29.8%	94,588,000
Total Portfolio	108	100.0%	\$ 317,673,000
Summary of Facilities by Type			
Skilled Nursing Facilities	78	65.6%	\$ 208,630,000
Assisted Living Facilities	21	27.4%	87,129,000
Medical Office Buildings	4	2.8%	8,739,000
Independent Living Facilities	4	2.3%	7,177,000
Hospitals	1	1.9%	5,998,000
Total Real Estate Portfolio	108	100.0%	\$ 317,673,000
Portfolio by Operator Type			
Public	48	26.5%	\$ 84,255,000
Regional	51	66.0%	209,599,000
Small	9	7.5%	23,819,000
Total Real Estate Portfolio	108	100.0%	\$ 317,673,000
Public Operators			
National HealthCare Corp.	41	16.8%	\$ 53,365,000
Sunrise Senior Living, Inc.	1	3.8%	11,963,000
Community Health Systems, Inc.	4	3.5%	11,262,000
Sun Healthcare Group, Inc.	2	2.4%	7,665,000
Total Public Operators	48	26.5%	\$ 84,255,000

Operators who operate more than 3% of our total real estate investments are as follows: National HealthCare Corp.; Community Health Systems, Inc.; RGL Development, LLC; Legend Healthcare, LLC; American HealthCare, LLC; Senior Living Management Corporation, LLC; Health Services Management, Inc.; ElderTrust of Florida, Inc.; Sunrise Senior Living, Inc.; SeniorTrust of Florida, Inc.; and Bickford Senior Living.

As of December 31, 2009, the average effective annual rental income was \$5,948 per bed for skilled nursing facilities, \$7,651 per bed for assisted living facilities, \$14 per square foot for medical office buildings, \$3,447 per bed for independent living facilities and \$51,081 per bed for hospitals.

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 are invested for real estate purposes. At December 31, 2009, our investments in preferred and common shares of publicly-held REITs were \$58,317,000 and our investments in other available for sale marketable securities were \$1,137,000. Refer to Notes 5 and 6 of our consolidated financial statements for further information.

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Areas of Focus

We are evaluating and will potentially make new investments in 2010 while continuing to monitor and improve our existing properties. We continue to cautiously evaluate new portfolio investments and monitor the current prices being offered for health care assets. However, even as we make new investments, we expect to maintain a relatively low level of debt compared to our total book capitalization. New investments in real estate and mortgage notes may be funded by our liquid investments and, if needed, by external financing. We intend to make new investments that meet our risk criteria and where we believe the spreads over our cost of capital will generate sufficient returns to our shareholders.

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:

1) Valuations and impairments to our investments - The majority of our tenants and borrowers are in the long-term health care industry and 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, the long-term health care industry has at times experienced material reductions in government reimbursement.

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

Decisions about valuations and impairments of our investments require significant judgments and estimates on the part of management. For real estate properties, the need to recognize an impairment is evaluated on a property by property basis. Recognition of an impairment is based upon estimated undiscounted future cash flows from a property compared to the carrying amount of the property and may be affected by management's plans, if any, to dispose of the property.

For notes receivable, impairment recognition is based upon an evaluation of the estimated collectability of loan payments and general economic conditions on a specific loan basis. On a quarterly basis, we review our notes receivable for realizability when events or circumstances, including the non-receipt of principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If necessary, impairment is measured as the amount by which the carrying amount exceeds the 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.

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While we believe that the carrying amounts of our properties 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.

2) Revenue recognition - mortgage interest and rental income - 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 a base year revenues, are considered to be contingent rentals and are excluded from minimum lease payments.

3) REIT status and taxes - We believe that we have operated our business so as to qualify as a REIT under Sections 856 through 860 of the Code and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. 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.

Real Estate and Mortgage Notes Receivable Write-downs and Recoveries

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 costs of professional liability insurance have increased significantly during this same period.

Since the inception of our Company, a number of our facility operators and mortgage loan borrowers have experienced bankruptcy. Others have been forced to surrender properties to us in lieu of foreclosure or for certain periods failed to make timely payments on their obligations to us.

The following table summarizes our write-downs and recoveries for the last three years for both continuing and discontinued operations:

Write-downs (Recoveries) (in thousands)	Years ended December 31,		
	2009	2008	2007
Real estate	\$ 25	\$ 1,986	\$ -
Mortgages & Notes Receivable	(1,077)	-	(24,238)
	<u>\$ (1,052)</u>	<u>\$ 1,986</u>	<u>\$ (24,238)</u>

In February 2009, we received payment in full of \$3,150,000 on the pro-rata portion of a note secured by a Georgia nursing home and recorded a recovery of amounts previously written down of \$1,077,000.

During 2008, we recorded an impairment charge of \$1,986,000 related to two Kansas facilities to reduce the carrying value of these facilities to fair value, less the cost of selling the facilities. One of the facilities, located in Hoisington, Kansas, was sold in November of 2008. The remaining facility, located in Emporia, Kansas, was sold during the first quarter of 2009. Prior to selling the Emporia facility, an additional impairment charge of \$25,000 was recorded to further reduce its carrying value.

During 2007, two mortgage notes receivable were paid off, resulting in recoveries of amounts previously written down of \$23,000,000. In addition, a recovery from a previous write down of our investment in a mortgage investment pool amounted to \$1,238,000. The early payoff of the Health Services Management of Texas, LLC ("HSM") loan resulted in \$21,300,000 of recoveries of amounts previously written down in 2000, 2001, and 2002 due to significant non-payment issues with the original borrower. The original borrower and personal guarantor filed bankruptcy, and then the facilities were sold to HSM. The new owner significantly improved operations due in large part to increased reimbursement rates to long-term care facilities by the State of Texas. In 2007, HSM was able to obtain refinancing at a lower interest rate to pay off our notes.

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See Notes 3 and 4 to our consolidated financial statements for details of the properties identified as impaired real estate investments and non-performing loans. We believe that the carrying amounts of our real estate properties are recoverable and notes receivable are realizable (including those identified as impaired or non-performing) 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.

Security Writedowns and Recoveries

On December 10, 2007, we were notified by Bank of America that its largest, privately placed, enhanced cash fund called Columbia Strategic Cash Fund (the "Fund") would be closed and liquidated. In addition, (1) cash redemptions were temporarily suspended, although redemptions could be filled through a pro-rata distribution of the underlying securities consisting principally of high-quality corporate debt, mortgage-backed securities and asset-backed securities; (2) the Fund's valuation would be based on the market value of the underlying securities, whereas historically the Fund's valuation was based on amortized cost; and (3) interest would continue to accrue. The carrying value of our investment in the Fund on December 10, 2007 was \$38,359,000. Subsequent to December 10, 2007, and prior to December 31, 2007, we received a pro-rata distribution of underlying securities in the Fund as described above of \$14,382,000 and cash redemptions of principal totaling \$4,665,000. Realized losses on the distribution and redemption of securities and cash amounted to \$236,000. At December 31, 2007, the fair market value of our investment in the Fund was estimated to be \$18,835,000 and the fair market value of our investment in a separate Investment Management Account ("IMA") was estimated to be \$14,294,000 for a total of \$33,129,000. Unrealized losses measured as the difference between fair market value and our original investment, at cost, amounted to \$329,000 and was reflected as a component of stockholder's equity at December 31, 2007.

A decline in the market value of any available-for-sale 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 operations 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 a reporting date and forecasted performance of the investment. In 2008, we concluded there was an other-than-temporary impairment of the Fund and the IMA totaling \$2,065,000 which we charged to operations during the third and fourth quarters.

For the year ended December 31, 2008, we received cash redemptions of principal from the Fund and IMA totaling \$23,031,000. Exclusive of the other-than-temporary impairment charges of \$2,065,000, realized losses amounted to \$410,000, which were charged to operations. At December 31, 2008, the fair market value of our investment in the Fund was estimated to be \$4,000,000 and the fair market value of our investment in the separate IMA was estimated to be \$3,953,000 for an aggregate fair value of \$7,953,000 and a revised cost basis of the same amount.

For the year ended December 31, 2009, we received cash redemptions of principal from the Fund and IMA totaling \$8,491,000. Net realized gains for the same period were \$538,000 and were recognized as non-operating income. As of December 31, 2009, both the Fund and the IMA were fully liquidated.

During the fourth quarter of 2009, we sold 100,000 common shares of LTC Properties, Inc. for an average price of \$26.00 per share. As a result of the sale, we recorded \$1,931,000 as a gain on the sale, \$717,000 of which was a recovery of a previously recorded other-than-temporary impairment.

Litigation Involving Significant Borrower

At December 31, 2009, we had a non-performing mortgage note receivable from Care Foundation of America ("CFA") with a principal balance of \$22,936,000. As disclosed in Note 9 to the consolidated financial statements, CFA filed a Chapter 11 bankruptcy petition and initiated an adversary proceeding complaint against us. It is our policy to recognize mortgage interest income on non-performing mortgage loans in the period in which cash is received. Under an Agreed Order by the bankruptcy court, NHI received interest payments during the period of the Chapter 11 proceedings at an annual interest rate of 9.5% on the unpaid principal balance beginning January 1, 2009. During 2009, we received payment and recognized interest income of \$1,837,000 from CFA, of which \$549,000 was recognized during the three months ended December 31, 2009. In December 2009, NHI agreed to purchase the six Florida properties (which are leased to a HSM for \$6,200,000 annually, plus escalators over the initial lease term expiring in 2014) for a total of \$67,000,000. The transaction closed on February 1, 2010. We funded

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the purchase with the full satisfaction of the \$23,300,000 in principal and interest on a mortgage note due from CFA, \$29,700,000 in cash deposits and \$14,000,000 in advances from NHI's revolving credit facility.

Acquisition of Real Estate

During 2009, we purchased and leased back four skilled nursing facilities in Texas from affiliates of Legend Healthcare, LLC, ("Legend") a privately owned company and one of our current lease customers. The total purchase price of the four facilities was \$55,550,000. The purchase price was funded from our accumulated cash. The four facilities are being leased to Legend for a term of 15 years at an initial lease rate of 10%, or \$5,555,000, plus a fixed annual rent escalator. Legend has the option to purchase the facilities after 7 years for \$55,550,000 if the appraised value is less than \$60,000,000. If the appraisal value is greater than \$60,000,000, the purchase price will be \$55,550,000 plus one-half of the appraised value of the facilities in excess of \$60,000,000.

During the fourth quarter of 2009, we completed a purchase/leaseback transaction with Bickford Senior Living and its affiliates ("Bickford") involving four assisted living facilities in Michigan and one in Illinois. Of the \$28,250,000 purchase price, \$25,250,000 was funded from our accumulated cash with the remainder to be paid as contingent consideration over the next three years based on Bickford's achievement of certain operating financial thresholds. At December 31, 2009, we have recorded the contingent consideration of \$3,000,000 as a liability to Bickford as we consider the payment of this amount to be probable. The minimum lease payments to NHI will increase at 9.5% of any contingent consideration paid by NHI. The five facilities are being leased to Bickford over 15 years at an initial lease rate of 9.5% plus annual fixed escalators.

During 2009, we paid \$769,000 for our corporate office in Murfreesboro, Tennessee.

As discussed in Notes 4 and 9, in December 2009 we agreed to purchase six Florida skilled nursing facilities from Care Foundation of America, Inc. (CFA) for a total of \$67,000,000 and finalized the acquisition on February 1, 2010. The facilities are leased to affiliates of Health Services Management, Inc., which commenced October 1, 2009, for \$6,200,000 annually, plus a 3% escalator starting at the beginning of the third lease year. The lease expires in 2014 and the tenant has a 3 year optional renewal term. The facilities have been part of our mortgage loan portfolio for 16 years. The purchase resulted in the dismissal of pending litigation between NHI and CFA. We funded the purchase with the full satisfaction of the \$23,300,000 in principal and interest on a mortgage note due from CFA, \$29,700,000 in cash deposits and \$14,000,000 in advances from NHI's revolving credit facility.

Disposition of Assets

In December 2009, we accepted an earnest money deposit of \$150,000 from the current lessee as part of negotiations to sell six skilled nursing facilities in Texas. We have classified these properties as held for sale in our Consolidated Balance Sheet as of December 31, 2009. The planned sale of these facilities meets the accounting criteria as being held for sale and we have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Consolidated Statements of Income.

Our skilled nursing facility in Emporia, Kansas was sold during the first quarter of 2009 for its carrying value of \$175,000.

We previously owned and operated 16 long-term health care facilities that we acquired through foreclosure or through the acceptance of deeds in lieu of foreclosure and subsequently sold the facilities (in 2001 and 2004) to unrelated not-for-profit entities, providing 100% financing (the "Foreclosure Properties"). While the original sales were recognized for tax purposes under the installment sale method, the operating revenues and expenses of these facilities continued to be recorded in the consolidated statements of income until such time as the down payment and continuing investment criteria of US GAAP were met, at which time we would account for the sales under the full accrual method. No installment payments had been made by the borrowers. On December 31, 2007, the criteria for recording the sales were met. Net assets having a book value of \$54,350,000 were deconsolidated, mortgage notes receivable of \$66,819,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$12,469,000. On December 31, 2007, we received irrevocable bank letters-of-credit from the borrowers totaling \$10,200,000 to guarantee down payments on the original notes and commitments to make monthly principal and interest payments to us to amortize the remaining note balances. In January 2008, we received down payments on the notes receivable of \$19,100,000 and began receiving payments of principal and interest totaling \$417,000 each month.

In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of \$669,000. Net cash proceeds were \$2,288,000 and the carrying value of the property and equipment sold was \$1,619,000.

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Results of Operations

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

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

Operating Income and Expense

Net income for the year ended December 31, 2009 was \$64,229,000 versus \$57,510,000 in 2008, an increase of 11.68% due primarily to higher rent income from existing and new leases and realized gains and recoveries on sales of marketable securities. Fully diluted earnings per common share were \$2.32 in 2009 versus \$2.07 in 2008, an increase of \$.25 or 12.08%.

Total revenues from continuing operations for the year ended December 31, 2009 were \$64,221,000 versus \$58,005,000 in 2008, an increase of 10.7%. Our revenues consist primarily of rental income from leases of our owned facilities and mortgage interest income from our borrowers. Rental income increased \$6,737,000 or 13.94%, which consists of (1) an increase of \$3,163,000 from Legend for new leases that commenced in July and August, 2009, (2) the receipt and recognition of \$2,000,000 in past-due rent from RGL Development, LLC, (3) percentage rent from NHC of \$1,082,000 related to 2008 and 2009, (4) an increase of \$307,000 related to a lease that commenced in Orangeburg, SC in October 2008, and (5) various smaller items totaling \$185,000. Rental income from our largest customer, NHC, was \$34,782,000 for 2009, an increase of \$1,082,000 or 3.21% when compared to the prior year. Our master lease with NHC includes a provision whereby NHC will pay 4% of the amount, if any, by which the gross revenue of each NHC facility exceeds the facility's revenue for the 2007 base year. The financial impact of our investments in real estate during 2009 is expected to increase total rental income in 2010. As described earlier, the acquisition of the CFA facilities is expected to increase total rental income in 2010.

Mortgage interest income decreased \$521,000 or 5.39% due, in part, to (1) a decrease of \$721,000 due to the scheduled principal amortization of our loans, and (2) a decrease of \$688,000 due to the payoff of certain of our loans in 2009. These decreases were offset, in part, by (1) the collection of past-due interest of \$654,000 on a mortgage note receivable from Osceola Healthcare, and (2) interest of \$234,000 on a mortgage note purchased at a discount. As described earlier, the settlement of the mortgage note receivable from CFA on February 1, 2010 will cause interest recognized from this borrower to decrease \$1,473,000 in 2010. Unless we continue to make new investments in mortgages in 2010 and future years, our interest income will decrease due to the normal amortization of our loans.

Total expenses (excluding loan and realty recoveries which are required to be shown as a reduction of expenses for financial statement purposes) were \$15,743,000 for the year ended December 31, 2009 versus \$12,913,000 for 2008, an increase of 21.92% due primarily to (1) an \$868,000 increase in depreciation as a result of property acquisitions during 2009, (2) a \$356,000 increase in legal fees primarily related to the CFA litigation, (3) a \$1,670,000 increase in general and administrative expenses as a result of higher payroll and non-cash compensation related to additions to our corporate management and staff, and (4) smaller decreases totaling \$64,000. Due to our acquisitions in late 2009 and February 2010, depreciation expense is expected to increase significantly in 2010.

Non-Operating Income

Non-operating income primarily includes dividends and interest on our investments in cash and marketable securities and realized gains and losses on sales of our marketable securities. Non-operating income was \$8,581,000 in 2009 versus \$6,487,000 in 2008, a 32.28% increase due primarily to gains and recoveries recognized on sales and redemptions of marketable securities which totaled \$2,402,000. Historically, we have maintained substantial cash reserves and, accordingly, interest income has been a significant part of non-operating income. We have made property and mortgage investments during 2009 totaling \$86,070,000 by using our cash reserves and, as expected, have seen a decline in our interest income from cash deposits.

Discontinued Operations

In January 2009, we received in cash and recognized income of \$642,000 on the settlement of a terminated lease of one of our former Texas facilities which was sold in 2005 to a third-party operator.

In March 2009, we completed the sale of a closed facility in Emporia, Kansas for net proceeds of \$175,000. The facility was classified as held for sale at December 31, 2008. In February 2009, we recorded an impairment charge of \$25,000 to reduce its

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carrying value to expected proceeds, less the cost to sell the facility. This is one of two facilities in Kansas that we sold. In November 2008, we sold our Hoisington facility. During 2008, we recorded an impairment charge of \$1,986,000 relating to the two facilities to reduce the carrying value of these facilities to fair value, less the estimated cost to sell the facilities. The income (loss) from discontinued operations of these facilities for the years ended December 31, 2009, 2008 and 2007 was \$0, (\$2,044,000) and \$73,000, respectively.

In June 2009, we recognized into income for financial and tax purposes \$1,494,000 related to the cancellation of liabilities which existed at the date of sale in 2004 of a skilled nursing facility in Washington. In 2008, we recognized into income \$4,122,000 related to the cancellation of liabilities relating to two other skilled nursing facilities in Washington. We recognized this income at the expiration of the five-year statute of limitations, as management concluded based on advice from counsel that we were legally released from any potential liability settlements. The income, including the income related to the cancellation of liabilities, from discontinued operations of these facilities for the years ended December 31, 2009, 2008 and 2007 was \$1,479,000, \$4,104,000 and \$31,000, respectively.

We have classified six facilities in Texas as held for sale in our Consolidated Balance Sheet as of December 31, 2009. Additionally, we have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Consolidated Statements of Income. The income from discontinued operations for these facilities for the years ended December 31, 2009, 2008 and 2007 was \$3,997,000, \$3,871,000 and \$3,397,000, respectively.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

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

Operating Income and Expense

Net income for the year ended December 31, 2008 was \$57,510,000 versus \$96,435,000 in 2007, a decrease of 40.4% due primarily to the non-recurrence of the recoveries in 2007 of amounts previously written down of \$24,238,000 and net gains on the disposition and deconsolidation of assets of \$13,138,000. Diluted earnings per common share were \$2.07 in 2008 versus \$3.47 in 2007, a decrease of \$1.40 or 40.3%.

Total revenues from continuing operations for the year ended December 31, 2008 were \$58,005,000 versus \$57,506,000 in 2007, an increase of 1%. Our revenues consist of mortgage interest income from our borrowers and rental income from leases of our owned facilities. Mortgage interest income decreased \$1,642,000 or 14.5% due to the accelerated payment of principal by a large borrower and the payoff of a note having a principal balance of \$7,050,000 at maturity. Collections and prepayments during 2008 were \$33,015,000 versus \$59,118,000 in 2007. Rental income increased \$2,141,000 or 4.6% due mainly to better negotiated lease terms on renewal for our existing tenants which accounted for \$2,041,000 and rent income of \$100,000 from a tenant in our Orangeburg, SC facility acquired in September 2008. Rental income from our largest customer, NHC, was \$33,700,000 for 2008 and 2007, respectively. Our master lease with NHC includes a provision whereby NHC will pay 4% of the amount, if any, by which the gross revenue of each NHC facility exceeds the facility's revenue for the 2007 base year. We purchased the Orangeburg facility in 2008.

Total expenses (excluding loan and realty recoveries which are required to be shown as a reduction of expenses for financial statement purposes) were \$12,913,000 for the year ended December 31, 2008 versus \$18,637,000 for 2007, a decrease of 30.7% due primarily to lower interest expense. For 2008, interest expense was \$307,000 versus \$4,625,000 in 2007, a decrease of 93.4%. In July 2007, we paid in full our \$100 million unsecured public notes having an interest rate of 7.3%. For 2008, legal expense was \$1,598,000 versus \$1,079,000 in 2007, an increase of 48.1% due to the consideration of various strategic alternatives to enhance stockholder value in our common shares and expenses associated with a threatened lawsuit by one of our major customers, Care Foundation of America, Inc. For 2008, general and administrative expense was \$3,585,000 versus \$5,657,000 in 2007, a decrease of \$2,072,000 or 36.6% consisting primarily of \$1,863,000 related to the termination of our advisory agreement with MAS on March 31, 2008. Net loan and realty recoveries were reported as a decrease in expenses and amounted to \$24,238,000 in 2007 as two mortgage notes receivable were paid off, the largest recovery of \$21,300,000 being the payoff of the HSM-Texas note of \$44,500,000. Another recovery of \$1,700,000 related to the payoff of a mortgage note of \$5,721,000 from a former American Medical Associates facility in Florida. A recovery from a previous write down of our investment in a mortgage investment pool amounted to \$1,238,000.

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Non-Operating Income

Non-operating income primarily includes dividends and interest on our investments in cash and marketable securities and realized gains and losses on sales of our marketable securities. Non-operating income was \$6,487,000 in 2008 versus \$12,464,000 in 2007, a 47.9% decrease due primarily to other than temporary impairments and realized losses of \$2,475,000 on marketable securities and a \$4,016,000 decrease in interest earnings on our bank deposits. The decline in interest earnings is due mainly to our payment in full in July 2007 of our \$100 million unsecured public notes and lower interest rates on bank deposits.

Discontinued Operations

Our income from discontinued operations in 2008 is described above.

On December 31, 2007, we recognized the sale of the Foreclosure Properties in New England, Missouri and Kansas and recorded mortgage notes receivable secured by the properties with a carrying value of \$66,819,000. The sale resulted in a net gain on sale and deconsolidation of \$12,469,000. The net carrying value of the assets and liabilities deconsolidated was \$54,350,000. The income from the discontinued operations of these facilities for the year ended December 31, 2007 was \$3,575,000.

In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of \$669,000. Net proceeds were \$2,288,000 and the carrying value of the property and equipment sold was \$1,619,000. The income from the discontinued operations of this facility for the year ended December 31, 2007 was \$650,000.

Liquidity and Capital Resources

Sources and Uses of Funds

Our primary sources of cash include rent and interest receipts, proceeds from the sales of real property and principal payments on notes receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property acquisitions and general and administrative expenses.

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	
	12/31/2009	12/31/2008	\$	%	12/31/2007	\$	%	
Cash and cash equivalents at beginning of period	\$ 100,242	\$ 75,356	\$ 24,886	33%	\$ 158,815	\$ (83,459)	(53%)	
Cash provided from (used in) operating activities	69,212	67,134	2,078	3%	66,529	605	1%	
Cash provided from (used in) investing activities	(55,278)	52,173	(107,451)	(206%)	21,431	30,742	143%	
Cash provided from (used in) financing activities	(68,458)	(94,421)	25,963	27%	(171,419)	76,998	45%	
Cash and cash equivalents at end of period	\$ 45,718	\$ 100,242	\$ (54,524)	(54%)	\$ 75,356	\$ 24,886	33%	

Net cash flows provided by discontinued operations of the Texas facilities during 2009, 2008 and 2007 were \$5,000,000, \$5,000,000 and \$4,652,000, respectively.

The notes to the consolidated financial statements describe the significant transactions that impacted our cash flows from operating, investing and financing activities of the facilities during 2009.

Operating Activities – Net cash provided by operating activities was \$69,212,000 in 2009 versus \$67,134,000 in 2008, an increase of 3.1%. Net cash provided by operating activities in 2009 consists of net income of \$64,229,000 adjusted by the following non-cash items: depreciation of \$8,621,000, net realized gains on sales of marketable securities of \$2,404,000 and working capital changes and smaller items totaling \$1,234,000. Working capital changes affecting cash were primarily due to the timing of payments of accounts payable and accrued expenses.

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Net cash provided by operating activities in 2008 consists of net income of \$57,510,000, adjusted by depreciation of \$7,943,000, recognized real estate asset impairments of \$1,986,000, and net realized losses and writedowns of marketable securities of \$2,477,000, reduced primarily by working capital changes and smaller items totaling \$2,781,000. Working capital changes affecting cash were primarily due to the timing of payments of accounts payable and accrued expenses.

Net cash provided by operating activities during 2007 consisted of net income of \$96,435,000, and depreciation of \$11,751,000, reduced by loan and realty recoveries of \$24,238,000, net gains on the disposition and deconsolidation of assets of \$13,138,000, net gain on the sale of marketable securities of \$1,029,000, working capital changes of \$3,334,000, plus smaller items totaling \$82,000. Recoveries of amounts previously written down of \$23,000,000 related to the prepayment in full of two mortgage loans and a recovery of \$1,238,000 related to a final residual payment from a mortgage investment pool (see discussion above in Real Estate, Mortgage and Notes Receivable Write-downs/Recoveries). Net gains on the disposition and deconsolidation of assets and cash deconsolidated from discontinued operations relate to the recording of the original sales of the Foreclosure Properties, as the down payment and continuing investment criteria in SFAS 66 were met on December 31, 2007. Working capital changes affecting cash were primarily due to the timing of collections of receivables, the payments of accounts payable and the decrease in accrued interest payable due to the payoff at par of the principal and interest on our \$100 million unsecured public notes on July 16, 2007.

Investing Activities – Cash used in investing activities in 2009 was \$55,278,000 versus cash provided by investing activities in 2008 of \$52,173,000. Cash used to fund real estate purchases and mortgage loans in 2009 was \$81,569,000 and \$4,501,000, respectively. Cash was generated from collections and prepayments of mortgage loans of \$19,630,000, proceeds from the sale of marketable securities (net of purchases) of \$10,987,000 and real estate sales of \$175,000. We intend to make new investments in 2010 if such investments meet our risk profile and targeted investment returns.

Net cash provided by investing activities was \$52,173,000 in 2008. Collections and prepayments on mortgages and other notes receivable in 2008 was \$33,015,000 and consisted of (1) a \$15,000,000 payment from ElderTrust of Florida, Inc., (2) a \$4,100,000 down-payment from SeniorTrust of Florida, Inc., (3) collection of \$7,050,000 as payment in full on a note from NHR, and (4) \$6,865,000 of routine collections. Cash used in the acquisition of the Orangeburg, SC facility amounted to \$4,015,000. Cash used for equipment purchases was \$33,000. Cash proceeds from the disposition of the Hoisington, KS facility amounted to \$42,000. During 2008, we made no new investments in mortgage or other notes receivable. Sales of marketable securities relate to transactions in an enhanced cash fund.

Cash flows provided by investing activities during 2007 of \$21,431,000 included collections and prepayments on mortgages and other notes receivable totaling \$59,118,000 and consisted of (1) collections of \$5,681,000 as a result of the early payoff from one Florida-based nursing facility, (2) a \$3,500,000 payoff of a short-term real estate loan, (3) collections of \$44,192,000 in principal as a result of an early payoff from HSM (see discussion above in Real Estate, Mortgage and Notes Receivable Write-downs/Recoveries), and (4) \$5,745,000 of routine collections. Cash proceeds from the disposition of real estate amounted to \$2,337,000 due primarily from the sale of the Milwaukee, Wisconsin facility of \$2,288,000 and a partial land sale of \$49,000. The cash balance of the Foreclosure Properties deconsolidated at December 31, 2007 was \$14,079,000. During 2007, we made new investments in mortgage and other notes receivable of \$9,716,000 due primarily to our investment in acquiring NHC's interest in a loan receivable from a third party. Sales of marketable securities included the cash proceeds of \$1,007,000 from the sale of common shares of NHR in October 2007. Purchases and other sales of marketable securities relate to transactions in our enhanced cash fund.

Financing Activities – Cash flows used in financing activities for 2009 were primarily the result of \$64,549,000 of dividends paid and \$3,987,000 in scheduled debt payments. The decrease in cash used in financing activities when 2009 is compared to 2008 is primarily due to a \$0.22 special dividend paid during 2008 compared to a \$0.10 special dividend paid during 2009 as well as \$3,621,000 used to repurchase 194,100 shares of our common stock in 2008.

Net cash used in financing activities in 2008 decreased from 2007 primarily due to \$98,455,000 less in scheduled principal payments on debt in 2008.

Liquidity

At December 31, 2009, our liquidity was strong, with cash and highly-liquid marketable securities of \$67,040,000. Cash proceeds from loan payoffs and the recovery of previous writedowns have been distributed as dividends to stockholders, used to retire our indebtedness and accumulated in bank deposits for the purpose of making new mortgage loans and real estate investments. At December 31, 2009, we had no debt.

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Our liquidity in cash accounts and other readily marketable securities (traded on public exchanges) continues to increase from our normal operating cash flows from core business investments in leases and mortgage notes as shown in our consolidated financial statements.

On February 1, 2010 we closed on a \$100,000,000 unsecured revolving credit facility to fund new healthcare real estate investments. The new credit facility, which was provided by Regions Bank as agent and Pinnacle National Bank as a participating bank, bears interest at a margin of 250 basis points over LIBOR with a floor of 1% and matures in February 2011. The facility contains certain representations, warranties, and financial and other covenants customary in such loan agreements.

We intend to comply with REIT dividend requirements that we distribute at least 90% of our taxable income for the year ending December 31, 2009 and thereafter. We declared total annual dividends of \$2.30 per share to stockholders of record in 2009, \$2.42 to stockholders of record in 2008, and \$2.85 to stockholders of record in 2007. Dividends declared for the fourth quarter of each fiscal year are paid by the end of the following January and are treated for tax purposes as having been paid in the fiscal year just ended as provided in IRS Code Sec. 857(b)(8). The 2009, 2008 and 2007 dividends declared included special dividends of \$.10, \$.22 and \$.85 per common share, respectively.

Off Balance Sheet Arrangements

We currently have no outstanding guarantees or letters of credit. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. At December 31, 2009, we did not participate in any such financial instruments.

Contractual Obligations

As of December 31, 2009, our contractual payment obligations and commitments were as follows (in thousands):

	Total	Year 1	Year 2	Year 3
Real estate purchase liability	\$ 70,000	\$ 67,500	\$ 1,000	\$ 1,500
Capital improvements	750	750	-	-
Mortgage note advances	250	250	-	-
	<u>\$ 71,000</u>	<u>\$ 68,500</u>	<u>\$ 1,000</u>	<u>\$ 1,500</u>

Contingency

As noted above, during the fourth quarter of 2009 we completed a purchase/leaseback transaction with Bickford Senior Living and its affiliates ("Bickford") for \$28,250,000. The purchase price was funded from our accumulated cash liquidity and includes \$3,000,000 in contingent payments to be made over the next three years based on Bickford's expected achievement of certain operating financial thresholds.

Commitments

As of December 31, 2009, we had pending commitments related to two health care real estate projects: (1) one of our leases contains a provision whereby we will fund up to \$750,000 of certain capital improvements and operating equipment purchases with the total being added to the base amount from which the lease payment is calculated, and (2) we were committed to fund an additional \$250,000 on a mortgage note receivable. We have sufficient liquidity to fund these commitments and to finance new investments.

In December 2009, NHI agreed to purchase the six Florida properties (which are leased to a third-party for \$6.2 million annually, plus escalators over the initial lease term expiring in 2014) from CFA for a total of \$67 million.

Funds From Operations

Our funds from operations ("FFO") were \$72,594,000 for the year ended December 31, 2009, versus \$65,207,000 in 2008, an increase of 11.3%. The increase in FFO was primarily the result of (1) \$3,484,000 from new leases that commenced during the year, (2) \$2,000,000 collected in past-due lease payments, (3) \$1,082,000 in percentage rent from NHC and other smaller items totaling \$821,000. FFO represents net earnings available to common stockholders, excluding the effects of asset dispositions, plus depreciation associated with real estate investments.

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We believe that FFO is an important supplemental measure of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires straight-line 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, presentation 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. Our measure may not be comparable to similarly titled measures used by other REITs. Consequently, our funds from operations 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 FFO, caution should be exercised when comparing our FFO to that of other REITs. FFO in and of itself does not represent cash generated from operating activities in accordance with GAAP (FFO does 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 in the United States, as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

We have complied with the SEC's interpretation that impairments taken on real property may not be added back to net income in the calculation of FFO. The SEC's position is that impairments on real property are non-recurring and are not an appropriate adjustment.

The results of operations for facilities included in assets held for sale or facilities sold have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported FFO. The net gain on sale of real estate and the deconsolidation of the Foreclosure Properties previously consolidated is not an element of FFO in 2007.

The following table reconciles net income to FFO (*dollar amounts in thousands, except per share amounts*):

Year Ended December 31,	2009	2008	2007
Net income	\$ 64,229	\$ 57,510	\$ 96,435
Elimination of certain non-cash items in net income:			
Real estate depreciation - continuing operations	7,373	6,667	6,877
Real estate depreciation - discontinued operations	992	1,030	4,780
Gain on partial land sale - continuing operations	-	-	(42)
Gain on dispositions and deconsolidation - discontinued operations	-	-	(13,138)
Funds from operations	\$ 72,594	\$ 65,207	\$ 94,912
BASIC			
Weighted average common shares outstanding	27,586,338	27,706,106	27,703,464
Basic FFO per common share	\$ 2.63	\$ 2.35	\$ 3.43
DILUTED			
Weighted average common shares outstanding	27,618,300	27,731,951	27,783,862
Diluted FFO per common share	\$ 2.63	\$ 2.35	\$ 3.42

Impact of Inflation

Inflation may affect us in the future by changing the underlying value of our real estate or by impacting the cost of financing our operations. Our revenues are generated primarily from long-term investments and the operation of long-term care facilities. Inflation has remained relatively low during recent periods. There can be no assurance that future Medicare, Medicaid or private pay rate increases will be sufficient to offset future inflation increases. Certain of our leases require increases in rental income based upon increases in the revenues of the tenants.

New Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for the impact of new accounting standards.

ITEM 6A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Interest Rate Risk

Our cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less. Most of our mortgage and other notes receivable bear interest at fixed interest rates. Our investment in preferred stock represents an investment in the preferred stock of another REIT and yields dividends at a fixed rate of 8.5%. As a result of the short-term nature of our cash instruments and because the interest rates on our investments in notes receivable and preferred stock are fixed, a hypothetical 10% change in interest rates has no impact on our future earnings and cash flows related to these instruments.

We do not use derivative instruments to hedge interest rate risks. The future use of such instruments will be subject to strict approvals by our senior officers.

Equity Price Risk

We consider our investments in marketable securities of \$21,322,000 at December 31, 2009 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 recorded in stockholders' equity. The investments in marketable securities are recorded at their fair market value based on quoted market prices. Thus, there is exposure to equity price risk, which is the potential change in fair value due to a change in quoted market prices. 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 \$2,132,200 change in the fair value of our investments in marketable securities.

ITEM 7. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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, 2009 and 2008 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. 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 presentation of the financial statements. 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, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We were also engaged to audit, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of National Health Investors, Inc.'s internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 20, 2010 expressed an unqualified opinion thereon.

/s/ BDO Scidman, LLP

Nashville, Tennessee
February 20, 2010

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NATIONAL HEALTH INVESTORS, INC.
 Consolidated Balance Sheets
 (in thousands, except share amounts)

	December 31,	
	2009	2008
Assets		
Real estate properties:		
Land	\$ 28,490	\$ 26,310
Buildings and improvements	322,296	284,596
	<u>350,786</u>	<u>310,906</u>
Less accumulated depreciation	(126,925)	(129,574)
Real estate properties, net	223,861	181,332
Mortgage notes receivable, net	94,588	108,640
Investment in preferred stock, at cost	38,132	38,132
Cash and cash equivalents	45,718	100,242
Marketable securities	21,322	26,594
Accounts receivable, net	2,189	1,734
Assets held for sale, net	33,420	200
Deferred costs and other assets	130	232
Total Assets	<u>\$ 459,360</u>	<u>\$ 457,106</u>
Liabilities and Stockholders' Equity		
Notes and bonds payable	\$ -	\$ 3,987
Earnest money deposit	150	-
Real estate purchase liability	3,000	-
Accounts payable and accrued expenses	2,754	4,359
Dividends payable	17,959	19,030
Deferred income	885	115
Total Liabilities	<u>24,748</u>	<u>27,491</u>
Commitments and Contingencies		
Stockholders' Equity		
Common stock, .01 par value; 40,000,000 shares authorized; 27,629,505		
and 27,580,319 shares issued and outstanding, respectively	276	276
Capital in excess of par value	459,842	458,911
Cumulative net income	900,611	836,382
Cumulative dividends	(940,220)	(876,742)
Unrealized gains on marketable securities	14,103	10,788
Total Stockholders' Equity	<u>434,612</u>	<u>429,615</u>
Total Liabilities and Stockholders' Equity	<u>\$ 459,360</u>	<u>\$ 457,106</u>

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

NATIONAL HEALTH INVESTORS, INC.
Consolidated Statements of Income
(in thousands, except share and per share amounts)

	Year Ended December 31,		
	2009	2008	2007
Revenues:			
Rental income	\$ 55,076	\$ 48,339	\$ 46,198
Mortgage interest income	9,145	9,666	11,308
	<u>64,221</u>	<u>58,005</u>	<u>57,506</u>
Expenses:			
Interest expense	85	308	4,625
Depreciation	7,629	6,761	6,928
Amortization of loan costs	90	15	75
Legal expense	1,954	1,598	1,079
Franchise, excise, and other taxes	730	646	273
General and administrative	5,255	3,585	5,657
Loan and realty losses (recoveries)	(1,077)	-	(24,238)
	<u>14,666</u>	<u>12,913</u>	<u>(5,601)</u>
Income before non-operating income	49,555	45,092	63,107
Non-operating income (investment interest and other)	8,581	6,487	12,464
Income from continuing operations	58,136	51,579	75,571
Discontinued operations			
Income from operations - discontinued	6,093	5,931	7,726
Net gain on dispositions and deconsolidation	-	-	13,138
Income from discontinued operations	<u>6,093</u>	<u>5,931</u>	<u>20,864</u>
Net income	<u>\$ 64,229</u>	<u>\$ 57,510</u>	<u>\$ 96,435</u>
Weighted average common shares outstanding:			
Basic	27,586,338	27,706,106	27,703,464
Diluted	27,618,300	27,731,951	27,783,862
Earnings per share:			
Basic:			
Income from continuing operations	\$ 2.11	\$ 1.86	\$ 2.73
Discontinued operations	0.22	0.22	0.75
Net income per common share	<u>\$ 2.33</u>	<u>\$ 2.08</u>	<u>\$ 3.48</u>
Diluted:			
Income from continuing operations	\$ 2.10	\$ 1.86	\$ 2.72
Discontinued operations	0.22	0.21	0.75
Net income per common share	<u>\$ 2.32</u>	<u>\$ 2.07</u>	<u>\$ 3.47</u>

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

NATIONAL HEALTH INVESTORS, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	\$ 64,229	\$ 57,510	\$ 96,435
Adjustments to reconcile net income to net cash provided from operating activities:			
Depreciation	8,621	7,943	11,751
Amortization of loan costs	90	15	75
Amortization of deferred income	(39)	(22)	(26)
Provision for loan and realty losses (recoveries)	(1,077)	-	(24,238)
Impairment of real estate assets in discontinued operations	25	1,986	-
Net gain on dispositions and deconsolidations of discontinued operations	-	-	(13,138)
Gain on asset disposals in non-operating income	-	-	(42)
Gain on payoff of note receivable	-	-	(468)
Share-based compensation	853	7	543
Other-than-temporary impairment of marketable securities	-	2,065	-
Net realized (gain) loss on sales of marketable securities	(2,404)	410	(1,029)
Deferred income	959	-	-
Changes in operating assets and liabilities:			
Accounts receivable	(455)	167	(204)
Deferred costs and other assets	15	173	(618)
Accounts payable and accrued expenses	(1,605)	(3,120)	(2,512)
Net cash provided by operating activities	<u>69,212</u>	<u>67,134</u>	<u>66,529</u>
Cash flows from investing activities:			
Investment in mortgage and notes receivable	(4,501)	-	(9,716)
Collections of mortgage and notes receivable	16,652	33,015	9,245
Prepayment of mortgage notes receivable	2,978	-	49,873
Acquisition of real estate properties	(81,569)	(4,048)	(2,491)
Proceeds from disposition of real estate properties	175	42	2,337
Cash balances deconsolidated from discontinued operations	-	-	(14,079)
Acquisition of marketable securities	(274)	-	(351,747)
Proceeds from sales of marketable securities	11,261	23,164	338,009
Net cash (used in) provided by investing activities	<u>(55,278)</u>	<u>52,173</u>	<u>21,431</u>
Cash flows from financing activities:			
Principal payments on notes and bonds	(3,987)	(5,525)	(103,980)
Dividends paid to stockholders	(64,549)	(85,520)	(67,439)
Stock options exercised	78	245	-
Repurchase of common stock	-	(3,621)	-
Net cash used in financing activities	<u>(68,458)</u>	<u>(94,421)</u>	<u>(171,419)</u>
Increase (decrease) in cash and cash equivalents	(54,524)	24,886	(83,459)
Cash and cash equivalents, beginning of year	100,242	75,356	158,815
Cash and cash equivalents, end of year	<u>\$ 45,718</u>	<u>\$ 100,242</u>	<u>\$ 75,356</u>

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

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

	Common Stock		Capital in Excess of Par Value	Cumulative Net Income	Cumulative Dividends	Unrealized (Losses) Gains on Marketable Securities	Total Stockholders' Equity
	Shares	Amount					
Balances at December 31, 2006	27,752,239	\$ 278	\$ 461,735	\$ 682,437	\$ (730,562)	\$ 17,783	\$ 431,671
Comprehensive income:							
Net income	-	-	-	96,435	-	-	96,435
Other comprehensive income (loss):							
Unrealized holding loss arising during period	-	-	-	-	-	(2,386)	(2,386)
Less: reclassification adjustment for losses included in net income	-	-	-	-	-	(1,029)	(1,029)
Net loss recognized in other comprehensive income	-	-	-	-	-	(3,415)	(3,415)
Total comprehensive income	-	-	-	96,435	-	-	96,435
Share-based compensation	-	-	543	-	-	-	543
Cash dividends:							
Dividends to common stockholders, \$2.85 per share	-	-	-	-	(79,096)	-	(79,096)
Balances at December 31, 2007	27,752,239	278	462,278	778,872	(809,658)	14,368	446,138
Comprehensive income:							
Net income	-	-	-	57,510	-	-	57,510
Other comprehensive income (loss):							
Unrealized holding loss arising during period	-	-	-	-	-	(6,055)	(6,055)
Less: reclassification adjustment for losses included in net income	-	-	-	-	-	2,475	2,475
Net loss recognized in other comprehensive income	-	-	-	-	-	(3,580)	(3,580)
Total comprehensive income	-	-	-	57,510	-	-	57,510
Shares repurchased and retired	(194,100)	(2)	(3,619)	-	-	-	(3,621)
Shares issued:							
Stock options exercised	51,680	-	245	-	-	-	245
Restricted stock grants	25,000	-	-	-	-	-	-
Restricted stock forfeitures	(54,500)	-	-	-	-	-	-
Share-based compensation	-	-	7	-	-	-	7
Cash dividends:							
Dividends to common stockholders, \$2.42 per share	-	-	-	-	(67,084)	-	(67,084)
Balances at December 31, 2008	27,580,319	276	458,911	836,382	(876,742)	10,788	429,615
Comprehensive income:							
Net income	-	-	-	64,229	-	-	64,229
Other comprehensive income (loss):							
Unrealized holding gain arising during period	-	-	-	-	-	4,462	4,462
Less: reclassification adjustment for gains included in net income	-	-	-	-	-	(1,147)	(1,147)
Net gain recognized in other comprehensive income	-	-	-	-	-	3,315	3,315
Total comprehensive income	-	-	-	64,229	-	-	64,229
Shares issued:							
Stock options exercised	49,186	-	78	-	-	-	78
Share-based compensation	-	-	853	-	-	-	853
Cash dividends:							
Dividends to common stockholders, \$2.30 per share	-	-	-	-	(63,478)	-	(63,478)
Balances at December 31, 2009	27,629,505	\$ 276	\$ 459,842	\$ 900,611	\$ (940,220)	\$ 14,103	\$ 434,612

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

NATIONAL HEALTH INVESTORS, INC.
Notes to Consolidated Financial Statements

NOTE 1. ORGANIZATION

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation incorporated on July 24, 1991, is a real estate investment trust ("REIT"). Our revenue is derived primarily from rent generated on leased properties, interest income on mortgage loans and income on other investments. We invest in health care properties including long-term care centers, acute care hospitals, medical office buildings, assisted living facilities and independent living facilities. These properties are located in 20 states throughout the U.S. and are operated by qualified health care providers.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The consolidated financial statements include our accounts and our subsidiaries, all of which are wholly-owned. Significant intercompany balances and transactions have been eliminated.

