

NATIONAL HEALTH INVESTORS INC
Form 10-Q
August 04, 2011

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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)

222 Robert Rose Drive,
Murfreesboro, Tennessee
(Address of principal executive
offices)

62-1470956
(I.R.S. Employer Identification No.)

37129
(Zip Code)

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

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

There were 27,715,253 shares of common stock outstanding of the registrant as of August 2, 2011.

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

	June 30, 2011		December 31, 2010
	<i>(unaudited)</i>		
Assets:			
Real estate properties:			
Land	\$ 44,368	\$	42,493
Buildings and improvements	434,309		420,704
	478,677		463,197
Less accumulated depreciation	(141,375)		(135,543)
Real estate properties, net	337,302		327,654
Mortgage notes receivable, net	76,516		75,465
Investment in preferred stock, at cost	38,132		38,132
Cash and cash equivalents	21,901		2,664
Marketable securities	10,372		22,476
Accounts receivable, net	323		471
Straight-line rent receivable	6,783		4,928
Assets held for sale, net	29,381		36,853
Deferred costs and other assets	1,249		698
Total Assets	\$ 521,959	\$	509,341
Liabilities and Stockholders' Equity:			
Debt	\$ 48,750	\$	37,765
Real estate purchase liability	4,000		4,000
Accounts payable and accrued expenses	3,268		3,388
Dividends payable	17,041		16,752
Deferred income	1,480		1,461
Earnest money deposit	-		3,475
Total Liabilities	74,539		66,841

Commitments and Contingencies

Stockholders' Equity

Common stock, \$.01 par value; 40,000,000 shares
authorized; 27,709,611 and

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27,689,392 shares issued and outstanding, respectively		277		277
Capital in excess of par value		465,236		462,392
Cumulative dividends in excess of net income		(25,372)		(35,499)
Unrealized gains on marketable securities		7,279		15,330
Total Stockholders' Equity		447,420		442,500
Total Liabilities and Stockholders' Equity	\$	521,959	\$	509,341

The accompanying notes to condensed consolidated financial statements are an integral part of these condensed consolidated financial statements. The Condensed Consolidated Balance Sheet at December 31, 2010 was derived from the audited consolidated financial statements at that date.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
	<i>(unaudited)</i>		<i>(unaudited)</i>	
Revenues:				
Rental income	\$ 18,646	\$ 17,500	\$ 37,667	\$ 35,687
Mortgage interest income	1,634	1,602	3,230	3,597
	20,280	19,102	40,897	39,284
Expenses:				
Depreciation	2,947	2,786	5,832	5,309
Legal expense	141	174	329	455
Franchise, excise and other taxes	198	252	556	530
General and administrative	1,289	1,331	5,063	5,137
Loan and realty recoveries	-	(573)	-	(573)
	4,575	3,970	11,780	10,858
Income before non-operating income	15,705	15,132	29,117	28,426
Investment income and other	9,790	1,285	11,202	2,717
Interest expense and amortization of loan costs, net of				
change in fair value of interest rate swap agreement (Note 7)	(1,589)	(474)	(848)	(702)
Income from continuing operations	23,906	15,943	39,471	30,441
Discontinued operations				
Income from operations - discontinued	1,211	1,242	2,440	2,687
Gain on sale of real estate	-	2,004	2,299	2,004
Income from discontinued operations	1,211	3,246	4,739	4,691
Net income	\$ 25,117	\$ 19,189	\$ 44,210	\$ 35,132
Weighted average common shares outstanding:				
Basic	27,708,136	27,665,629	27,702,432	27,649,003
Diluted	27,799,616	27,729,034	27,797,863	27,705,257
Earnings per common share:				
Basic:				
Income from continuing operations	\$.86	\$.57	\$ 1.42	\$ 1.10
Discontinued operations	.04	.12	.17	.17
Net income per common share	\$.90	\$.69	\$ 1.59	\$ 1.27
Diluted:				

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Income from continuing operations	\$.86	\$.57	\$	1.42	\$	1.10
Discontinued operations		.04		.12		.17		.17
Net income per common share	\$.90	\$.69	\$	1.59	\$	1.27

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

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

	2011	Six Months Ended June 30,	2010
		<i>(unaudited)</i>	
Cash flows from operating activities:			
Net income	\$	44,210	\$ 35,132
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation		5,832	5,452
Straight-line rent adjustment		(1,855)	(1,429)
Non-cash interest income on construction loan		(488)	(33)
Provision for loan and realty recoveries		-	(573)
Gain on sale of real estate		(2,299)	(2,004)
Net realized gains on sales of marketable securities		(8,809)	-
Share-based compensation		2,645	2,038
Increase in fair value of interest rate swap agreement		(266)	-
Change in operating assets and liabilities:			
Accounts receivable		148	(22)
Deferred costs and other assets		(285)	(347)
Accounts payable and accrued expenses		(120)	114
Deferred income		19	575
Net cash provided by operating activities		38,732	38,903
Cash flows from investing activities:			
Investment in mortgage notes receivable		(3,367)	(8,589)
Collection of mortgage notes receivable		2,804	4,760
Investment in real estate properties		(15,480)	(88,475)
Receipt of earnest money deposits		525	3,175
Proceeds from disposition of real estate properties		5,771	6,247
Proceeds from sales of marketable securities		12,862	-
Net cash provided by (used in) investing activities		3,115	(82,882)
Cash flows from financing activities:			
Net change in borrowings under a revolving credit facility		(37,765)	43,823
Borrowings on term loan		50,000	-
Principal payments on term loan		(1,250)	-
Stock options exercised		199	38

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Dividends paid to stockholders	(33,794)		(33,856)
Net cash (used in) provided by financing activities	(22,610)		10,005
Increase (decrease) in cash and cash equivalents	19,237		(33,974)
Cash and cash equivalents, beginning of period	2,664		45,718
Cash and cash equivalents, end of period	\$ 21,901	\$	11,744

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

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

	2011	Six Months Ended June 30,	2010
		<i>(unaudited)</i>	
Supplemental disclosure of cash flow information:			
Interest paid	\$	955	\$ 358
Supplemental schedule of non-cash activities:			
Settlement of mortgage note by real estate acquisition (Note 8)	\$	-	\$ 22,936
Cash withheld at closing of real estate acquisition (Note 8)	\$	-	\$ 1,000
Earnest money deposit applied to sale of real estate	\$	4,000	\$ -