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

Real Estate Properties – We record properties at cost, including capitalized interest during construction periods. We use the straight-line method of depreciation for buildings and improvements over their estimated useful lives as follows:

Buildings	40 years
Improvements	3 to 25 years

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 is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment 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 the 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 Sheet and are carried at the lower of their amortized cost or fair value, less the cost to sell. There was no change to reported net income for the prior periods as a result of this reclassification.

Mortgage and Notes Receivable – We evaluate the carrying values of our mortgage notes receivable on an instrument-by-instrument basis. On a quarterly basis, we review our notes receivable for recoverability when events or circumstances, including the non-receipt of 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, 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.

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. Therefore, we will not be subject to federal income tax provided we distribute at least 90% of our REIT taxable income to our stockholders and meet other requirements to continue to qualify as a REIT. Accordingly, no provision for federal income taxes has been made in the consolidated financial statements. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on our financial position, results of operations and cash flows.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the basis of assets, recognition of commitment fees, estimated useful lives used

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to compute depreciation expense and in the treatment of accrued interest expense that existed at the time debentures were converted to common stock.

Our tax returns filed for years beginning in 2006 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 general and administrative expense.

Concentration of Credit Risks – Our credit risks primarily relate to cash and cash equivalents, investments in high yielding cash funds, and investments in preferred stock, mortgages 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 exceed federally-insured limits. We have not experienced any losses in such accounts. Our mortgage and other notes receivable consists primarily of secured loans with health care facilities as discussed in Note 4. The investment in preferred stock is in one entity as discussed in Note 5.

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 first 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. See Notes 4, 5, and 6 for additional information on notes receivable, investment in preferred stock, and our previous investments in enhanced cash funds.

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 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 financings are amortized by the effective interest method over the term of the related debt.

Deferred Income – Deferred income primarily includes non-refundable loan commitment fees received by us, which are amortized into income by the effective interest method over the expected period of the related loans. In the event that a potential borrower chooses not to borrow funds from us, the related commitment fees are recognized into income when the commitment expires.

In management's opinion, these loan commitment fees approximate the loan commitment fees that we would currently charge to enter into similar agreements based on the terms of the agreements and the creditworthiness of the parties, and the committed interest rates are approximately the same as current levels of interest rates.

Rental Income – Base rental income is recognized on a straight-line basis over the term of the lease. Under certain of our leases, we receive additional contingent rent, which is based on the increase in revenues of a 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 assured 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 revenues, are considered to be contingent rentals and are excluded from minimum lease payments.

We identify leases 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.

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Mortgage Interest Income – Mortgage interest income is recognized by us based on the interest rates and principal amounts outstanding on the mortgage notes receivable. Under certain of our mortgages, we receive additional contingent interest, which is based on the increase in the current year revenues of a borrower over a base year. We recognize contingent interest income annually when, based on the actual revenues of the borrower, receipt of such income is assured since the target threshold has been achieved. We identify loans 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 discussed in Notes 4 and 9, at December 31, 2009, we had one non-performing loan with a principal balance of \$22,936,000 which was settled on February 1, 2010 as a result of our acquisition of the six facilities that served as collateral for the loan.

Investment Interest and Other Income – Investment interest and other income includes dividends when declared and interest when earned from investments in preferred stock and marketable securities, realized gains and losses on sales of marketable securities using the specific-identification method, interest on cash and cash equivalents and amortization of deferred income.

Segment Disclosures – We are in the business of owning and financing health care properties. We are managed as one reporting unit, rather than multiple reporting units, for internal purposes and for internal decision making. Therefore, we have concluded that we operate as a single segment.

New Pronouncements – In June 2009, the Financial Accounting Standards Board (“FASB”) issued Statement No. 168, “*The FASB Accounting Standards Codification™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162*”. FASB Accounting Standards Codification™ (ASC) is the source of authoritative U.S. generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. The ASC organized all existing GAAP pronouncements into various accounting topics using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. The ASC was effective for financial statements issued for reporting periods that ended after September 15, 2009. This had an impact on our financial statements since all references to authoritative accounting literature are references in accordance with the ASC.

Subsequent Events – We have evaluated all subsequent events through February 20, 2010, the date the consolidated financial statements were issued.

NOTE 3. REAL ESTATE

The following table summarizes our real estate properties by type of facility and by state as of December 31, 2009 and 2008 (excluding assets held for sale):

(Dollar amounts in thousands)

Facility Type and State	Number of Facilities	Land	Buildings, Improvements & Construction in Progress	Accumulated Depreciation	Bonds Payable
2009					
<i>Skilled Nursing:</i>					
Alabama	2	\$ 95	\$ 5,165	\$ (3,499)	\$ -
Arizona	1	453	6,678	(2,403)	-
Florida	4	2,306	37,436	(22,724)	-
Georgia	1	52	865	(852)	-
Idaho	1	122	2,491	(900)	-
Kentucky	2	231	2,182	(1,639)	-
Missouri	5	1,165	23,068	(14,669)	-
South Carolina	4	872	15,242	(8,439)	-
Tennessee	20	1,835	41,297	(28,042)	-
Texas	6	2,410	58,140	(1,475)	-
Virginia	1	176	2,511	(1,622)	-
Total Skilled Nursing	47	9,717	195,075	(86,264)	-
<i>Acute Care:</i>					
Kentucky	1	540	10,163	(4,705)	-
Total Acute Care	1	540	10,163	(4,705)	-
<i>Medical Office Buildings:</i>					
Florida	1	165	3,349	(1,830)	-
Illinois	1	-	1,925	(614)	-
Texas	2	631	9,677	(4,564)	-
Total Medical Office Buildings	4	796	14,951	(7,008)	-
<i>Assisted Living:</i>					
Arizona	4	1,757	13,622	(3,716)	-
Florida	4	7,095	21,543	(10,231)	-
Illinois	1	403	4,532	(10)	-
Michigan	4	1,490	21,825	(50)	-
New Jersey	1	4,229	13,030	(5,296)	-
Pennsylvania	1	439	3,960	(429)	-
South Carolina	1	344	2,877	(788)	-
Tennessee	3	871	7,061	(1,916)	-
Total Assisted Living	19	16,628	88,450	(22,436)	-
<i>Independent Living:</i>					
Idaho	1	243	4,182	(1,487)	-
Missouri	1	344	3,181	(1,960)	-
Tennessee	2	64	5,645	(3,034)	-
Total Independent Living	4	651	13,008	(6,481)	-
Total continuing operations properties	75	28,332	321,647	(126,894)	-
Corporate assets		158	649	(31)	-
		\$ 28,490	\$ 322,296	\$ (126,925)	\$ -

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2008

Facility Type and State	Number of Facilities	Land	Buildings, Improvements & Construction in Progress	Accumulated Depreciation	Bonds Payable
<i>Skilled Nursing:</i>					
Alabama	2	\$ 95	\$ 5,165	\$ (3,399)	\$ -
Arizona	1	453	6,678	(2,236)	1,400
Florida	4	2,306	37,436	(21,551)	-
Georgia	1	52	865	(820)	-
Idaho	1	123	2,491	(834)	-
Kentucky	2	231	2,182	(1,556)	-
Missouri	5	1,164	23,070	(13,962)	1,225
South Carolina	4	872	15,241	(8,050)	-
Tennessee	20	1,835	41,335	(26,921)	-
Texas	8	2,280	47,408	(10,827)	-
Virginia	1	176	2,510	(1,550)	1,362
Total Skilled Nursing	49	9,587	184,381	(91,706)	3,987
<i>Acute Care:</i>					
Kentucky	1	540	10,163	(4,412)	-
Total Acute Care	1	540	10,163	(4,412)	-
<i>Medical Office Buildings:</i>					
Florida	1	165	3,349	(1,754)	-
Illinois	1	-	1,925	(559)	-
Texas	2	631	9,677	(4,294)	-
Total Medical Office Buildings	4	796	14,951	(6,607)	-
<i>Assisted Living:</i>					
Arizona	4	1,757	13,622	(3,376)	-
Florida	4	7,096	21,543	(9,584)	-
New Jersey	1	4,229	13,030	(4,977)	-
Pennsylvania	1	439	3,960	(330)	-
South Carolina	1	344	2,877	(716)	-
Tennessee	3	871	7,061	(1,739)	-
Total Assisted Living	14	14,736	62,093	(20,722)	-
<i>Independent Living:</i>					
Idaho	1	243	4,182	(1,376)	-
Missouri	1	344	3,181	(1,868)	-
Tennessee	2	64	5,645	(2,883)	-
Total Independent Living	4	651	13,008	(6,127)	-
Total continuing operations properties	72	\$ 26,310	\$ 284,596	\$ (129,574)	\$ 3,987
Corporate assets					
		\$ 26,310	\$ 284,596	\$ (129,574)	\$ 3,987

During 2008, certain of our real estate properties were pledged as collateral on individual bonds payable, as noted in the tables above.

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Acquisition of Real Estate

During 2009, we purchased and leased back four skilled nursing facilities in Texas from affiliates of Legend Healthcare, LLC, ("Legend") a privately owned company and one of our current lease customers. The total purchase price of the four facilities was \$55,550,000. The purchase price was funded from our accumulated cash. The four facilities are being leased to Legend for a term of 15 years at an initial lease rate of 10%, or \$5,555,000, plus a fixed annual rent escalator. Legend has the option to purchase the facilities after 7 years for \$55,550,000 if the appraised value is less than \$60,000,000. If the appraisal value is greater than \$60,000,000, the purchase price will be \$55,550,000 plus one-half of the appraised value of the facilities in excess of \$60,000,000.

During the fourth quarter of 2009, we completed a purchase/leaseback transaction with Bickford Senior Living and its affiliates ("Bickford") involving four assisted living facilities in Michigan and one in Illinois. Of the \$28,250,000 purchase price, \$25,250,000 was funded from our accumulated cash with the remainder to be paid as contingent consideration over the next three years based on Bickford's achievement of certain operating financial thresholds. At December 31, 2009, we have recorded the contingent consideration of \$3,000,000 as a liability to Bickford as we consider the payment of this amount to be probable. The minimum lease payments to NHI will increase at 9.5% of any contingent consideration paid by NHI. The five facilities are being leased to Bickford over 15 years at an initial lease rate of 9.5% plus annual fixed escalators.

During 2009, we paid \$769,000 to purchase our corporate office in Murfreesboro, Tennessee.

As discussed in Notes 4 and 9, in December 2009 we agreed to purchase six Florida skilled nursing facilities from Care Foundation of America, Inc. (CFA) for a total of \$67,000,000 and finalized the acquisition on February 1, 2010. The facilities are leased to affiliates of Health Services Management, Inc., which commenced October 1, 2009, for \$6,200,000 annually, plus a 3% escalator starting at the beginning of the third lease year. The lease expires in 2014 and the tenant has a 3 year optional renewal term. The facilities have been part of our mortgage loan portfolio for 16 years. The purchase resulted in the dismissal of pending litigation between NHI and CFA. We funded the purchase with the full satisfaction of the \$23,300,000 in principal and interest on a mortgage note due from CFA, \$29,700,000 in cash deposits and \$14,000,000 in advances from NHI's revolving credit facility.

Assets Held for Sale

In December 2009, we accepted an earnest money deposit of \$150,000 from the current lessee as part of negotiations to sell six skilled nursing facilities in Texas. We have classified these properties as held for sale in our Consolidated Balance Sheet as of December 31, 2009. The planned sale of these facilities meets the accounting criteria as being held for sale and we have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Consolidated Statements of Income. The summary of operating results of all facilities classified as discontinued operations is shown in Note 16.

Foreclosure Properties

We previously owned and operated 16 long-term health care facilities in Kansas, Missouri, Massachusetts and New Hampshire that we acquired through foreclosure or through the acceptance of deeds in lieu of foreclosure and subsequently sold the facilities to unrelated not-for-profit entities, providing 100% financing (the "Foreclosure Properties"). The operating revenues and expenses of these facilities continued to be recorded in our Consolidated Statements of Income until such time as the down payment and continuing investment criteria were met, at which time we would account for the sales under the full accrual method. On December 31, 2007, the criteria for recording the sales were met. Net assets having a book value of \$54,350,000 were deconsolidated, mortgage notes receivable of \$66,819,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$12,469,000. On December 31, 2007, we received irrevocable bank letters-of-credit aggregating \$10,200,000 from the borrowers to guarantee down payments on the notes, and commitments to make monthly principal and interest payments to us to amortize the remaining note balances. In January 2008, we received down payments of \$19,100,000 on the notes receivable and began receiving principal and interest totaling \$417,000 each month. Our continuing involvement with these facilities is solely as a creditor. The facilities are currently managed by subsidiaries of NHC.

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The results of operations for these foreclosure facilities have been reclassified to retrospectively reflect the disposition of these facilities as discontinued operations for all periods presented. Amounts included in operating income of discontinued operations applicable to these facilities are summarized as follows (*in thousands*):

	Year Ended December 31, 2007
Income Statement:	
Facility operating revenue	\$ 93,343
Facility operating expenses	86,293
Interest expense	7
Depreciation	3,468
Total Expenses	89,768
Net income	<u>\$ 3,575</u>

NOTE 4. MORTGAGE NOTES RECEIVABLE

The following is a summary of the terms and amounts of mortgage and other notes receivable (*dollar amounts in thousands*):

Final Payment Date	Number of Loans	Payment Terms in 2009	Original Face Amount of Mortgage(s)	December 31,	
				2009	2008
2008	1	Monthly payment of \$352, including interest at 9.5% Balloon payment due at maturity.	\$ 32,708	\$ 22,936	(1),(2) \$ 22,936
2009	1	Monthly payment of interest only at Prime plus 2.0% (5.25% at December 31, 2008)	300	-	83
2009	1	Monthly payment of \$50, including interest at 10%. Balloon payment due at maturity.	5,196	-	3,750
2009	1	Monthly payment of \$70, including interest at 9.5% Balloon payment due at maturity.	7,900	-	6,628
2010	1	Monthly payment of \$120, including interest at 9.0% Balloon payment due at maturity.	12,162	6,217	(1) 8,463
2011	8	Monthly payments of \$9 to \$69, which include interest at 6.9%	40,526	21,328	23,458
2013	1	Monthly payment of \$22, including interest at 6.5% Balloon payment at maturity.	5,158	728	(1) 801
2014	8	Monthly payments of \$8 to \$25, which includes interest at 8.5% and includes \$9.7 million with interest at 3.0% due at maturity	26,293	21,614	21,884
2014	1	Monthly payments of interest at a variable rate, initial rate is 12.0% (1st rate adjustment in October 2010 with principal due at maturity; additional \$250,000 to be drawn during 2010)	850	600	-
2018	1	Monthly payment of \$38, including interest at 7.47%	5,033	3,886	-
2019	1	Monthly payment of interest only 9.0%	2,500	2,500	2,500
2027-2032	7	Monthly payments of \$19 to \$32, which include interest ranging from 8.0 to 9.6%	20,774	14,779	18,137
			<u>\$ 159,400</u>	<u>\$ 94,588</u>	<u>\$ 108,640</u>

(1) We recognize interest income in the period in which cash is received because the loan was previously classified as non-performing.

(2) See Notes 3, 4 & 9 regarding settlement of this mortgage note receivable

The mortgage notes receivable are secured by mortgages on the real property and UCC liens on the personal property of the facilities. Certain of the notes receivable are also secured by guarantees of significant parties and by cross-collateralization on properties with the same respective owner.

Care Foundation of America, Inc. ("CFA") – On May 4, 2007, we exercised our right to call NHC's participation (approximately 22%) with us in a mortgage loan with CFA in exchange for the payment in cash of \$6,255,000 which represented NHC's portion of the principal and interest outstanding on the loan. At December 31, 2008, the remaining principal balance and

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carrying value of the loan was \$22,936,000. As disclosed in Note 9, CFA filed a Chapter 11 bankruptcy petition and initiated an adversary proceeding complaint against us. The principal balance and carrying value of the loan at December 31, 2009 was unchanged. It is our policy to recognize mortgage interest income on non-performing mortgage loans in the period in which cash is received. Under an Agreed Order by the bankruptcy court, NHI received interest payments during the period of the Chapter 11 proceedings at an annual interest rate of 9.5% on the unpaid principal balance of \$22,936,000. For the year ended December 31, 2009, we received payment and recognized interest income of \$1,837,000 from CFA. As disclosed in Note 9, the unpaid principal balance was settled in full when we acquired the six facilities for \$67,000,000 on February 1, 2010.

In June 2009, we purchased a first mortgage note at a discount for \$3,901,000 secured by an assisted living facility in Minnesota. The note has an interest rate of 7.47% and matures February 2018. The note discount is amortized and recognized as an adjustment to interest income over the remaining term of the note using a method that approximates the effective interest method. The average annual yield on the note if held to maturity is approximately 12%.

Loan Recoveries

Allgood Healthcare, Inc. ("Allgood") – We previously provided mortgage financing to the purchasers of five Georgia nursing homes originally owned by Allgood, a former customer, which filed for bankruptcy in January 2003. We received payment in full on one note from a borrower in December 2006, at which time we recorded a recovery of amounts previously written down of \$2,073,000. In February 2009, we received payment in full of \$3,150,000 on the pro-rata portion of a note secured by a second nursing home and recorded a recovery of amounts previously written down of \$1,077,000. We continue to hold mortgages on the three remaining facilities at a carrying value of \$6,217,000.

American Medical Associates, Inc. ("AMA") – On May 1, 2004, we provided financing to purchasers of three Florida-based nursing homes formerly owned by AMA and previously financed by us. The amount of the new mortgage loans totaled \$14,450,000 and the notes were to mature May 14, 2009. The notes were recorded net of the \$5,200,000 recorded loss on notes to AMA in 2002. Management's analysis of future expected cash flows, historical occupancy and operating income of the project resulted in additional net impairments of \$2,000,000 in 2005. Loans secured by two of the properties were paid during 2006, inclusive of \$4,935,000 in recoveries, and a gain of \$1,015,000.

In March 2007, the remaining AMA mortgage loans secured by the last of three AMA properties were fully paid. We received \$5,721,000 in cash, representing the full principal balances and accrued interest on the loans. As a result, we recognized recoveries of \$1,700,000 and a gain on settlement of the note of \$468,000 in 2007.

Health Services Management of Texas LLC ("HSM") - On July 11, 2007, we received payoff at par of a mortgage loan investment in the amount of \$44,500,000. The recovery of amounts previously written down related to this loan amounted to \$21,300,000. The average recorded investment in the HSM loan was \$23,060,000 for the year ended December 31, 2007. The amount of interest income recognized (representing cash received) on the loan was \$2,575,000 for the year ended December 31, 2007.

SouthTrust- On December 6, 2007, we received a final residual payment related to a mortgage pool investment. The recovery of amounts previously written down related to this investment amounted to \$1,238,000. Recovery of any amounts previously written down had been considered highly doubtful. There was no carrying value of this investment at any time during 2007.

NOTE 5. INVESTMENT IN PREFERRED STOCK, AT COST

In September 1998, we purchased 2,000,000 shares of the cumulative preferred stock of LTC Properties, Inc. ("LTC"), a publicly-held REIT. The nonvoting preferred stock is convertible into common stock at a 1:1 ratio. The closing price of LTC's common stock at December 31, 2009 was \$26.75 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. Dividend revenue amounted to \$3,241,000 in each of 2009, 2008, and 2007. The preferred stock is not redeemable by us or LTC. The preferred stock, which is not listed on a stock exchange, is considered a non-marketable security and is recorded at cost in our consolidated balance sheets. Amounts to be received from the 8.5% coupon rate are recorded as investment income when the dividend is declared. The carrying value of the preferred stock equals its cost of \$38,132,000 at December 31, 2009 and 2008.

In addition to our investment in the preferred stock of LTC, we held 674,800 and 774,800 shares of common stock of LTC at December 31, 2009 and 2008, respectively, with a fair value and carrying value of \$18,051,000 and \$15,713,000 at December 31, 2009 and 2008, respectively, which is included in marketable securities (See Note 6).

NOTE 6. INVESTMENT IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities. Unrealized gains and losses on available-for-sale securities are recorded in stockholders' equity. Realized gains and losses from securities sales are determined based upon specific identification of the securities.

Marketable securities consisted of the following at December 31, 2009 and 2008 (*in thousands*)

	2009		2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Common stock of other REITs	\$ 5,831	\$ 20,185	\$ 6,463	\$ 17,293
NHC convertible preferred stock	1,389	1,137	1,390	1,348
Enhanced cash funds	-	-	7,953	7,953
	<u>\$ 7,220</u>	<u>\$ 21,322</u>	<u>\$ 15,806</u>	<u>\$ 26,594</u>

Gross unrealized gains and gross unrealized losses related to available-for-sale securities were as follows (*in thousands*):

	2009	2008
Gross unrealized gains	\$ 14,355	\$ 10,919
Gross unrealized losses	(252)	(131)
	<u>\$ 14,103</u>	<u>\$ 10,788</u>

None of these available-for-sale marketable securities have stated maturity dates.

During 2009, 2008, and 2007, we received and recognized \$1,480,000, \$2,091,000, and \$5,103,000, respectively, of dividend and interest income from our marketable securities. Such income is included in non-operating income in the consolidated statements of income.

Our investment in NHC convertible preferred stock has been in an unrealized loss position for at least twelve months immediately prior to December 31, 2009. We have evaluated the severity and duration of the impairment of this security by considering the strong financial condition of NHC. We have concluded that we have the ability and intent to hold this investment for a reasonable period of time sufficient for a recovery of fair value.

In November 2009, we sold 100,000 common shares of LTC Properties, Inc. for an average price of \$26 per share. As a result, we recorded \$1,931,000 as a gain on the sale, \$717,000 of which was a recovery of a previously recorded other-than-temporary impairment, which was included in non-operating income.

Enhanced Cash Funds – On December 10, 2007, we were notified by Bank of America that its largest, privately-placed, enhanced cash fund called Columbia Strategic Cash Fund (the "Fund") would be closed and liquidated. In addition, (1) cash redemptions were temporarily suspended, although redemptions could be filled through a pro-rata distribution of the underlying securities, consisting principally of corporate debt, mortgage-backed securities and asset-backed securities; (2) the Fund's valuation would be based on the market value of the underlying securities, whereas historically the Fund's valuation was based on amortized cost; and (3) interest would continue to accrue. The carrying value of our investment in the Fund on December 10, 2007 was \$38,359,000. Subsequent to December 10, 2007 and prior to December 31, 2007, we received a pro-rata distribution of underlying securities in the Fund as described above of \$14,382,000 to a separate investment management account ("IMA") and cash redemptions of principal totaling \$4,665,000. Prior to December 31, 2007, realized losses on the distribution and redemption of securities and cash amounted to \$236,000. At December 31, 2007, the fair market value of our investment in the Fund was estimated to be \$18,835,000 and the fair market value of our investment in the separate IMA was estimated to be \$14,294,000 for a total of \$33,129,000. Unrealized losses measured as the difference between fair market value and our original investment, at cost, amounted to \$329,000 and was reflected as a component of stockholder's equity at December 31, 2007.

A decline in the market value of any available-for-sale 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 operations 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

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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 a reporting date and forecasted performance of the investment. In 2008, we concluded there was an other-than-temporary impairment of the Fund and the IMA totaling \$2,065,000 which we charged to operations.

For the year ended December 31, 2008, we received cash redemptions of principal from the Fund and IMA totaling \$23,031,000. Exclusive of the other-than-temporary impairment charges of \$2,065,000, realized losses amounted to \$410,000, which were charged to operations. At December 31, 2008, the fair market value of our investment in the Fund was estimated to be \$4,000,000 and the fair market value of our investment in the separate IMA was estimated to be \$3,953,000 for an aggregate fair value of \$7,953,000 and a revised cost basis of the same amount.

For the year ended December 31, 2009, we received cash redemptions of principal from the Fund and IMA totaling \$8,491,000. Net realized gains for the same period were \$538,000 and were recognized as non-operating income. As of December 31, 2009, both the Fund and the IMA were fully liquidated.

NOTE 7. FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. We estimate the fair values of other financial instruments using quoted market prices and discounted cash flow techniques. At December 31, 2009 and 2008, there were no material differences between the carrying amounts and fair values of our financial instruments.

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.

The Company has segregated all assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below.

Entities have the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. We have currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value.

Assets measured at fair value on a recurring basis are summarized below (in thousands):

Description	Fair Value Measurements at December 31, 2009 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock of other REITs	\$ 20,185	\$ 20,185	\$ -	\$ -
NHC convertible preferred stock	1,137	1,137	-	-
Enhanced cash funds	-	-	-	-
Total Marketable Securities	\$ 21,322	\$ 21,322	\$ -	\$ -

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Description	Fair Value Measurements at December 31, 2008 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock of other REITs	\$ 17,293	\$ 17,293	\$ —	\$ —
NHC convertible preferred stock	1,348	1,348	—	—
Enhanced cash funds	7,953	—	—	7,953
Total Marketable Securities	\$ 26,594	\$ 18,641	\$ —	\$ 7,953

Common and Convertible Preferred Stock – The fair value of our common and convertible preferred stock investments are derived using quoted market prices of identical securities or other observable inputs such as trading prices of identical securities in active markets.

Enhanced Cash Funds – The fair values of our enhanced cash funds, which are comprised of our investments in the Columbia Strategic Cash Fund and a separate Investment Management Account, were determined by third-party pricing vendors using certain significant inputs (e.g. yield curves, spreads, prepayments and volatilities) that are unobservable. These securities are valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash flows, as well as assumptions about liquidity.

Realized gains and (losses) are included in earnings for the years ended December 31, 2009 and 2008 and are reported as non-operating revenues in the Consolidated Statements of Income. Unrealized losses for the year ended December 31, 2008 are reported as other comprehensive losses in the Consolidated Statements of Stockholders' Equity. During the fourth quarter of 2008, our investment in enhanced cash funds was transferred from Level 2 to Level 3 due to a lack of current observable market activity. The following tables present a reconciliation of Level 3 assets measured at fair value on a recurring basis for the years ended December 31, 2009 and 2008. (in thousands):

Description	Fair Value Beginning of Year	Transfers Into Level 3	Realized Gains and (Losses)	Purchases, Issuances and Settlements	Fair Value at End of Year	Total Period Losses Included in Earnings Attributable to the Change in Unrealized Losses Relating to Assets Held at End of Year
Columbia Strategic Cash Fund	\$ 4,000	\$ -	\$ 329	\$ 4,329	\$ -	\$ -
Investment Management Account	3,953	-	209	4,162	-	-
Total Enhanced Cash Funds	\$ 7,953	\$ -	\$ 538	\$ 8,491	\$ -	\$ -

Description	Fair Value Beginning of Year	Transfers Into Level 3	Realized Gains and (Losses)	Purchases, Issuances and Settlements	Fair Value at End of Year	Total Period Losses Included in Earnings Attributable to the Change in Unrealized Losses Relating to Assets Held at End of Year
Columbia Strategic Cash Fund	\$ —	\$ 18,835	(\$1,239)	(\$13,596)	\$ 4,000	\$ (241)
Investment Management Account	—	14,294	(906)	(9,435)	3,953	(89)
Total Enhanced Cash Funds	\$ —	\$ 33,129	(\$2,145)	(\$23,031)	\$ 7,953	\$ (330)

NOTE 8. BONDS PAYABLE

Debt consists of the following at December 31, 2009 and 2008 (in thousands):

	Weighted Average Interest Rate	Scheduled Maturity	Principal Amount	
			2009	2008
First mortgage revenue bonds, principal payable in periodic installments, interest payable monthly	Variable; 1.9%	2014	\$ -	\$ 3,987

In December 2009, we paid in full our revenue bonds having a principal balance of \$3,987,000. The bonds were to have matured on December 2, 2014. There were no penalties or other fees related to paying off the bonds early.

On February 1, 2010, we closed on a \$100,000,000 unsecured revolving credit facility to fund new healthcare real estate investments. The new credit facility, which was provided by Regions Bank as agent and Pinnacle National Bank as a participating bank, bears interest at a margin of 250 basis points over LIBOR with a floor of 1% and matures in February 2011.

NOTE 9. COMMITMENTS AND CONTINGENCIES

At December 31, 2009, we had pending commitments related to two health care real estate projects. Our lease with Emeritus Senior Living contains a provision whereby we have agreed to fund up to \$750,000 of the cost of certain capital improvements and operating equipment purchases. At December 31, 2009, we were committed to fund an additional \$250,000 on a mortgage note receivable. We have sufficient liquidity to fund these commitments and to finance new investments.

At December 31, 2009, we believe that we have operated our business so as to qualify as a REIT under Section 856 through 860 of the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. 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 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.

The health care facilities in which we have investments of loans or leases are subject to claims and suits in the ordinary course of business. Our lessees and mortgagees have indemnified and will continue to indemnify us against all liabilities arising from the operation of the health care facilities and will indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the health care facilities, management believes that the ultimate resolution of any pending proceedings would have no material adverse effect on our financial position, operations and cash flows.

On December 31, 1999, NHI acquired six Florida properties from the Chapter 11 bankruptcy trustee for York Hannover Nursing Centers, Inc. On January 1, 2000, NHI sold those properties to Care Foundation of America, Inc., a Tennessee nonprofit corporation ("CFA") for \$32.7 million, (\$6.8 million of which was ultimately due to National HealthCare Corporation ("NHC"), which had contributed to the purchase price consideration, under the terms of an inter-creditor agreement between NHI and NHC), with NHI financing 100% of the purchase price, and the debt having an original maturity date of July 1, 2001. The maturity date of the debt was subsequently extended several times over the years, with the most recent extension making the principal balance of \$22,936,000 due December 31, 2008. On December 30, 2008, CFA filed for Chapter 11 bankruptcy in the U.S. District Court for the Middle District of Tennessee (Case No. 08-12367). On January 2, 2009, CFA filed an adversary proceeding complaint against NHI in the bankruptcy case (the "CFA Adversary Proceeding"). CFA's complaint alleged in part that NHI exercised dominion and control over CFA's board of directors from 1999 until sometime in 2008 and that NHI had used that control to cause CFA to buy and finance the six Florida homes on terms that were not fair to CFA. CFA also alleged that these transactions constituted "excess benefit transactions" as defined in Section 4958 of the Internal Revenue Code. NHI denied CFA's claims and filed a counterclaim seeking a declaratory judgment as to the validity and enforceability of CFA's outstanding secured debt to NHI. In June 2009, the bankruptcy court granted a motion to intervene filed by the Tennessee Attorney General's Office. In December 2009, NHI agreed to purchase the six Florida properties (which are leased to a third-party for \$6.2 million annually, plus escalators over the initial lease term expiring in 2014) from CFA for a total of \$67 million; CFA agreed to pay the full amount of its outstanding balance due to NHI as a credit against the purchase price (CFA had continued to pay interest of 9.5% on the principal amount due during the bankruptcy); and the parties agreed to dismiss with prejudice their respective claims in the CFA Adversary Proceeding. The transaction and the resolution of the claims were

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approved by both the bankruptcy court and the Tennessee Attorney General's Office. The transaction closed on February 1, 2010.

In November 2008, NHI was served with a Civil Investigative Demand by the Office of the Tennessee Attorney General ("OTAG"), which indicated that that OTAG was investigating transactions between NHI and three Tennessee nonprofit corporations, including CFA. NHI has provided OTAG with requested information and documents. OTAG has agreed as part of the resolution of the CFA Adversary Proceeding that it will take no further action based on NHI's relationship with CFA. At this time, however, NHI does not know whether OTAG will commence any legal proceedings with respect to any transaction with any other nonprofit corporation or, if so, what relief will be sought.

On October 20, 2009, Burt Shearer Trustee, as trustee of the Shearer Family Living Trust, filed a shareholder derivative complaint (M.D. Tenn. Case No. 09-991), naming as defendants NHI directors W. Andrew Adams, Robert A. McCabe, Jr., Robert T. Webb, and Ted H. Welch and as a nominal defendant NHI. On January 19, 2010, the plaintiff filed an amended complaint. The amended complaint asserts that the allegations made in the CFA Adversary Proceeding are true and that the individual defendants are responsible for the wrongdoing alleged by CFA in that proceeding and have thus breached their fiduciary duties to NHI. The derivative amended complaint alleges that, as a result of that breach of duty, NHI has sustained damages in an amount not specified. The amended complaint seeks no relief from NHI itself.

NOTE 10. LIMITS ON COMMON STOCK OWNERSHIP

The Company's Charter contains certain provisions which are designed to ensure that the Company's status as a real estate investment trust is protected for federal income tax purposes. One of these provisions prohibits any stockholder from owning, 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. These agreements were entered into in connection with the Company's recent 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 the 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 real estate investment trust 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 real estate investment trust for tax purposes.

NOTE 11. SHARE-BASED COMPENSATION

We recognize share-based compensation for all stock options granted over the requisite service period using the fair value for these grants as estimated at the date of grant using the Black-Scholes pricing model.

The 1997 and 2005 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 any 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.

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In May 2005, our stockholders approved the 2005 Plan pursuant to which 1,500,000 shares of our common stock were available to grant as share-based payments to employees, officers, directors or consultants. As of December 31, 2009, 1,078,967 shares were available for future grants under the 2005 plan. The individual restricted stock and option grant awards vest over periods up to five years. The term of the options outstanding under the 2005 Plan is five years from the date of grant.

The 1997 Plan provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of December 31, 2009, no shares were available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected may result in the reversal of previously recorded compensation expense. The compensation expense (income) reported for share-based compensation related to the 2005 Plan and the 1997 Plan totaled \$853,000, \$7,000 and \$543,000 for the years ended December 31, 2009, 2008 and 2007, respectively, consisting of \$52,000, (\$138,000) and \$327,000 for restricted stock and \$801,000, \$145,000 and \$216,000 for stock options which 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. Generally, awards are subject to cliff vesting. 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 \$3.20, \$2.53 and \$2.59 for 2009, 2008 and 2007, respectively. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Dividend yield	9.09%	8.08%	8.32%
Expected volatility	36.69%	24.91%	20.42%
Expected lives	3.4 years	2.5 years	2.5 years
Risk-free interest rate	1.57%	2.39%	4.64%
Expected forfeiture rate	0.00%	0.00%	0.00%

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Stock Option Activity

The following table summarizes option activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2006	266,000	24.14		
Options granted under 1997 Plan	57,800	34.25		
Options granted under 2005 Plan	2,200	34.25		
Outstanding December 31, 2007	326,000	26.00		
Options granted under 1997 Plan	14,450	30.30		
Options granted under 2005 Plan	80,550	29.64		
Options exercised under 1997 Plan	(139,817)	23.40		
Options exercised under 2005 Plan	(60,848)	26.24		
Options forfeited under 1997 Plan	(14,450)	34.25		
Options forfeited under 2005 Plan	(46,217)	28.09		
Outstanding December 31, 2008	159,668	29.03		
Options granted under 2005 Plan	275,000	25.29		
Options exercised under 1997 Plan	(15,000)	23.90		
Options exercised under 2005 Plan	(165,832)	25.18		
Outstanding December 31, 2009	253,836	27.72	2.811	\$ 2,353
Exercisable December 31, 2009	141,417	\$29.28	2.656	\$ 1,090

Grant Date	Options Outstanding	Exercise Price	Remaining Contractual Life in Years
5/3/2005	15,000	23.90	0.334
5/1/2006	334	23.62	1.219
5/2/2006	15,000	23.79	1.332
7/21/2006	10,000	24.60	1.551
5/16/2007	45,000	34.25	2.373
2/4/2008	18,500	29.24	3.099
4/29/2008	30,000	30.30	3.326
2/25/2009	120,002	25.29	3.405
	253,836		2.811

The weighted average remaining contractual life of all options outstanding at December 31, 2009 is 2.8 years. Including outstanding stock options, our stockholders have authorized an additional 1,332,803 shares of common stock that may be issued under the share-based payments plans.

At December 31, 2009, there were outstanding unvested options to purchase 112,419 shares with a weighted average grant date fair value of \$3.14 per share. As of December 31, 2009, we had \$130,000 of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be recognized over the following periods: 2010-\$113,000 and 2011-\$17,000.

The intrinsic value of total options outstanding at December 31, 2009 was \$9.27 per share or \$2,353,000. The intrinsic value of options exercisable at December 31, 2009 was \$7.71 per share or \$1,090,000. The intrinsic value of the total options exercised for the year ended December 31, 2009 was \$11.81 per share or \$2,136,000.

Restricted Stock Activity

The following table summarizes restricted stock activity:

	Number of Shares	Weighted Average Grant Price	Weighted Average Remaining Vesting Period (Years)	Aggregate Intrinsic Value (in thousands)
Non-vested at December 31, 2007	48,700	n/a	2.646	\$ 1,359
Vested during the period	(12,175)	n/a	-	-
Restricted Stock granted	25,000	\$29.24	-	-
Restricted Stock forfeited	(54,500)	n/a	-	-
Non-vested at December 31, 2008	7,025	n/a	1.511	193
Vested during the period	(1,925)	n/a	-	-
Non-vested at December 31, 2009	<u>5,100</u>	n/a	1.026	\$ 189

Grant Date	Shares Non-vested	Grant Price	Remaining Vesting Period
5/1/06	1,350	\$23.62	0.832
2/4/08	3,750	\$29.24	1.096
	<u>5,100</u>		

The closing market price of our common stock at December 31, 2009 was \$36.99 per share, which is the implied intrinsic value of the restricted stock.

At December 31, 2009, we had \$36,000 of total unrecognized compensation cost related to unvested restricted stock issued which is expected to be recognized over the following periods: 2010-\$25,000; 2011-\$10,000; and 2012-\$1,000.

NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest on our debt obligations were \$91,000, \$351,000 and \$7,860,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

As described in Note 3, on December 31, 2007, we recorded the previous sale of 16 facilities that were, prior to that time, required to be consolidated into our consolidated financial statements under the requirements of SFAS 66 since they did not meet the accounting criteria for recognition of a sale for financial reporting purposes. Amounts increased (decreased) as follows:

<i>(in thousands)</i>		2007
As of December 31,		
Mortgage notes receivable, net		\$ 66,819
Real estate properties, net		(36,857)
Accounts receivable, net		(7,176)
Deferred costs and other assets		(13,310)
Accounts payable and other accrued expenses		(17,072)

In 2009, we recorded property and equipment additions and an expected real estate acquisition liability of \$3,000,000 associated with a purchase/leaseback transaction with Bickford Senior Living.

NOTE 13. EARNINGS PER SHARE

Basic earnings per common share are based on the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share assume the exercise of stock options and vesting of restricted shares using the treasury stock method. The following table summarizes the average number of common shares and the net income used in the calculation of basic and diluted earnings per share (in thousands, except share and per share amounts):

	Year Ended December 31,		
	2009	2008	2007
Income from continuing operations available to common stockholders	\$ 58,136	\$ 51,579	\$ 75,571
Discontinued operations	6,093	5,931	20,864
Net income available to common stockholders	<u>\$ 64,229</u>	<u>\$ 57,510</u>	<u>\$ 96,435</u>
BASIC:			
Weighted average common shares outstanding	27,586,338	27,706,106	27,703,464
Income from continuing operations per common share	\$ 2.11	\$ 1.86	\$ 2.73
Discontinued operations per common share	0.22	0.22	0.75
Net income per common share	<u>\$ 2.33</u>	<u>\$ 2.08</u>	<u>\$ 3.48</u>
DILUTED:			
Weighted average common shares	27,586,338	27,706,106	27,703,464
Stock options	28,825	18,485	58,954
Restricted stock shares	3,137	7,360	21,444
Average dilutive common shares outstanding	<u>27,618,300</u>	<u>27,731,951</u>	<u>27,783,862</u>
Income from continuing operations per common share	\$ 2.10	\$ 1.86	\$ 2.72
Discontinued operations per common share	0.22	0.21	0.75
Net income per common share	<u>\$ 2.32</u>	<u>\$ 2.07</u>	<u>\$ 3.47</u>
Incremental shares excluded since anti-dilutive:			
Stock options	9,906	11,469	4,936

The above incremental shares were excluded from the computation of diluted earnings per share since inclusion of these incremental shares in the calculation would have been anti-dilutive.

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NOTE 14. COMMON STOCK DIVIDENDS (Unaudited)

Dividend payments per share to common stockholders are characterized for 2009 individual tax purposes as follows:

Dividend Payment Date	Taxable as Ordinary Income	Taxable as Capital Gain	Return of Capital	Totals
May 8, 2009	\$.519318	\$.024786	\$.005896	\$.55
August 10, 2009	.519318	.024786	.005896	.55
November 10, 2009	.519318	.024786	.005896	.55
January 29, 2010 ⁽¹⁾	.619317	.024786	.005897	.65
	<u>\$ 2.177271</u>	<u>\$.099144</u>	<u>\$.023585</u>	<u>\$ 2.30</u>

(1) Declared for stockholders of record December 31, 2009

NOTE 15. RELATIONSHIP WITH NATIONAL HEALTHCARE CORPORATION

Leases

Major lease customer – Of the 108 health care facilities in which we have investments, 41 facilities are currently leased under operating leases to NHC, a publicly-held company and our largest customer. Our rental income in 2009 was \$55,076,000 (\$34,782,000 from NHC); in 2008 was \$48,340,000 (\$33,700,000 from NHC); and in 2007 was \$46,198,000 (\$33,700,000 from NHC).

On October 17, 1991, concurrent with NHC's conveyance of 43 properties to us, we leased to NHC 40 long-term care facilities and 3 independent living facilities. The master lease with NHC is a "triple net lease" under which NHC is responsible for paying all taxes, utilities, insurance premium costs, repairs and other charges relating to the ownership of the facilities. NHC is obligated at its expense to maintain adequate insurance on the facilities' assets.

On December 27, 2005, under an amendment to the original master lease, NHI and NHC agreed to a lease extension to cover the remaining 41 facilities. The 41 properties include 4 centers leased to other parties, the lease payments of which are guaranteed to us by NHC under the Master Lease. The 15 year lease extension began January 1, 2007, and includes 3 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 the tenant at its expense. Under the terms of the lease, base rent for 2007 was \$33,700,000 with additional percentage rent being equal to 4% of the increase in the gross revenue of each facility over a 2007 base year. We did not recognize any percentage rent from NHC during 2007 and 2008. During 2009, we received and recognized \$541,000 in percentage rent for 2008 and \$541,000 in percentage rent for 2009.

Future minimum lease payments – At December 31, 2009, the future minimum lease payments (excluding percentage rent) to be received by us under our operating leases with NHC and other lessees are as follows:

	NHC	Others	Total
2010	\$ 33,700,000	\$ 24,106,000	\$ 57,806,000
2011	33,700,000	22,554,000	56,254,000
2012	33,700,000	19,788,000	53,488,000
2013	33,700,000	18,019,000	51,719,000
2014	33,700,000	17,303,000	51,003,000
Thereafter	269,600,000	147,282,000	416,882,000
	<u>\$ 438,100,000</u>	<u>\$ 249,052,000</u>	<u>\$ 687,152,000</u>

Advisory Agreements

Beginning with our inception in 1991, NHC had provided advisory services to us under an Advisory, Administrative Services and Facilities Agreement (the "Advisory Agreement"). Effective November 1, 2004, we assigned the Advisory Agreement with NHC to Management Advisory Source, LLC ("MAS"), formed by our Chief Executive Officer and Board Chairman W. Andrew
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Adams. We have no ownership in MAS. Pursuant to this Advisory Agreement, services related to investment activities and day-to-day management and operations were provided to us by MAS. Accordingly, MAS was subject to the supervision of and policies established by our Board of Directors. On December 3, 2007, we elected to become a self-managed REIT, with our own management reporting directly to the Board of Directors, and we terminated the Advisory Agreement with MAS on March 31, 2008. Under a consulting agreement with our Board of Directors, Mr. Adams continues to serve as Chief Executive Officer and remains the Chairman of the Board of Directors. On February 25, 2009, Justin Hutchens assumed the positions of President and Chief Operating Officer.

Our expense under the consulting agreement with Mr. Adams to serve as Chief Executive Officer for the year ended December 31, 2009 was \$722,000. Our expense under the consulting agreement with Mr. Adams to serve as President and Chief Executive Officer from March 31, 2008 through December 31, 2008 was \$900,000. During the first three months of 2008, the expense recorded under the Advisory Agreement was \$862,000. The expense recorded under the Advisory Agreement was \$3,625,000 for 2007.

Facility Management Services – Subsidiaries of NHC have previously managed the former foreclosure properties for management fees equal to a weighted average of 5.35% of net revenues of the foreclosure properties. Management fees totaled \$5,022,000 for the year ended December 31, 2007.

Ownership of Common Stock – At December 31, 2009, NHC owned 1,630,462 shares of our common stock. At December 31, 2009, we owned 101,670 shares of NHC's convertible preferred stock.

NOTE 16. DISCONTINUED OPERATIONS

As described in Note 3, we have accepted an earnest money deposit of \$150,000 from the current lessee as part of negotiations to sell six skilled nursing facilities in Texas. We have classified these properties as held for sale in our Consolidated Balance Sheet as of December 31, 2009. The planned sale of these facilities meets the accounting criteria as being held for sale and we have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Consolidated Statements of Income.

Kansas Facilities – During 2008, we recorded an impairment charge of \$1,986,000 related to two Kansas facilities to reduce the carrying value of these facilities to fair value, less the estimated cost of selling the facility. One of the facilities, located in Hoisington, Kansas, was sold in November of 2008. At December 31, 2008, the remaining facility was classified as held for sale in the Consolidated Balance Sheet. The facility met the accounting criteria as being held for sale and the results of its operations have been reported in all periods as discontinued operations in the Consolidated Statements of Income. The fair value of the land, buildings and improvements less the cost to sell was estimated to be \$200,000 at December 31, 2008. In February 2009, we recorded an impairment charge of \$25,000 to reduce its carrying value to expected proceeds, less the cost to sell the facility. In March 2009, we completed the sale of the remaining facility in Emporia, Kansas for net cash proceeds of \$175,000. The loss from discontinued operations of these facilities for year ended December 31, 2008 was \$2,044,000 versus income of \$82,000 for the same period in 2007.

Washington Facilities – In September 2008, we recognized into income for financial and tax purposes \$4,121,000 related to the cancellation of liabilities which existed at the date of sale in 2003 of two nursing home facilities in Washington. At the expiration of the five-year statute of limitations, management concluded based on advice from counsel that we were legally released from any potential liability settlements. During 2009, we recognized into income an additional \$1,494,000 which met the aforementioned criteria.

Foreclosure Properties – As described in Note 3, on December 31, 2007, we recognized the sale of 16 foreclosure properties and recorded mortgage notes receivable secured by the properties with a carrying value of \$66,819,000. The transition resulted in a net gain on sale and deconsolidation of \$12,469,000. The net carrying value of the assets and liabilities deconsolidated was \$54,350,000.

Milwaukee South Healthcare Center – In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of \$669,000. Net cash proceeds were \$2,288,000 and the carrying value of the property and equipment sold was \$1,619,000.

For 2009, 2008 and 2007, we have reclassified for all periods presented the operations of the facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations.

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Income from discontinued operations is as follows (in thousands, except per share amounts):

Year Ended December 31,	<u>2009</u>	<u>2008</u>	<u>2007</u>
Revenues:			
Rental income	\$ 5,000	\$ 5,000	\$ 5,473
Facility operating revenue	-	-	93,383
	<u>5,000</u>	<u>5,000</u>	<u>98,856</u>
Expenses:			
Interest	-	-	7
Depreciation	992	1,182	4,821
Facility operating expenses	26	22	86,302
Impairment of real estate assets	25	1,986	-
	<u>1,043</u>	<u>3,190</u>	<u>91,130</u>
Operating income (loss)	3,957	1,810	7,726
Non-operating income	2,136	4,121	-
Gain on sale of assets	-	-	13,138
Total discontinued operations	<u>\$ 6,093</u>	<u>\$ 5,931</u>	<u>\$ 20,864</u>
Weighted average common shares outstanding:			
Basic	27,586,338	27,706,106	27,703,464
Diluted	27,618,300	27,731,951	27,783,862
Discontinued operations income per common share:			
Basic	\$ 0.22	\$ 0.22	\$ 0.75
Diluted	\$ 0.22	\$ 0.21	\$ 0.75

NOTE 17. NON-OPERATING INCOME

Non-operating income is outlined in the table below (in thousands):

Year Ended December 31,	<u>2009</u>	<u>2008</u>	<u>2007</u>
Dividends	\$ 4,668	\$ 4,687	\$ 4,654
Realized gains (losses) on sales of securities	1,686	(410)	1,029
Other-than-temporary impairment of marketable securities	-	(2,065)	-
Recovery of previous write-down of marketable securities	717	-	-
Interest income	1,241	3,050	7,066
Gain on settlement of notes receivable	-	-	468
Gain on sale of certificate of need - Davidson County, TN	-	1,298	-
Other income (expense)	269	(73)	(753)
	<u>\$ 8,581</u>	<u>\$ 6,487</u>	<u>\$ 12,464</u>

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NOTE 18. 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).

2009	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Revenues	\$ 14,692	\$ 14,827	\$ 18,373	\$ 16,329
Non-operating income	1,735	1,700	1,856	3,290
Income from continuing operations	13,446	12,924	16,475	15,291
Discontinued operations -	1,603	2,491	999	1,000
Net income	\$ 15,049	\$ 15,415	\$ 17,474	\$ 16,291
Weighted average common shares outstanding:				
Basic	27,574,544	27,578,000	27,589,161	27,603,646
Diluted	27,582,228	27,592,050	27,642,237	27,656,684
Earnings per share:				
Basic:				
Income from continuing operations	\$ 0.49	\$ 0.47	\$ 0.60	\$ 0.55
Discontinued operations	0.06	0.09	0.03	0.04
Net income per common share	\$ 0.55	\$ 0.56	\$ 0.63	\$ 0.59
Diluted:				
Income from continuing operations	\$ 0.49	\$ 0.47	\$ 0.60	\$ 0.54
Discontinued operations	0.06	0.09	0.03	0.04
Net income per common share	\$ 0.55	\$ 0.56	\$ 0.63	\$ 0.58
2008	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net Revenues	\$ 14,109	\$ 15,002	\$ 14,369	\$ 14,525
Non-operating income	1,978	1,785	701	2,023
Income from continuing operations	12,484	13,882	12,457	12,756
Discontinued operations -	915	911	3,494	611
Net income	\$ 13,399	\$ 14,793	\$ 15,951	\$ 13,367
Weighted average common shares outstanding:				
Basic	27,730,686	27,753,051	27,767,394	27,573,294
Diluted	27,786,425	27,777,291	27,785,708	27,578,380
Earnings per share:				
Basic:				
Income from continuing operations	\$ 0.45	\$ 0.50	\$ 0.45	\$ 0.46
Discontinued operations	0.03	0.03	0.12	0.04
Net income per common share	\$ 0.48	\$ 0.53	\$ 0.57	\$ 0.50
Diluted:				
Income from continuing operations	\$ 0.45	\$ 0.50	\$ 0.45	\$ 0.46
Discontinued operations	0.03	0.03	0.12	0.03
Net income per common share	\$ 0.48	\$ 0.53	\$ 0.57	\$ 0.49

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 of certain facilities as discontinued operations for all periods presented.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 8A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures - Based on their evaluation as of December 31, 2009, the CEO and principal accounting officer of the Company have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-K. No change in our internal control over financial reporting occurred during our last fiscal quarter that materially affected, or is reasonably likely to affect, our internal control over financial reporting.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2009 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2009. The Company's independent registered public accounting firm, BDO Seidman, LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting included herein.

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, 2009, based on criteria established in Internal Control – Integrated Framework 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 8A, 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, 2009, 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, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009 and our report dated February 20, 2010 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 20, 2010

PART III

ITEM 9. 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, 2009, 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 proxy statement for the 2010 annual meeting of stockholders, which we will file within 120 days of the end of the fiscal year to which this report relates.

ITEM 10. EXECUTIVE COMPENSATION.

Incorporated by reference from the information in our proxy statement for the 2010 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. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Incorporated by reference from the information in our proxy statement for the 2010 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. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Incorporated by reference from the information in our proxy statement for the 2010 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. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Incorporated by reference from the information in our definitive proxy statement for the 2010 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 14. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(a) (1) Financial Statements

The Consolidated Financial Statements are included in Item 7 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 13.

(3) Exhibits

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

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/ W. Andrew Adams
W. Andrew Adams
Chief Executive Officer

Date: February 20, 2010

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ W. Andrew Adams</u> W. Andrew Adams	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 20, 2010
<u>/s/ Roger R. Hopkins</u> Roger R. Hopkins	Chief Accounting Officer (Principal Accounting Officer)	February 20, 2010
<u>/s/ Robert A. McCabe, Jr.</u> Robert A. McCabe, Jr.	Director	February 20, 2010
<u>/s/ Robert T. Webb</u> Robert T. Webb	Director	February 20, 2010
<u>/s/ Ted H. Welch</u> Ted H. Welch	Director	February 20, 2010

NATIONAL HEALTH INVESTORS, INC.
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2009

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	Bylaws	Incorporated by reference to Exhibit 3.2 to Form S-11 Registration Statement No. 33-41863
4.1	Form of Common Stock Certificate	Incorporated by reference to Exhibit 39 to Form S-11 Registration Statement No. 33-41863
10.1	Material Contracts	Incorporated by reference to Exhibits 10.1 thru 10.9 to Form S-4 Registration Statement No. 33-41863
10.2	Amendment No. 5 to Master Agreement to Lease dated December 27, 2005, effective January 1, 2007.	Incorporated by reference to Exhibit 10.2 to Form 10-K dated March 10, 2006
10.3	Advisory, Administrative Services and Facilities Agreement between National Health Investors, Inc. and Management Advisory Source, LLC dated November 1, 2004	Incorporated by reference to Exhibit 10.3 to Form 10-K dated March 10, 2006
10.4	1997 Stock Option Plan	Incorporated by reference to the 1997 Proxy Statement as filed
10.5	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.
10.6	Excepted Holder Agreement – W. Andrew Adams	Incorporated by reference to Exhibit 10.6 to Form 10-K dated February 24, 2009
10.7	Form of Excepted Holder Agreements – Parties other than W. Andrew Adams	Incorporated by reference to Exhibit 10.7 to Form 10-K dated February 24, 2009
10.8	Consulting Agreement with W. Andrew Adams	Incorporated by reference to Exhibit 10.8 to Form 10-K dated February 24, 2009

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10.9	Amended and Restated Consulting Agreement entered into on the 25 th day of February, 2009 between National Health Investors, Inc. and W. Andrew Adams with W. Andrew Adams	Incorporated by reference to Exhibit 10.1 to Form 10-Q dated May 5, 2009
10.10	Employment Agreement with Justin Hutchens	Incorporated by reference to Exhibit 10.2 to Form 10-Q dated May 5, 2009
10.11	Agreement with Care Foundation of America, Inc.	Filed herewith
13	Financial Statement Schedules	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed Herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Accounting Officer	Filed Herewith
32	Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer and Principal Accounting Officer	Filed Herewith

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EXHIBIT 13
NATIONAL HEALTH INVESTORS, INC.
INDEX TO FINANCIAL STATEMENT SCHEDULES

Financial Statement Schedules

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

Schedule III - Real Estate and Accumulated Depreciation

Schedule IV - Mortgage Loans on Real Estate

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Report of Independent Registered Public Accounting Firm

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

The audits referred to in our report dated February 20, 2010 relating to the consolidated financial statements of National Health Investors, Inc., which is contained in Item 7 of this Form 10-K, included the audits of the financial statement schedules listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based upon our audits.

In our opinion such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 20, 2010

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NATIONAL HEALTH INVESTORS, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008, AND 2007
(in thousands)

<u>Description</u>	<u>Balance Beginning of Period</u>	<u>Additions Charged to Costs and Expenses (1)</u>	<u>Deductions</u>	<u>Balance End of Period</u>
For the year ended December 31, 2009 - Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2008 - Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2007 - Loan loss allowance	\$ —	\$ —	\$ —	\$ —

(1) In the Consolidated Statements of Income, we report the net amount of our provision for loan and realty losses and our recoveries of amounts previously written down. For 2009, net recoveries were \$1,077,000 and there was no provision for losses during the year. For 2008, there were no recoveries and there was no provision for losses during the year. For 2007, net recoveries were \$24,238,000 and there was no provision for losses during the year.

NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
 DECEMBER 31, 2009
(in thousands)

Properties	Encum- brances	Initial Cost to Company			Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date Acquired/ Constructed
		Land	Buildings & Improvements	Total		Land	Buildings & Improvements	Total		
Skilled Nursing Facilities										
Anniston, AL	\$ -	\$ 70	\$ 4,477	\$ -	\$ 70	\$ 4,477	\$ 4,547	\$ 2,817	10/17/1991	
Moulton, AL	-	25	688	-	25	688	713	682	10/17/1991	
Avondale, AZ	-	453	6,678	-	453	6,678	7,131	2,403	8/13/1996	
Hudson, FL	-	413	10,742	-	413	10,742	11,155	6,189	10/17/1991	
Merritt Island, FL	-	701	8,869	-	701	8,869	9,570	5,347	10/17/1991	
Plant City, FL	-	405	8,777	-	405	8,777	9,182	5,783	10/17/1991	
Stuart, FL	-	787	9,048	-	787	9,048	9,835	5,405	10/17/1991	
Rossville, GA	-	52	865	-	52	865	917	852	10/17/1991	
Grangeville, ID	-	122	2,491	-	122	2,491	2,613	900	8/13/1996	
Glasgow, KY	-	33	1,751	-	33	1,751	1,784	1,259	10/17/1991	
Madisonville, KY	-	198	431	-	198	431	629	380	10/17/1991	
Desloge, MO	-	178	3,804	-	178	3,804	3,982	2,398	10/17/1991	
Joplin, MO	-	175	4,034	-	175	4,034	4,209	2,010	10/17/1991	
Kennett, MO	-	180	4,928	-	180	4,928	5,108	3,215	10/17/1991	
Maryland Heights, MO	-	482	5,512	-	482	5,512	5,994	4,018	10/17/1991	
St. Charles, MO	-	149	4,790	-	149	4,790	4,939	3,027	10/17/1991	
Anderson, SC	-	308	4,643	-	308	4,643	4,951	3,444	10/17/1991	
Greenwood, SC	-	222	3,457	-	222	3,457	3,679	2,588	10/17/1991	
Laurens, SC	-	42	3,426	-	42	3,426	3,468	2,280	10/17/1991	
Orangeburg, SC	-	300	3,715	-	300	3,715	4,015	128	9/25/2008	
Athens, TN	-	38	1,463	-	38	1,463	1,501	1,223	10/17/1991	
Chattanooga, TN	-	143	2,309	-	143	2,309	2,452	1,772	10/17/1991	
Columbia, TN	-	96	651	-	96	651	747	574	10/17/1991	
Dickson, TN	-	90	3,541	-	90	3,541	3,631	2,440	10/17/1991	
Franklin, TN	-	47	1,130	-	47	1,130	1,177	798	10/17/1991	
Hendersonville, TN	-	363	2,991	-	363	2,991	3,354	1,269	10/17/1991	
Columbia, TN	-	58	716	-	58	716	774	525	10/17/1991	
Johnson City, TN	-	85	1,918	-	85	1,918	2,003	1,600	10/17/1991	
Knoxville, TN	-	384	2,692	-	384	2,692	3,076	1,974	10/17/1991	
Lewisburg, TN	-	30	708	-	30	708	738	570	10/17/1991	
McMinnville, TN	-	73	3,618	-	73	3,618	3,691	2,418	10/17/1991	
Milan, TN	-	41	1,826	-	41	1,826	1,867	1,303	10/17/1991	
Lewisburg, TN	-	16	287	-	16	287	303	286	10/17/1991	
Pulaski, TN	-	54	3,921	-	54	3,921	3,975	2,537	10/17/1991	

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NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
 DECEMBER 31, 2009
 (in thousands)

Properties	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date Acquired/Constructed
		Land	Buildings & Improvements		Land	Buildings & Improvements	Total		
Lawrenceburg, TN	-	98	2,900	-	98	2,900	2,998	1,797	10/17/1991
Dunlap, TN	-	35	3,679	-	35	3,679	3,714	2,069	10/17/1991
Smithville, TN	-	35	3,816	-	35	3,816	3,851	2,380	10/17/1991
Somerville, TN	-	26	678	-	26	678	704	556	10/17/1991
Sparta, TN	-	80	1,601	-	80	1,601	1,681	1,097	10/17/1991
Springfield, TN	-	44	854	-	44	854	898	854	10/17/1991
Dripping Springs, TX	-	100	1,059	-	100	1,059	1,159	168	3/16/2005
Gainesville, TX	-	200	3,640	-	200	3,640	3,840	520	3/16/2005
Paris, TX	-	60	12,040	-	60	12,040	12,100	183	6/30/2009
San Antonio, TX	-	300	12,150	-	300	12,150	12,450	201	6/30/2009
East Houston, TX	-	650	14,550	-	650	14,550	15,200	219	6/30/2009
NW Houston, TX	-	1,100	14,700	-	1,100	14,700	15,800	184	7/31/2009
Bristol, VA	-	176	2,511	-	176	2,511	2,687	1,622	10/17/1991
	-	9,717	195,075	-	9,717	195,075	204,792	86,264	
Assisted Living Facilities									
Gilbert, AZ	-	451	3,142	-	451	3,142	3,593	861	12/31/1998
Glendale, AZ	-	387	3,824	-	387	3,824	4,211	1,048	12/31/1998
Tucson, AZ	-	477	3,742	-	477	3,742	4,219	1,010	3/31/1999
Tucson, AZ	-	442	2,914	-	442	2,914	3,356	798	12/31/1998
Maitland, FL	-	1,687	5,428	-	1,687	5,428	7,115	1,941	12/23/1998
Daytona Beach, FL	-	320	2,668	-	320	2,668	2,988	731	12/23/1998
Maitland, FL	-	2,317	9,161	-	2,317	9,161	11,478	4,315	8/6/1996
W. Palm Beach, FL	-	2,771	4,286	-	2,771	4,286	7,057	3,244	8/6/1996
Peoria, IL	1	403	4,531	1	403	4,532	4,935	10	10/19/2009
Midland, MI	2	504	6,610	2	504	6,612	7,116	15	10/19/2009
Battle Creek, MI	3	398	3,090	3	398	3,093	3,491	7	10/19/2009
Lansing, MI	4	340	7,904	4	340	7,908	8,248	18	10/19/2009
Saginaw, MI	5	248	4,207	5	248	4,212	4,460	10	10/19/2009
Edison, NJ	-	4,229	13,030	-	4,229	13,030	17,259	5,296	8/6/1996
Weatherly, PA	-	439	3,960	-	439	3,960	4,399	429	9/1/2005
Conway, SC	-	344	2,877	-	344	2,877	3,221	788	12/31/1998
Gallatin, TN	-	326	2,277	-	326	2,277	2,603	614	3/31/1999
Kingsport, TN	-	354	2,568	-	354	2,568	2,922	703	12/31/1998
Tullahoma, TN	-	191	2,216	-	191	2,216	2,407	598	3/31/1999
	15	16,628	88,435	15	16,628	88,450	105,078	22,436	

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NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
 DECEMBER 31, 2009
 (in thousands)

Properties	Encum- brances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period			Accumulated Depreciation	Date Acquired/ Constructed
		Land	Buildings & Improvements		Land	Buildings & Improvements	Total		
Acute Care Hospital									
Jackson, KY	-	540	10,163	-	540	10,163	10,703	4,705	6/12/1992
Independent Living Facilities									
Nampa, ID	-	243	4,182	-	243	4,182	4,425	1,487	8/13/1996
St. Charles, MO	-	344	3,181	-	344	3,181	3,525	1,960	10/17/1991
Johnson City, TN	-	55	4,078	-	55	4,078	4,133	2,068	10/17/1991
Chattanooga, TN	-	9	1,567	-	9	1,567	1,576	966	10/17/1991
	-	651	13,008	-	651	13,008	13,659	6,481	
Medical Office Buildings									
Crestview, FL	-	165	3,349	-	165	3,349	3,514	1,830	6/30/1993
Mt. Vernon, IL	-	-	1,925	-	-	1,925	1,925	614	12/31/1998
Hillsboro, TX	-	-	3,336	-	-	3,336	3,336	1,067	7/31/1997
Pasadena, TX	-	631	6,341	-	631	6,341	6,972	3,497	1/1/1995
	-	796	14,951	-	796	14,951	15,747	7,008	
Total continuing operations properties	15	28,332	321,632	15	28,332	321,647	349,979	126,894	
Corporate assets	-	158	649	-	158	649	807	31	
	\$ 15	\$ 28,490	\$ 322,281	\$ 15	\$ 28,490	\$ 322,296	\$ 350,786	\$ 126,925	

NOTES TO SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

- (A) See Notes 3 and 15 of Notes to Consolidated Financial Statements.
- (B) Depreciation is calculated using estimated depreciation lives up to 40 years for all completed facilities.
- (C) Subsequent to NHC's transfer of the original real estate properties in 1991, we have purchased from NHC \$33,909,000 of additions to those properties. As the additions were purchased from NHC rather than developed by us, the \$33,909,000 has been included as Initial Cost to Company.
- (D) This schedule excludes assets held for sale with an original cost of \$44,689,000 and accumulated depreciation of \$11,269,000.

NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	December 31,		
	2009	2008	2007
	<i>(in thousands)</i>		
Investment in Real Estate:			
Balance at beginning of period	\$ 310,906	\$ 309,407	\$ 376,407
Additions through cash expenditures	81,569	4,048	2,491
Additions through contingent liabilities	3,000	-	-
Sale of properties for cash	-	(133)	(69,491)
Impairment write-downs	-	(1,986)	-
Reclassification for assets held for sale	(44,689)	(430)	-
Balance at end of year	<u>\$ 350,786</u>	<u>\$ 310,906</u>	<u>\$ 309,407</u>
Accumulated Depreciation:			
Balance at beginning of period	\$ 129,574	\$ 121,952	\$ 141,208
Addition charged to costs and expenses	8,620	7,943	11,751
Sale of properties	-	(91)	(31,007)
Reclassification for assets held for sale	(11,269)	(230)	-
Balance at end of year	<u>\$ 126,925</u>	<u>\$ 129,574</u>	<u>\$ 121,952</u>

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NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE⁽¹⁾
 DECEMBER 31, 2009

<u>Description</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Monthly Payment Terms</u>	<u>Prior Liens</u>	<u>Original</u>		<u>Principal Amount of Loan Subject To Delinquent Interest</u>
					<u>Face Amount of Mortgages</u>	<u>Carrying Amount of Mortgages⁽²⁾</u>	
Florida (A)	9.5%	2008	\$353,000	None	\$32,708,000	\$ 22,936,000	\$ 22,936,000
Georgia(B)	9.0%	January 2010	120,000	None	12,162,000	6,217,000 ⁽³⁾	None
8 Mortgages, Massachusetts and New Hampshire (\$1,125,000 to \$9,005,000 each)	6.9%	August 2011	9,000 to 69,000	None	40,526,000	21,328,000	None
Atlanta, Georgia (B)	6.5%	September, 2013	22,000	None	5,158,000	728,000 ⁽³⁾	None
8 Mortgages, Kansas and Missouri (\$707,000 to \$2,082,000 each) (C)	3.0% to 8.5%	December 2014	8,000 to 25,000	None	26,293,000	21,614,000	None
Madras, Oregon	12%	February 2014	Interest Only	None	850,000	600,000	None
Owntonna, Minnesota	7.47%	February 2018	38,000	None	5,033,000	3,886,000	None
Dripping Springs & Gainesville, Texas	9.0%	March, 2019	19,000	None	2,500,000	2,500,000	None
7 Mortgages, Virginia (\$2,134,000 to \$3,935,000 each)	8.0%-9.6%	August 2027 to June 2032	19,000 to 32,000	None	20,774,000	14,779,000	None
					<u>\$94,588,000</u>		

NOTES TO SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

- (A) NHI's original face amount of the mortgage was \$25,900,000. In May 2007, we purchased the second mortgage whose original amount was \$6,808,000 for its then current balance of \$6,186,000. The carrying amount of \$22,936,000 is the current balance of the first and second mortgage. As discussed in Note 9 to the consolidated financial statements, the note was settled in full in February 2010 when we acquired the underlying collateral facilities.
- (B) We have reduced the carrying amount of this mortgage loan by a reserve or write-off. The reserve or write-off is based on our knowledge of the general economic condition in the long-term health care industry and the cash flows of the long-term health care facilities that service the mortgage loan.
- (C) Note A in the original amount of \$16,513,000 is at 8.5%. Note B in the original amount of \$9,780,000 is at 3% with all principal and interest due at maturity.
- (1) See Note 4 to Consolidated Financial Statements for more information on our mortgage loan receivables.
- (2) For tax purposes, the cost of investments is the carrying amount.
- (3) Loan is currently on non-accrual status. We recognize interest income in the period in which cash is received.

NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE (continued)
 FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	December 31,		
	2009	2008	2007
	<i>(in thousands)</i>		
Reconciliation of mortgage loans			
Balance at beginning of period	\$ 108,640	\$ 134,605	\$ 90,782
Additions:			
New mortgage loans	4,501	—	74,835
Total Additions	4,501	—	74,835
Deductions during period:			
Collection of principal, net	18,553	25,965	31,012
Total Deductions	18,553	25,965	31,012
Balance at end of period	<u>\$ 94,588</u>	<u>\$ 108,640</u>	<u>\$ 134,605</u>

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Section 2: EX-10.11 (EXHIBIT 10.11)

Exhibit 10.11

NHI LETTERHEAD

December 3, 2009

Care Foundation of America, Inc.
Attn: Mr. Joe Keane
611 Commerce Street, Suite 3125
Nashville, TN 37203

Robert E. Cooper, Jr.
Attorney General and Reporter
P. O. Box 20207
Nashville, TN 37202-0207

Re: Confidential Settlement Discussions Pursuant to Rule 408, Federal Rules of Evidence

Dear Sirs:

Pursuant to our conversations over the past week, National Health Investors, Inc. ("NHI") proposes to settle all claims between it and Care Foundation of America, Inc. ("CFA") and its subsidiaries (the LLC's of which CFA is sole member, collectively, the "Debtors") including those asserted in the lawsuit with CFA and the Attorney General, Care Foundation of America, Inc., et al. v. National Health Investors, Inc., Adv. Proc. No. 3:09-0002, as follows:

1. NHI or its wholly-owned subsidiary designee will purchase the six Florida nursing homes and any furniture, fixtures, equipment or inventory owned by the Debtors, as well as all Debtors' interests in the current leases between Debtors and the various Health Services Management, Inc. subsidiaries (the LLCs of which Health Services Management, Inc. is sole member, collectively "HSM") (the "CFA" Assets") for sixty-seven million dollars (\$67,000,000) in cash (the "Purchase Price"), closing to occur not more than ninety (90) days from the date of this letter. NHI will use its reasonable best efforts to close the sale in sixty (60) days. In the event the sale does not close within sixty (60) days from the date of this letter, the interest rate on the NHI claim will be reduced from 9.5% to 4.25% per annum commencing on the sixty-first (61st) day from the date of this letter. The sale will be on an "as is, where is" basis, with no representations, covenants or warranties from Debtors of any kind; and Debtors will not be required to provide NHI with any title insurance policies, surveys, or environmental studies. Debtors shall retain all other assets existing as of the closing date, including all cash and lease payments accrued or received by Debtors prior to the closing date (the lease payments for the month in which the closing occurs to be pro-rated as of the closing date) and any other claims they may have against third parties. Debtors shall convey and transfer fee simple title to the real estate relating to the nursing homes by special warranty deed, subject to the existing leases of HSM (the "HSM Leases"), and shall convey title to any personal property by an "as-is, no warranty" bill of sale, pursuant to a Court Order that the sale is free and clear of all liens and claims except for the HSM Leases. NHI shall be responsible for paying all closing costs, recording fees, documentary stamp taxes or other customary fees in connection with the foregoing conveyances. However, each party shall be responsible for its own legal fees in connection with the closing.

2. The terms of this Agreement are contingent upon entry of an Order by the U.S. Bankruptcy Court for the Middle District of Tennessee approving this agreement and approving the sale of the CFA Assets to NHI free and clear of all liens and claims except for the HSM Leases (the "Settlement Order").

3. Upon entry of the Settlement Order, the lawsuit will be dismissed with prejudice, and mutual releases releasing the parties, as well as their current and former officers, directors, employees, agents and attorneys, and all former CFA directors will be exchanged, except that (a) the claim of NHI filed in the underlying bankruptcy proceeding, In re Care Foundation of America, Inc., et al., Case No. 08-12367 (KLM) (the "Bankruptcy Cases"), will be allowed in full, without costs or attorneys fees, in the amount of \$23,106,109 plus accrued and unpaid interest to the date of closing, and will be paid in full at the closing of the sale by a credit against the Purchase Price in the amount of \$23,106,109 plus accrued and unpaid interest to the date of closing; (b) the indemnity obligations created by this Agreement will not be released; and (c) Debtors shall not be deemed to have released any claims Debtors may have against any third parties, including, without limitation: (i) HSM or its present or former officers, directors, or employees, or (ii) National Healthcare Corp. or its present or former officers, directors, or employees (collectively, "NHC"), except to the extent any actions or services by NHC (or its predecessor National Healthcorp) were taken on behalf of NHI; provided, however, the release provided to NHC or National Healthcorp shall not apply to any claims arising out of any transactions involving NHC or National Healthcorp and Standifer Place or any non-profit entity other than CFA. Upon closing of the sale, NHI shall have no further claims in the Bankruptcy Cases.

4. The parties acknowledge that this offer to purchase the Debtors' nursing homes and interests in the leases of those nursing homes was not solicited by Debtors, and Debtors have not taken any action to market, or even considered marketing, the nursing homes.

5. NHI agrees to indemnify and hold harmless Debtors (and their current and former officers, directors, and employees) from any claims made by HSM (or any of its affiliated entities) (a) as a result of this compromise and settlement, (b) as a result of the transfer of ownership of real estate pursuant to this compromise and settlement, or (c) arising out of or in connection with the HSM leases, including any reasonable and necessary attorneys fees and expenses incurred by Debtors in defending such claims. If any such claim is made, Debtors promptly will tender the defense of those claims to NHI and counsel selected by NHI whose fees and expenses NHI shall pay. CFA will cooperate fully in the defense of any such claims.

6. NHI further agrees to indemnify and hold harmless Debtors (and their current and former officers, directors, and employees) with respect to all other liabilities, whether asserted or not, contingent or fixed, or known or unknown, arising out of Debtors' ownership of the CFA Assets, that have accrued against the Debtors as of the closing date, including, but not limited to, the two tort claims filed in the Bankruptcy Case that are more specifically described on Exhibit A attached hereto, but excluding any of the Debtors' normal operating expenses, including but not limited to salaries and director fees, and administrative expense claims allowed in the

Bankruptcy Cases, and those other liabilities specifically described on Exhibit B hereto. NHI's obligation to indemnify and hold Debtors harmless from the claims referenced in this paragraph include indemnifying Debtors for any attorneys fees and expenses incurred by Debtors in defending such claims if NHI declines to act after the defense of such claims is tendered to it. The two tort claims will be objected to by CFA, and CFA will then tender the prosecution of those objections and the defense of any actions by the tort claimants to NHI and counsel of its choice, which objections NHI will prosecute to resolution as expeditiously as possible. NHI shall bear the expenses of the prosecution of the objections, including all of Debtors' reasonable and necessary legal fees and expenses incurred in connection with same. CFA will cooperate fully in the prosecution of the objections and in the defense by NHI of the claims or underlying tort lawsuits. CFA further agrees not to dismiss the Bankruptcy Case until the tort claims are resolved.

7. NHI's obligation to indemnify and hold Debtors harmless from the claims referenced in the paragraphs above shall survive a sale of all or substantially all of NHI's assets, and shall also be binding on any successors of NHI. Further, NHI's indemnity obligations under Sections 5 and 6 of this Agreement shall survive the closing of the sale, transfer and conveyance of the CFA Assets by Debtors to NHI or its wholly-owned subsidiary designee as contemplated by this Agreement.

8. CFA agrees not to make or to agree to any amendments or modifications of the HSM leases without the express written consent of NHI. CFA represents that the HSM leases have not been amended except for Amendments 1-5, are still in full force and effect and require no further amendment to make them assignable pursuant to this agreement.

9. The Attorney General joins in this letter to acknowledge his approval of same and to state as follows:

a. No further actions will be taken by the Attorney General based on NHI's relationship with CFA; the Attorney General, however, may use any information received from NHI pursuant to the Attorney General's investigation of NHI's relationship with CFA in any investigation, other legal proceedings he may decide to bring, or in discharge of his official duties.

b. The Attorney General has previously advised CFA and hereby advises NHI that he will not approve the sale of CFA Assets to any other Tennessee nonprofit entity; and

c. The Attorney General will require NHI to agree that it will not directly or indirectly sell the CFA Assets to another Tennessee nonprofit entity, or create another Tennessee nonprofit entity to purchase the CFA Assets.

d. NHI will agree to notify the Attorney General of any subsequent sale of the CFA Assets.

8. NHI specifically agrees to the conditions of the Attorney General.

9. This settlement is being made to resolve disputed claims and shall not be deemed an admission of liability or wrongdoing by NHI or any party. The parties agree to enter into ordinary and customary documentation of transactions of this type and to use their best efforts to obtain the approval of the Court in the Bankruptcy Case. CFA agrees neither it nor its attorneys will disclose any information about or obtained in, through discovery or otherwise, this dispute to any person unless required to by subpoena, after notice to NHI, or by law. This letter agreement may be executed in multiple counterparts, which together when executed by all parties will constitute a single agreement.

Very truly yours,

NATIONAL HEALTH INVESTORS, INC.

/s/J. Justin Hutchens

J. Justin Hutchens
President and Chief Operating Officer

Approved and Accepted:

CARE FOUNDATION OF AMERICA, INC.

By: <u>/s/ James Earle III</u>	<u>/s/ Joe Keane</u>
Title: <u>President</u>	<u>Treasurer</u>
Date: <u>December 3, 2009</u>	<u>December 3, 2009</u>

ROBERT E. COOPER, JR.
ATTORNEY GENERAL AND REPORTER

By: /s/ Robert E. Cooper, Jr.
Title: _____
Date: December 4, 2009

EXHIBIT A

1. Estate of Betty Jean Lott (Proof of Claim dated 6/17/09 and filed against Royal Oak Lessor/LLC). Underlying case: Estate of Betty Jean Lott v. Royal Oak Nursing Center, LLC and others (6th Judicial Circuit Ct., Pasco Co., FL, No. 51-2008-CA-11035-ES).
2. Carol Jeffrey as PR of Estate of Paul Haag (Proof of claim dated 6/24/09 and filed against Care Foundation of America, Inc.). Underlying case: Carol Jeffrey as PR of Estate of Paul Haag v. Cypress Cover Care Center, LLC and others (5th Judicial Circuit Ct., Citrus Co., FL, No. [Unknown]).

EXHIBIT B

Those pre-petition claims, other than the claims identified in Exhibit A, that are allowed in Debtors' Bankruptcy Cases.

Endnotes

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Section 3: EX-23.1 (EXHIBIT 23.1)

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

National Health Investors, Inc.
Murfreesboro, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 33-72370 and No. 33-85398) and on Form S-8 (No. 333-127179) of National Health Investors, Inc. of our reports dated February 20, 2010, relating to the consolidated financial statements, financial statement schedules and the effectiveness of National Health Investors, Inc.'s internal control over financial reporting, which is included in this Annual Report on Form 10-K.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 20, 2010

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Section 4: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1 CERTIFICATION

I, W. Andrew Adams, certify that:

1. I have reviewed this annual report on Form 10-K of National Health Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2010

/s/ W. Andrew Adams
W. Andrew Adams
Chairman, Board of Directors and
Chief Executive Officer

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Section 5: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.1 CERTIFICATION

I, W. Andrew Adams, certify that:

1. I have reviewed this annual report on Form 10-K of National Health Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(c)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 20, 2010

/s/ W. Andrew Adams
W. Andrew Adams
Chairman, Board of Directors and
Chief Executive Officer

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Section 6: EX-32 (EXHIBIT 32)

Exhibit 32

Certification of Annual Report on Form 10-K
of National Health Investors, Inc.
For The Year Ended December 31, 2009

The undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned's best knowledge and belief, the Annual Report on Form 10-K for National Health Investors, Inc. ("Issuer") for the period ended December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

- (a) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

This Certification accompanies the Annual Report on Form 10-K of the Issuer for the annual period ended December 31, 2009.

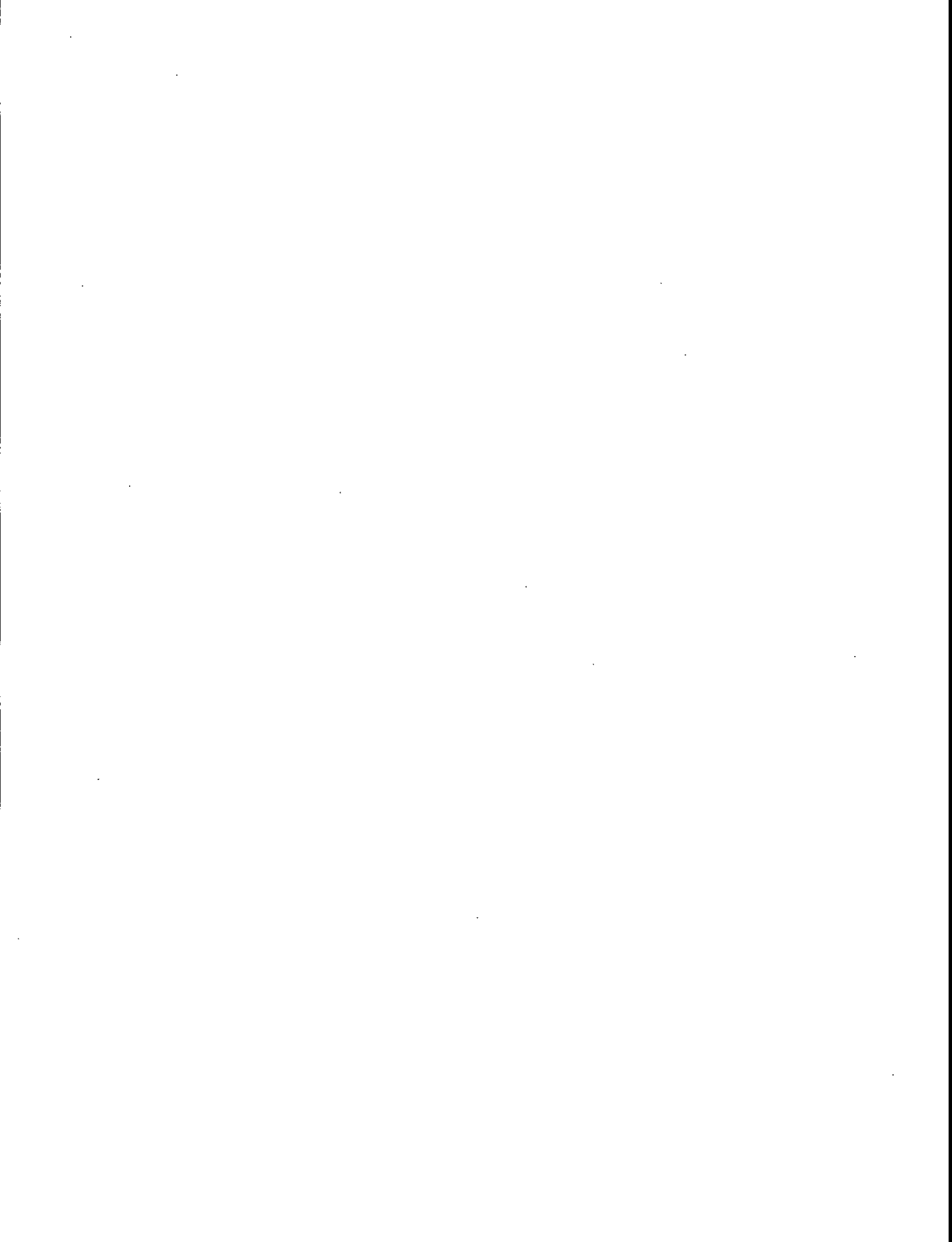
This Certification is executed as of February 20, 2010.