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

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

	Common Stock		Capital in	Cumulative	Unrealized	Total
	Shares	Amount	Excess of	in Excess of	Gains	Stockholders'
			Par Value	Net Income	on	Equity
					Marketable	
					Securities	
Balances at December 31, 2010	27,689,392	\$ 277	\$ 462,392	\$ (35,499)	\$ 15,330	\$ 442,500
Comprehensive income						
Net income	-	-	-	44,210	-	44,210
Comprehensive income						
Unrealized holding gain arising during the period	-	-	-	-	758	758
Less: reclassification adjustment for gains included in net income					(8,809)	(8,809)
Net gain recognized in other comprehensive income					(8,051)	(8,051)
Total comprehensive income						36,159
Shares issued on stock options exercised	20,219	-	199	-	-	199
Share-based compensation	-	-	2,645	-	-	2,645
Cash Dividends:						
Cash dividends to common stockholders, \$1.23 per share	-	-	-	(34,083)	-	(34,083)
Balances at June 30, 2011 <i>(unaudited)</i>	27,709,611	\$ 277	\$ 465,236	\$ (25,372)	\$ 7,279	\$ 447,420

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

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NATIONAL HEALTH INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2011

(unaudited)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

We, the management of National Health Investors, Inc., ("NHI" or the "Company") believe that the unaudited condensed consolidated financial statements to which these notes are attached include all normal, recurring adjustments which are necessary to fairly present the condensed consolidated financial position, results of operations and cash flows of NHI in all material respects. The Condensed Consolidated Balance Sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date. We assume that users of these financial statements have read or have access to the audited December 31, 2010 consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnotes and other disclosures which would substantially duplicate those contained in our most recent Annual Report on Form 10-K for the year ended December 31, 2010 have been omitted. This condensed consolidated financial information is not necessarily indicative of the results that may be expected for a full year for a variety of reasons including, but not limited to, acquisitions and dispositions, changes in interest rates, rents and the timing of debt and equity financings. For a better understanding of NHI and its condensed consolidated financial statements, we recommend reading these condensed consolidated financial statements in conjunction with the audited consolidated financial statements for the year ended December 31, 2010, which are included in our 2010 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, a copy of which is available at our web site: www.nhireit.com.

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

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

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

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

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 2007 are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our condensed consolidated financial statements as a component of income tax expense.

Discontinued Operations and Assets Held for Sale - 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 Condensed Consolidated Statements of Income. Long-lived assets classified as held for sale are reported separately in the Condensed Consolidated Balance Sheet.

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Reclassifications Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation.

NOTE 2. REAL ESTATE

At June 30, 2011, exclusive of assets held for sale, we had investments in 92 health care real estate properties leased to operators, of which 41 properties were leased to National HealthCare Corporation (NHC), a publicly-held company and our largest customer. The 41 properties leased to NHC include four facilities subleased to and operated by other companies, the lease payments of which are guaranteed by NHC. Our current lease with NHC expires December 31, 2021 (excluding 3 additional 5-year renewal options). For the six months ended June 30, 2011, rental income from continuing operations was \$37,667,000, of which \$18,317,000 (48.6%) was recognized from NHC consisting of base rent of \$16,850,000 and percentage rent of \$1,467,000, \$635,000 of which related to final determination of NHC's 2010 revenues. For the six months ended June 30, 2010, rental income from continuing operations was \$35,687,000, of which \$17,849,000 (50%) was recognized from NHC consisting of base rent of \$16,850,000 and percentage rent of \$999,000, \$485,000 of which related to final determination of NHC's 2009 revenues. For purposes of the percentage rent calculation described in the master lease agreement, NHC's annual revenue by facility for a given year is certified to NHI by March 31st of the following year.

Acquisitions and New Leases of Real Estate

In May 2011, we completed a \$15,000,000 purchase of four assisted living facilities totaling 183 units in Louisiana. The facilities, which have an average age of 13 years, are being leased to Selah Management Group over 15 years at an initial lease amount of \$1,275,000 per year plus annual fixed escalators.

Planned or Completed Dispositions of Certain Real Estate

In December 2009, we entered into an agreement with our current lessee, affiliates of Fundamental Long Term Care Holdings, LLC (Fundamental), to sell six skilled nursing facilities in Texas. The planned sale of these facilities meets the accounting criteria as being held for sale and is expected to close when HUD financing is arranged by

Fundamental. In January 2011, the first of these six facilities having a carrying value of \$4,039,000 was sold for total cash proceeds of \$4,500,000. As of June 30, 2011, the carrying value of \$29,381,000 represented the lesser of the remaining five facilities' net book value or estimated fair value less cost to sell. We have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Condensed Consolidated Statements of Income.

In December 2010, we agreed to the terms of sale with the current tenant of two medical office buildings. The sale of these facilities met the accounting criteria as being held for sale. At December 31, 2010, the carrying value of \$3,433,000 represented the lesser of the properties' net book value or estimated fair value less cost to sell. We have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Condensed Consolidated Statements of Income. The sale transaction was completed in February 2011 with receipt of cash proceeds of \$5,271,000.

The summary of operating results of all facilities classified as discontinued operations is shown in Note 11.

NOTE 3. MORTGAGE NOTES RECEIVABLE

At June 30, 2011, we had investments in mortgage notes receivable secured by real estate and UCC liens on the personal property of 30 health care properties. Certain of the notes receivable are also secured by guarantees of significant parties to the notes and by cross-collateralization of properties with the same owner.

We have a construction loan commitment to provide up to \$13,870,000 to Santé Mesa, LLC (Santé) for the development and construction of a 70-bed transitional rehabilitation center with a skilled nursing license in Mesa, Arizona. Construction on the facility began in June 2010 and was completed in March 2011. NHI has the option to purchase and lease back the facility when it reaches a predetermined level of stabilized net operating income. The \$13,870,000 commitment includes an \$11,870,000 construction loan and an additional \$2,000,000 supplemental draw available to the borrower when the facility achieves certain operating metrics. The loan is for a period of five years and requires payments of interest only at a rate of 10%. Per the terms of the loan agreement, interest payments will be accrued as part of the construction loan balance until the full loan amount is drawn. Santé meets the accounting criteria to be considered a variable interest entity. However, we do not have any role in the day-to-day management of the entity; we do not have an obligation to absorb the entity's losses; and we do not have a right to receive benefits from the entity; therefore, we are not the primary beneficiary of the entity and have not consolidated the Santé assets, liabilities, non-controlling interests, and results of activities with our condensed consolidated

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financial statements. During the six months ended June 30, 2011, we funded \$3,634,000 of our loan commitment. At June 30, 2011, the carrying amount of our loan of \$11,376,000 is our maximum exposure to loss. We have not provided any financial or other support other than amounts drawn on the construction loan in accordance with the terms of the loan agreement.