/s/ W. Andrew Adams
W. Andrew Adams
Chairman, Board of Directors and
Chief Executive Officer

/s/ Roger R. Hopkins
Roger R. Hopkins
Chief Accounting Officer
(Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to National Health Investors, Inc. and will be retained by National Health Investors, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 1: 10-K (2008 10-K)

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

FORM 10-K

(Mark One)

[x] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File 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 Number)

750-B South Church Street, Murfreesboro, Tennessee

(Address of principal executive offices)

37130

(Zip Code)

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

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

Table with 2 columns: Title of each Class, Name of each exchange on which registered. Row 1: Shares of Common Stock, 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: [x]

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated 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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer [x] Accelerated filer [] Non-accelerated filer (Do not check if a smaller reporting company) [] Smaller reporting company []

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

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2008 (based on the closing price of these shares on the New York Stock Exchange) was approximately \$706,284,000. The number of shares of Common Stock outstanding as of February 20, 2009, was 27,580,319.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement for its 2009 annual meeting of stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Form 10-K.

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PART I

Forward-Looking Statements

References throughout this document to the Company include National Health Investors, Inc. and its wholly-owned 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 wholly-owned subsidiaries and not any other person. Unless the context indicates otherwise, references herein to "the Company" include all of our wholly-owned 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 limitations, those containing words such as "may", "will", "believes", "anticipates", "expects", "intends", "estimates", "plans", and other similar expressions are forward-looking statements.

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

- * We depend on the operating success of our customers (facility operators) for collection of our revenues during this time of uncertain and potentially worsening economic conditions in the U.S.;
- * We are exposed to risk that our tenants and mortgagees may become subject to bankruptcy or insolvency proceedings;
- * We are exposed to risks related to government regulations and the effect they have on our tenants' and mortgagees' business;
- * We are exposed to risk that the cash flows of our tenants and mortgagees will be adversely affected by increased liability claims and general and professional liability insurance costs;
- * We depend on the success of future acquisitions and investments;
- * We are exposed to risks related to environmental laws and the costs associated with the liability related to hazardous substances;
- * We depend on the ability to reinvest cash in real estate investments in a timely manner and on acceptable terms;
- * We are exposed to potential future losses in our investment in enhanced cash funds managed by a division of Bank of America;
- * We are involved in recent litigation brought against us by one of our mortgagees, the ultimate outcome of which is uncertain;
- * We depend on the ability to continue to qualify as a REIT;

See the notes to the Annual Financial Statements, and "Business" and "Risk Factors" under Item 1 and Item 1A herein for a discussion of various governmental regulations and other operating factors relating to the health care 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 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 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. ("NHI" or the "Company"), a Maryland corporation incorporated in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care industry. As of December 31, 2008, we had ownership interests in real estate and mortgage investments (excluding assets held for sale) totaling approximately \$289,972,000 and other investments in preferred stock and marketable securities of \$64,726,000 resulting in total invested assets of \$354,698,000. Our mission is to invest in health care real estate which generates current income that will be distributed to stockholders. We have pursued this mission by making mortgage loans and acquiring properties to lease nationwide, primarily in the long-term health care industry. These investments include long-term care facilities, acute care hospitals, medical office buildings, retirement centers and assisted living facilities, all of which are collectively referred to herein as "Health Care Facilities". We have funded these investments in the past through three sources of capital: (1) current cash flow, including principal prepayments from our borrowers, (2) the sale of equity securities, and (3) debt offerings, including bank lines of credit, the issuance of convertible debt instruments, and the issuance of ordinary debt. At December 31, 2008, we had no outstanding bank lines of credit or convertible debt instruments.

As of December 31, 2008, we had approximately \$289,972,000 in real estate assets and mortgage notes receivable investments in 123 health care facilities located in 17 states consisting of 83 long-term care facilities, 1 acute care hospital, 4 medical office buildings, 14 assisted living facilities, 4 retirement centers and 17 residential projects for the developmentally disabled. These investments consisted of approximately \$108,640,000 aggregate carrying amount of loans to 14 borrowers and \$181,332,000 of sale-leaseback agreements with 16 lessees. Of these 123 facilities, 41 are leased to National HealthCare Corporation ("NHC"), a publicly-held company and our largest customer. These 41 facilities include 4 centers subleased to and operated by other companies, the lease payments to us being guaranteed by NHC.

Beginning with our inception in 1991, NHC had provided advisory services to us under an Advisory, Administrative Services and Facilities Agreement (the "Advisory Agreement"). Effective November 1, 2004, we assigned the Advisory Agreement with NHC to Management Advisory Source, LLC ("MAS"), formed by our President, Chief Executive Officer and Board Chairman W. Andrew Adams. We have no ownership in MAS. Pursuant to this Advisory Agreement, services related to investment activities and day-to-day management and operations were provided to us by MAS. Accordingly, MAS was subject to the supervision of and policies established by our Board of Directors. On December 3, 2007, we elected to become a self-managed REIT, with our own management reporting directly to the Board of Directors, and we notified MAS of our intent to terminate the Advisory Agreement effective March 31, 2008. On January 29, 2008, we received notice from Mr. Adams that he intended to resign as President of NHI effective March 31, 2008. Under an agreement with our Board of Directors, Mr. Adams will continue to serve as President until March 18, 2009 at which time Justin Hutchens will assume the positions of President and Chief Operating Officer. It is anticipated that Mr. Adams will remain with us as Chief Executive Officer and as Chairman of the Board of Directors.

All of our investments in real estate and notes receivable are 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 for this segment can be found in Item 8 of this Annual Report.

Types of Health Care Facilities

Long-term care facilities. As of December 31, 2008, we owned and leased 49 licensed long-term care facilities, 34 of which were operated by NHC. All of the 15 remaining licensed long-term care facilities are leased to other long-term care companies. We also had outstanding first mortgage loans on 34 additional licensed long-term care facilities. All of these facilities provide some combination of skilled and intermediate nursing and rehabilitative care, including speech, physical and occupational therapy. The operators of the long-term care facilities receive payment from a combination of private pay sources and government programs such as Medicaid and Medicare. Long-term care facilities are required to obtain state licenses and are highly regulated at the federal, state and local level. Most long-term care facilities must obtain certificates of need from the state before opening or expanding such facilities. Some long term-care facilities include assisted living beds.

Acute and long term care hospitals. As of December 31, 2008, we owned and leased 1 acute care hospital. Acute care hospitals provide a wide range of inpatient and outpatient services and are subject to extensive federal, state and local legislation and regulation. Acute and long-term care hospitals undergo periodic inspections regarding standards of medical care, equipment and hygiene as a condition of licensure. Services provided by acute and long-term care hospitals are generally paid for by a combination of private pay sources and governmental programs.

Medical office buildings. As of December 31, 2008, we owned and leased 4 medical office buildings. Medical office buildings are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. Medical office buildings differ from conventional office buildings due to the special requirements of the tenants and their patients. Each of our owned medical office buildings is leased to one lessee, and is either physically attached to or located on an acute care hospital campus. The lessee then 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 its ability to lease the individual office space.

Assisted Living Facilities. As of December 31, 2008, we owned and leased 14 assisted living facilities. Assisted living facilities are either free-standing or are attached to long-term care or retirement facilities and provide basic room and board functions for the elderly. Some assisted living projects include licensed long-term care (nursing home) beds. On-site staff personnel are available to assist in minor medical needs on an as-needed basis.

Retirement Centers. As of December 31, 2008, we owned and leased 4 retirement centers, 3 of which are leased to NHC and one to Sun Healthcare. Retirement centers 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. Charges for services are paid from private sources without assistance from government programs. Retirement centers may be licensed and regulated in some states, but do not require the issuance of a certificate of need such as is required for long-term care facilities.

Residences for the developmentally disabled. As of December 31, 2008, we had outstanding first mortgage notes on 17 residences for the developmentally disabled. Residences for the developmentally disabled are generally small home-like environments which accommodate six to eight mentally or developmentally disabled persons. These persons obtain custodial care which includes food, lodging, education and transportation services. These community based services are replacing the large state institutions which have historically provided care to the developmentally disabled. Services to the developmentally disabled are primarily paid for by state Medicaid programs.

Nature of Investments

Our investments are typically structured as either purchase-leaseback transactions or mortgage loans. We also provide construction loans for facilities for which we have already committed to provide long-term financing or for which the operator agrees to enter into a lease with us upon completion of the construction. The lease rates of our leases and the interest rates on the mortgage loans and construction loans have historically ranged between 9% and 12% per annum. We typically charge a commitment fee of 1% based on the purchase price of the property of a purchase-leaseback or the total principal loan amount of a mortgage loan. In instances where construction financing has also been supplied, there is generally an additional 1% commitment fee for the construction financing. We believe our lease terms, mortgage loan and construction loan terms are competitive in the market place. Except for certain properties, as described under "Real Estate and Mortgage Write-downs (Recoveries)" in Item 7, all of the operating Health Care Facilities are currently performing under their mortgage loans or leases. Typical characteristics of these transactions are as follows:

Mortgage Loans. In general, the term of our mortgage loans is 10 years with the principal amortized over 20 to 25 years and a balloon payment due at the end of the 10 year term. Most of the loans are at a fixed interest rate; however some have an additional interest component which is based on the escalation of gross revenues at the project level or fixed rate increases. In most cases, the owner of the property has committed to make minimum annual capital improvements for the purpose of maintenance or upgrading their respective facilities. Additionally, most of our loans are collateralized by first mortgage liens and corporate or personal guarantees.

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

Most of our existing leases contain annual escalators in rent payments. All of the acute care and medical office building properties 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 and medical office building 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 machinery, equipment, furnishings and other personal property.

Construction loans. From time to time, although none are currently outstanding, we also provide construction loans that by their terms convert either into purchase-leaseback transactions or mortgage loans upon the completion of the construction of the facility. The terms of such construction loans are for a period which commences upon the closing of such loans and terminate 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. 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. No such loans are currently outstanding.

Investment in Preferred Stock and Marketable Securities. 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 are invested for real estate purposes. At December 31, 2008, our investments in preferred and common shares of publicly-held REITs were \$55,425,000 and our investments in other available for sale marketable securities were \$9,301,000. Refer to Notes 5 and 6 of our consolidated financial statements for further information.

Disposition and Deconsolidation of Assets

We previously owned and operated 16 long-term health care facilities that we acquired through foreclosure or through the acceptance of deeds in lieu of foreclosure and subsequently sold the facilities to unrelated not-for-profit entities, providing 100% financing (the "Foreclosure Properties"). The operating revenues and expenses of these facilities continued to be recorded in our Consolidated Statements of Income until such time as the down payment and continuing investment criteria of Financial Accounting Standards Board ("FASB") Statement No. 66, "Accounting for Sales of Real Estate" ("SFAS 66") were met, at which time we would account for the sales under the full accrual method. On December 31, 2007, the criteria for recording the sales were met. Net assets having a book value of \$54,350,000 were deconsolidated, mortgage notes receivable of \$66,819,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$12,469,000. On December 31, 2007, we received irrevocable bank letters-of-credit aggregating \$10,200,000 from the borrowers to guarantee down payments on the notes, and commitments to make monthly principal and interest payments to us to amortize the remaining note balances. In January 2008, we received down payments of \$19,100,000 on the notes receivable and began receiving principal and interest totaling \$417,000 each month.

Competition and Market Conditions

We compete with real estate partnerships, other REITs and other investors (including, but not limited to, banks, insurance companies, and investment bankers who market securities in mortgage funds) in the acquisition, leasing and financing of health care-related entities primarily on the basis of price, available capital, knowledge of the industry and flexibility of financing structure.

The operators of the Health Care Facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for patients and staff based on quality of care, reputation, physical appearance of facilities, services offered, family preference, physicians, staff and price. They compete with independent operators as well as companies managing multiple facilities, some of which are substantially larger and have greater resources than the operators of the Health Care Facilities. Some of these facilities are operated for profit while others are owned by governmental agencies or tax exempt not-for-profit organizations.

The long-term care facilities to which we provide mortgage loans and which we lease to others 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. Beginning January 1, 2006, CMS (Centers for Medicare and Medicaid Services) implemented major changes to the Prospective Payment System ("PPS") payment methodology (see Sources of Revenues under this Item 1) that reduced payments to facilities by about 5%. State Medicaid funding is not expected to keep pace with inflation according to industry studies. Additionally, the assisted living industry experienced slower fill up rates on new projects and more competition for their mature projects as

overbuilding occurred in certain markets. Any changes in reimbursement methodology that reduces reimbursement to levels that are insufficient to cover the operating costs of our borrowers and lessees could adversely impact us.

Operators

The majority of the Health Care Facilities are operated by the owner or lessee. As a percent of total investments, 32% of the Health Care Facilities are operated by publicly-owned companies, while 58% are operated by regional health care operators and 10% are operated by smaller operators. 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. Operators who operate more than 3% of our total real estate investments are as follows: NHC, THI of Baltimore, Inc., Sunrise Senior Living, Inc., Health Services Management, Inc., Community Health Systems, Inc., ElderTrust of Florida, Inc., RGL Development, LLC, Senior Living Management Corporation, LLC, American HealthCare, LLC, and SeniorTrust of Florida, Inc.

NHC Master Agreement to Lease

On December 27, 2005, under an amendment to the Master Lease, NHC exercised its option to extend the existing lease on 41 properties for the second renewal term. These 41 properties include 38 skilled nursing homes (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC under the Master Lease) and 3 retirement centers. The 15 year lease extension began January 1, 2007, and includes 3 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 the tenant at its expense. Under the terms of the lease, rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. Our rental income in 2008 was \$53,339,000 (\$33,700,000 from NHC); in 2007 was \$50,850,000 (\$33,700,000 from NHC); and in 2006 was \$45,789,000 (\$31,309,000 from NHC).

The Master Agreement is a "triple net lease" under which NHC is responsible for all taxes, utilities, insurance premium costs, repairs (including structural portions of the buildings) and other charges relating to the ownership and operation of the Health Care Facilities. NHC is obligated at its expense to keep all improvements and fixtures and other components of the Health Care Facilities covered by "all risk" insurance in an amount equal to the full replacement costs thereof, insurance against boiler explosion and similar insurance, flood insurance if the land constituting the Health Care Facility is located within a designated flood plain area and to maintain specified property damage insurance, protecting us as well as NHC at such Health Care Facility. NHC is also obligated to indemnify and hold us harmless from all claims resulting from the use and occupancy of each Health Care Facility by NHC or persons claiming under NHC and related activities, as well as to indemnify us against all costs related to any release, discovery, cleanup and removal of hazardous substances or materials on, or other environmental responsibility, with respect to each Health Care Facility leased by NHC.

Commitments

At December 31, 2008, we had no pending commitments to fund health care real estate projects. We currently have sufficient liquidity to finance new investments and to repay borrowings at or prior to maturity.

Sources of Revenues

General. Our revenues are derived primarily from mortgage interest income and rental income. During 2008, mortgage interest income equaled \$9,666,000. Rental income totaled \$53,339,000 of which \$33,700,000 or 63% was from facilities leased by NHC. The source and amount of revenues of our lessees and borrowers are determined by (i) the licensed bed or other capacity of the Health Care Facilities, (ii) the occupancy rate of the Health Care Facilities, (iii) the extent to which the services provided at each Health Care Facility are utilized by the patients, (iv) the mix of private pay, Medicare and Medicaid patients at the Health Care Facilities, and (v) the rates paid by private paying patients and by the Medicare and Medicaid programs.

Governmental and other concerns regarding health care costs have and may continue to result in significant reductions in payments to health care facilities, and there can be no assurance that future payment rates for either governmental or private health care plans will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care have and could continue to adversely affect 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 lessees and borrowers is derived from governmental-funded reimbursement programs, such as Medicare and Medicaid. Reimbursement under these programs is subject to periodic pre- and post-payment review and other audits by federal and state authorities.

Medicare is uniform nationwide and reimburses nursing centers under a fixed payment methodology named the PPS. PPS was instituted as mandated by the Balanced Budget Act of 1997. PPS 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 increased each October when the federal fiscal year begins. The acuity classification system is named Resource Utilization Groups III ("RUGs"). PPS as implemented 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. Annual market basket (inflationary) increases have continued to improve payments.

Medicaid is a joint federal and state program designed to provide medical assistance to "eligible needy persons". These 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 and pressure on certain provider taxes 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.

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 its 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 as a health care facility could be jeopardized, which could adversely affect the lessee's or borrower's ability to make lease or debt payments to us and thereby adversely affect us.

Certificates of Need. Certain Health Care Facilities in which we invest are also generally subject to state statutes which may require regulatory approval in the form of a certificate of need ("CON") prior to the addition or construction of new beds, 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 mortgagees; 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 current income for distribution to our stockholders through investments primarily in health care related facilities, (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. 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, highly-liquid cash accounts, enhanced cash funds, and securities of other publicly-beld REITs.

We did not make significant new investments in real estate assets during 2008 due to our conservative approach to evaluating the risks and uncertainties in the overall economy and its potential negative impact on the operations of long-term care and assisted living facilities. We anticipate making new mortgage and/or real estate investments in 2009 that meet our risk profile. In making new investments, we would 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 and to provide a competitive market return on equity to our investors, (iv) the growth, tax and regulatory environments of the communities in which the properties are located, (v) occupancy and demand for similar health care facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management operating the facilities located on the property and (vii) the mix of private and government-sponsored patients. There can be no assurances that investments containing these attributes will be found or closed.

We will not, without the approval of a majority of the Board of Directors, enter into any joint venture relationships with or acquire from or sell to any director, officer or employee of NHC or 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 they determine 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.

We may incur additional indebtedness in the future to make investments in health care related facilities or businesses when it is advisable in the opinion of the Board of Directors. We may negotiate other lines of credit or arrange for other short or long-term borrowings from banks. 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.

Advisory Agreement

Management Advisory Source, LLC - We determined that it was in our best interest to accentuate our independence from NHC, our largest tenant. Therefore, effective November 1, 2004, we assigned our Advisory Agreement with NHC (described below and since terminated) to a new company, MAS, formed by our President, Chief Executive Officer and Board Chairman, W. Andrew Adams. We have no ownership in MAS.

Under the Advisory Agreement, we engaged MAS to use its best efforts (a) to present to us a continuing and suitable investment program consistent with our investment policies adopted by the Board of Directors from time to time; (b) to manage our day-to-day affairs and operations; and (c) to provide administrative services and facilities appropriate for such management. Accordingly, MAS was subject to the supervision of and policies established by our Board of Directors. From November 1, 2004 to October 1, 2006, MAS outsourced non-managerial functions of the Advisory Agreement such as payroll processing, accounting, treasury and the like to NHC. Effective October 1, 2006, MAS began to provide these services.

The Advisory Agreement provided that without regard to the amount of compensation received by the Advisor under the Advisory Agreement, the Advisor was to pay all expenses in performing its obligations including the employment expenses of the personnel providing services to us. The Advisory Agreement further provided that we pay the expenses incurred with respect to and allocable to the prudent operation and business of NHI including any fees, salaries and other employment costs, taxes and expenses paid to our directors, officers and employees who are not also employees of the Advisor. The Advisory Agreement provided that MAS was entitled to annual compensation which was calculated on a formula related to the increase in funds from operations per common share (as defined in the Advisory Agreement).

On December 3, 2007, we elected to become a self-managed REIT with our own management reporting directly to the Board of Directors. We notified MAS of our intent to terminate the Advisory Agreement effective March 31, 2008. On January 29, 2008, we received notice from Mr. Adams that he intends to resign as President of NHI. Under an agreement with our Board of Directors, he will continue to serve as President until March 18, 2009 at which time Justin Hutchens will assume the positions of

President and Chief Operating Officer. It is anticipated that Mr. Adams will remain with us as Chief Executive Officer and Chairman of the Board of Directors.

NHC - We entered into the Advisory Agreement on October 17, 1991 with *NHC* as "Advisor" under which *NHC* provided management and advisory services to us through November 1, 2004. The Advisory Agreement was initially for a stated term which expired December 31, 1997. Thereafter, the Advisory Agreement was on a year-to-year term, but terminable on 90 days notice and terminable for cause at any time. For 1993 and later years, the Advisor was entitled to annual compensation which was calculated on a formula related to the increase in funds from operations per common share (as defined in the Advisory Agreement).

Pursuant to the Advisory Agreement, the advisor managed all of our day-to-day affairs and provided all such services through its personnel or contractual agreements. The Advisory Agreement provided that without regard to the amount of compensation received by the Advisor under the Advisory Agreement, the Advisor pay all expenses in performing its obligations including the employment expenses of the personnel providing services to us. The Advisory Agreement further provided that we pay the expenses incurred with respect to and allocable to the prudent operation and business of *NHI* including any fees, salaries and other employment costs, taxes and expenses paid to our directors, officers and employees who are not also employees of the Advisor.

Acquisition Offer

On October 5, 2006, we received an offer from W. Andrew Adams, our President, Chief Executive Officer and Chairman, a significant stockholder and President of *MAS*, our Advisor, to acquire all of our outstanding shares of common stock for \$30 per share, the offer being subject to certain conditions and contingencies. The Board of Directors formed a Special Committee consisting of its four independent directors. The Special Committee hired The Blackstone Group L.P. as its financial advisor to assist in evaluating this or any other proposed transactions. The Special Committee rejected the initial offer. A second offer was made by Mr. Adams to purchase the shares at \$33 per share, and this offer was rejected. On April 4, 2007, Mr. Adams sent to the Special Committee a third offer of \$34 per share. This offer was rejected by the Special Committee on April 6, 2007. On April 17, 2007, we issued a press release in response to apparent market rumors and the large volume of trades in our common stock. The press release announced that we were engaged in preliminary discussions and the exchange of information regarding a possible combination of interests with another company. On June 8, 2007, Mr. Adams notified us of the withdrawal of his offer. On October 22, 2007, we issued a press release announcing that the Special Committee had decided to cease negotiations with third parties involving the possible sale of the Company, terminate the engagement of The Blackstone Group L.P. as its financial advisor, and dissolve the Special Committee.

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 16, 2009:

<u>Name</u>	<u>Position</u>	<u>Age</u>
W. Andrew Adams	President, Chairman of the Board and Chief Executive Officer	63
Roger R. Hopkins	Chief Accounting Officer	47

W. Andrew Adams (Chairman of the Board and Chief Executive Officer) has been our Chairman of the Board, President and Chief Executive Officer since our inception in 1991. Mr. Adams was president and chief executive officer of National HealthCare Corporation ("*NHC*") until he resigned those positions in 2004. He remains on its board of directors, and served as chairman of the board until 2008. Mr. Adams served as president of National Health Realty, Inc. ("*NHR*") from 1997 until November 2004 and served as chairman of the board until *NHR* was acquired by *NHC* in 2007. Mr. Adams serves on the board of directors of SunTrust Bank in Nashville, Tennessee. He received his B.S. and M.B.A. degrees from Middle Tennessee State University.

On February 18, 2009, the Board of Directors named Justin Hutchens, 34, as the new President and Chief Operating Officer effective March 18, 2009. He has held a variety of management positions with long-term care and assisted living facility companies, most recently as Chief Operating Officer and Executive Vice President of Emeritus Senior Living, Inc. since 2007. Mr. Hutchens received a B.S. degree in human services from the University of Northern Colorado in 1995 and a M.S. degree in management from Regis University in 1998.

Roger R. Hopkins joined us in 2006 and was named Chief Accounting Officer on December 31, 2006. Until 2006, he was a partner in the Tennessee regional accounting firm of Rodefer Moss & Co, PLLC. He was previously a senior manager in the Nashville, Tennessee office of Deloitte & Touche. Mr. Hopkins received his B.S. degree in accounting from Tennessee Technological University in 1982 and is a Certified Public Accountant.

Since terminating the Advisory Agreement effective March 31, 2008, we assumed the employment of some of the MAS employees and we now have a staff of 7, all serving in our corporate offices.

Investor Information

We maintain a worldwide web site at www.nhiinvestors.com. We publish to this web site our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and press releases. We have a policy of placing these on the web site within two (2) business days after public release or filing with the SEC.

We also maintain the following documents on the 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 our employees and stockholders unrestricted access to our Internal Auditor, executive officers and directors. The toll free number is 800-526-4064 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. Contact information is: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. The toll free number is 800-942-5909 and the website is www.computershare.com.

The Annual Stockholders' meeting will be held at 11:00 a.m. on May 1, 2009 at the Center for the Arts, 110 College Street, Murfreesboro, TN.

ITEM 1A. RISK FACTORS.

We depend on the operating success of our customers (facility operators), whose business is focused in the skilled nursing and assisted living industry, for collection of our revenues during this time of uncertain and potentially worsening economic conditions in the U.S.

Revenues to operators of the Health Care Facilities are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have, and may continue, to come under pressure due to reimbursement cuts and from widely-publicized federal and state budget shortfalls and constraints. Overall weak economic conditions in the U.S. which affect housing sales, investment returns and personal incomes may adversely affect occupancy rates of assisted living facilities that generally rely on private pay residents. Expenses for the Health Care Facilities are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Liability insurance and staffing costs continue to increase for our operators. To the extent any decrease in revenues and/or any increase in operating expenses results in a facility not generating enough cash to make scheduled payments to us, our revenues, net income and funds from operations would be adversely affected. Consequently, we might be unable to maintain or increase our current dividend and the market price of our stock may decline.

We are exposed to the risk that our tenants and mortgagees 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 government regulations and the effect they have on our tenants' and mortgagees' business.

Our operators' businesses are affected by government reimbursement and private payor rates. To the extent that any skilled nursing, hospital or project for the developmentally disabled facility receives a significant portion of its revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such facility. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. 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 mortgagees will be adversely affected by increased liability claims and general and professional liability insurance costs.

Long-term care facility operators (assisted living and skilled nursing facilities) 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. In 2004 and 2005, both Texas and Florida adopted skilled nursing facility 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 assisted living and skilled nursing facilities. Thus, general and professional liability insurance coverage may be restricted, very costly or not available, which may adversely affect the facility operators' future operations, cash flows and financial condition and may have a material adverse effect on the facility operators' ability to meet their obligations to us.

We depend on the success of future acquisitions and investments.

We are exposed to the risk that our future acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and newly acquired properties might require significant management attention that would otherwise be devoted to our ongoing 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 are exposed to risks related to environmental laws and the costs associated with the liability related to hazardous substances.

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

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

From time to time, we will have cash available from (1) the proceeds of sales of our securities, (2) principal payments on our loans 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 perhaps our ability to make distributions to stockholders.

We are exposed to potential future losses in our investment in enhanced cash funds managed by a division of Bank of America.

We have investments in enhanced cash funds at December 31, 2008 with Columbia Management, a division of Bank of America, with an estimated fair market value of \$7,953,000 which is net of other than temporary impairment losses recognized of \$2,065,000 in 2008. The funds were abruptly closed in December 2007 by Columbia and are being liquidated in an orderly fashion for investors. The funds contain a wide variety of high-quality corporate debt securities, but also a significant amount of asset-backed and mortgage-backed securities that have become impaired as a result of a decline in our nation's economy and adverse impacts to the financial markets and various financial instruments. We had not experienced any losses on our investment in these funds prior to December 2007. A worsening of the nation's economy could adversely affect the value of the underlying securities of the funds as Columbia continues its liquidation strategy during 2009 and 2010, and we would be required to recognize further losses on our investment.

We are involved in recent litigation brought against us by one of our mortgagees, the ultimate outcome of which is uncertain.

As described further in Item 3, one of our mortgagees has threatened to file a lawsuit against us. We have also disclosed in Form 8-K on January 12, 2009 that the mortgagee had filed for Chapter 11 bankruptcy on December 30, 2008 and had filed an adversary proceeding complaint against us in the bankruptcy case. The current balance of the mortgage loan owed to us is approximately \$22.9 million. We had consistently worked with the mortgagee to extend the maturity date of its mortgage note several times since the inception of the note on January 1, 2002, the most recent extension making the balance due December 31, 2008. We adamantly deny the mortgagees claims made in their adversary proceeding, and intend to vigorously defend against their complaint and enforce payment of the amounts owed to us. Due to the recent filing of this action against us, we cannot estimate either the timing or outcome of this litigation; however, an unfavorable outcome could have a material adverse effect on us.

We depend on the ability to continue to qualify as a REIT.

We intend to operate as a REIT under the Internal Revenue Code of 1986, as amended (the "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. Also, if we do not qualify as a REIT,

we would not be required to make distributions to stockholders, since a non-REIT is not required to pay dividends to stockholders amounting to at least 90% of its annual REIT taxable income.

Other risks.

See the notes to the annual 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 these 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 common 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

ITEM 2. PROPERTIES OWNED OR ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS.

LONG TERM CARE Center	City	Lease (L)/ Mortgage (M)	Licensed Beds
ALABAMA			
NHC HealthCare, Anniston	Anniston	L	151
NHC HealthCare, Moulton	Moulton	L	136
ARIZONA			
Sunbridge Estrella Care and Rehabilitation**	Avondale	L	161
FLORIDA			
Ayers Health and Rehabilitation Center	Trenton	M	120
Bayonet Point Health & Rehabilitation Center	Hudson	L	180
Bear Creek Nursing Center	Hudson	M	120
Brooksville Healthcare Center	Brooksville	M	180
Cypress Cove Care Center	Crystal River	M	120
Heather Hill HealthCare Center	New Port Richey	M	120
Osceola Health Care Center	St. Cloud	M	120
Parkway Health and Rehabilitation Center	Stuart	L	177
Royal Oak Nursing Center	Dade City	M	120
The Health Center of Merritt Island	Merritt Island	L	180
The Health Center of Plant City	Plant City	L	180
Savannah Cove of Maitland*	Maitland	L	39
Savannah Cove of the Palm Beaches*	West Palm Beach	L	30
GEORGIA			
Ashton Woods Rehabilitation Center	Rossville	M	157
The Place at Martinez	Augusta	M	100
The Place at Deans Bridge	Augusta	M	100
The Place at Pooler	Pooler	M	122
NHC HealthCare, Rossville	Rossville	L	112
The Place at Augusta	Augusta	M	100
IDAHO			
Grangeville Health and Rehabilitation Center	Grangeville	L	60
Sunbridge Retirement and Rehabilitation for Nampa*	Nampa	L	46
KANSAS			
Chanute HealthCare Center	Chanute	M	77
Council Grove HealthCare Center	Council Grove	M	80
Emporia Rehabilitation Center (vacant)***	Emporia	L	79
Haysville HealthCare Center	Haysville	M	119
Larned HealthCare Center*	Larned	M	54
Sedgwick HealthCare Center	Sedgwick	M	62
KENTUCKY			
NHC HealthCare, Glasgow*	Glasgow	L	194
NHC HealthCare, Madisonville	Madisonville	L	94
MASSACHUSETTS			
John Adams HealthCare Center	Quincy	M	71
Buckley HealthCare Center	Greenfield	M	120
Holyoke HealthCare Center	Holyoke	M	102
Longmeadow of Taunton	Taunton	M	100
MISSOURI			
Charleviox HealthCare Center	St. Charles	M	142
Columbia HealthCare Center	Columbia	M	97

LONG TERM CARE (continued) Center	City	Lease (L)/ Mortgage (M)	Licensed Beds
MISSOURI (continued)			
Joplin HealthCare Center	Joplin	M	92
NHC HealthCare, Desloge**	Desloge	L	120
NHC HealthCare, Joplin	Joplin	L	126
NHC HealthCare, Kennett**	Kennett	L	170
	Maryland		
NHC HealthCare, Maryland Heights	Heights	L	220
NHC HealthCare, St. Charles	St. Charles	L	120
NEW HAMPSHIRE			
Epsom HealthCare Center	Epsom	M	108
Maple Leaf HealthCare Center	Manchester	M	114
Villa Crest HealthCare Center	Manchester	M	165
NEW JERSEY			
Brighton Gardens of Edison*	Edison	L	30
SOUTH CAROLINA			
NHC HealthCare, Anderson	Anderson	L	290
NHC HealthCare, Greenwood	Greenwood	L	152
NHC HealthCare, Laurens	Laurens	L	176
UniHealth Post-Acute Care - Orangeburg	Orangeburg	L	88
TENNESSEE			
NHC HealthCare, Athens	Athens	L	98
NHC HealthCare, Chattanooga	Chattanooga	L	207
NHC HealthCare, Columbia	Columbia	L	106
NHC HealthCare, Dickson*	Dickson	L	191
NHC HealthCare, Franklin	Franklin	L	80
NHC HealthCare, Hendersonville	Hendersonville	L	122
NHC HealthCare, Hillview	Columbia	L	92
NHC HealthCare, Johnson City	Johnson City	L	160
NHC HealthCare, Knoxville	Knoxville	L	139
NHC HealthCare, Lewisburg	Lewisburg	L	102
NHC HealthCare, McMinnville	McMinnville	L	150
NHC HealthCare, Milan	Milan	L	122
NHC HealthCare, Oakwood	Lewisburg	L	60
NHC HealthCare, Pulaski	Pulaski	L	102
NHC HealthCare, Scott	Lawrenceburg	L	62
NHC HealthCare, Sequatchie	Dunlap	L	120
NHC HealthCare, Smithville*	Smithville	L	114
NHC HealthCare, Somerville*	Somerville	L	72
NHC HealthCare, Sparta	Sparta	L	120
NHC HealthCare, Springfield	Springfield	L	107
TEXAS			
Forest Lane Healthcare Center	Dallas	L	120
Heritage Manor - Canton	Canton	L	110
Heritage Place	Dallas	L	149
Heritage Oaks	Arlington	L	204
	Dripping		
Hill Country Care Center	Springs	L	60
Pecan Tree Manor	Gainesville	L	122
The Village at Richardson	Dallas	L	280
Winterhaven Healthcare Center	Houston	L	160
VIRGINIA			
NHC HealthCare, Bristol**	Bristol	L	120
Heritage Hall- Charlottesville	Charlottesville	M	120

LONG TERM CARE (continued)			
Center	City	Lease (L)/ Mortgage (M)	Licensed Beds
VIRGINIA (continued)			
Heritage Hall- Brookneal	Brookneal	M	60
Heritage Hall- Lexington	Lexington	M	60
Heritage Hall- Virginia Beach	Virginia Beach	M	90
Heritage Hall- Front Royal	Front Royal	M	60
Heritage Hall- Grundy	Grundy	M	120
Heritage Hall- Laurel Meadows	Laurel Fork	M	60
ACUTE CARE PROPERTIES			
KENTUCKY			
Kentucky River Hospital	Jackson	L	55
MEDICAL OFFICE BUILDINGS			
			<u>Sq. Ft.</u>
FLORIDA			
North Okaloosa	Crestview	L	27,017
ILLINOIS			
Crossroads	Mt. Vernon	L	12,910
TEXAS			
Hill Regional	Hillsboro	L	23,000
Pasadena Bayshore	Pasadena	L	61,500
RETIREMENT CENTERS			
			<u>Licensed Beds</u>
IDAHO			
Sunbridge Retirement and Rehab for Nampa*	Nampa	L	115
KANSAS			
Larned HealthCare Center*	Larned	M	10
MISSOURI			
Lake St. Charles Retirement Center	St. Charles	L	155
TENNESSEE			
Colonial Hill Retirement Center	Johnson City	L	63
Parkwood Retirement Apartments	Chattanooga	L	30
ASSISTED LIVING AND DEVELOPMENTALLY DISABLED			
ARIZONA			
The Place at Gilbert	Gilbert	L	40
The Place at Glendale	Glendale	L	38
The Place at Tanque Verde	Tucson	L	42
The Place at Tucson	Tucson	L	60
FLORIDA			
19th Street Group Home	Gainesville	M	6
107th Place Group Home	Bellevue	M	6
Bessent Road Group Home	Starke	M	6
Claudia Drive Group Home	Jacksonville	M	6
Coletta Drive Group Home	Orlando	M	6
Frederick Avenue Group Home	Daytona Beach	M	6
High Desert Court Group Home	Jacksonville	M	6
Plaza Oval Group Home	Casselberry	M	6
Rosewood Group Home	Ormond Beach	M	6
Second Street Group Home	Ocala	M	6
Spring Street Group Home	Lake City	M	6

ASSISTED LIVING AND DEVELOPMENTALLY DISABLED (continued)		Lease (L)/	Licensed
Center	City	Mortgage (M)	Beds
FLORIDA (continued)			
Suffridge Drive Group Home	Bonita Springs	M	6
Savannah Court of Maitland*	Maitland	L	112
Indigo Palms at Daytona	Daytona Beach	L	60
Indigo Palms at Maitland	Maitland	L	116
	West Palm		
Savannah Court of Palm Beaches*	Beach	L	114
Tunis Street Group Home	Jacksonville	M	6
Walnut Street Group Home	Starke	M	6
IDAHO			
Sunbridge Retirement and Rehab for Nampa*	Nampa	L	22
KANSAS			
Larned HealthCare Center*	Larned	M	19
KENTUCKY			
NHC HealthCare, Glasgow*	Glasgow	L	12
MISSOURI			
Lake St. Charles Retirement Center	St. Charles	L	25
NEW JERSEY			
Brighton Gardens of Edison*	Edison	L	118
PENNSYLVANIA			
Heritage Hill Senior Community	Weatherly	L	143
SOUTH CAROLINA			
The Place at Conway	Conway	L	52
TENNESSEE			
717 Cheatam Street	Springfield	M	8
305 West Hillcrest Drive	Springfield	M	8
307 West Hillcrest Drive	Springfield	M	8
NHC HealthCare, Dickson*	Dickson	L	20
NHC HealthCare, Somerville*	Somerville	L	12
NHC HealthCare, Smithville*	Smithville	L	6
The Place at Gallatin	Gallatin	L	49
The Place at Kingsport	Kingsport	L	49
The Place at Tullahoma	Tullahoma	L	49

*These facilities are listed in multiple categories (numbers of beds are not duplicated elsewhere in this table).

**These facilities collateralize the first mortgage revenue bonds payable by us at December 31, 2008 of \$3,987,000.

***The facility was classified as held for sale at December 31, 2008.

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.

10-YEAR LEASE EXPIRATIONS

Year	Leases Expiring	Rentable Square Feet*	Number of Beds	Annualized Gross Rent ** (in thousands)	Percentage of Annualized Gross Rent
2009	1	—	379	\$ 3,150	5.9%
2010	2	—	1,083	5,282	9.9%
2011	4	35,910	406	2,542	4.8%
2012	1	—	55	3,032	5.7%
2013	2	27,017	148	1,730	3.2%
2014	—	—	—	—	—
2015	—	—	—	—	—
2016	1	—	151	935	1.7%
2017	2	—	260	1,158	2.2%
2018	2	61,500	88	1,077	2.0%
Thereafter	3	—	5,872	34,534	64.6%

*Rentable Square Feet represents total square footage in four medical office building investments.

**Annualized Gross Rent reflects 2008 actual rent income (exclusive of straight-line rent adjustments).

ITEM 3. LEGAL PROCEEDINGS.

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

On December 31, 1999, NHI acquired six Florida properties from the Chapter 11 bankruptcy trustee for York Hannover Nursing Centers, Inc. On January 1, 2000, NHI sold those properties to Care Foundation of America, Inc., a newly-formed Tennessee nonprofit corporation ("CFA") for \$32.7 million, with NHI financing 100% of the purchase price and the debt having an original maturity date of July 1, 2001. The maturity date of the debt was subsequently extended several times over the years, with the most recent extension making the balance of \$22,936,000 due December 31, 2008. NHI received notice that on December 30, 2008, CFA filed for Chapter 11 bankruptcy in the U.S. District Court for the Middle District of Tennessee (Case No. 08-12367). On January 2, 2009, CFA filed an adversary proceeding complaint against NHI in the bankruptcy case. NHI had previously disclosed in its most recent Form 10-Q that CFA had threatened to file such a lawsuit. As disclosed in Note 9 of the notes to the consolidated financial statements, CFA's complaint alleges that NHI exercised total dominion and control over CFA's board of directors from 1999 until sometime in 2008 and that NHI used that control to cause CFA to buy and finance the six Florida homes on terms that were not fair to CFA. CFA also alleges that these transactions constituted "excess benefit transactions" as defined in Section 4958 of the Internal Revenue Code. As part of its complaint, CFA seeks a declaratory judgment and asserts claims for breach of fiduciary duty, fraud, conversion, and unjust enrichment. CFA claims that it has sustained compensatory and punitive damages in excess of \$25 million. NHI adamantly denies CFA's claims and intends to vigorously defend against CFA's complaint. An unfavorable outcome in such litigation or in IRS proceedings arising from CFA's claims could have a material adverse effect on NHI's consolidated financial position, results of operations or cash flows.

NHI has also been served with a Civil Investigative Demand by the Office of the Tennessee Attorney General, which has indicated it is investigating transactions between NHI and three separate Tennessee nonprofit corporations, including CFA. At this time, NHI does not know whether the Tennessee Attorney General's office will commence any legal proceedings or, if so, what relief will be sought.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders during the fourth quarter of 2008.

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 real estate investment trust is protected for federal income tax purposes. One of such provisions prohibits any stockholder from owning, 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. These agreements were entered into in connection with the Company's recent 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 the 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 real estate investment trust 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 real estate investment trust for tax purposes.

In addition, the parties to the Excepted Holder Agreements agree to vote their shares of common stock of the Company in favor of a proposed Charter amendment that the Company intends to recommend to its shareholders at its 2009 annual meeting.

In order to qualify for the beneficial tax treatment accorded to a REIT, we must make quarterly 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 mortgages 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.

Common Stock Market Prices and Dividends

Our common stock is traded on the New York Stock Exchange under the symbol "NHI". As of February 20, 2009, there were approximately 1,000 holders of record of shares and approximately 12,800 beneficial owners of the 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:

Quarter Ended	2008		Cash Dividends Declared	2007		Cash Dividends Declared
	Sales Price High	Low		Sales Price High	Low	
March 31	\$33.45	\$27.18	\$.63	\$33.49	\$27.72	\$.50
June 30	32.83	27.96	.55	35.54	30.99	.50
September 30	35.00	27.52	.55	34.98	28.21	.50
December 31	33.84	17.10	.69	33.17	27.00	1.35

The closing price of our stock on February 20, 2009 was \$25.68. On February 20, 2009, we announced a first quarter dividend of \$.55 per common share to stockholders of record on March 31, 2009.

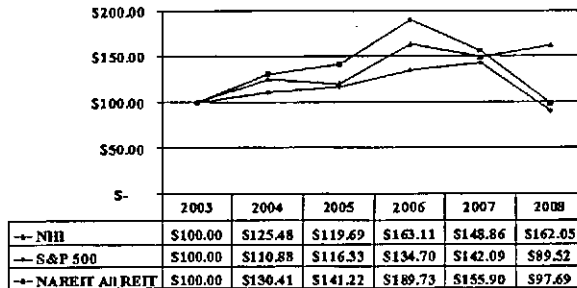
We currently maintain two equity compensation plans: the NHI 1997 Stock Option Plan ("the 1997 Plan") and the 2005 Stock Option, Restricted Stock and Stock Appreciation Rights Plan ("the 2005 Plan"). Each of these plans has been approved by our stockholders. The following table provides information as of December 31, 2008 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	159,668	\$29.03	1,353,967(a)

(a) These shares remain available for grant under the 2005 Plan.

The following graph demonstrates the performance of the cumulative total return to the stockholders of our common stock during the previous five years in comparison to the cumulative total return on the FTSE NAREIT All REITs Index and the Standard & Poor's 500 Stock Index. The FTSE NAREIT All REITs Index is comprised of all tax-qualified real estate investment trusts that are listed on the New York Stock Exchange, the American Stock Exchange or the NASDAQ National Market List. The FTSE NAREIT All REITs Index is not free float adjusted, and constituents are not required to meet minimum size and liquidity criteria.

NATIONAL HEALTH INVESTORS, INC.
Comparison of Cumulative Total Return



Assumes \$100 inv. 12/31/03 in NHI, S&P 500 and NAREIT All REIT

ITEM 6. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2008. 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.

NATIONAL HEALTH INVESTORS, INC.
SELECTED FINANCIAL DATA
(dollars in thousands, except share and per share amounts)

As of and for the Year Ended December 31	2008	2007 ^(a)	2006 ^(a)	2005 ^(a)	2004 ^(a)
Net revenues	\$ 63,005	\$ 62,158	\$ 60,770	\$ 61,779	\$ 63,692
Non-operating income	6,487	12,464	12,721	22,331	12,381
Income from continuing operations	55,451	78,959	58,685	50,424	53,572
Discontinued operations:					
Operating income (loss) - discontinued operations	2,059	4,338	4,729	3,211	1,264
Net gain on dispositions and deconsolidation	—	13,138	5,814	773	1,543
Net income	<u>57,510</u>	<u>96,435</u>	<u>69,228</u>	<u>54,408</u>	<u>56,379</u>
Dividends to preferred stockholders	—	—	—	—	(514)
Net income available to common stockholders	<u>\$ 57,510</u>	<u>\$ 96,435</u>	<u>\$ 69,228</u>	<u>\$ 54,408</u>	<u>\$ 55,865</u>
Earnings per share:					
Basic:					
Income from continuing operations	\$ 2.00	\$ 2.85	\$ 2.12	\$ 1.82	\$ 1.95
Discontinued operations	.08	.63	.38	.14	.10
Net income per common share	<u>2.08</u>	<u>3.48</u>	<u>2.50</u>	<u>1.96</u>	<u>2.05</u>
Diluted:					
Income from continuing operations	\$ 2.00	\$ 2.84	\$ 2.11	\$ 1.81	\$ 1.93
Discontinued operations	.07	.63	.38	.14	.10
Net income per common share	<u>2.07</u>	<u>3.47</u>	<u>2.49</u>	<u>1.95</u>	<u>2.03</u>
BALANCE SHEET DATA:					
Mortgages and other notes receivable, net	\$ 108,640	\$ 141,655	\$ 99,532	\$ 118,800	\$ 112,072
Real estate properties, net	181,532	187,455	235,199	263,129	278,170
Total assets	457,106	500,732	598,198	590,589	633,701
Debt	3,987	9,512	113,492	117,252	154,432
Convertible subordinated debentures	—	—	—	201	1,116
Total stockholders' equity	429,615	446,138	431,671	424,968	425,539
OTHER DATA:					
Common shares outstanding	27,580,319	27,752,239	27,752,239	27,830,439	27,545,018
Weighted average common shares:					
Basic	27,706,106	27,703,464	27,744,868	27,699,887	27,257,826
Diluted	27,731,951	27,783,862	27,778,764	27,830,886	27,531,084
Common dividends declared per share	\$ 2.42	\$ 2.85	\$ 2.37	\$ 1.80	\$ 1.85

^(a) Prior period financial information has been reclassified for presentation of operations discontinued during 2008, along with reclassification of certain balance sheet line items to conform to the 2008 presentation.

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" above.

Executive Overview

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation, is a real estate investment trust ("REIT") that invests primarily in income-producing health care properties with emphasis on the long-term health care sector. As of December 31, 2008, we had ownership interests in real estate and mortgage investments (excluding assets held for sale) totaling approximately \$289,972,000 and other investments in preferred stock and marketable securities of \$64,726,000 resulting in total invested assets of approximately \$354,698,000. Founded in 1991, our mission is to invest in health care real estate which generates current income that will be distributed to stockholders. We have pursued this mission by making mortgage loans and acquiring properties to lease nationwide, primarily in the long-term health care industry.

Portfolio

As of December 31, 2008, we had investments in real estate and mortgage notes receivable in 123 health care facilities located in 17 states consisting of 83 long-term care facilities, 1 acute care hospital, 4 medical office buildings, 14 assisted living facilities, 4 retirement centers and 17 residential projects for the developmentally disabled. These investments consisted of approximately \$108,640,000 aggregate carrying value amount of loans to 14 borrowers and \$181,332,000 of real estate investments with 16 lessees.

Of these 123 facilities, 41 are leased to NHC, a publicly-held company and our largest customer. During 2008, our rental income totaled \$53,339,000 of which \$33,700,000 or 63% was from facilities leased by NHC. These 41 facilities include 4 centers subleased to and operated by other companies, the lease payments of which are guaranteed to us by NHC. NHC was our investment advisor until November 1, 2004.

Consistent with our strategy of diversification, we have increased our portfolio so that the portion of our real estate portfolio leased by NHC has been reduced from 100% of our total portfolio on October 17, 1991 (the date we began operations) to 19.7% of our total real estate portfolio on December 31, 2008, based on the net book value (carrying amount) of these properties. In 1991, these assets were transferred by NHC to us at their then current net book value in a non-taxable exchange. Many of these assets were substantially depreciated as a result of having been carried on NHC's books for as many as 20 years. As a result, we believe that the current fair market value of these assets is significantly in excess of their net book value. To illustrate, rental income in 2008 from NHC was \$33,700,000 or approximately 58.9% of our net book value of the facilities leased to NHC. Subsequent additions to the portfolio related to non-NHC investments reflect their higher value based on existing costs at the date the investment was made.

As with all assets in our portfolio, we monitor the financial and operating results of each of the NHC properties on a quarterly basis. In addition to reviewing the consolidated financial results of NHC, the individual center financial results are reviewed including their occupancy, patient mix, state survey results and other relevant information.

At December 31, 2008, 32% of the total invested assets of the Health Care Facilities were operated by publicly-held company operators, 58% by regional operators, and 10% by small operators.

The following tables summarize our portfolio at December 31, 2008 (excluding assets held for sale):

Portfolio Statistics			
	Properties	Investment Percentage	Investment
Real Estate Properties	72	62.5%	\$ 181,332,000
Mortgages and Notes Receivable	51	37.5%	108,640,000
Total Portfolio	123	100.0%	\$ 289,972,000
Real Estate Properties			
	Properties	Beds	Investment
Long Term Care Centers	49	6,788	\$ 102,264,000
Assisted Living Facilities	14	1,133	56,106,000
Medical Office Buildings	4	124,427 sq. ft.	9,140,000
Independent Living Facilities	4	458	7,531,000
Hospitals	1	55	6,291,000
Total Real Estate Properties	72		181,332,000
Mortgage Notes Receivable			
	Properties	Beds	Investment
Long Term Care Centers	34	3,581	104,890,000
Developmentally Disabled	17	108	3,750,000
Total Mortgage Notes Receivable	51		108,640,000
Total Portfolio	123		\$ 290,172,000
Summary of Facilities by Type			
	Properties	Investment Percentage	Investment
Long-term Care Centers	83	71.4%	\$ 207,154,000
Assisted Living Facilities	14	19.3%	56,106,000
Medical Office Buildings	4	3.2%	9,140,000
Independent Living Facilities	4	2.6%	7,531,000
Hospitals	1	2.2%	6,291,000
Developmentally Disabled	17	1.3%	3,750,000
Total Real Estate Portfolio	123	100.0%	\$ 289,972,000
Portfolio by Operator Type:			
	Properties	Investment Percentage	Investment
Public	65	32.1%	\$ 92,973,000
Regional	47	58.0%	168,263,000
Small	11	9.9%	28,736,000
Total Real Estate Portfolio	123	100.0%	\$ 289,972,000
Public Operators			
	Properties	Investment Percentage	Investment
National HealthCare Corp.		19.7%	\$ 57,217,000
Community Health Systems, Inc.		4.2%	12,282,000
Sunrise Senior Living, Inc.		4.1%	11,780,000
Sun Healthcare Group, Inc.		2.7%	7,944,000
Res-Care, Inc.		1.3%	3,750,000
Total Public Operators		32.0%	\$ 92,973,000

Operators who operate more than 3% of our total real estate investments are as follows: NHC, THI of Baltimore, Inc., Sunrise Senior Living, Inc., Health Services Management, Inc., Community Health Systems, Inc., ElderTrust of Florida, Inc., RGL Development, LLC, Senior Living Management Corporation, LLC, American HealthCare, LLC, and SeniorTrust of Florida, Inc.

As of December 31, 2008, the average effective annual rental income was \$5,723 per bed for long term care centers, \$6,373 per bed for assisted living facilities, \$3,945 per bed for independent living facilities, \$55,127 per bed for hospitals and \$13 per square foot for medical office buildings.

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 are invested for real estate purposes. At December 31, 2008, our investments in preferred and common shares of publicly-held REITs were \$55,425,000 and our investments in other available for sale marketable securities were \$9,301,000. Refer to Notes 5 and 6 of our consolidated financial statements for further information.

Areas of Focus

We anticipate making new investments in 2009 while continuing to monitor and improve our existing properties. We continue to cautiously evaluate new portfolio investments and monitor the current prices being offered for health care assets. However, even as we make new investments, we expect to maintain a relatively low level of debt compared to our equity. New investments may be funded by our liquid investments and, if needed, by external financing. We will make new investments where we believe the spreads over our cost of capital will generate returns to our investors.

We have focused on lowering our debt for the past five years. On July 16, 2007, we paid off our 7.3% unsecured notes totaling \$100 million when they matured. Our debt to equity ratio on December 31, 2008 was 0.93%, the lowest level in our history. Our liquidity is also strong with cash and marketable securities of \$126,836,000 exceeding our total debt outstanding of \$3,987,000 at December 31, 2008.

On December 27, 2005, we reached an agreement with NHC to extend through December 31, 2021 our current lease on 41 of our real estate properties. These 41 facilities include four centers which are subleased to other parties. This extension assures an ongoing relationship with our largest customer.

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:

1) Valuations and impairments to our investments - The majority of our tenants and borrowers are in the long-term health care industry and 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, the long-term health care industry has at times experienced material reductions in government reimbursement.

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

Decisions about valuations and impairments of our investments require significant judgments and estimates on the part of management. For real estate properties, the need to recognize an impairment is evaluated on a property by property basis in accordance with FASB Statement No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets" ("SFAS 144"). Recognition of an impairment is based upon estimated undiscounted future cash flows from a property compared to the carrying amount of the property and may be affected by management's plans, if any, to dispose of the property.

For notes receivable, impairment recognition is based upon an evaluation of the estimated collectibility of loan payments and general economic conditions on a specific loan basis in accordance with FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan - An Amendment of FASB Statements No. 5 and 15" ("SFAS 114"). On a quarterly basis, we review our notes receivable for realizability when events or circumstances, including the non-receipt of principal and interest payments, significant deteriorations of the financial condition of the borrower and significant adverse changes in general economic conditions, indicate that the carrying amount of the note receivable may not be recoverable. If necessary, impairment is

measured as the amount by which the carrying amount exceeds the 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 securities for other-than-temporary impairments consistent with the provisions of FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115") as amended by EITF 03-01 "The Meaning of Other-Than-Temporary Impairment and its Application to Certain Investments". An impairment of a marketable 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.

While we believe that the carrying amounts of our properties 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.

2) Revenue recognition - mortgage interest and rental income - 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 nonperforming 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 as required under FASB Statement No. 13 "Accounting for Leases" ("SFAS 13") 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 revenues, are considered to be contingent rentals and are excluded from minimum lease payments in accordance with SFAS 13.

3) REIT status and taxes - We believe that we have operated our business so as to qualify as a REIT under Sections 856 through 860 of the Code and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. 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.

Real Estate, Mortgage and Notes Receivable Write-downs (Recoveries)

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 costs of professional liability insurance have increased significantly during this same period.

Since the inception of our Company, a number of our facility operators and mortgage loan borrowers have experienced bankruptcy. Others have been forced to surrender properties to us in lieu of foreclosure or for certain periods failed to make timely payments on their obligations to us.

The following table summarizes our write-downs and recoveries for the last three years for both continuing and discontinued operations, recorded in accordance with the provisions of SFAS 114 and SFAS 144:

Write-downs (Recoveries) (in thousands)	Years ended December 31,		
	2008	2007	2006
Real estate	\$ 1,986	\$ —	\$ —
Mortgages & Notes Receivable (net)	—	(24,238)	(7,934)
	<u>\$ 1,986</u>	<u>\$ (24,238)</u>	<u>\$ (7,934)</u>

During 2008, we recorded an impairment charge of \$1,986,000 related to two Kansas facilities to reduce the carrying value of these facilities to fair value, less the cost of selling the facilities. One of the facilities, located in Hoisington, Kansas, was sold in November of 2008. We have classified the remaining facility as held for sale in the consolidated balance sheet and estimate the property will be sold within the next twelve months.

Subsequent to year-end, we received payment in full of one of our mortgage notes receivable which resulted in a recovery of amounts previously written down and other gains totaling \$1,234,000.

During 2007, two mortgage notes receivable were paid off, resulting in recoveries of amounts previously written down of \$23,000,000. In addition, a recovery from a previous write down of our investment in a mortgage investment pool amounted to \$1,238,000. The early payoff of the Health Services Management of Texas, LLC ("HSM") loan resulted in \$21,300,000 of recoveries of amounts previously written down in 2000, 2001, and 2002 due to significant non-payment issues with the original borrower. The original borrower and personal guarantor filed bankruptcy, then the facilities were sold to HSM. The new owner significantly improved the operations of the facilities due in large part to increased reimbursement rates to long-term care centers by the State of Texas. In 2007, HSM was able to obtain refinancing at a lower interest rate to pay off our notes.

During 2006, three mortgage notes receivable were paid off, resulting in recoveries of amounts previously written down of \$9,008,000. One working capital note with an outstanding balance of \$1,074,000 was written down due to non-payment.

See Note 4 to our consolidated financial statements for details of the properties identified as impaired real estate investments and non-performing loans. We believe that the carrying amounts of our real estate properties are recoverable and notes receivable are realizable (including those identified as impaired or non-performing) 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.

Security Writedowns and Recoveries

On December 10, 2007, we were notified by Bank of America that its largest, privately placed, enhanced cash fund called Columbia Strategic Cash Fund (the "Fund") would be closed and liquidated. In addition, (1) cash redemptions were temporarily suspended, although redemptions could be filled through a pro-rata distribution of the underlying securities consisting principally of high-quality corporate debt, mortgage-backed securities and asset-backed securities; (2) the Fund's valuation would be based on the market value of the underlying securities, whereas historically the Fund's valuation was based on amortized cost; and (3) interest would continue to accrue. The carrying value of our investment in the Fund on December 10, 2007 was \$38,359,000. Subsequent to December 10, 2007, and prior to December 31, 2007, we received a pro-rata distribution of underlying securities in the Fund as described above of \$14,382,000 and cash redemptions of principal totaling \$4,665,000. Realized losses on the distribution and redemption of securities and cash amounted to \$236,000. At December 31, 2007, the fair market value of our investment in the Fund was estimated to be \$18,835,000 and the fair market value of our investment in a separate Investment Management Account ("IMA") was estimated to be \$14,294,000 for a total of \$33,129,000. Unrealized losses measured as the difference between fair market value and our original investment, at cost, amounted to \$329,000 and was reflected as a component of stockholder's equity at December 31, 2007.

A decline in the market value of any available-for-sale 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 operations 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 a reporting date and forecasted performance of the investment. In 2008, we concluded there was an other-than-temporary impairment of the Fund and the IMA totaling \$2,065,000 which we charged to operations during the third and fourth quarters.

For the year ended December 31, 2008, we received cash redemptions of principal from the Fund and IMA totaling \$23,031,000. Exclusive of the other-than-temporary impairment charges of \$2,065,000, realized losses amounting to \$410,000 were charged to operations. In 2008, the fair market value of our investment in the Fund was estimated to be \$4,000,000 and the fair market value of our investment in the separate IMA was estimated to be \$3,953,000. Subsequent to year-end, we received cash redemptions of principal of \$707,000 from the Fund and \$865,000 from the IMA. There were no writedowns or recoveries relating to our investment in marketable securities in 2007 or 2006.

We are in regular communication with the manager of the Fund and the IMA in order to monitor the net asset value and the expected cash redemption dates based upon the manager's liquidation strategy. Cash redemptions are estimated by the Fund manager to occur periodically over the next two years. Interest continues to accrue and is paid to us each month into our regular bank account. There may be further declines in the value of our investments in the Fund and the IMA. To the extent that we determine there is a further decline in the fair market value based on up-to-date information provided to us by the Fund manager, we may recognize additional losses in future periods.

Acquisition of Real Estate

On September 26, 2008, we acquired for \$4,015,000 in cash the assets and liabilities of a nursing home facility in Orangeburg, SC consisting of land of \$300,000, buildings and improvements of \$3,715,000, and current assets and liabilities of \$1,022,000 each. The facility was simultaneously leased to a third party operator.

Disposition of Assets

We previously owned and operated 16 long-term health care facilities that we acquired through foreclosure or through the acceptance of deeds in lieu of foreclosure and subsequently sold the facilities (in 2001 and 2004) to unrelated not-for-profit entities, providing 100% financing (the "Foreclosure Properties"). While the original sales were recognized for tax purposes under the installment sale method, the operating revenues and expenses of these facilities continued to be recorded in the consolidated statements of income until such time as the down payment and continuing investment criteria of FASB Statement No. 66, "Accounting for Sales of Real Estate" ("SFAS 66") were met, at which time we would account for the sales under the full accrual method. No installment payments had been made by the borrowers. On December 31, 2007, the criteria for recording the sales were met. Net assets having a book value of \$54,350,000 were deconsolidated, mortgage notes receivable of \$66,819,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$12,469,000. On December 31, 2007, we received irrevocable bank letters-of-credit from the borrowers totaling \$10,200,000 to guarantee down payments on the original notes and commitments to make monthly principal and interest payments to us to amortize the remaining note balances. In January 2008, we received down payments on the notes receivable of \$19,100,000 and began receiving payments of principal and interest totaling \$417,000 each month.

Results of Operations

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

In accordance with SFAS 144, the results of operations for facilities included in assets held for sale or facilities sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

Net income for the year ended December 31, 2008 was \$57,510,000 versus \$96,435,000 in 2007, a decrease of 40.4% due primarily to the non-recurrence of the recoveries in 2007 of amounts previously written down of \$24,238,000 and net gains on the disposition and deconsolidation of assets of \$13,138,000. Fully diluted earnings per common share were \$2.07 in 2008 versus \$3.47 in 2007, a decrease of \$1.40 or 40.3%.

Total revenues from continuing operations for the year ended December 31, 2008 were \$63,005,000 versus \$62,158,000 in 2007, an increase of 1.4%. Our revenues consist of mortgage interest income from our borrowers and rental income from leases of our owned facilities. Mortgage interest income decreased \$1,642,000 or 14.5% due to the accelerated payment of principal by a large borrower and the payoff of a note having a principal balance of \$7,050,000 at maturity. Collections and prepayments during 2008 were \$33,015,000 versus \$59,118,000 in 2007. Rental income increased \$2,489,000 or 4.9% due mainly to better negotiated lease terms on renewal for our existing tenants which accounted for \$2,389,000 and rent income of \$100,000 from a tenant in our new Orangeburg, SC facility acquired on September 26, 2008. Rental income from our largest customer, NHC, was \$33,700,000 for 2008 and 2007, respectively. Our master lease with NHC includes a provision whereby NHC will pay 4% of the amount, if any, by which the gross revenue of each NHC facility exceeds the facility's revenue for the 2007 base year. We purchased the Orangeburg facility in 2008 and expect rental income of \$380,000 for 2009.

Total expenses (excluding loan and realty recoveries which are required to be shown as a reduction of expenses for financial statement purposes) were \$14,041,000 for the year ended December 31, 2008 versus \$20,851,000 for 2007, a decrease of 32.7% due primarily to lower interest expense. For 2008, interest expense was \$307,000 versus \$4,625,000 in 2007, a decrease of 93.4%. In July 2007, we paid in full our \$100 million unsecured public notes having an interest rate of 7.3%. Unless we increase our borrowings, we expect interest expense to decline further in 2009. For 2008, legal expense was \$1,598,000 versus \$1,079,000 in 2007, an increase of 48.1% due to the consideration of various strategic alternatives to enhance stockholder value in our common shares and expenses associated with a threatened lawsuit by one of our major customers, Care Foundation of America, Inc. For 2008, general and administrative expense was \$3,585,000 versus \$5,657,000 in 2007, a decrease of \$2,072,000 or 36.6% consisting primarily of \$1,863,000 related to the termination of our advisory agreement with MAS on March 31, 2008. We expect these expenses to increase during 2009 and thereafter as we replace officers who have resigned in 2008 and we complete our management team. Net loan and realty recoveries were reported as a decrease in expenses and amounted to \$24,238,000 in 2007 as two mortgage notes receivable were paid off, the largest recovery of \$21,300,000 being the payoff of the HSM-Texas note of \$44,500,000. Another recovery of \$1,700,000 related to the payoff of a mortgage note of

\$5,721,000 from a former American Medical Associates facility in Florida. A recovery from a previous write down of our investment in a mortgage investment pool amounted to \$1,238,000.

Non-Operating Income - 2008 vs. 2007

Non-operating income primarily includes dividends and interest on our investments in cash and marketable securities and realized gains and losses on sales of our marketable securities. Non-operating income was \$6,487,000 in 2008 versus \$12,464,000 in 2007, a 47.9% decrease due primarily to other than temporary impairments and realized losses of \$2,475,000 on marketable securities and a \$4,016,000 decrease in interest earnings on our bank deposits. The decline in interest earnings is due mainly to our payment in full in July 2007 of our \$100 million unsecured public notes and lower interest rates on bank deposits.

Discontinued Operations -

During 2008, management decided to sell two Kansas facilities for which the current lessee had defaulted on payment to us and had taken steps to close the facilities. There were no nursing home operators interested to lease the facilities. Therefore, we recorded an impairment charge of \$1,986,000 related to the two facilities to reduce the carrying value of these facilities to fair value, less the estimated cost to sell the facility. One of the facilities, located in Hoisington, Kansas, was sold in November 2008. We have classified the remaining facility as held for sale in the consolidated balance sheet and estimate the property will be sold within the next twelve months. In accordance with SFAS 144, the facility meets the accounting criteria as being held for sale and the results of its operations have been reported in the current and prior periods as discontinued operations in the Consolidated Statements of Income. The income (loss) from discontinued operations of these facilities for the year ended December 31, 2008 and 2007 was (\$2,044,000) and \$73,000, respectively.

In September 2008, we recognized into income for financial and tax purposes \$4,122,000 of deferred credits which existed at the date of sale in 2003 of two nursing home facilities in Washington. At the expiration of the five-year statute of limitations, management concluded, based on advice from counsel, that we were legally released from any potential liability settlements. The income from the discontinued operations of these facilities for the year ended December 31, 2008 and 2007 was \$4,104,000 and \$31,000, respectively.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

In accordance with SFAS 144, the results of operations for facilities included in assets held for sale or facilities sold, including the gain or loss on such sales, have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported net income.

Net income for the year ended December 31, 2007 was \$96,435,000 versus \$69,228,000 in 2006, an increase of 39.3% due primarily to the recoveries in 2007 of amounts previously written down of \$24,238,000 compared to \$7,934,000 in 2006, and net gains on the disposition and deconsolidation of assets of \$13,138,000 in 2007 compared to \$5,814,000 in 2006 (described more fully below). Fully diluted earnings per common share were \$3.47 in 2007 versus \$2.49 in 2006, an increase of \$.98 or 39.3%.

Total revenues for the year ended December 31, 2007 were \$62,158,000 versus \$60,770,000 in 2006, an increase of 2.3%. Our revenues consisted of mortgage interest income from our borrowers and rental income from leases of our owned facilities. Mortgage interest income decreased \$3,673,000 or 24.5% due to the increased collections and prepayments of our mortgage notes portfolio. Collections and prepayments during 2007 were \$59,118,000 versus \$36,517,000 in 2006. Rental income increased \$5,061,000 or 11.1% due mainly to negotiating better lease terms with new and existing tenants of our facilities which accounted for \$5,723,000, but was offset by the loss of \$662,000 in rental income from the two New Jersey facilities sold in 2006. Rental income from our largest customer, NHC, was \$33,700,000 and \$31,309,000 for 2007 and 2006, respectively.

Total expenses (excluding loan and realty recoveries which are required to be shown as reduction of expenses for financial statement purposes) were \$20,851,000 for the year ended December 31, 2007 versus \$22,817,000 for 2006, a decrease of 8.6% due primarily to lower interest expense. For 2007, interest expense was \$4,625,000 versus \$8,126,000 in 2006, a decrease of 43.1%. In July 2007, we paid in full our \$100 million unsecured public notes having an interest rate of 7.3%. Unless we increase our borrowings, we expect interest expense to decline further in 2008. For 2007, legal expense was \$1,079,000 versus \$582,000 in 2006, an increase of 85.4% due to the consideration of various strategic alternatives to enhance stockholder value in our common shares. Net loan and realty recoveries were reported as a decrease in expenses and amounted to \$24,238,000 in 2007 as two mortgage notes receivable were paid off, the largest recovery of \$21,300,000 being the payoff of the HSM-Texas note of \$44,500,000. Another recovery of \$1,700,000 related to the payoff of a mortgage note of \$5,721,000 from a former American Medical Associates facility in Florida. A recovery from a previous write down of our investment in a mortgage investment pool amounted to \$1,238,000. Loan and realty recoveries of \$9,008,000 in 2006 related to the payoff of three mortgage notes receivable, and were offset by a write down of \$1,074,000 on a note receivable due to non-payment. On December 3, 2007, we elected to become a self-managed REIT and notified our investment and administrative manager, MAS, of our intent to terminate our agreement effective March 31, 2008. We incurred management fees to MAS of \$3,625,000 in

2007 for their services. While we currently expect to be able to operate with a similar cost structure for general and administrative services in 2008, our plans are not yet finalized and we are unable to predict such costs fully.

Non-Operating Income – 2007 vs. 2006

Non-operating income primarily includes dividends and interest on our investments in cash and marketable securities and realized gains and losses on the sales of our marketable securities. Non-operating income is \$12,464,000 in 2007 versus \$12,721,000 in 2006, a 2.0% increase. In October 2007, we realized a gain on the sale of our 111,800 shares of NHR common stock when NHR was acquired by NHC. In exchange for each NHR share owned, shareholders received \$9 cash plus NHC convertible preferred stock having a value of \$13.66 per share. In October 2006, the payoff of mortgage loans on two former American Medical Associates facilities resulted in a gain of \$1,015,000.

Discontinued Operations -

On December 31, 2007, we recognized the sale of the Foreclosure Properties in New England, Missouri and Kansas and recorded mortgage notes receivable secured by the properties with a carrying value of \$66,819,000. The sale resulted in a net gain on sale and deconsolidation of \$12,469,000. The net carrying value of the assets and liabilities deconsolidated was \$54,350,000. The income from the discontinued operations of these facilities for the year ended December 31, 2007 and 2006 was \$3,575,000 and \$3,732, respectively.

In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of \$669,000. Net proceeds were \$2,288,000 and the carrying value of the property and equipment sold was \$1,619,000. The income (loss) from the discontinued operations of this facility for the year ended December 31, 2007 and 2006 was \$650,000 and (\$81,000), respectively.

In May 2006, we sold the Regal and Royal nursing facilities in New Jersey for net cash proceeds of \$17,570,000 and recognized a gain of \$5,690,000. The income from the discontinued operations of these facilities for the year ended December 31, 2006 was \$543,000.

In March 2006, we received \$5,482,000 from the sale by the current owner of a nursing facility in Town & Country, Missouri. The carrying amount of this facility was \$5,358,000. This property was sold in December 2004 to a not-for-profit entity and we provided 100% financing. As a result of having received final proceeds related to this facility during 2006, we recognized the December 2004 sale of this property and recognized a \$124,000 gain. The loss from the discontinued operations of this facility for the year ended December 31, 2006 was (\$172,000).

Liquidity and Capital Resources

Sources and Uses of Funds

Our primary sources of cash include rent and interest receipts, proceeds from the sales of real property and principal payments on notes receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property acquisitions and general and administrative expenses. 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	One Year Change		Two Year Change	
	12/31/08	12/31/07	Dollars	Percentage	Ended 12/31/06	Dollars	Percentage	Dollars	Percentage
Cash and cash equivalents at beginning of period	\$ 75,356	\$158,815	(\$83,459)	(53%)	\$109,519	\$49,296	45%	(\$34,163)	(31%)
Cash provided from (used in) operating activities	67,134	66,529	605	1%	57,805	8,724	15%	9,329	16%
Cash provided from (used in) investing activities	52,173	21,431	30,742	143%	51,170	(29,739)	(58%)	1,003	2%
Cash provided from (used in) financing activities	(94,421)	(171,419)	76,998	(45%)	(59,679)	(111,740)	187%	(34,742)	58%
Cash and cash equivalents at end of period	\$100,242	\$75,356	\$24,886	33%	\$158,815	(\$83,459)	(53%)	(\$58,573)	(37%)

Separate reporting of cash flows from discontinued operations in the consolidated statement of cash flows is not required under FASB Statement No. 95 "Statement of Cash Flows". Cash flows used in the discontinued operations of the Emporia and Hoisington, Kansas facilities during 2008 were \$3,000.

The notes to the consolidated financial statements describe the significant transactions that impact our cash flows from operating, investing and financing activities of the facilities during 2008.

Operating Activities – Net cash provided by operating activities generally includes our net income adjusted for non-cash items such as depreciation and amortization, working capital changes, investment write-downs and recoveries, gains/losses on the disposition of assets and share-based compensation. Net cash provided by operating activities was \$67,135,000 in 2008 versus \$66,529,000 in 2007, an increase of 1%. Net cash provided by operating activities in 2008 consists of net income of \$57,510,000, adjusted by depreciation of \$7,943,000, recognized real estate asset impairments of \$1,986,000, and net realized losses and writedowns of marketable securities of \$2,477,000, reduced primarily by working capital changes and smaller items totaling \$2,781,000. Working capital changes affecting cash were primarily due to the timing of payments of accounts payable and accrued expenses.

Net cash provided by operating activities during 2007 consisted of net income of \$96,435,000, and depreciation of \$11,751,000, reduced by loan and realty recoveries of \$24,238,000, net gains on the disposition and deconsolidation of assets of \$13,138,000, net gain on the sale of marketable securities of \$1,029,000, working capital changes of \$3,334,000, plus smaller items totaling \$82,000. Recoveries of amounts previously written down of \$23,000,000 related to the prepayment in full of two mortgage loans and a recovery of \$1,238,000 related to a final residual payment from a mortgage investment pool (see discussion above in Real Estate, Mortgage and Notes Receivable Write-downs/Recoveries). Net gains on the disposition and deconsolidation of assets and cash deconsolidated from discontinued operations relate to the recording of the original sales of the Foreclosure Properties, as the down payment and continuing investment criteria in SFAS 66 were met on December 31, 2007. Working capital changes affecting cash were primarily due to the timing of collections of receivables, the payments of accounts payable and the decrease in accrued interest payable due to the payoff at par of the principal and interest on our \$100 million unsecured public notes on July 16, 2007.

Net cash provided by operating activities during 2006 of \$57,805,000 consisted primarily of net income of \$69,228,000, and depreciation and amortization of \$12,026,000, reduced primarily by net loan and realty recoveries of \$7,934,000. Recoveries of amounts previously written down of \$9,008,000 related to the mortgage loan payoffs of three borrowers and were offset by one loan write down of \$1,074,000. There was a net gain on the sale of real estate of \$5,814,000 comprised of \$5,690,000 related to the sale of two New Jersey facilities and \$124,000 related to the sale of one Missouri facility. There was a gain on the payoff of a note receivable of \$1,015,000. Cash used in other operating activities was primarily due to the timing of payments of accounts payable and the increase in capital improvement reserves.

Investing Activities - Net cash provided by investing activities was \$52,173,000 in 2008 versus \$21,431,000 in 2007, an increase of 143.4%. Collections and prepayments on mortgages and other notes receivable in 2008 was \$33,015,000 and consisted of (1) a \$15,000,000 payment from ElderTrust of Florida, Inc., (2) a \$4,100,000 down-payment from SeniorTrust of Florida, Inc., (3) collection of \$7,050,000 as payment in full on a note from NHR, and (4) \$6,865,000 of routine collections. Cash used in the acquisition of the Orangeburg, SC facility amounted to \$4,015,000. Cash used for equipment purchases was \$33,000. Cash proceeds from the disposition of the Hoisington, KS facility amounted to \$42,000. During 2008, we made no new investments in mortgage or other notes receivable. Sales of marketable securities relate to transactions in an enhanced cash fund. We intend to make new investments in 2009 if such investments meet our risk profile and targeted investment returns.

Cash flows provided by investing activities during 2007 of \$21,431,000 included collections and prepayments on mortgages and other notes receivable totaling \$59,118,000 and consisted of (1) collections of \$5,681,000 as a result of the early payoff from one Florida-based nursing facility, (2) a \$3,500,000 payoff of a short-term real estate loan, (3) collections of \$44,192,000 in principal as a result of an early payoff from HSM (see discussion above in Real Estate, Mortgage and Notes Receivable Write-downs/Recoveries), and (4) \$5,745,000 of routine collections. Cash proceeds from the disposition of real estate amounted to \$2,337,000 due primarily from the sale of the Milwaukee, Wisconsin facility of \$2,288,000 and a partial land sale of \$49,000. The cash balance of the Foreclosure Properties deconsolidated at December 31, 2007 was \$14,079,000. During 2007, we made new investments in mortgage and other notes receivable of \$9,716,000 due primarily to our investment in acquiring NHC's interest in a loan receivable from a third party. Sales of marketable securities included the cash proceeds of \$1,007,000 from the sale of common shares of NHR in October 2007. Purchases and other sales of marketable securities relate to transactions in our enhanced cash fund.

Cash flows provided from investing activities during 2006 of \$51,170,000 included collections and prepayments on mortgage and other notes receivable totaling \$36,517,000 which consisted of early payoffs of \$19,664,000 from four borrowers and \$16,853,000 of routine collections related to scheduled maturities and settlements of existing loans. Dispositions of property and equipment provided \$24,215,000 of cash flow related to the sale of two New Jersey facilities for \$17,570,000 and a Missouri facility for \$6,645,000. Investments in mortgages and other notes receivable increased by \$11,063,000 due, primarily, to the funding of a note receivable from NHR in the original amount of \$10,450,000. Purchases and sales of marketable securities relate to transactions in an enhanced cash fund.

Financing Activities - Net cash used in financing activities was \$94,422,000 in 2008 versus \$171,419,000 in 2007. Cash of \$3,621,000 was used during 2008 to repurchase and retire 194,100 shares of our common stock. On April 29, 2008, our Board of Directors authorized the repurchase of up to 1,000,000 shares over the following twelve months. Cash paid in dividends were \$85,521,000 and included a special dividend of \$.85 per common share disbursed in January 2008. On January 30, 2009, we paid \$19,030,000 in dividends to stockholders. In 2009, we will consider the use of debt and equity securities to finance new real estate investments, though we may decide to use our available cash deposits for such investments.

Net cash used in financing activities in 2007 and 2006 consisted primarily of scheduled principal payments on debt of \$103,980,000 and \$3,760,000, respectively, and dividends paid to stockholders of \$67,439,000 and \$52,545,000, respectively. In 2006, cash of \$3,530,000 was used to repurchase and retire 146,200 shares of our common stock.

Liquidity

At December 31, 2008, our liquidity was strong, with cash and highly-liquid marketable securities of \$118,883,000 which is exclusive of \$7,953,000 invested in an enhanced cash fund and in a separate IMA containing positions in most of the same underlying securities (discussed above). Cash proceeds from loan payoffs and the recovery of previous write-downs have been distributed as dividends to stockholders, used to retire our indebtedness and accumulated in bank deposits for the purpose of making new mortgage loan and real estate investments. At December 31, 2008, we have a low level of remaining debt of \$3,987,000 and it is serviced through our normal operations. Our debt to book capitalization ratio has declined to 0.93%, the lowest level in our 17 year history.

Our liquidity in cash accounts and other readily marketable securities (traded on public exchanges) continues to increase from our normal operating cash flows from core business investments in leases and mortgage notes as shown in our consolidated financial statements. Our investment in the enhanced cash fund and separate IMA is not expected to have an affect on our ability to timely meet our obligations, to pay dividends to stockholders, or make prudent real estate investments when available (see discussion under Critical Accounting Policies above).

We intend to comply with REIT dividend requirements that we distribute at least 90% of our taxable income for the year ending December 31, 2008 and thereafter. We declared total annual dividends of \$2.42 per share to stockholders of record in 2008, \$2.85 to stockholders of record in 2007, and \$2.37 to stockholders of record in 2006. Dividends declared for the fourth quarter of each fiscal year are paid by the end of the following January and are treated for tax purposes as having been paid in the fiscal year just ended as provided in IRS Code Sec. 857(b)(8). The 2008, 2007 and 2006 dividends declared included special dividends of \$.22, \$.85 and \$.45 per common share, respectively.

Contractual Obligations and Contingent Liabilities

As of December 31, 2008, our contractual payment obligations and commitments were as follows:

*Contractual Obligations
(in thousands)*

	Total	Year 1	Years 2-3	Years 4-5	After 5 Years
Debt principal	\$ 3,987	\$ 1,392	\$ 1,845	\$ 490	\$ 260
Debt interest (a)	158	77	61	17	3
	<u>\$ 4,145</u>	<u>\$ 1,469</u>	<u>\$ 1,906</u>	<u>\$ 507</u>	<u>\$ 263</u>

(a) For variable rate debt, future interest commitments were calculated using interest rates existing at December 31, 2008.

Off Balance Sheet Arrangements

We currently have no outstanding guarantees or letters of credit. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. At December 31, 2008, we did not participate in any such financial instruments.

Commitments

At December 31, 2008 we had no pending commitments to fund health care real estate projects. We currently have sufficient liquidity to finance new investments and to repay borrowings at or prior to maturity.

Funds From Operations

Our basic and diluted funds from operations ("FFO") are \$65,207,000 for the year ended December 31, 2008, versus \$94,912,000 in 2007, a decrease of 31.3%. The decrease in FFO was primarily due to loan recoveries in 2007 of amounts previously written down of \$24,238,000, a decrease in depreciation of \$3,808,000 from 2007 related primarily to real estate sold, and an increase in 2008 of securities writedowns and realized losses of \$2,239,000. FFO represents net earnings available to

common stockholders, excluding the effects of asset dispositions, plus depreciation associated with real estate investments. Diluted FFO assumes, if dilutive, the conversion of convertible subordinated debentures, the conversion of cumulative convertible preferred stock and the exercise of stock options using the treasury stock method.

We believe that FFO is an important supplemental measure of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires straight-line 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, presentation 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. Our measure may not be comparable to similarly titled measures used by other REITs. Consequently, our funds from operations 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 FFO, caution should be exercised when comparing our FFO to that of other REITs. FFO in and of itself does not represent cash generated from operating activities in accordance with GAAP (FFO does 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 in the United States, as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

We have complied with the SEC's interpretation that impairments taken on real property may not be added back to net income in the calculation of FFO. The SEC's position is that impairments on real property are non-recurring and are not an appropriate adjustment.

The results of operations for facilities included in assets held for sale or facilities sold have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported FFO. The net gain on sale of real estate and the deconsolidation of the Foreclosure Properties previously consolidated due to the requirements of SFAS 66 is not an element of FFO in 2007.

The following table reconciles net income to FFO (*dollar amounts in thousands, except per share amounts*):

Year Ended December 31,	2008	2007	2006
Net income	\$ 57,510	\$ 96,435	\$ 69,228
Elimination of non-cash items in net income:			
Real estate depreciation	7,658	7,868	7,546
Real estate depreciation in discontinued operations	39	3,789	3,261
Gain on partial land sale – continuing operations	—	(42)	—
Gain on dispositions and deconsolidation – discontinued operations	—	(13,138)	(5,814)
Basic funds from operations available to common stockholders	<u>\$ 65,207</u>	<u>\$ 94,912</u>	<u>\$ 74,221</u>
Diluted funds from operations available to common stockholders	<u>\$ 65,207</u>	<u>\$ 94,912</u>	<u>\$ 74,221</u>
Basic funds from operations per share	\$ 2.35	\$ 3.43	\$ 2.68
Diluted funds from operations per share	2.35	3.42	2.67
Shares for basic funds from operations per share	27,706,106	27,703,464	27,744,868
Shares for diluted funds from operations per share	27,731,951	27,783,862	27,778,764

Impact of Inflation

Inflation may affect us in the future by changing the underlying value of our real estate or by impacting the cost of financing our operations. Our revenues are generated primarily from long-term investments and the operation of long-term care facilities. Inflation has remained relatively low during recent periods. There can be no assurance that future Medicare, Medicaid or private pay rate increases will be sufficient to offset future inflation increases. Certain of our leases require increases in rental income based upon increases in the revenues of the tenants.

New Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for the impact of new accounting standards.

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

Interest Rate Risk

Our cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less. Most of our mortgage and other notes receivable bear interest at fixed interest rates. Our investment in preferred stock represents an investment in the preferred stock of another REIT and yields dividends at a fixed rate of 8.5%. As a result of the short-term nature of our cash instruments and because the interest rates on our investments in notes receivable and preferred stock are fixed, a hypothetical 10% change in interest rates has no impact on our future earnings and cash flows related to these instruments.

As of December 31, 2008, \$3,987,000 of our debt bears interest at variable rates. A hypothetical 10% increase or decrease in interest rates would decrease or increase, respectively, our future earnings and cash flows related to these debt instruments by \$15,800.

We do not use derivative instruments to hedge interest rate risks. The future use of such instruments will be subject to strict approvals by our senior officers.