NOTE 4. 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 2,000,000 shares of LTC common stock. The closing price of LTC s common stock at June 30, 2011 was \$27.82 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. 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 Condensed Consolidated Balance Sheets. Dividends 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 at June 30, 2011 and December 31, 2010 equals its original cost of \$38,132,000.

NOTE 5. INVESTMENTS IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities and are reported at fair value. 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.

During the six months ended June 30, 2011 and 2010, we recognized \$519,000 and \$627,000, respectively, of dividend and interest income from our marketable securities and have included these amounts in non-operating income in the Condensed Consolidated Statements of Income.

During the six months ended June 30, 2011, we sold our 96,330 shares of National HealthCare Corporation s convertible preferred stock in addition to the sale of 381,000 common shares of LTC and recognized gains of \$8,655,000 and \$8,809,000 for the three and six month periods ending June 30, 2011, respectively.

Marketable securities consist of the following (*in thousands*):

	June 30, 2011		December 31, 2010	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Common and preferred stock of other REITs	\$ 3,093	\$ 10,372	\$ 5,831	\$ 21,156
NHC convertible preferred stock	-	-	1,315	1,320
	\$ 3,093	\$ 10,372	\$ 7,146	\$ 22,476

Gross unrealized gains related to available-for-sale securities were \$7,279,000 at June 30, 2011 and \$15,330,000 at December 31, 2010.

NOTE 6. 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 estimate the fair values of other financial instruments using quoted market prices and discounted cash flow techniques. At June 30, 2011 and December 31, 2010, there were no material differences between the carrying amounts and fair values of our financial instruments, which also included our mortgage notes receivable and borrowings under our credit facility.

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.

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

<u>Description</u>	Total	Fair Value Measurements at June 30, 2011 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common and preferred stocks of other REITs	\$ 10,372	\$ 10,372	\$ -	\$ -
Interest rate swap agreement	266	-	266	-
	\$ 10,638	\$ 10,372	\$ 266	\$ -

Common and preferred stocks The fair value of our common and preferred stock investments classified as marketable securities are derived using quoted market prices of identical securities or other observable inputs such as trading prices of identical securities in active markets.

Interest rate swap agreement The fair value of our interest rate swap agreement is classified as deferred costs and other assets and is estimated using observable forward rate yield curves; unobservable assumptions about counterparty liquidity, credit and other non-performance risk considerations; and standard discounted cash flow techniques.

NOTE 7. DEBT

On November 3, 2010, we entered into a \$100,000,000 unsecured credit facility with Regions Bank as agent and Pinnacle National Bank as a participating bank. A total of \$50,000,000 can be drawn on a revolving basis with a maturity of three years (November 3, 2013) with interest at a margin of 250 basis points over LIBOR (2.81% at June 30, 2011). There is an accordion feature in the credit facility that could increase the total credit facility to \$200,000,000. The credit facility contains financial covenants related to our leverage ratio, fixed charge ratio, unencumbered asset ratio and tangible net worth ratio, all of which we were in compliance with at June 30, 2011. On January 31, 2011, \$50,000,000 was drawn on a term loan, whose proceeds were used to repay the revolving line, to mature in five years with interest at a fixed rate of 3.98% based on an interest rate swap agreement. The term loan provides for quarterly principal payments of \$625,000. The interest rate swap agreement was entered into to limit the Company's interest rate risk exposure related to the term loan. At June 30, 2011, the term loan had an outstanding

balance of \$48,750,000 and the credit facility had an unused balance of \$50,000,000.

The change in the fair value of our interest rate swap agreement is presented as a component of interest expense in our Condensed Consolidated Statements of Income. During the three months ended June 30, 2011, the fair value of the swap agreement decreased \$988,000 and was charged to interest expense. For the six months ended June 30, 2011, we recognized \$1,037,000 in interest expense based on the terms of our credit agreement, \$77,000 in amortization of loan costs related to this credit facility, offset by an increase in the fair value of the interest rate swap agreement of \$266,000.

NOTE 8. COMMITMENTS AND CONTINGENCIES

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 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.

In October 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 conditional payments to be made over the next three years based on Bickford's expected achievement of certain operating financial thresholds. No conditional amounts have been paid as of June 30, 2011.

In March 2010, we completed a purchase/leaseback transaction with Helix Healthcare (Helix) for \$12,500,000. The purchase price was funded with borrowings from our revolving credit facility and includes \$1,000,000 as a conditional payment which is expected to be made in 2011.

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As described in Note 2, we have agreed to sell six (five remaining) skilled nursing facilities to our current lessee, affiliates of Fundamental. We are committed to finance a portion of the purchase price, not to exceed \$8,000,000, with individual loans for each facility to be repaid over a term of five years with interest of 11.5% per annum plus annual increases.

As of June 30, 2011, we had pending commitments related to three health care real estate projects: (1) as described in Note 3, in June 2010, we entered into a construction loan commitment to provide up to \$13,870,000 for the development and construction of a 70-bed transitional rehabilitation center in Mesa, Arizona; and as of June 30, 2011, we had funded a total of \$11,376,000 toward this commitment, (2) 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; during the six months ended June 30, 2011, we funded \$481,000 of this commitment, and (3) we were committed to fund an additional \$50,000 on a mortgage note receivable. We believe we have sufficient liquidity to fund these commitments and to finance new investments.

The health care facilities in which we have investments of leases or loans are subject to claims and suits in the ordinary course of business. Our lessees and mortgagors 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 are 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, results of operations and cash flows.

On January 2, 2009, Care Foundation of America, Inc., a Tennessee nonprofit corporation (CFA) filed an adversary proceeding complaint against NHI in CFA 's 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 six Florida nursing 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; 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 was completed on February 1, 2010, and the CFA Adversary Proceeding has been dismissed with prejudice.