Equity Price Risk

We consider our investments in marketable securities of \$26,594,000 at December 31, 2008 as available-for-sale securities. We concluded that the decline in the market value of our investment in the Fund and separate IMA is an other-than-temporary impairment which was charged to operations. Increases and decreases in the fair market value of our investments in other marketable securities are unrealized gains and losses that are recorded in stockholders' equity in accordance with SFAS 115. The investments in marketable securities are recorded at their fair market value based on quoted market prices. Thus, there is exposure to equity price risk, which is the potential change in fair value due to a change in quoted market prices. 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 \$2,659,400 change in the fair value of our investments in marketable securities.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of National Health Investors, Inc. as of December 31, 2008 and 2007 and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. 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 presentation of the financial statements. 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, 2008 and 2007, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

We were also engaged to audit, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of National Health Investors, Inc.'s internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 23, 2009

NATIONAL HEALTH INVESTORS, INC.
Consolidated Balance Sheets
(In thousands, except share and per share amounts)

	December 31,	
	2008	2007
Assets		
Real estate properties:		
Land	\$ 26,310	\$ 26,314
Buildings and improvements	<u>284,596</u>	<u>283,093</u>
	310,906	309,407
Less accumulated depreciation	<u>(129,574)</u>	<u>(121,952)</u>
Real estate properties, net	181,332	187,455
Mortgage and other notes receivable, net	108,640	141,655
Investment in preferred stock, at cost	38,132	38,132
Cash and cash equivalents	100,242	75,356
Marketable securities	26,594	55,816
Accounts receivable, net	1,734	1,899
Assets held for sale, net	200	—
Deferred costs and other assets	<u>232</u>	<u>419</u>
Total Assets	<u>\$ 457,106</u>	<u>\$ 500,732</u>
Liabilities		
Notes and bonds payable	\$ 3,987	\$ 9,512
Accounts payable and other accrued expenses	4,359	7,479
Dividends payable	19,030	37,466
Deferred income	<u>115</u>	<u>137</u>
Total Liabilities	<u>\$ 27,491</u>	<u>\$ 54,594</u>
Commitments and Contingencies		
Stockholders' Equity		
Common stock, \$.01 par value; 40,000,000 shares authorized; 27,580,319 and 27,752,239 shares issued and outstanding, respectively	276	278
Capital in excess of par value	458,911	462,278
Cumulative net income	836,382	778,872
Cumulative dividends	<u>(876,742)</u>	<u>(809,658)</u>
Unrealized gains on marketable securities	10,788	14,368
Total Stockholders' Equity	<u>429,615</u>	<u>446,138</u>
Total Liabilities and Stockholders' Equity	<u>\$ 457,106</u>	<u>\$ 500,732</u>

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

NATIONAL HEALTH INVESTORS, INC.
Consolidated Statements of Income
(In thousands, except share and per share amounts)

	Year Ended December 31,		
	2008	2007	2006
Revenues:			
Rental income	\$ 53,339	\$ 50,850	\$ 45,789
Mortgage interest income	9,666	11,308	14,981
	<u>63,005</u>	<u>62,158</u>	<u>60,770</u>
Expenses:			
Interest expense	308	4,625	8,126
Depreciation	7,888	8,192	8,365
Amortization of loan costs	15	75	135
Legal expense	1,598	1,079	582
Franchise, excise, and other taxes	647	273	204
General and administrative	3,585	5,657	5,328
Loan and realty losses (recoveries)	—	(24,238)	(7,934)
	<u>14,041</u>	<u>(4,337)</u>	<u>14,806</u>
Income before non-operating income	48,964	66,495	45,964
Non-operating income (investment interest and other)	6,487	12,464	12,721
Income from continuing operations	55,451	78,959	58,685
Discontinued operations			
Income from operations - discontinued	2,059	4,338	4,729
Net gain on dispositions and deconsolidation	—	13,138	5,814
Income from discontinued operations	2,059	17,476	10,543
Net income	<u>\$ 57,510</u>	<u>\$ 96,435</u>	<u>\$ 69,228</u>
Weighted average common shares outstanding:			
Basic	27,706,106	27,703,464	27,744,868
Diluted	27,731,951	27,783,862	27,778,764
Earnings per share:			
Basic:			
Income from continuing operations	\$ 2.00	\$ 2.85	\$ 2.12
Discontinued operations	.08	.63	.38
Net income per common share	<u>\$ 2.08</u>	<u>\$ 3.48</u>	<u>\$ 2.50</u>
Diluted:			
Income from continuing operations	\$ 2.00	\$ 2.84	\$ 2.11
Discontinued operations	.07	.63	.38
Net income per common share	<u>\$ 2.07</u>	<u>\$ 3.47</u>	<u>\$ 2.49</u>

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

NATIONAL HEALTH INVESTORS, INC.
Consolidated Statements of Cash Flows
(In thousands)

	Year Ended December 31,		
	2008	2007	2006
Cash flows from operating activities:			
Net income	\$ 57,510	\$ 96,435	\$ 69,228
Adjustments to reconcile net income to net cash provided from			
operating activities:			
Depreciation	7,943	11,751	12,026
Provision for loan and realty losses (recoveries)	—	(24,238)	(7,934)
Impairment of real estate assets in discontinued operations	1,986	—	—
Net gain on dispositions and deconsolidations of discontinued operations	—	(13,138)	(5,814)
Gain on asset disposals in non-operating income	—	(42)	—
Gain on notes receivable	—	(468)	(1,015)
Share-based compensation	7	543	519
Other-than-temporary impairment of marketable securities	2,065		
Net realized loss (gain) on sales of marketable securities	410	(1,029)	—
Amortization of loan costs	15	75	135
Amortization of deferred income	(22)	(26)	(217)
Changes in operating assets and liabilities:			
Accounts receivable	167	(204)	(629)
Deferred costs and other assets	173	(618)	(3,057)
Accounts payable and other accrued expenses	(3,120)	(2,512)	(5,437)
Net cash provided by operating activities	<u>67,134</u>	<u>66,529</u>	<u>57,805</u>
Cash flows from investing activities:			
Investment in mortgage and other notes receivable	—	(9,716)	(11,063)
Collection of mortgage and other notes receivable	33,015	9,245	16,853
Prepayment of mortgage notes receivable	—	49,873	19,664
Acquisition of real estate properties	(4,048)	(2,491)	(2,499)
Disposition of real estate properties	42	2,337	24,215
Cash balances deconsolidated from discontinued operations	—	(14,079)	—
Purchases of marketable securities	—	(351,747)	(478,176)
Sales of marketable securities	23,164	338,009	482,176
Net cash provided by investing activities	<u>52,173</u>	<u>21,431</u>	<u>51,170</u>
Cash flows from financing activities:			
Payments on notes and bonds	(5,525)	(103,980)	(3,760)
Redemption of convertible subordinated debentures	—	—	(201)
Dividends paid to stockholders	(85,520)	(67,439)	(52,545)
Stock options exercised	245	—	—
Repurchase of common stock	(3,621)	—	(3,530)
Sale of common stock	—	—	357
Net cash used in financing activities	<u>(94,421)</u>	<u>(171,419)</u>	<u>(59,679)</u>
Increase (decrease) in cash and cash equivalents	24,886	(83,459)	49,296
Cash and cash equivalents, beginning of year	75,356	158,815	109,519
Cash and cash equivalents, end of year	<u>\$ 100,242</u>	<u>\$ 75,356</u>	<u>\$ 158,815</u>

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

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

	Common Stock		Capital in	Cumulative Net Income	Cumulative Dividends	Unrealized (Losses) Gains on Marketable Securities	Total Stockholders' Equity
	Shares	Amount	Excess of Par Value \$				
Balances at December 31, 2005	27,830,439	\$ 278	464,389	\$ 613,209	(\$664,730)	\$ 11,822	\$ 424,968
Comprehensive income:							
Net income	—	—	—	69,228	—	—	69,228
Unrealized gains on marketable securities	—	—	—	—	—	5,961	5,961
Total comprehensive income							75,189
Shares repurchased and retired	(146,200)	(1)	(3,529)	—	—	—	(3,530)
Shares issued:							
Stock options exercised	15,000	—	357	—	—	—	357
Restricted stock	53,000	1	(1)	—	—	—	—
Share-based compensation	—	—	519	—	—	—	519
Cash dividends:							
Dividends to common stockholders, \$2.37 per share	—	—	—	—	(65,832)	—	(65,832)
Balances at December 31, 2006	27,752,239	278	461,735	682,437	(730,562)	17,783	431,671
Comprehensive income:							
Net income	—	—	—	96,435	—	—	96,435
Other comprehensive income:							
Unrealized holding loss arising during period						(2,386)	(2,386)
Less: reclassification adjustment for gains included in net income	—	—	—	—	—	(1,029)	(1,029)
Net loss recognized in other comprehensive income						(3,415)	(3,415)
Total comprehensive income							93,020
Share-based compensation	—	—	543	—	—	—	543
Cash dividends:							
Dividends to common stockholders, \$2.85 per share	—	—	—	—	(79,096)	—	(79,096)
Balances at December 31, 2007	27,752,239	278	462,278	778,872	(809,658)	14,368	446,138
Comprehensive income:							
Net income	—	—	—	57,510	—	—	57,510
Other comprehensive income:							
Unrealized holding loss arising during period						(6,055)	(6,055)
Less: reclassification adjustment for losses included in net income	—	—	—	—	—	2,475	2,475
Net loss recognized in other comprehensive income						(3,580)	(3,580)
Total comprehensive income							53,930
Shares repurchased and retired	(194,100)	(2)	(3,619)	—	—	—	(3,621)
Shares issued:							
Stock options exercised	51,680	—	245	—	—	—	245
Restricted stock grants	25,000	—	—	—	—	—	—
Restricted stock forfeitures	(54,500)	—	—	—	—	—	—
Share-based compensation	—	—	7	—	—	—	7
Cash dividends:							
Dividends to common stockholders, \$2.42 per share	—	—	—	—	(67,084)	—	(67,084)
Balances at December 31, 2008	27,580,319	\$ 276	458,911	\$ 836,382	(\$876,742)	\$ 10,788	\$ 429,615

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

NATIONAL HEALTH INVESTORS, INC.
Notes to Consolidated Financial Statements

NOTE 1. ORGANIZATION

National Health Investors, Inc. ("NHI" or the "Company"), a Maryland corporation incorporated on July 24, 1991, is a real estate investment trust ("REIT"). Our revenue is derived primarily from interest income on mortgage loans, rent generated on leased properties and income on other investments. We invest in health care properties including long-term care centers, acute care hospitals, medical office buildings, assisted living facilities and retirement centers. These properties are located in 17 states throughout the U.S. and are operated by qualified health care providers.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The consolidated financial statements include our accounts and our subsidiaries, all of which are wholly-owned. Significant intercompany balances and transactions have been eliminated.

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

Real Estate Properties - We record properties at cost, including capitalized interest during construction periods. We use the straight-line method of depreciation for buildings and improvements over their estimated useful lives as follows:

Buildings	40 years
Improvements	3 to 25 years

In accordance with Financial Accounting Standards Board ("FASB") Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), 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 is based on estimated undiscounted future cash flows from a property compared to the carrying value of that property. If recognition of an impairment is necessary, it is measured as the amount by which the carrying amount of the property exceeds the fair value of the property. In accordance with SFAS 144, the results of operation of facilities sold have been retrospectively reported in discontinued operations for the current and prior periods shown since their operations and cash flows can be clearly distinguished operationally. There is no change to reported net income for the prior periods as a result of this standard.

Mortgage and Other Notes Receivable - In accordance with FASB Statement No. 114, "Accounting by Creditors for Impairment of a Loan - An Amendment of FASB Statements No. 5 and 15" ("SFAS 114"), we evaluate the carrying values of our mortgage and other notes receivable on an instrument-by-instrument basis. On a quarterly basis, we review our notes receivable for recoverability when events or circumstances, including the non-receipt of 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, 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.

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. Therefore, we will not be subject to federal income tax provided we distribute at least 90% of our REIT taxable income to our stockholders and meet other requirements to continue to qualify as a REIT. Accordingly, no provision for federal income taxes has been made in the consolidated financial statements. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on our financial position, results of operations and cash flows.

Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the basis of assets, recognition of commitment fees, estimated useful

lives used to compute depreciation expense and in the treatment of accrued interest expense that existed at the time debentures were converted to common stock.

Our tax returns filed for years beginning in 2005 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 general and administrative expense.

Concentration of Credit Risks - Our credit risks primarily relate to cash and cash equivalents, investments in high yielding cash funds, and investments in preferred stock, mortgages 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 exceed federally-insured limits. We have not experienced any losses in such accounts. Our mortgage and other notes receivable consists primarily of secured loans with health care facilities as discussed in Note 4. The investment in preferred stock is in one entity as discussed in Note 5. High yielding cash funds, also known as enhanced cash funds, are invested primarily in corporate debt, mortgage-backed securities, and asset-backed securities, as described in Note 6.

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 first 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. See Notes 4, 5, and 6 for additional information on notes receivable, investment in preferred stock, and investment in enhanced cash funds.

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 in accordance with FASB No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). We evaluate our marketable securities for other-than-temporary impairments consistent with the provisions of SFAS 115. 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 financings are amortized by the effective interest method over the term of the related debt.

Deferred Income - Deferred income primarily includes non-refundable loan commitment fees received by us, which are amortized into income by the effective interest method over the expected period of the related loans. In the event that a potential borrower chooses not to borrow funds from us, the related commitment fees are recognized into income when the commitment expires.

In management's opinion, these loan commitment fees approximate the loan commitment fees that we would currently charge to enter into similar agreements based on the terms of the agreements and the creditworthiness of the parties, and the committed interest rates are approximately the same as current levels of interest rates.

Rental Income - Base rental income is recognized on a straight-line basis over the term of the lease. Under certain of our leases, we receive additional contingent rent, which is based on the increase in revenues of a 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 assured since the target threshold has been achieved. Revenue from minimum lease payments under our leases is recognized on a straight-line basis as required under FASB Statement No. 13 "Accounting For Leases" ("SFAS 13") 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 revenues, are considered to be contingent rentals and are excluded from minimum lease payments in accordance with SFAS 13.

We identify leases 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.

Mortgage Interest Income - Mortgage interest income is recognized by us based on the interest rates and principal amounts outstanding of the mortgage notes receivable. Under certain of our mortgages, we receive additional contingent interest, which is based on the increase in the current year revenues of a borrower over a base year. We recognize contingent interest income annually when, based on the actual revenues of the borrower, receipt of such income is assured since the target threshold has been achieved. We identify loans 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. At December 31, 2008, we had one non-performing loan with a principal balance of \$22,936,000.

Investment Interest and Other Income - Investment interest and other income includes dividends when declared and interest when earned from investments in preferred stock and marketable securities, realized gains and losses on sales of marketable securities using the specific-identification method, interest on cash and cash equivalents and amortization of deferred income.

Stock-Based Compensation - We account for stock-based compensation arrangements under FASB Statement 123 (Revised 2004) "Share-Based Payments" ("SFAS 123(R)"). See Note 11 for additional disclosures about our stock-based compensation.

Comprehensive Income - FASB Statement No. 130, "Reporting Comprehensive Income", requires that changes in the amounts of certain items, including unrealized gains and losses on certain securities, be shown in the consolidated financial statements. We report our comprehensive income in the consolidated statements of stockholders' equity.

Segment Disclosures - FASB Statement No. 131, "Disclosures About Segments of an Enterprise and Related Information", establishes standards for the manner in which public business enterprises report information about operating segments. We are in the business of owning and financing health care properties. We are managed as one reporting unit, rather than multiple reporting units, for internal purposes and for internal decision making. Therefore, we have concluded that we operate as a single segment.

New Accounting Pronouncements - In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" ("SFAS 157"). This standard defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 was effective for our Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position 157-2 - "Effective Date of FASB Statement No. 157", which delayed the effective date of SFAS No. 157 until January 1, 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for our financial assets and liabilities did not have a material impact on our consolidated financial position or results of operations. We do not expect the adoption of SFAS No. 157 for our nonfinancial assets and liabilities, effective January 1, 2009, will have a material impact on our consolidated financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115" ("SFAS 159"). This standard amends FASB Statement No. 115, "Accounting for Certain Investment in Debt and Equity Securities," with respect to accounting for a transfer to the trading category for all entities with available-for-sale and trading securities electing the fair value option. This standard allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. SFAS 159 was effective for fiscal years beginning after January 1, 2008. The implementation of SFAS 159 did not have a material impact on our consolidated financial position or results of operations.

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51" ("SFAS 160"). This standard amends Accounting Research Bulletin No. 51 "Consolidated Financial Statements," and FASB Statement No. 128, "Earnings Per Share." A noncontrolling interest is defined in SFAS No. 160 as a portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The standard states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We currently have no investments with minority interests.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), "*Business Combinations*" ("SFAS 141(R)", which changes the accounting for business combinations including the following: (i) the measurement of acquirer shares issued in consideration for a business combination, (ii) the recognition of contingent consideration, (iii) the accounting for preacquisition gain and loss contingencies, (iv) the recognition of capitalized in-process research and development, (v) the accounting for acquisition-related restructuring cost accruals, (vi) the treatment of acquisition related transaction costs, and (vii) the recognition of changes in the acquirer's income tax valuation allowance. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Early adoption is prohibited. Accordingly, we are required to record and disclose business combinations, if any, following existing generally accepted accounting principles until January 1, 2009. We do not expect the adoption of SFAS 141(R) to have an impact on our consolidated financial position, results of operations, or cash flows.

In May 2008, the FASB issued Statement No. 162, "*the Hierarchy of Generally Accepted Accounting Principles*" ("SFAS 162") which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States ("the GAAP hierarchy"). The current GAAP hierarchy is set forth in the AICPA Statement on Auditing Standards No. 69, "*The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*" ("SAS No. 69"). The FASB believes the GAAP hierarchy should be directed to entities because it is the entity (not the auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and has issued SFAS 162 to achieve that result. SFAS 162 is effective 60 days following the SEC's approval of the Public Accounting Oversight Board amendments to SAS No. 69. We do not expect the adoption of SFAS 162 to have an impact on our consolidated financial position, results of operations, or cash flows.

NOTE 3. REAL ESTATE

The following table summarizes our real estate properties by type of facility and by state as of December 31, 2008 and 2007 (excluding assets held for sale):

(Dollar amounts in thousands)

2008

Facility Type and State	Number of Facilities	Land	Buildings, Improvements & Construction in Progress	Accumulated Depreciation	Mortgage Notes Payable
<i>Long-Term Care:</i>					
Alabama	2	\$ 95	\$ 5,165	\$ 3,399	\$ —
Arizona	1	453	6,678	2,236	1,400
Florida	4	2,306	37,436	21,551	—
Georgia	1	52	865	820	—
Idaho	1	122	2,491	834	—
Kentucky	2	231	2,182	1,556	—
Missouri	5	1,165	23,070	13,962	1,225
South Carolina	4	872	15,241	8,050	—
Tennessee	20	1,835	41,335	26,921	—
Texas	8	2,280	47,408	10,827	—
Virginia	1	176	2,510	1,550	1,362
Total Long-Term Care	49	9,587	184,381	91,706	3,987
<i>Acute Care:</i>					
Kentucky	1	540	10,163	4,412	—
Total Acute Care	1	540	10,163	4,412	—
<i>Medical Office Buildings:</i>					
Florida	1	165	3,349	1,754	—
Illinois	1	—	1,925	559	—
Texas	2	631	9,677	4,294	—
Total Medical Office Buildings	4	796	14,951	6,607	—
<i>Assisted Living:</i>					
Arizona	4	1,757	13,622	3,376	—
Florida	4	7,096	21,543	9,584	—
New Jersey	1	4,229	13,030	4,977	—
Pennsylvania	1	439	3,960	330	—
South Carolina	1	344	2,877	716	—
Tennessee	3	871	7,061	1,739	—
Total Assisted Living	14	14,736	62,093	20,722	—
<i>Retirement Centers:</i>					
Idaho	1	243	4,182	1,376	—
Missouri	1	344	3,181	1,868	—
Tennessee	2	64	5,645	2,883	—
Total Retirement Centers	4	651	13,008	6,127	—
Total	72	\$ 26,310	\$ 284,596	\$ 129,574	\$ 3,987

2007

Facility Type and State	Number of Facilities	Land	Buildings, Improvements & Construction in Progress	Accumulated Depreciation	Mortgage Notes Payable
<i>Long-Term Care:</i>					
Alabama	2	\$ 95	\$ 5,165	\$ 3,298	\$ —
Arizona	1	453	6,678	2,055	1,590
Florida	4	2,306	37,437	20,374	641
Georgia	1	52	865	787	—
Idaho	1	122	2,491	768	—
Kansas	1	305	2,247	267	—
Kentucky	2	231	2,182	1,472	—
Missouri	5	1,165	23,070	13,255	1,725
South Carolina	3	572	11,527	7,727	—
Tennessee	20	1,835	41,297	25,769	—
Texas	8	2,280	47,409	9,560	—
Virginia	1	176	2,510	1,478	1,755
Total Long-Term Care	49	9,592	182,878	86,810	5,711
<i>Acute Care:</i>					
Kentucky	1	540	10,163	4,116	—
Total Acute Care	1	540	10,163	4,116	—
<i>Medical Office Buildings:</i>					
Florida	1	165	3,349	1,669	—
Illinois	1	—	1,925	505	—
Texas	2	631	9,677	4,016	—
Total Medical Office Buildings	4	796	14,951	6,190	—
<i>Assisted Living:</i>					
Arizona	4	1,757	13,622	3,035	—
Florida	4	7,095	21,544	8,937	—
New Jersey	1	4,229	13,030	4,659	—
Pennsylvania	1	439	3,960	231	—
South Carolina	1	344	2,877	644	—
Tennessee	3	871	7,062	1,562	—
Total Assisted Living	14	14,735	62,095	19,068	—
<i>Retirement Centers:</i>					
Idaho	1	243	4,182	1,265	—
Missouri	1	344	3,181	1,775	—
Tennessee	2	64	5,643	2,728	—
Total Retirement Centers	4	651	13,006	5,768	—
Total	72	\$ 26,314	\$ 283,093	\$ 121,952	\$ 5,711

Certain of our real estate properties are pledged as collateral on individual mortgage notes payable, as noted in the tables above.

Foreclosure Properties

We have previously treated the New England, Kansas and Missouri properties described below as foreclosure properties for federal income tax purposes. With certain elections, unqualified income generated by the properties is expected to be treated as qualified income for up to six years from the purchase date for purpose of the income-source tests that must be satisfied by REITs to maintain their tax status. All of the properties have been recognized as sold or disposed of for tax purposes. However, as described below, the operations of the New England, Kansas and Missouri properties continued to be included in our consolidated financial statements until their sale for financial reporting purposes effective December 31, 2007, at which time they became classified as discontinued operations.

New England Properties - During 1999, we assumed the operations of seven New England facilities. During 2001, we sold these properties to a not-for-profit entity and provided 100% financing consisting of 6.9% first mortgage proceeds totaling \$40,526,000, maturing in August 2011. For financial reporting purposes, we did not record the sale of the assets, and continued to record the results of operations of these properties each period up until December 31, 2007 as described below. For tax reporting purposes, the sale had been recognized in 2001 with gain on sale to be recorded under the installment method as cash payments are received. For financial reporting purposes, sale proceeds received from the buyer would be reported as a deposit until the down payment and continuing investment criteria of FASB No. 66, "Accounting for Sales of Real Estate" ("SFAS 66") were met, at which time we would report the sale under the full accrual method. Prior to December 31, 2007, no installment payments had been made by the borrower. On December 31, 2007, the criteria for recording the sale were met. Net assets having a book value of \$39,411,000 were deconsolidated, mortgage notes receivable of \$40,526,000 were recorded, and a net gain of \$1,115,000 on the sale and deconsolidation of these assets was recognized and retrospectively recorded as discontinued operations. We received an irrevocable bank letter of credit from the borrower of \$6,100,000 on December 31, 2007 to guarantee the down payment on the notes (which we received on January 18, 2008, along with an additional down payment of \$8,900,000, all of which came from the borrower's bank accounts) and a commitment from the borrower to make monthly principal and interest payments to us beginning in January 2008 in an annual amount aggregating \$3,700,000 to amortize the loan. Our continuing involvement with these facilities is solely as a creditor. The facilities are currently managed by subsidiaries of NHC.

The results of operations for the New England facilities have been reclassified to retrospectively reflect the disposition of these facilities as discontinued operations for all periods presented. Amounts included in operating income of discontinued operations applicable to the New England facilities are summarized as follows (*in thousands*):

	Year Ended December 31,	
Income Statement:	2007	2006
Facility operating revenue	\$ 57,869	\$ 56,391
Facility operating expenses	52,998	51,125
Interest expense	4	9
Depreciation	2,753	2,682
Total Expenses	<u>55,755</u>	<u>53,816</u>
Net income	<u>\$ 2,114</u>	<u>\$ 2,575</u>

Kansas and Missouri Properties - In July 2001, we assumed the operations of eight nursing homes in Kansas and Missouri and have included the operating results of these facilities in our consolidated financial statements since that date. During 2004, we sold the properties to a not-for-profit entity for \$26,293,000 and provided 100% financing. Proceeds consisted of an 8.5% note for \$16,513,000 maturing December 31, 2014 and a note for \$9,780,000 with interest at 3% through December 31, 2007 and at prime plus 1% thereafter, maturing December 31, 2014. For financial reporting purposes, we did not record the sale of the assets and continued to record the results of operations of these properties each period up until December 31, 2007 as described below. For tax reporting purposes, the sale had been recognized in 2004 with gain on sale to be recorded under the installment method as cash payments are received. For financial reporting purposes, sale proceeds received from the buyer would be reported as a deposit until the down payment and continuing investment criteria of SFAS 66 were met, at which time we would account for the sale under the full accrual method. Prior to December 31, 2007, no installment payments had been made by the borrower. On December 31, 2007, the criteria for recording the sale were met. Net assets having a book value of \$14,939,000 were deconsolidated, mortgage notes receivable of \$26,293,000 were recorded, and a net gain on the sale and deconsolidation of these assets was recognized of \$11,354,000 and retrospectively recorded as discontinued operations. We received an irrevocable bank letter of credit of \$4,100,000 on December 31, 2007 from the borrower to guarantee the down payment on the notes (which we received on January 18, 2008 from the borrower's bank accounts) and a commitment from the borrower to make monthly principal and interest payments to us beginning in January 2008 in an annual amount aggregating \$1,300,000 to amortize the

loan. Our continuing involvement with these facilities is solely as a creditor. The facilities are currently managed by subsidiaries of NHC.

In July 2001, we assumed the operations of a nursing facility known as Town & Country, Missouri. In December 2004, we sold the property to a not-for-profit entity and provided 100% financing. During 2006, the facility was sold by the owner and we received \$5,482,000 in cash as full payment. The carrying amount of this facility was \$5,358,000 composed of net realty of \$6,520,000, reduced by net liabilities of \$1,162,000. As a result of having received final proceeds related to this facility, we recorded the December 2004 sale of this property and recognized a \$124,000 gain in 2006, at which time we retrospectively classified the operations of the facility as discontinued operations.

The results of operations for the Kansas and Missouri facilities have been reclassified to retrospectively reflect the disposition of these facilities as discontinued operations for all periods presented. Amounts included in operating income of discontinued operations applicable to the Kansas and Missouri facilities are summarized as follows (*in thousands*):

Income Statement:	Year Ended December 31,	
	2007	2006
Facility operating revenue	\$ 35,474	\$ 35,331
Facility operating expenses	33,295	33,498
Interest (income) expense	3	(4)
Depreciation	715	727
Total expenses	<u>34,013</u>	<u>34,221</u>
Net income	\$ <u>1,461</u>	\$ <u>1,110</u>

Acquisition of Orangeburg, SC facility

In September 2008, we acquired for \$4,015,000 in cash the assets of a nursing home facility in Orangeburg, SC consisting of land of \$300,000, buildings and improvements of \$3,715,000, and current assets and liabilities of \$1,022,000 each. The facility was simultaneously leased to a third party operator.

Assets Held for Sale

During 2008, management decided to sell two Kansas facilities for which the current lessee had defaulted on payment to us and had taken steps to close the facilities. There were no nursing home operators interested to lease the facilities. Therefore, we recorded an impairment charge of \$1,986,000 related to the two facilities to reduce the carrying value of these facilities to fair value, less the estimated cost to sell the facility. One of the facilities, located in Hoisington, Kansas, was sold in November 2008. We have classified the remaining facility as held for sale in the consolidated balance sheet and in February 2009 we received a purchase contract for the facility in an amount that will not result in a material loss from our current carrying value. In accordance with SFAS 144, the facility meets the accounting criteria as being held for sale and the results of its operations have been reported in the current and prior periods as discontinued operations in the Consolidated Statements of Income.

NOTE 4. MORTGAGE AND OTHER NOTES RECEIVABLE

The following is a summary of mortgage and other notes receivable by type (*dollar amounts in thousands*):

	December 31,	
	2008	2007
Mortgage loans	\$ 108,640	\$ 134,605
Other loans - NHC	—	7,050
	\$ <u>108,640</u>	\$ <u>141,655</u>

The following is a summary of the terms and amounts of mortgage and other notes receivable (*dollar amounts in thousands*):

Final Payment Date	Number of Loans	Payment Terms in 2008	Original Face Amount of Mortgage(s)	December 31,	
				2008	2007
2008	1	Monthly payment of \$352, including interest at 9.5% Balloon payment due at maturity.	\$ 32,708	\$ 22,936	\$ 26,518
2009	1	Monthly payment of interest only at Prime plus 2.0% (5.25% at December 31, 2008)	300	83 (1)	132
2009	1	Monthly payment of \$50, including interest at 10% Balloon payment due at maturity.	5,196	3,750	3,949
2009	1	Monthly payment of \$70, including interest at 9.5% Balloon payment due at maturity.	7,900	6,628	6,817
2013	1	Monthly payment of \$22, including interest at 6.5% Balloon payment at maturity.	5,158	801 (1)	869
2010	1	Monthly payment of \$120, including interest at 9.0% Balloon payment due at maturity.	12,162	8,463 (1)	8,628
2019	1	Monthly payment of interest only 9.0%	2,500	2,500	2,500
2027-2032	7	Monthly payments of \$19 to \$32, which include interest ranging from 8.0 to 9.6%	20,774	18,137	18,373
2011	8	Monthly payments of \$9 to \$69, which include interest at 6.9% (An irrevocable letter-of-credit guaranteed \$6.1 million of principal at December 31, 2007)	40,526	23,458	40,526
2014	8	Monthly payments of \$8 to \$25, which includes interest at 8.5% (An irrevocable letter-of-credit guaranteed \$4.1 million of principal at December 31, 2007), and includes \$9.7 million with interest at 3.0% due at maturity	26,293	21,884	26,293
Term Loans 2008	1	Monthly payment of interest only at LIBOR plus 1% in addition to quarterly principal payments of \$425.	10,450	—	7,050
			<u>\$ 163,967</u>	<u>\$ 108,640</u>	<u>\$ 141,653</u>

(1) Loan is currently on non-accrual status. We recognize interest income in the period in which cash is received.

The mortgage notes receivable are secured by first mortgages on the real property and UCC liens on the personal property of the facilities. Certain of the notes receivable are also secured by guarantees of significant parties and by cross-collateralization on properties with the same respective owner.

National HealthCare Corporation ("NHC") – On May 4, 2007, we exercised our right to call NHC's participation (approximately 22%) with us in a mortgage loan with Care Foundation of America, Inc. ("CFA") in exchange for the payment in cash of \$6,255,000 which represented NHC's portion of the principal and interest outstanding on the loan. At December 31, 2008, the remaining principal balance of the loan was \$22,936,000. As disclosed in Note 9, CFA has filed a Chapter 11 bankruptcy petition and has initiated an adversary proceeding complaint against us.

On February 3, 2006, we purchased by assignment a \$10,450,000 bank term loan owed by National Health Realty, Inc. ("NHR"), formerly a publicly-held real estate investment trust that merged with NHC in October 2007 (see Note 6). The assigned loan as amended required monthly interest payments at the interest rate of 30-day LIBOR plus 1.00% and quarterly principal payments of \$425,000. The unpaid principal balance at December 31, 2007, of \$7,050,000 was paid in full on January 3, 2008.

Loan Write-downs

Allgood HealthCare, Inc. ("Allgood") – We had two loans secured by five Georgia nursing home properties that were operated by Allgood. In January 2003, the borrowers filed for bankruptcy protection. We reported a \$2,000,000 write-down of one of the loans in the first quarter of 2005 to adjust the loan to its estimated net realizable value. The loan was paid during 2006 and is discussed in the "Loan Recoveries" section below. Estate proceeds of \$1,247,000 received in 2006 were applied to one of the loans.

In December 2005, two of these facilities were sold by the bankruptcy trustee pursuant to a plan of liquidation. Prior to the sale, we assigned our right to credit bid our mortgages to a third party operator who was the successful purchaser of these facilities. We provided the purchaser with \$4,000,000 of first mortgage financing and agreed to loan up to a total of \$800,000 of working capital. We had a first lien on all assets of the borrowers, including accounts receivable.

Effective July 1, 2006, two of the remaining properties were sold by the bankruptcy trustee to affiliates of the purchaser of the first two properties. We provided the purchaser with long-term first mortgage financing totaling \$12,162,000 collateralized by all four facilities and we received an option to purchase the facilities. The note bears interest at 9% and matures July 1, 2016. The commitment to loan working capital was reduced from \$800,000 to \$300,000 (working capital balance of \$83,000 at December 31, 2008) and can be used by any of the four facilities.

Prior to December 31, 2006, we gave notice to the purchasers of the four facilities of our intent to exercise its purchase option for the four facilities in the amount of \$12,162,000. On March 1, 2007, the election to purchase the four facilities was rescinded after a new financing agreement was finalized. Under the new agreement, the \$12,162,000 first mortgage was increased to \$14,300,000 and the working capital loan was reduced to \$300,000. The first mortgage loan bears interest at 9%. Principal is amortized over a 25-year period and matures on January 31, 2010. The working capital loan bears interest at prime plus 2%, with principal due at maturity on January 1, 2009 and was collected in full subsequent to year-end. Management believes that the remaining carrying amount of the loans of \$8,546,000 at December 31, 2008 is supported by the value of the underlying collateral.

Milwaukee South Healthcare, LLC – Management's analysis of the future expected cash flows consistent with SFAS 114, payment history, historical occupancy and operating income of the facility resulted in a write-down in 2006 of \$1,074,000 related to our working capital loan to the operator of this leased facility. The carrying amount of the loan at December 31, 2006 was zero. As described in Note 16, we sold this facility on May 1, 2007 to a third party and recognized a gain of \$669,000.

Loan Recoveries

During 2008 there were no recoveries related to previous loan or realty writedowns. Recoveries in 2007 and 2006 are described as follows:

American Medical Associates, Inc. ("AMA") – On May 1, 2004, we provided financing to purchasers of three Florida-based nursing homes formerly owned by AMA and previously financed by us. The amount of the new mortgage loans totaled \$14,450,000 and the notes were to mature May 14, 2009. The notes were recorded net of the \$5,200,000 recorded loss on notes to AMA in 2002. Management's analysis of future expected cash flows consistent with SFAS 114, historical occupancy and operating income of the project resulted in additional net impairments of \$2,000,000 in 2005. Loans secured by two of the properties were paid during 2006, inclusive of \$4,935,000 in recoveries, and a gain of \$1,015,000.

In March 2007, the remaining AMA mortgage loans secured by the last of three AMA properties were fully paid. We received \$5,721,000 in cash, representing the full principal balances and accrued interest on the loans. As a result, we recorded recoveries of \$1,700,000 and a gain on settlement of the note of \$468,000.

The amount of interest income recognized (representing cash received) on the AMA loans was \$72,000 and \$1,377,000 for the years ended December 31, 2007 and 2006, respectively.

Health Services Management of Texas LLC ("HSM") - On July 11, 2007, we received payoff at par of a mortgage loan investment in the amount of \$44,500,000. The recovery of amounts previously written down related to this loan amounted to \$21,300,000. The average recorded investment in the HSM loan was \$23,060,000 for the year ended December 31, 2007. The amount of interest income recognized (representing cash received) on the loan was \$2,575,000 and \$3,774,000 for the years ended December 31, 2007 and 2006, respectively.

SouthTrust- On December 6, 2007, we received a final residual payment related to a mortgage pool investment. The recovery of amounts previously written down related to this investment amounted to \$1,238,000. Recovery of any amounts previously written down had been considered highly doubtful. There was no carrying value of this investment at any time during 2006 or 2007.

Miracle Hill Nursing and Convalescent Center ("Miracle Hill") – In September 1996, we provided financing to Miracle Hill. Management's past analysis of the future expected cash flows consistent with SFAS 114, past, current and anticipated operating income of the project, and liquidity of the facility resulted in the recording of a \$2,000,000 write-down of this mortgage loan in the second quarter of 2005. In November 2006, the Miracle Hill note matured and was fully paid off, at which time we recorded a loan recovery of \$2,000,000.

The average recorded investment in the Miracle Hill loan was \$2,194,000 for the year ended December 31, 2006. The related amount of interest income recognized (representing cash received) on the loan was \$504,000 and \$508,000 for the years ended December 31, 2006 and 2005, respectively.

Allgood HealthCare, Inc. ("Allgood") – On July 1, 2006, one of the five original properties was sold to a third party operator by the bankruptcy trustee with us consenting to such sale. We provided the purchaser with short-term mortgage financing totaling \$5,692,000. The note matured and was paid in full on December 31, 2006, at which time we recorded a loan recovery of \$2,073,000. In February 2009, we received payment in full of our mortgage note receivable with one of the Allgood facilities which resulted in a recovery of amounts previously written down and other gains totaling \$1,234,000.

NOTE 5. INVESTMENT IN PREFERRED STOCK

In September 1998, we purchased two million shares of the cumulative preferred stock of LTC Properties, Inc. ("LTC"), a publicly-held REIT. The nonvoting preferred stock is convertible into common stock at a 1:1 ratio. The preferred stock has an annual cumulative coupon rate of 8.5% payable quarterly and a liquidation preference of \$19.25 per share. Dividend revenue amounted to \$3,241,000 in each of 2008, 2007, and 2006. The preferred stock is not redeemable by us or LTC. The preferred stock, which is not listed on a stock exchange, is considered a non-marketable security accounted for under Accounting Principles Board Opinion No. 18 "The Equity Method of Accounting for Investments in Common Stock," and is recorded at cost in the consolidated balance sheets. Amounts to be received from the 8.5% coupon rate are recorded as investment income when the dividend is declared. The carrying value of the preferred stock consists of its cost and was \$38,132,000 at each December 31, 2008 and 2007.

In addition to our investment in the preferred stock of LTC, we hold 774,800 shares of common stock of LTC (with a fair value and carrying value of \$15,713,000 and \$19,409,000 at December 31, 2008 and 2007, respectively), which is included in marketable securities (See Note 6).

NOTE 6. INVESTMENT IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities. Unrealized gains and losses on available-for-sale securities are recorded in stockholders' equity in accordance with FASB Statement No. 115 "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). Realized gains and losses from securities sales are determined based upon specific identification of the securities.

Marketable securities consist of the following at December 31, 2008 and 2007 (in thousands):

	2008		2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Common stock of other REITs	\$ 6,463	\$ 17,293	\$ 6,463	\$ 21,122
NHC convertible preferred stock	1,390	1,348	1,527	1,565
Enhanced cash funds	7,953	7,953	33,458	33,129
	<u>\$ 15,806</u>	<u>\$ 26,594</u>	<u>\$ 41,448</u>	<u>\$ 55,816</u>

Gross unrealized gains and gross unrealized losses related to available-for-sale securities are as follows (in thousands):

	2008	2007
Gross unrealized gains	\$ 10,919	\$ 14,785
Gross unrealized losses	(131)	(417)
Total	<u>\$ 10,788</u>	<u>\$ 14,368</u>

None of these available-for-sale marketable securities have stated maturity dates.

During 2008, 2007 and 2006, we received and recognized \$2,091,000, \$5,103,000, and \$6,476,000, respectively, of dividend and interest income from our marketable securities. Such income is included in non-operating income in the consolidated statements of income.

In October 2007, National Health Realty, Inc. ("NHR") was merged into National HealthCare Corporation ("NHC"). In exchange for each share of NHR stock owned, shareholders received \$9 cash plus NHC convertible preferred stock valued at

\$13.66 per share. At that date, we owned 111,800 shares of NHR common stock. The realized gain of \$1,266,000 was recorded in non-operating income.

On December 10, 2007, we were notified by Bank of America that its largest, privately-placed, enhanced cash fund called Columbia Strategic Cash Fund (the "Fund") would be closed and liquidated. In addition, (1) cash redemptions were temporarily suspended, although redemptions could be filled through a pro-rata distribution of the underlying securities, consisting principally of corporate debt, mortgage-backed securities and asset-backed securities; (2) the Fund's valuation would be based on the market value of the underlying securities, whereas historically the Fund's valuation was based on amortized cost; and (3) interest would continue to accrue. The carrying value of our investment in the Fund on December 10, 2007 was \$38,359,000.

Subsequent to December 10, 2007 and prior to December 31, 2007, we received a pro-rata distribution of underlying securities in the Fund as described above of \$14,382,000 to a separate investment management account ("IMA") and cash redemptions of principal totaling \$4,665,000. Prior to December 31, 2007, realized losses on the distribution and redemption of securities and cash amounted to \$236,000. At December 31, 2007, the fair market value of our investment in the Fund was estimated to be \$18,835,000 and the fair market value of our investment in the separate IMA was estimated to be \$14,294,000 for a total of \$33,129,000. Unrealized losses measured as the difference between fair market value and our original investment, at cost, amounted to \$329,000 and was reflected as a component of stockholder's equity at December 31, 2007.

A decline in the market value of any available-for-sale 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 operations 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 a reporting date and forecasted performance of the investment. In 2008, we concluded there was an other-than-temporary impairment of the Fund and the IMA totaling \$2,065,000 which we charged to operations.

For the year ended December 31, 2008, we received cash redemptions of principal from the Fund and IMA totaling \$23,031,000. Exclusive of the other-than-temporary impairment charges of \$2,065,000, realized losses amounted to \$410,000, which were charged to operations. At December 31, 2008, the fair market value of our investment in the Fund was estimated to be \$4,000,000 and the fair market value of our investment in the separate IMA was estimated to be \$3,953,000 for an aggregate fair value of \$7,953,000 and a revised cost basis of the same amount. Subsequent to year-end, we received cash redemptions of principal of \$707,000 from the Fund and \$865,000 from the IMA.

We are in regular communication with the manager of the Fund and the IMA in order to monitor the net asset value and the expected cash redemption dates based upon the manager's liquidation strategy. Cash redemptions are estimated by the Fund manager to occur periodically over the next two years. Interest continues to accrue and is paid to us each month into our regular bank account. There may be further declines in the value of our investments in the Fund and the IMA. To the extent that we determine there is a further decline in the fair market value based on up-to-date information provided to us by the Fund manager, we may recognize additional losses in future periods.

NOTE 7. FAIR VALUE MEASUREMENTS

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. We estimate the fair values of other financial instruments using quoted market prices and discounted cash flow techniques. At December 31, 2008 and 2007, there were no material differences between the carrying amounts and fair values of our financial instruments.

Effective January 1, 2008, the Company adopted SFAS 157, which defines fair value 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. SFAS 157 establishes a three-level fair value hierarchy that prioritizes 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.

The Company's adoption of SFAS 157 did not have an impact on our financial position or results of operations. The Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. FASB Staff Position FAS 157-2 delayed the effective date for all nonfinancial assets and liabilities until January 1, 2009, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

Effective January 1, 2008, the Company adopted SFAS No. 159, which provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value.

Assets measured at fair value on a recurring basis are summarized below (in thousands):

Description	Fair Value Measurements at December 31, 2008 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock of other REITs	\$ 17,293	\$ 17,293	\$ —	\$ —
NHC convertible preferred stock	1,348	1,348	—	—
Enhanced cash funds	7,953	—	—	7,953
Total Marketable Securities	\$ 26,594	\$ 18,641	\$ —	\$ 7,953

Common and Convertible Preferred Stock — The fair value of our common and convertible preferred stock investments are derived using quoted market prices of identical securities or other observable inputs such as trading prices of identical securities in active markets.

Enhanced Cash Funds — The fair values of our enhanced cash funds, which are comprised of our investments in the Columbia Strategic Cash Fund and a separate Investment Management Account, were determined by third-party pricing vendors using certain significant inputs (e.g. yield curves, spreads, prepayments and volatilities) that are unobservable. These securities are valued primarily using broker pricing models that incorporate transaction details such as contractual terms, maturity, timing and amount of future cash flows, as well as assumptions about liquidity.

The following table presents a reconciliation of Level 3 assets measured at fair value on a recurring basis at December 31, 2008. Our investment in enhanced cash funds was transferred from Level 2 to Level 3 due to a lack of current observable market activity, during the fourth quarter of 2008.

(in thousands)	Fair Value Beginning of Year	Transfers Into Level 3	Realized Losses and Impairments	Purchases, Issuances and Settlements	Fair Value at End of Year	Total Period Losses Included in Earnings Attributable to the Change in Unrealized Losses Relating to Assets Held at End of Year
<i>Description</i>						
Columbia Strategic Cash Fund	\$ —	\$ 18,835	(\$1,239)	(\$13,596)	\$ 4,000	\$ (241)
Investment Mnnagement Account	—	14,294	(906)	(9,435)	3,953	(89)
Total Enhanced Cash Funds	\$ —	\$ 33,129	(\$2,145)	(\$23,031)	\$ 7,953	\$ (330)

Gains and losses (realized and unrealized) included in earnings for the year ended December 31, 2008 are reported as non-operating revenues as follows:

	Non-Operating Revenues
Total losses included in earnings	<u>(\$2,145)</u>
Change in Unrealized Losses Relating to Assets Held at End of Year	<u>(\$330)</u>

NOTE 8. NOTES AND BONDS PAYABLE

Debt consists of the following at December 31, 2008 and 2007 (in thousands):

	Weighted Average Interest Rate	Final Maturities	Principal Amount	
			2008	2007
First mortgage revenue bonds, principal payable in periodic installments, interest payable monthly	Variable, 1.9%	2009 to 2014	\$ 3,987	\$ 5,711
Senior notes, principal and interest payable quarterly	Variable	2008	—	3,801
			<u>\$ 3,987</u>	<u>\$ 9,512</u>

On August 1, 2008, we paid off in cash one of our first mortgage revenue bonds of \$538,000. The bonds were to have matured on November 1, 2010. There were no penalties or other fees related to paying off the bonds early.

At December 31, 2008, NHI had first mortgage revenue bonds payable of \$3,987,000 collateralized by deeds-of-trust on four nursing facilities. The debt bears interest at variable rates (1.3% to 2.5% at December 31, 2008) with maturities from 2009 to 2014. Subsequent to year-end, first mortgage bonds having a balance of \$1,225,000 were paid in full.

The aggregate principal maturities of all debt as of December 31, 2008 are as follows:

2009	\$ 1,392,000
2010	1,615,000
2011	230,000
2012	240,000
2013	250,000
Thereafter	260,000
	<u>\$ 3,987,000</u>

NOTE 9. COMMITMENTS AND CONTINGENCIES

At December 31, 2008 we had no pending commitments to fund health care real estate projects. We currently have sufficient liquidity to finance new investments and to repay borrowings at or prior to maturity.

At December 31, 2008, we believe that we have operated our business so as to qualify as a REIT under Section 856 through 860 of the Code, and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. 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 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.

The health care facilities in which we have investments of loans or leases are subject to claims and suits in the ordinary course of business. Our lessees and mortgagees have indemnified and will continue to indemnify us against all liabilities arising from the operation of the health care facilities and will indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the health care facilities, management believes that the ultimate resolution of any pending proceedings would have no material adverse effect on our financial position, operations and cash flows.

On December 31, 1999, NHI acquired six Florida properties from the Chapter 11 bankruptcy trustee for York Hannover Nursing Centers, Inc. On January 1, 2000, NHI sold those properties to Care Foundation of America, Inc., a newly-formed Tennessee nonprofit corporation ("CFA") for \$32.7 million, with NHI financing 100% of the purchase price and the debt having an original maturity date of July 1, 2001. The maturity date of the debt was subsequently extended several times over the years, with the most recent extension making the balance of \$22,936,000 due December 31, 2008. NHI received notice that on December 30, 2008, CFA filed for Chapter 11 bankruptcy in the U.S. District Court for the Middle District of Tennessee (Case No. 08-12367). On January 2, 2009, CFA filed an adversary proceeding complaint against NHI in the bankruptcy case. NHI had previously disclosed in our most recent Form 10-Q that CFA had threatened to file such a lawsuit. CFA's complaint alleges that NHI exercised total dominion and control over CFA's board of directors from 1999 until sometime in 2008 and that NHI used that control to cause CFA to buy and finance the six Florida homes on terms that were not fair to CFA. CFA also alleges that these transactions constituted "excess benefit transactions" as defined in Section 4958 of the Internal Revenue Code. As part of its complaint, CFA seeks a declaratory judgment and asserts claims for breach of fiduciary duty, fraud, conversion, and unjust enrichment. CFA claims that it has sustained compensatory and punitive damages in excess of \$25 million. NHI adamantly denies CFA's claims and intends to vigorously defend against CFA's complaint. An unfavorable outcome in such litigation or in IRS proceedings arising from CFA's claims could have a material adverse effect on NHI's consolidated financial position, results of operations or cash flows.

NHI has also been served with a Civil Investigative Demand by the Office of the Tennessee Attorney General, which has indicated it is investigating transactions between NHI and three separate Tennessee nonprofit corporations, including CFA. At this time, NHI does not know whether the Tennessee Attorney General's office will commence any legal proceedings or, if so, what relief will be sought.

NOTE 10. LIMITS ON COMMON STOCK OWNERSHIP

The Company's Charter contains certain provisions which are designed to ensure that the Company's status as a real estate investment trust is protected for federal income tax purposes. One of such provisions prohibits any stockholder from owning, 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. These agreements were entered into in connection with the Company's recent 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 the 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 real estate investment trust 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 real estate investment trust for tax purposes.

NOTE 11. STOCK-BASED COMPENSATION

Effective January 1, 2006, we adopted FASB No. 123(R), "Share-Based Payment" ("SFAS 123(R)"), using the modified prospective application transition method. Under this method, compensation cost is recognized, beginning January 1, 2006, based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date, and based on Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), for all awards granted to employees prior to January 1, 2006 that remained unvested on the effective date.

The 1997 and 2005 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 any 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 2005, our stockholders approved the 2005 Plan pursuant to which 1,500,000 shares of our common stock were available to grant as share-based payments to employees, officers, directors or consultants. As of December 31, 2008, 1,353,967 shares are available for future grants under the 2005 plan. The individual restricted stock and option grant awards vest over periods up to five years. The term of the options outstanding under the 2005 Plan is five years from the date of grant.

The 1997 Plan provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of December 31, 2008, no shares are available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Under FAS 123(R), compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected have resulted in the reversal of previously recorded compensation expense. The compensation expense (income) reported for share-based compensation related to the 2005 Plan and the 1997 Plan totaled \$7,000, \$543,000 and \$519,000 for the years ended December 31, 2008, 2007 and 2006, respectively, consisting of (\$138,000), \$327,000 and \$345,000 for restricted stock and \$145,000, \$216,000 and \$174,000 for stock options which is included in general and administrative expense in the Consolidated Statements of Income.

Determining Fair Value Under SFAS No. 123(R)

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. Generally, awards are subject to cliff vesting. 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 \$2.53, \$2.59 and \$1.95 for 2008, 2007 and 2006, respectively. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2008, 2007, and 2006:

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Dividend yield	8.08%	8.32%	8.71%
Expected volatility	24.91%	20.42%	22.93%
Expected lives	2.5 years	2.5 years	2.7 years
Risk-free interest rate	2.39%	4.64%	4.83%
Expected forfeiture rate	0.00%	0.00%	0.00%

Stock Option Activity

The following table summarizes option activity:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (in thousands)
Outstanding December 31, 2005	135,000	\$23.50		
Options granted under 2005 Plan	86,000	25.32		
Options granted under 1997 Plan	60,000	23.79		
Options exercised under 1997 Plan	(15,000)	23.79		
Outstanding December 31, 2006	266,000	24.14		
Options granted under 1997 Plan	57,800	34.25		
Options granted under 2005 Plan	2,200	34.25		
Outstanding December 31, 2007	326,000	26.00		
Options granted under 1997 Plan	14,450	30.30		
Options granted under 2005 Plan	80,550	29.64		
Options exercised under 1997 Plan	(139,817)	23.40		
Options exercised under 2005 Plan	(60,848)	26.24		
Options forfeited under 1997 Plan	(14,450)	34.25		
Options forfeited under 2005 Plan	(46,217)	28.09		
Outstanding December 31, 2008	159,668	\$29.03	3.000	\$ 256
Exercisable December 31, 2008	120,000	\$29.73	2.885	

Grant Date	Options Outstanding	Exercise Price	Remaining Contractual Life in Years
4/20/04	15,000	\$23.90	0.333
5/3/05	15,000	26.78	1.333
5/1/06	3,668	23.62	2.250
5/2/06	15,000	23.79	2.333
7/21/06	15,000	24.50	2.583
5/16/07	45,000	34.25	3.417
2/4/08	21,000	29.24	4.083
4/29/08	30,000	30.30	4.417
	159,668		3.000

The weighted average remaining contractual life of all options outstanding at December 31, 2008 is 3 years. Including outstanding stock options, our stockholders have authorized an additional 1,513,635 shares of common stock that may be issued under the share-based payments plans.

At December 31, 2008, there were outstanding unvested options to purchase 39,668 shares with a weighted average grant date fair value of \$2.18 per share. As of December 31, 2008, we had \$35,000 of total unrecognized compensation cost related to unvested options, net of expected forfeitures, which is expected to be recognized over the following periods: 2009-\$21,000; 2010-\$10,000; and 2011-\$4,000.

The closing market price of our common stock at December 31, 2008 was \$27.43 per share. The intrinsic value of total options outstanding at December 31, 2008 was \$1.60 per share or \$256,000. The intrinsic value of options exercisable at December 31, 2008 was \$2.30 per share or \$276,000.

Restricted Stock Activity

The following table summarizes restricted stock activity:

	Number of Shares	Weighted Average Grant Price	Weighted Average Remaining Vesting Period (Years)	Aggregate Intrinsic Value (in thousands)
Restricted Stock granted in 2006 under 2005 Plan and Non-vested at December 31, 2006	53,000	\$ 25.96	—	—
Vested during the period	(4,300)	n/a	—	\$ 120
Non-vested at December 31, 2007	48,700	n/a	2.646	\$ 1,359
Vested during the period	(12,175)	n/a	—	—
Restricted Stock granted in 2008 under 2005 Plan	25,000	29.24	—	—
Restricted Stock forfeited in 2008 under 2005 Plan	(54,500)	n/a	—	—
Non-vested at December 31, 2008	<u>7,025</u>	n/a	1.511	\$ 193

Grant Date	Shares Non-vested	Grant Price	Remaining Vesting Period
5/2/06	2,025	\$23.62	1.333
2/4/08	5,000	\$29.24	1.583
	<u>7,025</u>		

The weighted average remaining vesting period of all restricted shares outstanding at December 31, 2008 is 1.511 years. The closing market price of our common stock at December 31, 2008 was \$27.43 per share, which is the implied intrinsic value of the restricted stock.

At December 31, 2008, we had \$88,000 of total unrecognized compensation cost related to unvested restricted stock issued which is expected to be recognized over the following periods: 2009-\$52,000; 2010-\$25,000; 2011-\$10,000; and 2012-\$1,000.

NOTE 12. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest on our debt obligations were \$351,000, \$7,860,000 and \$7,368,000 for the years ended December 31, 2008, 2007 and 2006, respectively.

As described in Note 3, on December 31, 2007, we recorded the previous sale of 16 facilities that were, prior to that time, required to be consolidated into our consolidated financial statements under the requirements of SFAS 66 since they did not meet the accounting criteria for recognition of a sale for financial reporting purposes. Amounts increased (decreased) as follows:

(in thousands)	2007
As of December 31,	
Mortgage notes receivable, net	\$ 66,819
Real estate properties, net	(36,857)
Accounts receivable, net	(7,176)
Deferred costs and other assets	(13,310)
Accounts payable and other accrued expenses	(17,072)

NOTE 13. EARNINGS PER SHARE

Basic earnings per common share are based on the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share assume the exercise of stock options and vesting of restricted shares using the treasury stock method. The following table summarizes the average number of common shares and the net income used in the calculation of basic and diluted earnings per share (in thousands, except share and per share amounts):

Year Ended December 31,	2008	2007	2006
BASIC:			
Weighted average common shares outstanding	27,706,106	27,703,464	27,744,868
Income from continuing operations available to common stockholders	\$ 55,451	\$ 78,959	\$ 58,685
Discontinued operations	2,059	17,476	10,543
Net income available to common stockholders	\$ 57,510	\$ 96,435	\$ 69,228
Income from continuing operations per common share	\$ 2.00	\$ 2.85	\$ 2.12
Discontinued operations per common share	.08	.63	.38
Net income per common share	\$ 2.08	\$ 3.48	\$ 2.50
DILUTED:			
Weighted average common shares	27,706,106	27,703,464	27,744,868
Stock options	18,485	58,954	28,415
Restricted stock shares	7,360	21,444	5,481
Average dilutive common shares outstanding	27,731,951	27,783,862	27,778,764
Income from continuing operations available to common stockholders	\$ 55,451	\$ 78,959	\$ 58,685
Discontinued operations	2,059	17,476	10,543
Net income available to common stockholders	\$ 57,510	\$ 96,435	\$ 69,228
Income from continuing operations per common share	\$ 2.00	\$ 2.84	\$ 2.11
Discontinued operations per common share	.07	.63	.38
Net income per common share	\$ 2.07	\$ 3.47	\$ 2.49
Incremental shares excluded since anti-dilutive:			
Stock options	11,469	4,936	50,000

In accordance with FASB Statement No. 128, "Earnings per Share", the above incremental shares were excluded from the computation of diluted earnings per share since inclusion of these incremental shares in the calculation would have been anti-dilutive.

NOTE 14. COMMON STOCK DIVIDENDS (Unaudited)

Dividend payments per share to common stockholders are characterized for 2008 individual tax purposes as follows:

Dividend Payment Date	Taxable as Ordinary Income	Taxable as Capital Gain	Return of Capital	Totals
May 9, 2008	\$.583283	\$.036423	\$.010294	\$.63
August 8, 2008	.503283	.036423	.010294	.55
November 10, 2008	.503282	.036423	.010295	.55
January 30, 2009 ⁽¹⁾	.643282	.036422	.010296	.69
	\$ 2.23313	\$.145691	\$.041179	\$ 2.42

(1) Declared for stockholders of record December 31, 2008

NOTE 15. RELATIONSHIP WITH NATIONAL HEALTHCARE CORPORATION

Leases

Major lease customer - Of the 123 health care facilities in which we have investments, 41 facilities are currently leased under operating leases to NHC, a publicly-held company and our largest customer. Our rental income in 2008 was \$53,339,000 (\$33,700,000 from NHC); in 2007 was \$50,850,000 (\$33,700,000 from NHC); and in 2006 was \$45,789,000 (\$31,309,000 from NHC).

Initial lease - On October 17, 1991, concurrent with NHC's conveyance of 43 properties to us, we leased to NHC 40 long-term care facilities and 3 retirement centers. Each lease was for an initial term expiring December 31, 2001, with two additional five-year renewal terms at the option of NHC, assuming no defaults. During 2000, NHC exercised its option to extend the lease term for the first five-year renewal term under the same terms and conditions as the initial term. Each lease with NHC is a "triple net lease" under which NHC is responsible for paying all taxes, utilities, insurance premium costs, repairs and other charges relating to the ownership of the facilities. NHC is obligated at its expense to maintain adequate insurance on the facilities' assets.

During the initial term and the first renewal term which ended on December 31, 2006, NHC was obligated to pay annual base rent on all 41 facilities of \$15,238,000. The leases also obligated NHC to pay as debt service rent all payments of interest and principal due under each mortgage to which the conveyance of the facilities was subject. Payments for debt previously serviced were required for the shorter of the remaining life of the mortgage or lease term.

In addition to base rent and debt service rent, NHC paid percentage rent to us equal to 3% of the increase in the gross revenue of each facility through December 31, 2006. Effective January 1, 2000, we amended our lease agreements with NHC to provide for the calculation of percentage rent based on quarterly revenue increases rather than annual revenue increases. We recognized \$4,829,000 of percentage rent from NHC during 2006.

Lease amendment and extension - On December 27, 2005, under an amendment to the master lease, NHC exercised its option to extend the existing lease on 41 properties for the second renewal term. The lease was scheduled to expire on December 31, 2006 unless extended by NHC. The terms of the existing lease remained in place for 2006.

The 41 properties include 4 centers leased to other parties, the lease payments of which are guaranteed to us by NHC under the Master Lease. The 15 year lease extension began January 1, 2007, and includes 3 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 the tenant at its expense. Under the terms of the lease, base rent for 2007 was \$33,700,000 with additional percentage rent being equal to 4% of the increase in the gross revenue of each facility over a 2007 base year. We did not recognize any percentage rent from NHC during 2007 and 2008.

Future minimum lease payments - At December 31, 2008, the future minimum lease payments (excluding percentage rent) to be received by us under our operating leases with NHC and other lessees are as follows:

	NHC	Others	Total
2009	\$ 33,700,000	\$ 17,264,000	\$ 50,964,000
2010	33,700,000	\$12,533,000	46,233,000
2011	33,700,000	\$10,627,000	44,327,000
2012	33,700,000	\$ 7,339,000	41,039,000
2013	<u>33,700,000</u>	<u>\$ 5,464,000</u>	<u>39,164,000</u>
Thereafter	<u>\$ 269,600,000</u>	<u>\$ 17,462,000</u>	<u>\$ 287,062,000</u>

Advisory Agreements

Management Advisory Source, LLC - We determined that it was in our best interest to accentuate our independence from NHC, our largest tenant. Therefore, effective November 1, 2004, we assigned our Advisory Agreement with NHC (described below) to a new company, MAS, formed by our President, Chief Executive Officer and Board Chairman, W. Andrew Adams. We have no ownership in MAS.

Under the Advisory Agreement, we engaged MAS to use its best efforts (a) to present to us a continuing and suitable investment program consistent with our investment policies adopted by the Board of Directors from time to time; (b) to manage our day-to-day affairs and operations; and (c) to provide administrative services and facilities appropriate for such management.

Accordingly, MAS was subject to the supervision of and policies established by our Board of Directors. From November 1, 2004 to October 1, 2006, MAS outsourced non-managerial functions of the Advisory Agreement such as payroll processing, accounting, treasury and the like to NHC. Effective October 1, 2006, MAS began to provide these services.

The Advisory Agreement provided that without regard to the amount of compensation received by the Advisor under the Advisory Agreement, the Advisor was to pay all expenses in performing its obligations including the employment expenses of the personnel providing services to us. The Advisory Agreement further provided that we pay the expenses incurred with respect to and allocable to the prudent operation and business of NHI including any fees, salaries and other employment costs, taxes and expenses paid to our directors, officers and employees who are not also employees of the Advisor. The Advisory Agreement provided that MAS was entitled to annual compensation which was calculated on a formula related to the increase in funds from operations per common share (as defined in the Advisory Agreement).

On December 3, 2007, we elected to become a self-managed REIT with our own management reporting directly to the Board of Directors. We notified MAS of our intent to terminate the Advisory Agreement effective March 31, 2008. On January 29, 2008, we received notice from Mr. Adams that he intended to resign as President of NHI. Under an agreement with our Board of Directors, he will continue to serve as President until March 18, 2009 at which time Justin Hutchens will assume the positions of President and Chief Operating Officer. It is anticipated that Mr. Adams will remain with us as Chief Executive Officer and Chairman of the Board of Directors. During the first three months of 2008, the expense recorded under the Advisory Agreement was \$862,000. Our expense under a consulting agreement for Mr. Adams to continue to serve as President and Chief Executive Officer after March 31, 2008 was \$900,000 through December 31, 2008. The expense recorded under the Advisory Agreement was \$3,625,000 and \$3,499,000 for 2007 and 2006, respectively.

NHC - We entered into the Advisory Agreement on October 17, 1991 with NHC as "Advisor" under which NHC provided management and advisory services to us through November 1, 2004. The Advisory Agreement was initially for a stated term which expired December 31, 1997. Thereafter, the Advisory Agreement was on a year-to-year term, but terminable on 90 days notice and terminable for cause at any time. For 1993 and later years, the Advisor was entitled to annual compensation which was calculated on a formula related to the increase in funds from operations per common share (as defined in the Advisory Agreement).

The Advisory Agreement was initially for a stated term which expired December 31, 1997. Since then, the Agreement was on a year-to-year term, but terminable on 90 days notice and terminable for cause at any time. For 1993 and later years, the Advisor was entitled to annual compensation which was calculated on a formula related to the increase in funds from operations per common share (as defined in the Advisory Agreement).

Pursuant to the Advisory Agreement, the advisor managed all of our day-to-day affairs and provided all such services through its personnel or contractual agreements. The Advisory Agreement provided that without regard to the amount of compensation received by the Advisor under the Advisory Agreement, the Advisor pay all expenses in performing its obligations including the employment expenses of the personnel providing services to us. The Advisory Agreement further provided that we pay the expenses incurred with respect to and allocable to the prudent operation and business of NHI including any fees, salaries and other employment costs, taxes and expenses paid to our directors, officers and employees who are not also employees of the Advisor.

Facility Management Services - Prior to 2008, subsidiaries of NHC managed the former foreclosure properties for management fees equal to a weighted average of 5.35% of net revenues of the foreclosure properties. Management fees totaled \$5,022,000, and \$4,903,000, for the years ended December 31, 2007 and 2006, respectively.

Ownership of Common Stock - At December 31, 2008, NHC owned 1,630,462 shares of our common stock. At December 31, 2008, we owned 101,800 shares of NHC's convertible preferred stock.

NOTE 16. DISCONTINUED OPERATIONS

Kansas Facilities - During 2008, we recorded an impairment charge of \$1,986,000 related to two Kansas facilities to reduce the carrying value of these facilities to fair value, less the estimated cost of selling the facility. One of the facilities, located in Hoisington, Kansas, was sold in November of 2008. We have classified the remaining facility as held for sale in the consolidated balance sheet and estimate the property will be sold within the next twelve months. In accordance with SFAS 144, the facility meets the accounting criteria as being held for sale and the results of its operations have been reported in the current and prior periods as discontinued operations in the Consolidated Statements of Income. The fair value of the land, buildings and improvements less the cost to sell is estimated to be \$200,000 at December 31, 2008. The loss from discontinued operations of these facilities for year ended December 31, 2008 was \$2,044,000 versus income of \$82,000 for the same period in 2007.

Washington Facilities - In September 2008, we recognized into income for financial and tax purposes \$4,121,000 of deferred credits which existed at the date of sale in 2003 of two nursing home facilities in Washington. At the expiration of the five-year statute of limitations, management concluded based on advice from counsel that we were legally released from any potential liability settlements. We expect to recognize into income during mid-2009 an additional amount of \$1,500,000 of deferred credits which will meet the aforementioned criteria.

Foreclosure Properties - As described in Note 3, on December 31, 2007, we recognized the sale of 16 foreclosure properties and recorded mortgage notes receivable secured by the properties with a carrying value of \$66,819,000. The transition resulted in a net gain on sale and deconsolidation of \$12,469,000. The net carrying value of the assets and liabilities deconsolidated was \$54,350,000.

Milwaukee South Healthcare Center - In May 2007, we completed the sale of a facility in Milwaukee, Wisconsin to a third party and recognized a gain on sale of \$669,000. Net cash proceeds were \$2,288,000 and the carrying value of the property and equipment sold was \$1,619,000.

Regal and Royal Healthcare - In May 2006, two New Jersey nursing facilities were sold generating net cash proceeds of \$17,570,000 and a gain recognized of \$5,690,000.

Town and Country - In March 2006, we received \$5,482,000 in cash from the sale by the current owner of a nursing facility in Town & Country, Missouri. The carrying amount of this facility was \$5,358,000 composed of net realty of \$6,520,000, reduced by net liabilities of \$1,162,000. This property was sold in December 2004 to a not-for-profit entity and we provided 100% financing. As a result of having received final cash proceeds related to this facility during 2006, we recognized the December 2004 sale of this property and recognized a \$124,000 gain.

For 2008, 2007 and 2006, we have reclassified for all periods presented the operations of the facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations in accordance with SFAS 144.

Income from discontinued operations is as follows (in thousands, except per share amounts):

Year Ended December 31,	2008	2007	2006
Revenues:			
Rental income	\$ —	\$ 822	\$ 1,154
Facility operating revenue	—	93,383	91,529
	<u>—</u>	<u>94,205</u>	<u>92,683</u>
Expenses:			
Interest	—	7	5
Depreciation	55	3,558	3,662
Franchise, excise, and other taxes	—	—	26
Facility operating expenses	22	86,302	84,262
Impairment of real estate assets	1,986	—	—
	<u>2,063</u>	<u>89,867</u>	<u>87,955</u>
Operating income (loss)	2,063	4,338	4,728
Non-operating income	4,122	—	—
Gain on sale of assets	—	13,138	5,814
Total discontinued operations	<u>\$ 2,059</u>	<u>\$ 17,476</u>	<u>\$ 10,542</u>
Discontinued operations income per common share:			
Basic	\$.08	\$.63	\$.38
Diluted	\$.07	\$.63	\$.38

NOTE 17. NON-OPERATING INCOME

Non-operating income is outlined in the table below (*in thousands*):

Year Ended December 31,	<u>2008</u>	<u>2007</u>	<u>2006</u>
Dividends	\$ 4,687	\$ 4,654	\$ 4,626
Equity in income – investees	—	—	26
Realized gains (losses) on sales of securities	(410)	1,029	—
Other-than-temporary impairment of marketable securities	(2,065)	—	—
Interest income	3,050	7,066	6,889
Gain on settlement of notes receivable	—	468	1,015
Gain on sale of certificate of need	1,298	—	—
Other	(73)	(753)	165
	<u>\$ 6,487</u>	<u>\$12,464</u>	<u>\$12,721</u>

In October 2008, we sold our Certificate of Need for 124 licensed nursing home beds in Davidson County, Tennessee to a third party for \$1,488,000 in cash. We recognized a gain of \$1,298,000.

NOTE 18. 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).

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
2008				
Net Revenues	\$ 15,359	\$ 16,252	\$ 15,620	\$ 15,774
Non-operating income	1,978	1,785	701	2,023
Income from continuing operations	13,418	14,816	13,460	13,758
Discontinued operations - Income (loss) from operations - discontinued	(19)	(23)	2,491	(391)
Net income	\$ 13,399	\$ 14,793	\$ 15,951	\$ 13,367
Earnings (loss) per share:				
Basic:				
Income from continuing operations	\$.48	\$.53	\$.48	\$.51
Discontinued operations	—	—	.09	(.01)
Net income per common share	\$.48	\$.53	\$.57	\$.50
Diluted:				
Income from continuing operations	\$.48	\$.53	\$.48	\$.51
Discontinued operations	—	—	.09	(.02)
Net income	\$.48	\$.53	\$.57	\$.49
2007				
Net Revenues	\$ 15,399	\$ 16,156	\$ 15,589	\$ 15,014
Non-operating income	3,470	2,984	2,556	3,454
Income from continuing operations	14,592	13,094	35,437	15,836
Discontinued operations - Income from operations - discontinued	889	1,218	1,101	1,130
Net gain on dispositions and deconsolidation	—	669	—	12,469
Net income	\$ 15,481	\$ 14,981	\$ 36,538	\$ 29,435
Earnings per share:				
Basic:				
Income from continuing operations	\$.53	\$.47	\$ 1.28	\$.57
Discontinued operations	.03	.07	.04	.49
Net income per common share	\$.56	\$.54	\$ 1.32	\$ 1.06
Diluted:				
Income from continuing operations	\$.53	\$.47	\$ 1.27	\$.57
Discontinued operations	.03	.07	.04	.49
Net income	\$.56	\$.54	\$ 1.31	\$ 1.06

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 of certain facilities as discontinued operations for all periods presented.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures - Based on their evaluation as of December 31, 2008, the CEO and principal accounting officer of the Company have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) were effective to ensure that the information required to be disclosed by us in this Annual Report on Form 10-K was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and instructions for Form 10-K. No change in our internal control over financial reporting occurred during our last fiscal quarter that materially affected, or is reasonably likely to affect, our internal control over financial reporting.

MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of National Health Investors, Inc. (the "Company") 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, 2008 using the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, management concluded that the Company's internal control over financial reporting was effective as of December 31, 2008. The Company's independent registered public accounting firm, BDO Seidman, LLP, has issued an attestation report on the effectiveness of the Company's internal control over financial reporting included herein.

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, 2008, based on criteria established in Internal Control – Integrated Framework 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, 2008, 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, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 23, 2009 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 23, 2009

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, 2008, 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 proxy statement for the 2009 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 proxy statement for the 2009 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 STOCKHOLDERS MATTERS.

Incorporated by reference from the information in our proxy statement for the 2009 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 proxy statement for the 2009 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 NHI 2009 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 13.

(3) Exhibits

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

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/ W. Andrew Adams
W. Andrew Adams
Chief Executive Officer

Date: February 24, 2009

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.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ W. Andrew Adams</u> W. Andrew Adams	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	February 24, 2009
<u>/s/ Roger R. Hopkins</u> Roger R. Hopkins	Chief Accounting Officer (Principal Accounting Officer)	February 24, 2009
<u>/s/ Robert A. McCabe, Jr.</u> Robert A. McCabe, Jr.	Director	February 24, 2009
<u>/s/ Robert T. Webb</u> Robert T. Webb	Director	February 24, 2009
<u>/s/ Ted H. Welch</u> Ted H. Welch	Director	February 24, 2009

NATIONAL HEALTH INVESTORS, INC.
FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008

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	Bylaws	Incorporated by reference to Exhibit 3.2 to Form S-11 Registration Statement No. 33-41863
4.1	Form of Common Stock Certificate	Incorporated by reference to Exhibit 39 to Form S-11 Registration Statement No. 33-41863
10.1	Material Contracts	Incorporated by reference to Exhibits 10.1 thru 10.9 to Form S-4 Registration Statement No. 33-41863
10.2	Amendment No. 5 to Master Agreement to Lease dated December 27, 2005, effective January 1, 2007.	Incorporated by reference to Exhibit 10.2 to Form 10-K dated March 10, 2006
10.3	Advisory, Administrative Services and Facilities Agreement between National Health Investors, Inc. and Management Advisory Source, LLC dated November 1, 2004	Incorporated by reference to Exhibit 10.3 to Form 10-K dated March 10, 2006
10.4	1997 Stock Option Plan	Incorporated by reference to the 1997 Proxy Statement as filed
10.5	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.
10.6	Excepted Holder Agreement – W. Andrew Adams	Incorporated by reference to Exhibit 10.6 to Form 10-K dated February 24, 2009
10.7	Form of Excepted Holder Agreements – Parties other than W. Andrew Adams	Incorporated by reference to Exhibit 10.7 to Form 10-K dated February 24, 2009
10.8	Consulting Agreement with W. Andrew Adams	Incorporated by reference to Exhibit 10.8 to Form 10-K dated February 24, 2009

13	Financial Statement Schedules	Filed herewith
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer	Filed Herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification of Principal Accounting Officer	Filed Herewith
32	Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer and Principal Accounting Officer	Filed Herewith

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Section 2: EX-10.6 (EXHIBIT 10.6)

EXHIBIT 10.6

W. ANDREW ADAMS *Excepted Holder Agreement*

This Excepted Holder Agreement ("**Agreement**") is made and entered into this 29th day of April, 2008, by and between National Health Investors, Inc., a Maryland corporation (the "**Company**"), and W. Andrew Adams ("**Adams**").

R E C I T A L S

A. The Company's current intention is to enter into a stock purchase program to buy up to 1 million shares of the Company's common stock ("**Common Stock**") in the public market from its stockholders.

B. Adams and certain members of his "family," as defined in Section 544(a)(2) of the Code, currently desire, in the aggregate, to purchase, directly or indirectly, up to 1,200,000 shares of Common Stock in the public market (the "**Additional Shares**").

C. To help the Company maintain its status as a REIT, the Company's Articles of Incorporation (the "**Articles**"), impose certain limitations on the ownership of the Company's Equity Stock. The Articles contain a general restriction prohibiting any person from owning more than 9.9% of the number of shares of any class of outstanding Equity Stock of the Company (the "**Ownership Limit**").

D. The Company's Board of Directors is permitted to waive the Ownership Limit and allow ownership in excess of the Ownership Limit if certain conditions are satisfied.

E. The Company's Board of Directors desire to amend the Articles in the manner set forth in Exhibit B (the "**Amended Articles**").

F. The Company's Board of Directors and Adams desire to formalize, ratify, amend and restate an "Excepted Holder Limit" (herein so called) that has been in existence for Adams and the children and lineal descendants of Dr. Carl E. Adams and his wife, Jennie Mae Adams, since the Company's inception.

G. Simultaneous with execution of this Agreement, Excepted Holder Agreements are being entered into with Jennie Mae Adams, Carl Adams, Jr., Fred M. Adams, Robert G. Adams, A.B. Adams and Joanne A. Coggin, Dorothy Adams, Andrea Adams Brown, William A. Adams, Jr. and Anthony Adams, and this Agreement is effective when all such agreements are executed and delivered.

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

A G R E E M E N T

1. *Representations of Adams.*

To induce the Company to enter into this Agreement, Adams represents and warrants to the Company as follows:

1.1 This Agreement has been duly executed and delivered by Adams, and is a valid and binding obligation of Adams, enforceable in accordance with its terms;

1.2 The execution and delivery of this Agreement by Adams does not, and will not: (i) violate or conflict with any agreement, order, injunction, decree, or judgment to which Adams is a party or by which Adams is bound; or (ii) violate any law, rule or regulation applicable to Adams;

1.3 No consent, approval or authorization of, or designation, registration, declaration or filing with, any governmental entity or third Person is required on the part of Adams in connection with the execution or delivery of this Agreement;

1.4 On the date hereof, Adams Beneficially Owns 3,785,256 shares of Common Stock; and

1.5 Adams does not actually or Constructively Own 10% or more of any tenant of the Company (or any entity owned or controlled by the Company) listed on Schedule 2.2.

1.6 No lineal descendant of Adams is a current excepted holder, except for the individuals entering into Excepted Holder Agreements simultaneously herewith.

2. *On-Going Covenants of Adams.*

Beginning on the date hereof, and during any period that an Excepted Holder Limit established pursuant to this Agreement (as subsequently adjusted) remains in effect, Adams covenants and agrees as follows:

2.1 Adams will not Beneficially Own more than twenty percent (20%) of the number of any outstanding class of stock of the Company (the "Excepted Holder Limit"); provided, however, if the Company redeems, repurchases or cancels shares of Common Stock, other than in the Redemption, the effect of which would be to cause Adams to exceed the Excepted Holder Limit, Adams' Excepted Holder Limit shall be increased so that Adams' then Beneficial Ownership is not in excess of the new limit; provided, further, that if such increase would cause the Company to Constructively Own

more than a 9.9% interest (within the meaning of Section 856(d)(2)(B) of the Code) in a tenant, such Excepted Holder Limit shall be increased only to the extent it would not cause the Company to have such an ownership interest in a tenant;

2.2 Adams does not and will not actually own or Constructively Own an interest in any tenant of the Company (or a tenant of any entity owned or controlled by the Company) listed on Schedule 2.2 attached hereto (and the updates thereto which shall be completed pursuant to Section 5 of this Agreement) (when including tenant stock owned by the Company) that would cause the Company to Constructively Own more than a 9.9 percent interest (within the meaning of Section 856(d)(2)(B) of the Code) in such tenant; provided, however, that solely for purposes of this Section 2.2, a tenant from whom the Company (or any entity owned or controlled by the Company in whole or in part) derives or is expected to continue to derive a sufficiently small amount of revenue such that, in the opinion of the Board of Directors, rent from such tenant would not adversely affect the Company's ability to qualify as a REIT, shall not be treated as a tenant of the Company.

2.3 Adams will not own, actually or Beneficially, shares of the Company's Common Stock that would violate the Excepted Holder Limit established for Adams pursuant to this Agreement or that would cause the Company to become "closely held" within the meaning of Section 856(h) of the Code.

2.4 Adams agrees that any violation or attempted violation of Section 2.1 or 2.3 of this Agreement will automatically cause the shares of Equity Stock that otherwise would result in the violation to be Excess Stock as such term is defined in the Amended Articles and such Excess Stock shall be subject to all the terms and limitations set forth in the Amended Articles with respect to Excess Stock (without regard to any exception due to an Excepted Holder Agreement). In the event a violation or attempted violation occurs before the Amended Articles are effective and the shares of Equity Stock that would otherwise result in the violation are held by a Person who is not bound by the Amended Articles so that the Excess Stock provisions of the Amended Articles would not be enforceable against such Person, then shares owned by Adams shall be converted into Excess Stock; provided, however, if the conversion of shares into Excess Stock under this sentence would not operate to avoid a violation of Section 2.1 and 2.3, then the provisions of the Articles shall govern and be applied assuming that Persons against whom the provisions are applied are not Excepted Holders.

2.5 To minimize damages for breach of Section 2.2 hereof:

(a) any party hereto who becomes aware of such breach shall promptly notify the other party in writing of such breach; provided, however, failure to notify of such breach shall not be a defense against any rights or remedies of any party hereunder;

(b) the Company shall take all reasonably available actions with respect to its assets and sources of gross receipts in order to prevent the incurrence of any material tax liability by the Company, to the extent that the Board of

Directors of the Company determines that such actions are in the best interests of the Company and its stockholders and will not cause material economic detriment to the Company and its stockholders; and

(c) the Company shall first forthwith sell any interest in the tenant which is then causing the breach of Section 2.2 hereof, and if such sales do not cure the breach of Section 2.2 hereof, then Adams shall forthwith sell any interest in such tenant; but such sales shall be made only to the extent then needed to no longer cause a breach of Section 2.2 hereof.

2.6 Adams agrees to vote his shares of Common Stock in favor of adoption of the Amended Articles when such matter is submitted to a vote of the shareholders of the Company.

2.7 No later than March 31 of each calendar year beginning in 2009 (but only for so long as Adams actually or Beneficially Owns at least 10 percent of the Equity Stock of the Company), Adams shall deliver to the Company a schedule listing Adams' then current actual and Beneficial Ownership of Equity Stock with detail sufficient for the Company to independently determine Adams' then current actual and Beneficial Ownership of Equity Stock.

3. *On-Going Covenants of the Company*

3.1 The Company agrees to sell its Equity Stock in National Healthcare Corporation ("NHC") as soon as reasonably possible, and further agrees not to acquire any NHC stock in the future. In the event the Company involuntarily acquires an equity interest in NHC, the Company shall take commercially reasonable steps to divest itself of its equity interest in NHC as soon as is reasonably practicable.

3.2 The Company agrees that at its next annual shareholders meeting it will submit for approval of its shareholders the Amended Articles and immediately after approval take all reasonable steps to cause the Amended Articles to become effective, subject to any fiduciary obligations.

3.3 Notwithstanding the provisions of Section 9.3.7 of the Articles, the Directors of the Company agree that the Excepted Holder Limit granted to Adams by this Agreement and this Excepted Holder Agreement shall not be revoked unless the Board of Directors determines that such revocation is required for the preservation of the Company's qualification as a REIT.

4. *Company's Authorization of Agreement*

Based on the above representations and agreements, the Company has formalized, ratified and amended an existing Excepted Holder Limit for Adams by adopting a resolution of its Board of Directors in the form attached to this Agreement as Exhibit "A."

5. *Applicability of Charter Provisions*

5.1 Adams and the Company agree that, in lieu of the applicable provisions of Section 9.3 of the Articles, by which Adams, as a Beneficial Owner or Constructive Owner of Equity Stock, would otherwise be bound, the parties hereto agree to provide the following information (but with respect to Sections 5.1(a), (b) and (c), only for so long as Adams actually or Constructively Owns at least 10 percent of the Equity Stock of the Company):

(a) No later than December 31 of each calendar year, the Company will compile a list of its tenants (and tenants of any entity owned or controlled by the Company, in whole or in part) (the "Tenant List") and will deliver the Tenant List to Adams, excluding those tenants from whom the Company (or any entity owned or controlled by the Company, in whole or in part) derived or is expected to continue to derive a sufficiently small amount of revenue such that, in the opinion of the management of the Company, rent from such tenant would not adversely affect the Company's ability to qualify as a REIT, after such exclusion;

(b) No later than 30 days after receipt of the Tenant List, Adams will inform the Company of the actual or Constructive Ownership of Adams of any Person on the Tenant List;

(c) Adams shall provide the information described in 9.6 of the Amended Articles in accordance with the provisions thereof.

6. *Definitions*

6.1 "Beneficial Ownership" shall mean ownership of Equity Stock by a Person who is an actual owner, for federal income tax purposes, of such shares of Equity Stock or who is treated as an owner of such shares of Equity Stock under Section 542(a)(2) of the Code either directly, indirectly, or constructively through the application of Section 544 of the Code, as modified by Sections 856(h)(1)(B) and 856(b)(3) of the Code. The terms "Beneficial Owner," "Beneficially Owns" and "Beneficially Owned" shall have correlative meanings. For example, if a corporation is the actual beneficial owner of Equity Stock, the shares will be treated as Beneficially Owned by that corporation (due to its direct ownership of the shares), and the stockholders of that corporation will Beneficially Own their respective proportionate interests in those shares (due to their deemed ownership under Code Section 544(a)(1)), and interests in the same shares may also be treated as Beneficially Owned by others, depending upon the identity of, and relationships between, the stockholders and those related to the stockholders.

6.2 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

6.3 "Constructive Ownership" shall mean ownership of Equity Stock by a Person, whether the interest in the shares of Equity Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned

through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms "Constructive Owner," "Constructively Owns" and "Constructively Owned" shall have correlative meanings. For example, if a corporation is the actual beneficial owner of Equity Stock, the shares will be treated as Constructively Owned by that corporation (due to its direct ownership of the shares), and the 10% or more stockholders of that corporation will Constructively Own their respective proportionate interests in those shares (due to their deemed ownership under Code Section 318(a)(2)(C) as modified by Code Section 856(d)(5)), and interests in the same shares may also be treated as Constructively Owned by others, depending upon the identity of, and relationships between, the stockholders and those related to the stockholders.

6.4 "Equity Stock" shall mean stock that is either preferred stock or common stock of the Company.