In November 2008, the Company was served with a Civil Investigative Demand by the Office of the Tennessee Attorney General (OTAG), which indicated that the OTAG was investigating transactions between the Company and three Tennessee nonprofit corporations, including CFA. NHI has provided OTAG with requested information and documents. OTAG agreed as part of the settlement of the CFA litigation that it will take no further action based on the Company'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. 3:09-991), 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 asserted 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 alleged that, as a result of that breach of duty, NHI has sustained damages in an amount not specified. The amended complaint sought no relief from NHI itself. The defendants filed a motion to dismiss the amended complaint for failure to make an adequate pre-filing demand. On September 21, 2010, the Court granted that motion, entered a judgment, and dismissed the action with prejudice. Despite that ruling, the Company's Board received a new demand letter from Mr. Shearer dated October 11, 2010 that again asserted that certain NHI directors and officers breached their fiduciary duties to NHI in connection with its transaction with CFA. In response to the October 11, 2010 demand, the Company's Board appointed a special committee that on December 6, 2010 made its report and recommendation to the Board. The Board considered the demand and unanimously accepted the special committee's recommendation to reject the demand on the basis that pursuing the proposed claims, in whole or in part, would not be in the best interests of the Company. Mr. Shearer was notified of the Board's determination by letter dated December 13, 2010. On February 3, 2011, Mr. Shearer filed a new derivative shareholder lawsuit (M.D. Tenn. Case No. 3:11-99), making the same claim and allegations as in the action that was dismissed with prejudice. The Company has responded to the new lawsuit by

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filing a motion to dismiss, in which the Company contends that Mr. Shearer lacks standing to bring the action given the Board's acceptance of the special committee's recommendation. The individual defendants have filed a separate motion to dismiss, in which they contend that the judgment in the first action precludes a subsequent action. Both motions have been fully briefed and are pending before the Court.

NOTE 9. 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 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 June 30, 2011, 347,301 shares were available for future grants under the 2005 plan. The individual restricted stock and option grant awards vest over periods up to ten years. The term of the options outstanding under the 2005 Plan is up to ten years from the date of grant.

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 June 30, 2011, no shares were available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected may result in the reversal of previously recorded compensation expense. The compensation expense reported for share-based compensation related to the 2005 Plan and the 1997 Plan totaled \$2,645,000 for the six months ended June 30, 2011, consisting of \$2,639,000 for stock options and \$6,000 for restricted stock, as compared to \$2,038,000 for the six months ended June 30, 2010, consisting of \$2,024,000 for stock options and \$14,000 for restricted stock. At June 30, 2011, we had \$1,007,000 of unrecognized compensation cost related to unvested restricted shares issued and unvested stock options, net of expected forfeitures, which is expected to be recognized over the following periods: 2011 - \$528,000; 2012 - \$429,000, and 2013 - \$50,000. Stock-based compensation is included in general and administrative expense in the Condensed Consolidated Statements of Income.

The following table summarizes our outstanding stock options for the six months ended June 30, 2011 and 2010:

	2011	2010
Options outstanding, January 1,	384,507	253,836
Options granted under 2005 Plan	340,000	395,000
Options forfeited under 2005 Plan	(3,334)	-
Options exercised under 1997 Plan	(15,000)	(48,717)
Options exercised under 2005 Plan	(28,584)	(123,946)
Options outstanding, June 30,	677,589	476,173
Exercisable June 30,	488,996	312,331

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The following table summarizes our restricted stock activity for the six months ended June 30, 2011 and 2010:

	2011	2010
Non-vested at January 1,	3,175	5,100
Vested during the period	(1,925)	(1,925)
Non-vested at June 30,	1,250	3,175

NOTE 10. NON-OPERATING INCOME

Non-operating income is summarized below (*in thousands*):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Dividend income	\$ 1,020	\$ 1,132	2,156	2,263
Interest income	47	9	70	67
Realized gains on sale of marketable securities	8,655	-	8,809	-
Other revenue	68	144	167	387
	\$ 9,790	\$ 1,285	11,202	2,717

NOTE 11. DISCONTINUED OPERATIONS

As described in Note 2, the planned sale of the Fundamental 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 Condensed Consolidated Statements of Income. Our lease revenue from the facilities was \$1,211,000 and \$1,168,000 for the three months ended June 30, 2011 and 2010, respectively, and \$2,399,000 and \$2,417,000 for the six months ended June 30, 2011 and 2010, respectively.

In June 2010, we sold two skilled nursing facilities in Texas to the current lessee Legend Healthcare and affiliates (Legend). We have reclassified the results of operations of these facilities as discontinued operations for all periods

presented in our Condensed Consolidated Statements of Income. Our lease revenue from the facilities was \$-0- and (\$13,000) for the three months ended June 30, 2011 and 2010, respectively, and \$-0- and \$107,000 for the six months ended June 30, 2011 and 2010, respectively. Revenue from the Legend facilities includes a write-off of the remaining straight-line rent adjustment when the facilities were sold.

As described in Note 2, in December 2010, we agreed to the terms of sale with the current tenant of two medical office buildings. The sale of these facilities met the accounting criteria as being held for sale. We have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Condensed Consolidated Statements of Income. Our lease revenue from the facilities was \$0 and \$146,000 for the three months ended June 30, 2011 and 2010, respectively, and \$41,000 and \$292,000 for the six months ended June 30, 2011 and 2010, respectively.

Income from discontinued operations, excluding gains on sale of real estate, is summarized below: (*in thousands*):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Revenues	1,211	\$ 1,300	\$ 2,440	\$ 2,816
Expenses:				
Depreciation	-	72	-	143
General and administrative	-	(14)	-	(14)
Income from operations discontinued	1,211	\$ 1,242	\$ 2,440	\$ 2,687

Table of Contents**NOTE 12. 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, to the extent dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Income from continuing operations	\$ 23,906	\$ 15,943	\$ 39,471	\$ 30,441
Discontinued operations	1,211	3,246	4,739	4,691
Net income available to common stockholders	\$ 25,117	\$ 19,189	\$ 44,210	\$ 35,132
BASIC:				
Weighted average common shares outstanding	27,708,136	27,665,629	27,702,432	27,649,003
Income from continuing operations per common share	\$.86	\$.57	\$ 1.42	\$ 1.10
Discontinued operations per common share	.04	.12	.17	.17
Net income per common share	\$.90	\$.69	\$ 1.59	\$ 1.27
DILUTED:				
Weighted average common shares outstanding	27,708,136	27,665,629	27,702,432	27,649,003
Stock options	90,145	60,625	93,690	53,179
Restricted shares	1,335	2,780	1,741	3,075
Weighted average dilutive common shares outstanding	27,799,616	27,729,034	27,797,863	27,705,257
Income from continuing operations per common share	\$.86	\$.57	\$ 1.42	\$ 1.10
Discontinued operations per common share	.04	.12	.17	.17

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Net income per common share	\$.90	\$.69	\$	1.59	\$	1.27
Incremental shares excluded since anti-dilutive:								
Stock options		23,123		1,764		9,735		3,057

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Item 2.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

Forward Looking Statements

References throughout this document to NHI or 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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q 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 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 as a result of, but not limited to, the following factors:

*

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

*

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

*

We are exposed to risks related to governmental payors and regulations and the effect they have on our tenants and borrowers business;

*

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

*

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

*

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

*

We depend on the success of future acquisitions and investments;

*

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

*

We may need to incur more debt in the future, which may not be available on terms acceptable to the Company;

*

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

*

We are exposed to 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 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.

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See the notes to the annual audited consolidated financial statements in our most recent Annual Report on Form 10-K for the year ended December 31, 2010, and Business and Risk Factors under Item 1 and Item 1A therein, for a discussion of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. You should carefully consider these risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones facing the Company. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition, results of operations, or cash flows could be materially adversely affected. In that case, the trading price of our shares of stock could decline and you may lose part or all of your investment. Given these risks and uncertainties, we can give no assurance that these forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

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 and senior housing industries. As of June 30, 2011, our portfolio consisted of real estate (excluding corporate office and assets held for sale) and mortgage investments with a carrying value totaling \$413,079,000 and other investments in preferred stock and marketable securities of \$48,504,000 resulting in total invested assets of \$461,583,000. We are a self-managed REIT with our own management reporting directly to our Board of Directors. 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 investing in leased properties and mortgage loans nationwide. These investments include skilled nursing facilities, assisted living facilities, medical office buildings, independent living facilities, an acute psychiatric hospital, an acute care hospital, and a transitional rehabilitation center, 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, (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 term debt.

Major Customer - NHC

We lease 41 health care facilities to National HealthCare Corporation (NHC), a publicly-held company and our largest customer. For the six months ended June 30, 2011, rental income from continuing operations was \$37,667,000, of which \$18,317,000 (48.6%) was recognized from NHC consisting of base rent of \$16,850,000 and percentage rent of \$1,467,000, \$635,000 of which related to final determination of NHC's 2010 revenues. Consistent with our strategy of diversification, we have increased our portfolio over time so that the portion of our portfolio

leased by NHC has been reduced from 100% of our total portfolio on October 17, 1991 (the date we began operations) to 11.6% of our total portfolio on June 30, 2011, based on the net book value of these properties. In 1991, these assets were transferred by NHC to NHI 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 presented in NHC's financial statements for as many as 20 years. As a result, we believe that the fair value of these assets is significantly in excess of their net book value of \$47,977,000 at June 30, 2011. 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, and other relevant information.

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The following tables summarize our investments in real estate (excluding net investment in corporate office and assets held for sale) and mortgage notes receivable as of June 30, 2011:

Real Estate Properties	Properties	Beds/Sq. Ft.*	Net Investment
Skilled Nursing Facilities	51	6,858	\$ 170,998,000
Assisted Living Facilities	33	1,858	136,472,000
Medical Office Buildings	2	88,517*	4,787,000
Independent Living Facilities	4	456	6,655,000
Acute Psychiatric Hospitals	1	66	12,091,000
Acute Care Hospitals	1	55	5,560,000
Total Real Estate Properties	92		336,563,000

Mortgage Notes Receivable

Skilled Nursing Facilities	27	2,730	60,511,000
Assisted Living Facilities	2	146	4,629,000
Transitional Rehabilitation Center	1	70	11,376,000
Total Mortgage Notes Receivable	30	2,946	76,516,000
Total Portfolio	122		\$ 413,079,000

Portfolio Summary	Properties	Investment Percentage	Net Investment
Real Estate Properties	92	81.5%	\$ 336,563,000
Mortgage Notes Receivable	30	18.5%	76,516,000
Total Portfolio	122	100.0%	\$ 413,079,000

Summary of Facilities by Type

Skilled Nursing Facilities	78	56.0%	\$ 231,509,000
Assisted Living Facilities	35	34.2%	141,101,000
Medical Office Buildings	2	1.2%	4,787,000
Independent Living Facilities	4	1.6%	6,655,000
Acute Psychiatric Hospitals	1	2.9%	12,091,000
Acute Care Hospitals	1	1.3%	5,560,000
Transitional Rehabilitation Center	1	2.8%	11,376,000
Total Real Estate Portfolio	122	100.0%	\$ 413,079,000

Portfolio by Operator Type

Public	54	22.6%	\$ 93,537,000
Regional	54	64.0%	264,211,000

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Small	14	13.4%		55,331,000
Total Real Estate Portfolio	122	100.0%	\$	413,079,000

Public Operators

National HealthCare Corp.	41	11.5%	\$	47,977,000
Emeritus Senior Living	8	4.8%		19,700,000
Sunrise Senior Living, Inc.	1	2.8%		11,485,000
Community Health Systems, Inc.	2	1.7%		7,128,000
Sun Healthcare Group, Inc.	2	1.8%		7,247,000
Total Public Operators	54	22.6%	\$	93,537,000

Operators of more than 3% of our total real estate investments are as follows: American HealthCare, LLC; Bickford Senior Living; ElderTrust of Florida, Inc.; Emeritus Senior Living; Health Services Management, Inc.; Helix Healthcare, Inc.; Legend Healthcare, LLC; National HealthCare Corp.; Selah Management Group; SeniorTrust of Florida, Inc; Senior Living Management Corporation, LLC; and Suite Living Senior Specialty Services.