6.5 "Person" shall mean an individual, corporation, partnership, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended; but does not include an underwriter which participated in a public offering of the Equity Stock for a period of 30 days following the purchase by such underwriter of shares of the Equity Stock.

6.6 "Redemption" shall mean the 1 million shares of the Company's Common Stock as described in Recital A hereof plus, in the sole discretion of the Board of Directors of the Company, up to an additional 1 million shares for an aggregate of 2 million shares of the Company's Common Stock.

7. *Miscellaneous*

7.1 All questions concerning the construction, validity and interpretation of this Agreement shall be governed by and construed in accordance with the domestic laws of the State of Maryland, without giving effect to any choice of law or conflict of law provision (whether of the State of Maryland or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Maryland.

7.2 This Agreement may be signed by the parties in separate counterparts, each of which when so signed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

7.3 This Agreement shall terminate, and Adams shall cease to be an "Excepted Holder" (as defined in the Articles) as set forth herein and in the Articles of the Company, as existing on the date of this Agreement, and as amended thereafter, upon reduction of Adams' Beneficial Ownership and Constructive Ownership to or below

9.9% of all outstanding classes of Equity Stock of the Company. In the event of termination of this Agreement, Adams shall immediately become subject to all rules and restrictions regarding the ownership of the Company's Equity Stock, including, without limitation, the limitations set forth in the Articles of the Company, as amended.

7.4 The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and heirs; provided, that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other party hereto, except that the estate of Adams is a permissible assignee. Any purported assignment in violation hereof shall be null and void.

Provided that the Board of Directors of the Company in good faith determines that the following may not detrimentally affect the Company's status as a REIT or cause the Company to Constructively Own more than a 9.9 percent interest (within the meaning of Section 856(d)(2)(B) of the Code) in any tenant, upon the death of Adams, if the actual or Beneficial Ownership of Adams' Equity Stock would cause any heir of Adams to violate (i) the Ownership Limit or (ii) an Excepted Holder Limit already in place for such heir; then, in the case of (i) an Excepted Holder Limit shall be established for such heir in an amount equal to such heir's actual and Beneficial Ownership of Equity Stock after Adams' death under the same terms as included in Adams' Excepted Holder Agreement and in the case of (ii) such heir's Excepted Holder Limit shall be increased to equal the amount of such heir's actual and Beneficial Ownership of Equity Stock after Adams' death.

7.5 Any provision of this Agreement may be amended or waived if in writing and signed by the Company and Adams. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law. No provision of this Agreement is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

7.6 The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

7.7 This Agreement (together with the Exhibits and Schedules hereto) constitutes the entire agreement between the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, both oral and written, between the parties with respect to the subject matter hereof.

National Health Investors, Inc.,
a Maryland corporation

/s/ W. Andrew Adams
W. Andrew Adams

By: /s/ Ernest E. Hyne, II
Name: Ernest E. Hyne, II
Title: Acting Secretary

List of Exhibits and Schedules

<i>Exhibit / Schedule</i>		<i>Section</i>
Exhibit A	Form of Company's Board Resolutions	4
Exhibit B	Form of Articles of Amendment	Recital B
Schedule 2.2	List of Tenants	1.5, 2.2

Exhibit "A"
ADAMS FAMILY
Excepted Holder Limit Resolutions

RESOLVED, in accordance with Article 9 of the Company's Articles of Incorporation ("Articles"), the Directors hereby determine that, the Excepted Holder Agreements with each of W. Andrew Adams, Jennie Mae Adams, Carl Adams, Jr., Fred M. Adams, Robert G. Adams, A.B. Adams and Joanne A. Coggin, and Andrea Adams Brown, William A. Adams, Jr. and Anthony Adams, all of the children of Adams and Dorothy Adams, (the "Excepted Holder Agreements") are hereby ratified and approved (capitalized terms used but not defined herein shall have the meanings ascribed to them in the Excepted Holder Agreements); and

FURTHER RESOLVED, that the Excepted Holder Agreements establish the following Excepted Holder Limits:

	Limit
W. Andrew Adams	20.0 %
Jennie Mae Adams	14.5%
Carl Adams, Jr.	12.5%
Fred M. Adams	12.5%
Robert G. Adams	13.0%
A.B. Adams	12.5%
Joanne A. Coggin	13.5%
Dorothy Adams	10.5%*
Andrea Adams Brown	12.0%*
William A. Adams, Jr.	12.0%*
Anthony Adams	12.0%*

*such limits to be increased to reflect the purchase of Additional Shares by W. Andrew Adams

FURTHER RESOLVED, as specified in the Excepted Holder Agreement, that if the Company redeems, repurchases or cancels shares of Common Stock, other than in the Redemption, the effect of which would be to cause the Excepted Holder to exceed the Excepted Holder Limit, the Excepted Holder Limit shall be increased so that the Excepted Holder's then Beneficial Ownership is not in excess of the new limit; provided, further, that if such increase would cause the Company to Constructively own more than a 9.9% interest (within the meaning of Section 856(d)(2)(B) of the Code) in a tenant, such Excepted Holder Limit shall be increased only to the extent it would not cause the Company to have such an ownership interest in a tenant; and

FURTHER RESOLVED, that notwithstanding the provisions of Section 9.3.7 of the Articles, the Directors of the Company agree that the Excepted Holder Limit granted to such Excepted Holder by the Excepted Holder Agreement shall not be revoked unless the Board of Directors determines that such revocation is required for the preservation of

the Company's qualification as a REIT, all as specified in the Excepted Holder Agreement; and

FURTHER RESOLVED, pursuant to the power of the Board of Directors in Sections 9.3.7, 9.3.8 and 9.3.9 of the Articles of Incorporation, as currently in effect, the Board of Directors determines that the only "Current Excepted Holders" (referred to in Section 9.3.6.2 of the Articles of Incorporation as currently in effect) are those with whom the Company has entered into a written Excepted Holder Agreement dated April _____, 2008 and determines that there are no other excepted holders and hereby revokes any prior determination with respect to a broader group, including but not limited to other Persons who are children and lineal descendants of Dr. Carl E. Adams and wife, Jennie Mae Adams.

FURTHER RESOLVED, that any director and any officer of the Company (the "Authorized Persons"), be and each hereby is individually authorized and directed, by and on behalf of the Company, to execute the Excepted Holder Agreements, substantially in the form as previously provided to the directors, with such changes therein as the person executing them may approve, and to take such additional actions and to negotiate the terms of, execute, deliver and perform any and all other agreements, instruments, documents and other writings necessary or desirable, in such person's sole discretion, to accomplish the foregoing resolutions, the taking of such actions or the execution and delivery of such agreements, instruments, documents and other writings to be conclusive evidence of the Company's approval of the terms and conditions thereof.

Amendment to Articles of Incorporation

RESOLVED, subject to the shareholder approval, the Board of Directors hereby authorizes and approves the amendment of the Company's Articles of Incorporation in the form attached hereto as Schedule 1 (the "Articles of Amendment"); and

FURTHER RESOLVED, that the Board of Directors hereby recommends the Articles of Amendment to the Company's shareholders for approval at the next Annual Shareholders Meeting for which a proxy has not already been mailed; and

FURTHER RESOLVED, that the Authorized Persons be and each hereby is individually authorized upon due approval by Shareholders to execute and file the Articles of Amendment with the Maryland Department of Assessments and Taxation and any other appropriate office(s), with such changes, additions, and deletions as the signing officer may approve; the execution of which shall be conclusive evidence of the Company's approval thereof; and

FURTHER RESOLVED, that the Board of Directors hereby approves and authorizes the filing of any regular annual proxy statement and other materials to accomplish the foregoing at the 2009 regular Annual Shareholders Meeting; and

FURTHER RESOLVED, that the Authorized Persons be and each hereby is individually authorized to prepare and mail to the Company's shareholders a proxy

statement, together with any amendments or supplements thereto, and to engage the services of counsel, accountants and such other experts as they may deem necessary or appropriate in the proper preparation of the proxy statement.

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Section 3: EX-10.7 (EXHIBIT 10.7)

EXHIBIT 10.7

FORM OF

Excepted Holder Agreement

This Excepted Holder Agreement ("Agreement") is made and entered into this 29th day of April, 2008, by and between National Health Investors, Inc., a Maryland corporation (the "Company"), and _____ ("Adams").

R E C I T A L S

A. The Company's current intention is to enter into a stock purchase program to buy up to 1 million shares of the Company's common stock ("Common Stock") in the public market from its stockholders.

B. Adams and certain members of [her] "family," as defined in Section 544(a)(2) of the Code, currently desire, in the aggregate, to purchase, directly or indirectly, up to 1,200,000 shares of Common Stock in the public market (the "Additional Shares").

C. To help the Company maintain its status as a REIT, the Company's Articles of Incorporation (the "Articles"), impose certain limitations on the ownership of the Company's Equity Stock. The Articles contain a general restriction prohibiting any person from owning more than 9.9% of the number of shares of any class of outstanding Equity Stock of the Company (the "Ownership Limit").

D. The Company's Board of Directors is permitted to waive the Ownership Limit and allow ownership in excess of the Ownership Limit if certain conditions are satisfied.

E. The Company's Board of Directors desire to amend the Articles in the manner set forth in Exhibit B (the "Amended Articles").

F. The Company's Board of Directors and Adams desire to formalize, ratify, amend and restate an "Excepted Holder Limit" (herein so called) that has been in existence for the children and lineal descendants of Dr. Carl E. Adams and his wife, Jennie Mae Adams, since the Company's inception.

G. Simultaneous with execution of this Agreement, Excepted Holder Agreements are being entered into with Jennie Mae Adams, Carl Adams, Jr., Fred M. Adams, W. Andrew Adams, Robert G. Adams, A.B. Adams, Joanne A. Coggin, Dorothy Adams, Andrea Adams Brown, William A. Adams, Jr. and Anthony Adams, and this Agreement is effective when all such agreements are executed and delivered.

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

A G R E E M E N T

1. *Representations of Adams.*

To induce the Company to enter into this Agreement, Adams represents and warrants to the Company as follows:

1.1 This Agreement has been duly executed and delivered by Adams, and is a valid and binding obligation of Adams, enforceable in accordance with its terms;

1.2 The execution and delivery of this Agreement by Adams does not, and will not: (i) violate or conflict with any agreement, order, injunction, decree, or judgment to which Adams is a party or by which Adams is bound; or (ii) violate any law, rule or regulation applicable to Adams;

1.3 No consent, approval or authorization of, or designation, registration, declaration or filing with, any governmental entity or third Person is required on the part of Adams in connection with the execution or delivery of this Agreement;

1.4 On the date hereof, Adams Beneficially Owns [] shares of Common Stock; and

1.5 [Reserved]

1.6 No lineal descendant of Adams is a current excepted holder, except for the individuals entering into Excepted Holder Agreements simultaneously herewith.

2. *On-Going Covenants of Adams.*

Beginning on the date hereof, and during any period that an Excepted Holder Limit established pursuant to this Agreement (as subsequently adjusted) remains in effect, Adams covenants and agrees as follows:

2.1 Adams will not Beneficially Own more than [] percent (%) of the number of any outstanding class of stock of the Company (the "Excepted Holder Limit"); provided, however, [such Excepted Holder Limit shall be increased to take into account Adams' Beneficial Ownership of the Additional Shares acquired, directly or indirectly, by W. Andrew Adams]. If the Company redeems, repurchases or cancels shares of Common Stock, other than in the Redemption, the effect of which would be to cause Adams to exceed the Excepted Holder Limit, Adams' Excepted Holder Limit shall be increased so that Adams then Beneficial Ownership is not in excess of the new limit; provided, further, that if such increase would cause the

Company to Constructively Own more than a 9.9% interest (within the meaning of Section 856 (d)(2)(B) of the Code) in a tenant, such Excepted Holder Limit shall be increased only to the extent it would not cause the Company to have such an ownership interest in a tenant;

2.2 [Reserved]

2.3 Adams will not own, actually or Beneficially, shares of the Company's Common Stock that would violate the Excepted Holder Limit established for Adams pursuant to this Agreement or that would cause the Company to become "closely held" within the meaning of Section 856(h) of the Code.

2.4 Adams agrees that any violation or attempted violation of Section 2.1 or 2.3 of this Agreement will automatically cause the shares of Equity Stock that otherwise would result in the violation to be Excess Stock as such term is defined in the Amended Articles and such Excess Stock shall be subject to all the terms and limitations set forth in the Amended Articles with respect to Excess Stock (without regard to any exception due to an Excepted Holder Agreement). In the event a violation or attempted violation occurs before the Amended Articles are effective and the shares of Equity Stock that would otherwise result in the violation are held by a Person who is not bound by the Amended Articles so that the Excess Stock provisions of the Amended Articles would not be enforceable against such Person, then shares owned by Adams shall be converted into Excess Stock; provided, however, if the conversion of shares into Excess Stock under this sentence would not operate to avoid a violation of Section 2.1 and 2.3, then the provisions of the Articles shall govern and be applied assuming that Persons against whom the provisions are applied are not Excepted Holders.

2.5 [Reserved]

2.6 Adams agrees to vote her shares of Common Stock in favor of adoption of the Amended Articles when such matter is submitted to a vote of the shareholders of the Company.

2.7 No later than March 31 of each calendar year beginning in 2009 (but only for so long as Adams actually or Beneficially Owns at least 10 percent of the Equity Stock of the Company), Adams shall deliver to the Company a schedule listing Adams' then current actual and Beneficial Ownership of Equity Stock with detail sufficient for the Company to independently determine Adams' then current actual and Beneficial Ownership of Equity Stock.

3. *On-Going Covenants of the Company*

3.1 [Reserved]

3.2 The Company agrees that at its next annual shareholders meeting it will submit for approval of its shareholders the Amended Articles and immediately after

approval take all reasonable steps to cause the Amended Articles to become effective, subject to any fiduciary obligations.

3.3 Notwithstanding the provisions of Section 9.3.7 of the Articles, the Directors of the Company agree that the Excepted Holder Limit granted to Adams by this Agreement and this Excepted Holder Agreement shall not be revoked unless the Board of Directors determines that such revocation is required for the preservation of the Company's qualification as a REIT.

4. *Company's Authorization of Agreement*

Based on the above representations and agreements, the Company has formalized, ratified and amended an existing Excepted Holder Limit for Adams by adopting a resolution of its Board of Directors in the form attached to this Agreement as Exhibit "A."

5. *Applicability of Charter Provisions*

5.1 Adams and the Company agree that, in lieu of the applicable provisions of Section 9.3 of the Articles, by which Adams, as a Beneficial Owner or Constructive Owner of Equity Stock, would otherwise be bound, the parties hereto agree to provide the following information:

(a) [Reserved]

(b) [Reserved]

(c) [Reserved]

(d) Adams shall provide the information described in 9.6 of the Amended Articles in accordance with the provisions thereof.

6. *Definitions*

6.1 "Beneficial Ownership" shall mean ownership of Equity Stock by a Person who is an actual owner, for federal income tax purposes, of such shares of Equity Stock or who is treated as an owner of such shares of Equity Stock under Section 542(a)(2) of the Code either directly, indirectly, or constructively through the application of Section 544 of the Code, as modified by Sections 856(h)(1)(B) and 856(h)(3) of the Code. The terms "Beneficial Owner," "Beneficially Owns" and "Beneficially Owned" shall have correlative meanings. For example, if a corporation is the actual beneficial owner of Equity Stock, the shares will be treated as Beneficially Owned by that corporation (due to its direct ownership of the shares), and the stockholders of that corporation will Beneficially Own their respective proportionate interests in those shares (due to their deemed ownership under Code Section 544(a)(1)), and interests in the same shares may also be treated as Beneficially Owned by others, depending upon the identity of, and relationships between, the stockholders and those related to the stockholders.

6.2 "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

6.3 "Constructive Ownership" shall mean ownership of Equity Stock by a Person, whether the interest in the shares of Equity Stock is held directly or indirectly (including by a nominee), and shall include interests that would be treated as owned through the application of Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms "Constructive Owner," "Constructively Owns" and "Constructively Owned" shall have correlative meanings. For example, if a corporation is the actual beneficial owner of Equity Stock, the shares will be treated as Constructively Owned by that corporation (due to its direct ownership of the shares), and the 10% or more stockholders of that corporation will Constructively Own their respective proportionate interests in those shares (due to their deemed ownership under Code Section 318(a)(2)(C) as modified by Code Section 856(d)(5)), and interests in the same shares may also be treated as Constructively Owned by others, depending upon the identity of, and relationships between, the stockholders and those related to the stockholders.

6.4 "Equity Stock" shall mean stock that is either preferred stock or common stock of the Company.

6.5 "Person" shall mean an individual, corporation, partnership, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended; but does not include an underwriter which participated in a public offering of the Equity Stock for a period of 30 days following the purchase by such underwriter of shares of the Equity Stock.

6.6 "Redemption" shall mean the 1 million shares of the Company's Common Stock as described in Recital A hereof plus, in the sole discretion of the Board of Directors of the Company, up to an additional 1 million shares for an aggregate of 2 million shares of the Company's Common Stock.

7. *Miscellaneous*

7.1 All questions concerning the construction, validity and interpretation of this Agreement shall be governed by and construed in accordance with the domestic laws of the State of Maryland, without giving effect to any choice of law or conflict of law provision (whether of the State of Maryland or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of Maryland.

7.2 This Agreement may be signed by the parties in separate counterparts, each of which when so signed and delivered shall be an original, but all such counterparts shall together constitute one and the same instrument.

7.3 This Agreement shall terminate, and Adams shall cease to be an "Excepted Holder" (as defined in the Articles) as set forth herein and in the Articles of the Company, as existing on the date of this Agreement, and as amended thereafter, upon reduction of Adams' Beneficial Ownership and Constructive Ownership to or below 9.9% of all outstanding classes of Equity Stock of the Company. In the event of termination of this Agreement, Adams shall immediately become subject to all rules and restrictions regarding the ownership of the Company's Equity Stock, including, without limitation, the limitations set forth in the Articles of the Company, as amended.

7.4 The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and heirs; provided, that no party may assign, delegate or otherwise transfer any of its rights or obligations under this Agreement without the consent of the other party hereto, except that the estate of Adams is a permissible assignee. Any purported assignment in violation hereof shall be null and void.

Provided that the Board of Directors of the Company in good faith determines that the following may not detrimentally affect the Company's status as a REIT or cause the Company to Constructively Own more than a 9.9 percent interest (within the meaning of Section 856(d) (2)(B) of the Code) in any tenant, upon the death of Adams, if the actual or Beneficial Ownership of Adams' Equity Stock would cause any heir of Adams to violate (i) the Ownership Limit or (ii) an Excepted Holder Limit already in place for such heir; then, in the case of (i) an Excepted Holder Limit shall be established for such heir in an amount equal to such heir's actual and Beneficial Ownership of Equity Stock after Adams' death under the same terms as included in Adams' Excepted Holder Agreement and in the case of (ii) such heir's Excepted Holder Limit shall be increased to equal the amount of such heir's actual and Beneficial Ownership of Equity Stock after Adams' death.

7.5 Any provision of this Agreement may be amended or waived if in writing and signed by the Company and Adams. No failure or delay by any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law. No provision of this Agreement is intended to confer upon any Person other than the parties hereto any rights or remedies hereunder.

7.6 The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

7.7 This Agreement (together with the Exhibits and Schedules hereto) constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, both oral and written, between the parties with respect to the subject matter hereof.

National Health Investors, Inc.,
a Maryland corporation

_____ Adams

By:
Name:
Title:

List of Exhibits and Schedules

<i>Exhibit / Schedule</i>		<i>Section</i>
Exhibit A	Form of Company's Board Resolutions	4
Exhibit B	Form of Articles of Amendment	Recital B

Exhibit "A"
ADAMS FAMILY
Excepted Holder Limit Resolutions

RESOLVED, in accordance with Article 9 of the Company's Articles of Incorporation ("Articles"), the Directors hereby determine that, the Excepted Holder Agreements with each of W. Andrew Adams, Jennie Mae Adams, Carl Adams, Jr., Fred M. Adams, Robert G. Adams, A.B. Adams and Joanne A. Coggin, and Andrea Adams Brown, William A. Adams, Jr. and Anthony Adams, and Dorothy Adams, (the "Excepted Holder Agreements") are hereby ratified and approved (capitalized terms used but not defined herein shall have the meanings ascribed to them in the Excepted Holder Agreements); and

FURTHER RESOLVED, that the Excepted Holder Agreements establish the following Excepted Holder Limits:

	Limit
W. Andrew Adams	20.0 %
Jennie Mae Adams	14.5%
Carl Adams, Jr.	12.5%
Fred M. Adams	12.5%
Robert G. Adams	13.0%
A.B. Adams	12.5%
Joanne A. Coggin	13.5%
Dorothy Adams	10.5%*
Andrea Adams Brown	12.0%*
William A. Adams, Jr.	12.0%*
Anthony Adams	12.0%*

*such limits to be increased to reflect the purchase of Additional Shares by W. Andrew Adams

FURTHER RESOLVED, as specified in the Excepted Holder Agreement, that if the Company redeems, repurchases or cancels shares of Common Stock, other than in the Redemption, the effect of which would be to cause the Excepted Holder to exceed the Excepted Holder Limit, the Excepted Holder Limit shall be increased so that the Excepted Holder's then Beneficial Ownership is not in excess of the new limit; provided, further, that if such increase would cause the Company to Constructively own more than a 9.9% interest (within the meaning of Section 856(d)(2)(B) of the Code) in a tenant, such Excepted Holder Limit shall be increased only to the extent it would not cause the Company to have such an ownership interest in a tenant; and

FURTHER RESOLVED, that notwithstanding the provisions of Section 9.3.7 of the Articles, the Directors of the Company agree that the Excepted Holder Limit granted to such Excepted Holder by the Excepted Holder Agreement shall not be revoked unless the Board of Directors determines that such revocation is required for the preservation of

the Company's qualification as a REIT, all as specified in the Excepted Holder Agreement; and

FURTHER RESOLVED, pursuant to the power of the Board of Directors in Sections 9.3.7, 9.3.8 and 9.3.9 of the Articles of Incorporation, as currently in effect, the Board of Directors determines that the only "Current Excepted Holders" (referred to in Section 9.3.6.2 of the Articles of Incorporation as currently in effect) are those with whom the Company has entered into a written Excepted Holder Agreement dated April _____, 2008 and determines that there are no other excepted holders and hereby revokes any prior determination with respect to a broader group, including but not limited to other Persons who are children and lineal descendants of Dr. Carl E. Adams and wife, Jennie Mac Adams.

FURTHER RESOLVED, that any director and any officer of the Company (the "Authorized Persons"), be and each hereby is individually authorized and directed, by and on behalf of the Company, to execute the Excepted Holder Agreements, substantially in the form as previously provided to the directors, with such changes therein as the person executing them may approve, and to take such additional actions and to negotiate the terms of, execute, deliver and perform any and all other agreements, instruments, documents and other writings necessary or desirable, in such person's sole discretion, to accomplish the foregoing resolutions, the taking of such actions or the execution and delivery of such agreements, instruments, documents and other writings to be conclusive evidence of the Company's approval of the terms and conditions thereof.

Amendment to Articles of Incorporation

RESOLVED, subject to the shareholder approval, the Board of Directors hereby authorizes and approves the amendment of the Company's Articles of Incorporation in the form attached hereto as Schedule 1 (the "Articles of Amendment"); and

FURTHER RESOLVED, that the Board of Directors hereby recommends the Articles of Amendment to the Company's shareholders for approval at the next Annual Shareholders Meeting for which a proxy has not already been mailed; and

FURTHER RESOLVED, that the Authorized Persons be and each hereby is individually authorized upon due approval by Shareholders to execute and file the Articles of Amendment with the Maryland Department of Assessments and Taxation and any other appropriate office(s), with such changes, additions, and deletions as the signing officer may approve; the execution of which shall be conclusive evidence of the Company's approval thereof; and

FURTHER RESOLVED, that the Board of Directors hereby approves and authorizes the filing of any regular annual proxy statement and other materials to accomplish the foregoing at the 2009 regular Annual Shareholders Meeting; and

FURTHER RESOLVED, that the Authorized Persons be and each hereby is individually authorized to prepare and mail to the Company's shareholders a proxy

statement, together with any amendments or supplements thereto, and to engage the services of counsel, accountants and such other experts as they may deem necessary or appropriate in the proper preparation of the proxy statement.

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Section 4: EX-10.8 (EXHIBIT 10.8)

Exhibit 10.8

CONSULTING AGREEMENT

This **CONSULTING AGREEMENT** is entered into on the 1st day of April, 2008 (the "Agreement"), between **National Health Investors, Inc.**, a Maryland real estate investment trust ("Company") and **W. Andrew Adams**, a resident of Tennessee ("Consultant").

WHEREAS, Consultant has acted as the Company's president and chief executive officer pursuant to the Company's Advisory, Administrative Services and Facilities Agreement between the Company and Management Advisory Source, LLC, ("MAS") an entity wholly owned by Consultant;

WHEREAS, the Company terminated the agreement with MAS effective March 31, 2008;

WHEREAS, the Company desires to continue to avail itself of the Consultants experience, sources of information, advice, and assistance and to have the Consultant continue undertake certain duties and responsibilities, on behalf of and subject to the supervision of the Board of Directors of the Company (the "Directors"), during the interim while the Company searches for a new president and chief executive officer for the Company; and

WHEREAS, the Consultant is willing to continue to render such services, subject to the supervision of the Directors, on the terms and conditions hereinafter set forth.

NOW, THEREFORE, for and in consideration of the promises herein, and other good and valuable consideration, Company and Consultant do hereby agree as follows:

1. Services.

(a) During the Term (as defined below), Consultant agrees to provide consulting services to the Company concerning its strategy, management, operation, and finances, and will act as President and Chief Executive Officer of the Company and to be responsible for the typical management responsibilities expected of an officer holding such positions and such other responsibilities as may be assigned to Consultant from time to time by Directors consistent with such position (the "Services"). Consultant shall be responsible to and work under the supervision of the Directors.

(c) Consultant agrees (i) to provide the Services in good faith and with due care and skill, (ii) to be available at any time as needed by the Company on a flex-time basis, and (iii) to comply with all regulations, laws and Company policies applicable to the services to be performed under this Agreement.

(d) Consultant and the Company agree and understand that Consultant will not be working solely on Company business, but may have other involvements as well. The Company agrees and understands that Consultant will be working on a flexible time basis; provided

however, that Consultant will be accessible to the Company at any time regardless of any other involvements.

2. **Term.** This Agreement will commence on April 1, 2008 and shall continue until terminated by either party as herein provided ("Term"). Either party may terminate this Agreement at any time in a written notice of termination given to the other party at least thirty (30) days prior to the effective date of such termination; provided, that the Company may terminate this Agreement at any time for cause. Upon the termination of this Agreement for any reason the Consultant shall cooperate with the Company to provide an orderly management transition.

3. **Compensation.** As compensation for the Services to be provided by Consultant hereunder, Consultant shall be paid \$1. At the end of the Term of this Agreement, the Directors may, in their sole discretion, pay Consultant a bonus amount for the Services provided pursuant to this Agreement. Consultant shall be solely responsible for all taxes due on all amounts paid to him by Company.

4. **Death.** In the event of the death of the Consultant, the Company's obligation to make payments to Consultant shall cease as of the date of death, except for earned but unpaid compensation which will be paid to Consultant's estate.

5. **Relationship of the Parties.** The Services shall be performed by Consultant as an independent contractor during the Term. This Agreement may not be assigned by Consultant without the prior written consent of the Company, which consent may be granted or withheld in Company's sole discretion. Company may assign or transfer its rights and obligations under this Agreement at any time with or without Consultant's consent.

6. **Representation.** Consultant warrants and represents that this Agreement and Consultant's performance hereunder will not violate the terms of any other agreement or arrangement to which he is a party, whether written or oral.

7. **Notices.** All notices required hereunder shall be deemed given when sent by registered or certified mail, postage prepaid, return receipt requested, as follows:

if to Company: Ted H. Welch
The Tower, Suite 2920
611 Commerce Street
Nashville, Tennessee 37219

If to Consultant: W. Andrew Adams
750 South Church Street, Suite B
Murfreesboro, TN 37130

8. **Severability.** The invalidity or unenforceability of any term or provision of this Agreement shall not affect the validity or enforceability of any other term or provision hereof.

9. Waiver. Waiver by either party or the failure by either party to claim a breach of any provision of this Agreement shall not be deemed to constitute a waiver or estoppel with respect to any subsequent breach of any provision hereof.

10. Entire Agreement. This instrument contains the entire agreement of the parties and may only be modified by the written agreement of both parties.

11. Applicable Law. This Agreement shall be deemed to have been made in the State of Tennessee and shall be interpreted and enforced in accordance with the laws of the State of Tennessee. Venue for all disputes arising out of this Agreement shall be heard exclusively in the courts sitting in Murfreesboro, Rutherford County, Tennessee.

IN WITNESS WHEREOF, the parties have caused this Agreement to be effective as of the date first written above.

NATIONAL HEALTH INVESTORS, INC.

CONSULTANT

By: /s/ Robert A. McCabe

/s/ W. Andrew Adams
W. Andrew Adams

Title: Robert A. McCabe, Chairman, Audit
Committee

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Section 5: EX-13 (EXHIBIT 13)

EXHIBIT 13
NATIONAL HEALTH INVESTORS, INC.
INDEX TO FINANCIAL STATEMENT SCHEDULES

Financial Statement Schedules

Report of Independent Registered Public Accounting Firm on Financial Statement Schedules

Schedule II - Valuation and Qualifying Accounts

Schedule III - Real Estate and Accumulated Depreciation

Schedule IV - Mortgage Loans on Real Estate

Report of Independent Registered Public Accounting Firm

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

The audits referred to in our report dated February 23, 2009 relating to the consolidated financial statements of National Health Investors, Inc., which is contained in Item 8 of this Form 10-K, included the audits of the financial statement schedules listed in the accompanying index. These financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statement schedules based upon our audits.

In our opinion such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ BDO Seidman, LLP

Nashville, Tennessee
February 23, 2009

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007, AND 2006
(in thousands)

<u>Description</u>	<u>Balance Beginning of Period</u>	<u>Additions Charged to Costs and Expenses (1)</u>	<u>Deductions</u>	<u>Balance End of Period</u>
For the year ended December 31, 2008 - Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2007 - Loan loss allowance	\$ —	\$ —	\$ —	\$ —
For the year ended December 31, 2006 - Loan loss allowance	\$ —	\$1,074	\$1,074	\$ —

(1) In the Consolidated Statements of Income, we report the net amount of our provision for loan and realty losses and our recoveries of amounts previously written down. For 2008, there were no recoveries and there was no provision for losses during the year. For 2007, net recoveries were \$24,238 and there was no provision for losses during the year. For 2006, net recoveries were \$7,934 comprised of recoveries of \$9,008 offset by provision for loan losses of \$1,074.

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2008
(in thousands)

Column A	Column B	Column C		Column D		Column E			Column F	Column G	Column H
Properties	Encum- brances	Initial Cost to Company		Cost capitalized subsequent to acquisition		Gross amount at which carried at close of period			Accumulated Depreciatioe	Date of Construction	Date Acquired
		Land	Buildings & Improvements	Improve- ments	Carrying Costs	Land	Buildings & Improvements	Total			
Health Care Centers (2) Alabama	\$ —	\$ 95	\$ 5,165	\$ —	\$ —	\$ 95	\$ 5,165	\$ 5,260	\$3,399	N/A	10/17/91
Health Care Centers (1) Arizona	1,400	453	6,678	—	—	453	6,678	7,131	2,236	N/A	8/13/96
Health Care Centers (4) Florida		2,306	37,436	—	—	2,306	37,436	39,742	21,551	N/A	10/17/91 & 12/31/99
Health Care Centers (1) Georgia	—	52	865	—	—	52	865	917	820	N/A	10/17/91
Health Care Centers (1) Idaho	—	122	2,641	—	—	122	2,491	2,613	834	N/A	8/13/96
Health Care Centers (2) Kentucky	—	231	2,182	—	—	231	2,182	2,413	1,556	N/A	10/17/91
Health Care Centers (5) Missouri	1,225	1,165	23,068	—	—	1,165	23,068	24,233	13,962	N/A	10/17/91
Health Care Centers (4) South Carolina	—	872	15,242	—	—	872	15,241	16,113	8,050	N/A	10/17/91 & 9/25/08
Health Care Centers (20) Tennessee	—	1,835	41,335	—	—	1,835	41,335	43,170	26,921	N/A	10/17/91

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2008
(in thousands)

Column A	Column B	Column C		Column D		Column E			Column F	Column G	Column H
Properties	Encumbrances	Initial Cost to Company		Cost capitalized subsequent to acquisition		Gross amount at which carried at close of period			Accumulated Depreciation	Date of Construction	Date Acquired
		Land	Buildings & Improvements	Improvements	Carrying Costs	Land	Buildings & Improvements	Total			
Health Care Centers (8) Texas	—	2,280	47,409	—	—	2,280	47,409	49,689	10,821	N/A	9/1/01 & 3/16/05
Health Care Centers (1) Virginia	1,362	176	2,511	—	—	176	2,511	2,687	1,550	N/A	10/17/91
Acute Care Hospital (1) Kentucky	—	540	10,163	—	—	540	10,163	10,703	4,412	N/A	6/12/92
Medical Office Building (1) Florida	—	165	3,349	—	—	165	3,349	3,514	1,754	N/A	6/30/93
Medical Office Building (1) Illinois	—	—	1,925	—	—	—	1,925	1,925	559	12/31/98	N/A
Medical Office Building (2) Texas	—	631	9,677	—	—	631	9,677	10,308	4,294	1/1/95 & 7/31/97	N/A
Assisted Living Centers (4) Arizona	—	1,757	13,622	—	—	1,757	13,622	15,379	3,376	N/A	12/31/98 & 3/31/99
Assisted Living Centers (4) Florida	—	7,096	28,143	1,350	—	7,096	21,543	28,639	9,584	N/A	8/6/96, 12/31/98 & 1/1/99
Assisted Living Centers (1) New Jersey	—	4,229	13,030	—	—	4,229	13,030	17,259	4,977	N/A	8/6/96
Assisted Living Centers (1) Pennsylvania	—	439	3,960	—	—	439	3,960	4,399	330	N/A	9/1/05
Assisted Living Centers (1) South Carolina	—	344	2,877	—	—	344	2,877	3,221	716	N/A	12/31/98

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
DECEMBER 31, 2008
(in thousands)

Column A	Column B	Column C		Column D		Column E			Column F	Column G	Column H
Properties	Encumbrances	Initial Cost to Company		Cost capitalized subsequent to acquisition		Gross amount at which carried at close of period			Accumulated Depreciation	Date of Construction	Date Acquired
		Land	Buildings & Improvements	Improvements	Carrying Costs	Land	Buildings & Improvements	Total			
Assisted Living Centers (3)											
Tennessee	—	871	7,061	—	—	871	7,061	7,932	1,739	N/A	12/31/98 & 3/31/99
Retirement Center (1)											
Idaho	—	243	4,182	—	—	243	4,182	4,425	1,376	N/A	8/13/96
Retirement Center (1)											
Missouri	—	344	3,181	—	—	344	3,181	3,525	1,868	N/A	10/17/91
Retirement Centers (2)											
Tennessee	—	64	5,645	—	—	64	5,645	5,709	2,883	N/A	10/17/91
	<u>\$3,987</u>	<u>\$26,310</u>	<u>\$291,347</u>	<u>\$ 1,350</u>	<u>\$ —</u>	<u>\$26,310</u>	<u>\$284,596</u>	<u>\$310,906</u>	<u>\$129,574</u>		

NOTES TO SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION

- (A) See Notes 3 and 15 of Notes to Consolidated Financial Statements.
(B) Depreciation is calculated using estimated depreciation lives up to 40 years for all completed facilities.
(C) Subsequent to NHC's transfer of the original real estate properties in 1991, we have purchased from NHC \$33,909,000 of additions to those properties. As the additions were purchased from NHC rather than developed by us, the \$33,909,000 has been included in Column C - Initial Cost to us.

NATIONAL HEALTH INVESTORS, INC.
SCHEDULE III - REAL ESTATE AND ACCUMULATED DEPRECIATION
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	<u>2008</u>	December 31, <u>2007</u>	<u>2006</u>
	<i>(in thousands)</i>		
Investment in Real Estate:			
Balance at beginning of period	\$309,407	\$376,407	\$394,913
Additions through cash expenditures	4,048	2,491	2,499
Additions in exchange for rights under mortgage notes receivable	—	—	—
Sale of properties for cash	(133)	(69,491)	(21,005)
Impairment write-downs	(1,986)	—	—
Reclassification for assets held for sale	(430)	—	—
Balance at end of year	<u>\$310,906</u>	<u>\$309,407</u>	<u>\$376,407</u>
Accumulated Depreciation:			
Balance at beginning of period	\$121,952	\$141,208	\$131,784
Addition charged to costs and expenses	7,943	11,751	12,026
Sale of properties	(91)	(31,007)	(2,602)
Reclassification for assets held for sale	(230)	—	—
Balance at end of year	<u>\$129,574</u>	<u>\$121,952</u>	<u>\$141,208</u>

SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE⁽¹⁾
DECEMBER 31, 2008

Column A	Column B	Column C	Column D	Column E	Column F	Column G	Column H
Description	Interest Rate	Final Maturity Date	Monthly Payment Terms	Prior Liens	Original Face Amount of Mortgages	Carrying Amount of Mortgages ⁽²⁾	Principal Amount of Loan Subject To Delinquent Principal or Interest
First Mortgage Loans:							
Florida (A)	9.5%	2008	\$353,000	None	\$32,708,000	\$ 22,936,000	\$ 22,936,000
Georgia	Prime + 2.0%	January, 2009	Int. only	None	300,000	83,000 ⁽³⁾	None
Georgia(B)	9.0%	January, 2010	120,000	None	12,162,000	8,463,000 ⁽³⁾	None
Atlanta, Georgia (B)	6.5%	September, 2013	22,000	None	5,158,000	801,000 ⁽³⁾	None
TN and FL Homes	10.00%	April, 2009	49,000	None	5,196,000	3,750,000	None
Osceola, Florida	9.5%	January, 2009	70,000	None	7,900,000	6,628,000	None
Dripping Springs, Gainesville, Texas	9.0%	March, 2019	19,000	None	2,500,000	2,500,000	None
7 Mortgages, Virginia (\$2,134,000 to \$3,935,000 each)	8.0%-9.6%	August 2027 to June 2032	19,000 to 32,000	None	20,774,000	18,137,000	None
8 Mortgages, Massachusetts and New Hampshire (\$1,125,000 to \$9,005,000 each)	6.9%	August 2011	9,000 to 69,000	None	40,526,000	23,458,000	None
8 Mortgages, Kansas and Missouri (\$707,000 to \$2,082,000 each) (C)	3.0% to 8.5%	December 2014	8,000 to 25,000	None	26,293,000	21,884,000	None
					<u>\$108,640,000</u>		

NOTES TO SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE

(A) NHI's original face amount of the mortgage was \$25,900,000. In May 2007 we purchased the second mortgage whose original amount was \$6,808,000 for its then current balance of \$6,186,000. The carrying amount of \$22,936,000 is the current balance of the first and second mortgage. As discussed in Note 9 to the Consolidated Financial Statements, the borrower has filed a Chapter 11 bankruptcy petition and has initiated an adversary proceeding complaint against us.

(B) We have reduced the carrying amount of this mortgage loan by a reserve or write-off calculated in accordance with the provisions of Statement of Financial Accounting Standards 114, "Accounting by Creditors for Impairment of a Loan - An Amendment of FASB Statements No. 5 and 15". The reserve or write-off is based on our knowledge of the general economic condition in the long-term health care industry and the cash flows of the long-term health care facilities that service the mortgage loan.

(C) Note A in the original amount of \$16,513,000 is at 8.5%. Note B in the original amount of \$9,780,000 is at 3% with all principal and interest due at maturity.

(1) See Note 4 to Consolidated Financial Statements for more information on our mortgage loan receivables.

(2) For tax purposes, the cost of investments is the carrying amount.

(3) Loan is currently on non-accrual status. We recognize interest income in the period in which cash is received.

NATIONAL HEALTH INVESTORS, INC.
 SCHEDULE IV - MORTGAGE LOANS ON REAL ESTATE (continued)
 FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

	<u>2008</u>	December 31, <u>2007</u>	<u>2006</u>
		<i>(in thousands)</i>	
Reconciliation of mortgage loans			
Balance at beginning of period	\$ 134,605	\$ 90,782	\$ 115,901
Additions:			
New mortgage loans	—	74,835	11,063
Total Additions	—	74,835	11,063
Deductions during period:			
Collection of principal, net	25,965	31,012	36,182
Total Deductions	25,965	31,012	36,182
Balance at end of period	<u>\$ 108,640</u>	<u>\$ 134,605</u>	<u>\$ 90,782</u>

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Section 6: EX-23.1 (EXHIBIT 23.1)

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

National Health Investors, Inc.
 Murfreesboro, Tennessee

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (No. 33-72370 and No. 33-85398) and on Form S-8 (No. 333-127179) of National Health Investors, Inc. of our reports dated February 23, 2009, relating to the consolidated financial statements, financial statement schedules and the effectiveness of National Health Investors, Inc.'s internal control over financial reporting, which is included in this Annual Report on Form 10-K.

/s/ BDO Seidman, LLP

Nashville, Tennessee
 February 23, 2009

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Section 7: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1 CERTIFICATION

I, W. Andrew Adams, certify that:

1. I have reviewed this annual report on Form 10-K of National Health Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present

in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(c)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 24, 2009

/s/ W. Andrew Adams
W. Andrew Adams
Chairman, Board of Directors and
Chief Executive Officer

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Section 8: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2 CERTIFICATION

I, Roger R Hopkins, certify that:

1. I have reviewed this annual report on Form 10-K of National Health Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(c) and 15d-15(c)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of

financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

- c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions);
- a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal reporting.

Date: February 24, 2009

/s/ Roger R. Hopkins
Roger R. Hopkins
Chief Accounting Officer
(Principal Accounting Officer)

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Section 9: EX-32 (EXHIBIT 32)

Exhibit 32

Certification of Annual Report on Form 10-K of National Health Investors, Inc. For The Year Ended December 31, 2008

The undersigned hereby certify, pursuant to 18 U.S.C. Section 1350, as added by Section 906 of the Sarbanes-Oxley Act of 2002, that, to the undersigned's best knowledge and belief, the Annual Report on Form 10-K for National Health Investors, Inc. ("Issuer") for the period ended December 31, 2008 as filed with the Securities and Exchange Commission on the date hereof (the "Report"):

- (a) fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

This Certification accompanies the Annual Report on Form 10-K of the Issuer for the annual period ended December 31, 2008.

This Certification is executed as of February 24, 2009.

/s/ W. Andrew Adams
W. Andrew Adams
Chairman, Board of Directors and
Chief Executive Officer

/s/ Roger R. Hopkins
Roger R. Hopkins
Chief Accounting Officer
(Principal Accounting Officer)

A signed original of this written statement required by Section 906 has been provided to National Health Investors, Inc. and will

be retained by National Health Investors, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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