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As of June 30, 2011, the average effective quarterly rental income was \$1,831 per licensed bed for skilled nursing facilities, \$2,497 per unit for assisted living facilities, \$1,011 per unit for independent living facilities, \$7,045 per bed for acute psychiatric hospitals, \$12,770 per bed for acute care hospitals and \$3 per square foot for medical office buildings.

We invest a portion of our funds in the common and preferred shares of other publicly-held REITs to ensure the substantial portion of our assets are invested for real estate purposes. At June 30, 2011, our investment in common and preferred shares of publicly-held REITs was \$48,504,000. Refer to Notes 4, 5 and 6 of our condensed consolidated financial statements for further information.

Areas of Focus

We are evaluating and will potentially make investments during the remainder of 2011 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 and relative to our peers in the industry. New investments in real estate and mortgage notes in 2011 are expected to be funded by our liquid investments and by debt financing. We intend to make new investments that meet our underwriting criteria and where we believe the spreads over our cost of capital will generate sufficient returns to our shareholders.

Real Estate and Mortgage Write-downs

Our borrowers and tenants have experienced 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. Since the inception of the Company, a number of our real estate property operators and mortgage loan borrowers have experienced bankruptcy. Others have surrendered properties to us in lieu of foreclosure or have failed to make timely payments on their obligations to us.

We believe that the carrying amounts of our real estate properties are recoverable and mortgage notes receivable are realizable (including those identified as impaired or non-performing) and are 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.

During the six months ended June 30, 2011 and 2010, we did not recognize any write-downs of our real estate properties or mortgage notes receivable.

Planned or Completed Dispositions of Certain Real Estate

See Note 2 to the condensed consolidated financial statements.

Potential Effects of Reductions in Medicare Reimbursement

On July 29, 2011, the Centers for Medicare and Medicaid Services (CMS) announced the Skilled Nursing Facilities Prospective Payment System final rule for fiscal year 2012 that cuts Medicare payments to skilled nursing facility operators by a net 11.1% beginning October 1, 2011. We currently estimate the majority of our borrowers and lessees will be able to withstand the Medicare cuts described above due to their credit quality, profitability and their debt or lease coverage ratios, although no assurances can be given as to what the ultimate effect such Medicare cuts will have on each of our borrowers and lessees. However, we estimate that two mortgage borrowers (who are not-for-profit entities) will be adversely impacted by the Medicare cuts due to their payor mix, their current payment coverage ratios and limited net equity. The impact of the CMS reduction in Medicare reimbursement could negatively affect their ability to make full scheduled payments to us, and could have an adverse affect on the carrying value of their mortgage notes. These borrowers are unlikely to have cash reserves to pay any deficiency in scheduled payments to us and may have difficulties refinancing in an amount to satisfy their indebtedness to us. We have offered to one borrower an extension of the maturity of their mortgage note for one year beyond the current maturity of August 31, 2011. We have also begun discussions with both borrowers to acquire their real estate assets and to subsequently lease those assets to third parties. The mortgage notes receivable from the borrowers have an aggregate principal balance of \$39,018,000 at June 30, 2011 and interest income amounted to \$1,128,000 for the six months then ended.

We evaluate the carrying value 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

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interest payments, significant deterioration of the financial condition of the borrower or significant adverse changes in general economic conditions, indicate that the carrying value of a note receivable may not be recoverable. If necessary, an impairment is measured as the amount by which the carrying value 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 the recoverability of the carrying value of our real estate properties on a property-by-property basis. On a quarterly basis, we review our properties for recoverability when events or circumstances indicate the carrying value 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.

The recognition by us of an impairment of our properties, if any, would lower our net income for financial statement purposes and Funds From Operations (FFO), but is not expected to lower our revenue or Normalized FFO on a quarterly or annual basis.

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The results of operations for facilities sold or classified as held for sale have been reported in the current and prior periods as discontinued operations. The reclassifications to retroactively reflect their operating results due to the disposition of these facilities had no impact on previously reported net income.

Three Months Ended June 30, 2011 Compared to Three Months Ended June 30, 2010

The significant items affecting income and expenses are described below.

	Three Months Ended		Period Change	
	2011	2010	\$	%
Rental				
income:				
Billed rent				
ALFs leased to Senior Living Management	\$ 254	\$ -	\$ 254	NM
ALFs leased to Bickford Senior Living	858	605	253	41.8%
SNFs leased to National HealthCare Corp.	8,840	8,609	231	2.7%
ALFs leased to Selah Management Group	205	-	205	NM
Other new and existing leases	7,543	7,381	162	2.2%
	17,700	16,595	1,105	6.7%
Straight-line rent adjustments, new and existing leases	946	905	41	4.5%
Total Rental Income	18,646	17,500	1,146	6.6%
Mortgage interest income:				
Santé Mesa	267	32	235	NM
Other new and existing mortgages	1,367	1,570	(203)	(12.9%)
Total Mortgage Interest Income	1,634	1,602	32	2.0%
Total Revenue	20,280	19,102	1,178	6.2%
Expenses:				
Depreciation				
ALFs leased to Bickford Senior Living	254	180	74	41.1%
ALFs leased to Senior Living Management	72	-	72	NM
ALFs leased to Selah Management Group	69	-	69	NM

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Other new and existing assets		2,552	2,606	(54)	(2.1%)
	Total Depreciation	2,947	2,786	161	5.8%
Loan and realty recoveries		-	(573)	573	NM
Other expenses		1,628	1,757	(129)	(7.4%)
		4,575	3,970	605	15.3%
Income before non-operating items		15,705	15,132	573	3.8%
Non-operating income ⁽¹⁾		9,790	1,285	8,505	NM
Interest expense and amortization of loan costs:					
Change in fair value of interest rate swap agreement		(988)	-	(988)	NM
Interest expense		(560)	(379)	(181)	47.8%
Amortization of loan costs		(41)	(95)	54	56.4%
		(1,589)	(474)	(1,115)	NM
Income from continuing operations		23,906	15,943	7,963	49.9%
Income from discontinued operations ⁽²⁾		1,211	1,242	(31)	(2.5%)
Net gain on sale of real estate		-	2,004	(2,004)	NM
Net income	\$	25,117	\$ 19,189	\$ 5,928	30.9%
Net income per common share, basic and diluted	\$.90	\$.69	\$.21	30.4%

(1) See Note 10 to the condensed consolidated financial statements

(2) See Note 11 to the condensed consolidated financial statements

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Financial highlights of the three months ended June 30, 2011 compared to the same period in 2010 were as follows:

*

Rental income increased \$1,146,000, or 6.6% when compared to the same period in the prior year as a result of new real estate investments during 2010 and 2011 and an increase in the amount of percentage rental income received from National HealthCare Corp. Future increases in rental income depend primarily on our ability to make new investments which meet our underwriting criteria.

*

Mortgage interest income increased \$32,000 due to interest earned on new mortgage loan investments in 2010 and 2011, but was partially offset by normal amortization, final maturity or early payoffs of our existing mortgage loans. Unless we continue to make new investments in mortgages in 2011 and future years, our mortgage interest income will decrease due to the normal amortization and scheduled maturities of our loans.

*

Depreciation expense increased \$161,000, or 5.8%, primarily due to new real estate investments made in 2010 and 2011.

*

Non-operating income includes a gain of \$8,655,000 on the sale of marketable securities as described in Note 5 and 10 to the condensed consolidated financial statements.

*

Interest expense on our revolving credit facility and term loan is due to our borrowings to fund new real estate and mortgage note investments. Upfront fees and other loan-related costs are amortized over the term of the credit facility. We recognize changes in the fair value of interest rate swap agreements as an adjustment to interest expense, such amount being \$988,000 for the three months ended June 30, 2011. See Note 6 and 7 to the condensed consolidated financial statements for additional information.

*

As discussed in Note 2 to the condensed consolidated financial statements, we completed a sale of two skilled nursing facilities in Texas in June 2010 and recognized a gain of \$2,004,000 as a result of this transaction.

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Six Months Ended June 30, 2011 Compared to Six Months Ended June 30, 2010

The significant items affecting income and expenses are described below.

	Six Months Ended		Period Change	
	2011	2010	\$	%
Rental				
income:				
Billed rent				
SNFs leased to Health Services Management	\$ 3,100	\$ 2,583	\$ 517	20.0%
ALFs leased to Bickford Senior Living	1,717	1,205	512	42.5%
ALFs leased to Senior Living Management	507	-	507	NM
ALFs leased to Suite Living Senior Specialty Services	1,086	650	436	67.1%
SNFs leased to National HealthCare Corp.	18,317	17,849	468	2.6%
RGL Development, LLC ⁽¹⁾	-	1,520	(1,520)	NM
Other new and existing leases	11,067	10,309	758	7.4%
	35,794	34,116	1,678	4.9%
Straight-line rent adjustments, new and existing leases	1,873	1,571	302	19.2%
Total Rental Income	37,667	35,687	1,980	5.6%
Mortgage interest income:				
Care Foundation of America, Inc. ⁽²⁾	-	560	(560)	NM
Granite Investment Group ⁽²⁾	-	121	(121)	NM
Legend Healthcare, LLC ⁽²⁾	-	120	(120)	NM
Santé Mesa, LLC	488	32	456	NM
Other new and existing mortgages	2,742	2,764	(22)	(0.8%)
Total Mortgage Interest Income	3,230	3,597	(367)	(10.2%)
Total Revenue	40,897	39,284	1,613	4.1%
Expenses:				
Depreciation				
SNFs leased to Health Services Management	779	649	130	20.0%
ALFs leased to Bickford Senior Living	508	361	147	40.7%
ALFs leased to Senior Living Management	144	-	144	NM
ALFs leased to Suite Living Senior Specialty Services	268	169	99	58.6%
Other new and existing assets	4,133	4,130	3	0.1%
Total Depreciation	5,832	5,309	523	9.9%
Loan and realty recoveries	-	(573)	573	NM
Other expenses	5,948	6,122	(174)	(2.9%)

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		11,780	10,858	922	8.5%
Income before non-operating items		29,117	28,426	691	2.4%
Non-operating income ⁽³⁾		11,202	2,717	8,485	NM
Interest expense and amortization of loan costs:					
Change in fair value of interest rate swap agreement		266	-	266	NM
Interest expense		(1,037)	(544)	(493)	90.6%
Amortization of loan costs		(77)	(158)	81	(51.3%)
		(848)	(702)	146	(20.8%)
Income from continuing operations		39,471	30,441	9,030	29.7%
Income from discontinued operations ⁽⁴⁾		2,440	2,687	(247)	(9.2%)
Net gain on sale of real estate		2,299	2,004	295	14.7%
Net income	\$	44,210	\$ 35,132	\$ 9,078	25.8%
Net income per common share, basic and diluted	\$	1.59	\$ 1.27	\$.32	25.2%

(1) Past due rent received and recognized into income on ALFs currently leased to Emeritus Senior Living

(2) Mortgages paid off at or prior to maturity

(3) See Note 10 to the condensed consolidated financial statements

(4) See Note 11 to the condensed consolidated financial statements

NM not meaningful

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Financial highlights of the six months ended June 30, 2011 compared to the same period in 2010 were as follows:

*

Excluding the impact of past due rent received from RGL Development in 2010 (as discussed below), rental income increased \$3,500,000 or 10% when compared to the same period in the prior year primarily as a result of new real estate investments of \$121,672,000 during 2010 and \$15,480,000 during 2011. Rental income in 2010 included \$1,520,000 of past due rent received and recognized into income from RGL Development, the former tenant of eight ALFs which are currently leased to Emeritus Senior Living. Future increases in rental income depend primarily on our ability to make new investments which meet our underwriting criteria.

*

Mortgage interest income decreased \$367,000 due to normal amortization, final maturity or early payoffs of our mortgage loans, but was partially offset by interest earned on new mortgage loan investments of \$12,422,000 in 2010 and \$3,634,000 during 2011. Unless we continue to make new investments in mortgages in 2011 and future years, our mortgage interest income will continue to decrease due to the normal amortization and scheduled maturities of our loans.

*

Depreciation expense increased \$523,000, or 9.9%, primarily due to new real estate investments made in 2010.

*

Non-operating income includes a gain of \$8,809,000 on the sale of marketable securities as described in Note 5 and 10 to the condensed consolidated financial statements.

*

Interest expense on our revolving credit facility and term loan is due to our borrowings to fund new real estate and mortgage note investments. Upfront fees and other loan-related costs are amortized over the term of the credit facility. We recognize changes in the fair value of interest rate swap agreements as an adjustment to interest expense, such

amount being \$266,000 for the six months ended June 30, 2011. See Note 6 and 7 to the condensed consolidated financial statements for additional information.

*

As discussed in Note 2 to the condensed consolidated financial statements, we completed the sale of one skilled nursing facility in January 2011 and two medical office buildings in February 2011 and recognized gains of \$2,299,000 as a result of these transactions. In June 2010, we completed a sale of two skilled nursing facilities in Texas and recognized a gain of \$2,004,000 as a result of this transaction.

Table of ContentsLiquidity and Capital Resources*Sources and Uses of Funds*

Our primary sources of cash include rent and interest payments, principal payments on mortgage notes receivable, proceeds from the sales of real property and borrowings from our term loan and revolving credit facility. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), investments in real estate and mortgage loans and general overhead.

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

	Six Months Ended June 30,			
	2011	2010	\$ Change	% Change
Cash and cash equivalents at beginning of period	\$ 2,664	\$ 45,718	\$ (43,054)	-94.2%
Cash provided by operating activities	38,732	38,903	(171)	-0.4%
Cash provided by (used in) investing activities	3,115	(82,882)	85,997	103.8%
Cash (used in) provided by financing activities	(22,610)	10,005	(32,615)	-326.0%
Cash and cash equivalents at end of period	\$ 21,901	\$ 11,744	\$ 10,157	86.49%

Operating Activities Net cash provided by operating activities for the six months ended June 30, 2011 decreased slightly as a result of the timing of collections of accounts receivable and the payments of accounts payable and accrued expenses.

Investing Activities Net cash flows provided by investing activities for the six months ended June 30, 2011 increased from the same period during the prior year primarily due to investments in real estate and mortgage loans of \$18,847,000 in 2011 compared to \$97,064,000 in 2010. Proceeds from sales of marketable securities amounted to \$12,862,000 in 2011.

Financing Activities Net cash used in financing activities for the six months ended June 30, 2011 consists primarily of repayments of borrowings on our revolving credit facility of \$37,765,000 and offset by borrowings on our term loan of \$50,000,000. During the same period in 2010, our net borrowings were \$43,823,000. Dividends paid to stockholders during the first six months of 2011 were \$33,794,000.

Liquidity

At June 30, 2011, our liquidity was strong, with \$82,273,000 available in cash, highly-liquid marketable securities and borrowing capacity on our revolving credit facility. In addition, our investment in LTC preferred stock is convertible into common stock having a current market value of \$55,640,000. Cash proceeds from lease and mortgage collections, loan payoffs and the recovery of previous write-downs have been distributed as dividends to stockholders, used to retire our indebtedness, and accumulated in bank deposits for the purpose of making new real estate and mortgage loan investments.

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

On November 3, 2010, we entered into a \$100,000,000 unsecured credit facility with Regions Bank as agent and Pinnacle National Bank as a participating bank. A total of \$50,000,000 can be drawn on a revolving basis with a maturity of three years (November 3, 2013) with interest at a margin of 250 basis points over LIBOR (2.81% at June 30, 2011). There is an accordion feature in the credit facility that could increase the total credit facility to \$200,000,000. The credit facility contains financial covenants related to our leverage ratio, fixed charge ratio, unencumbered asset ratio and tangible net worth ratio, all of which we were in compliance with at June 30, 2011. On January 31, 2011, \$50,000,000 was drawn on a term loan to mature in five years with interest at a fixed rate of 3.98% based on an interest rate swap agreement. The interest rate swap agreement was entered into to limit the Company's interest rate risk exposure related to the term loan. At June 30, 2011, the term loan had an outstanding balance of \$48,750,000 and the credit facility had an unused balance of \$50,000,000.

We intend to comply with REIT dividend requirements that we distribute at least 90% of our taxable income for the year ending December 31, 2011 and thereafter. During the first six months of 2011, we declared (1) a quarterly dividend of \$.615

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per common share to shareholders of record on March 31, 2011 and was paid on May 10, 2011; and (2) a quarterly dividend of \$.615 per common share to shareholders of record on June 30, 2011 and payable on August 10, 2011.

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 2010 fourth quarter dividend was \$.605 per common share and was paid on January 31, 2011.

Off Balance Sheet Arrangements

We currently have no outstanding guarantees or letters of credit. At June 30, 2011, we had outstanding an interest rate swap agreement to fix the interest rate on our term loan (\$48,750,000 notional amount as of June 30, 2011) at 3.98% for five years. See further discussion of the interest rate swap agreement in Note 7 to the condensed consolidated financial statements.

Contractual Obligations and Contingent Liabilities

As of June 30, 2011, our contractual payment obligations and contingent liabilities were as follows (*in thousands*):

	Total	Year 1	Year 2-3	Year 4-5
Term loan principal and interest payments ⁽¹⁾	\$ 56,159	\$ 2,223	\$ 8,613	\$ 45,323
Real estate purchase liability	4,000	1,500	2,500	-
Construction loan commitment	2,494	2,494	-	-
Borrowings under revolving credit facility, including interest ⁽²⁾	1,079	128	508	443
Capital improvements	269	269	-	-
Mortgage note advances	50	50	-	-
	\$ 64,051	\$ 6,664	\$ 11,621	\$ 45,766

(1) Principal payments of \$625,000 each quarter and interest payments at an annual rate of 3.98% on the outstanding balance.

(2) At June 30, 2011, the revolving credit facility did not have an outstanding balance. The unused line fee of 0.5% was applied to the full \$50,000,000 available under the revolving portion of the credit facility.

Contingencies

In October 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 conditional payments to be made over the next three years based on Bickford's expected achievement of certain operating financial thresholds. No conditional amounts have been paid as of June 30, 2011.

In March 2010, we completed a purchase/leaseback transaction with Helix Healthcare (Helix) for \$12,500,000. The purchase price was funded with borrowings from our revolving credit facility and includes \$1,000,000 as a conditional payment which is expected to be made in 2011.

Commitments

As of June 30, 2011, we had pending commitments related to three health care real estate projects: (1) as described in Note 3, in June 2010, we entered into a construction loan commitment to provide up to \$13,870,000 for the development and construction of a 70-bed transitional rehabilitation center in Mesa, Arizona; and as of June 30, 2011 we had funded a total of \$11,376,000 toward this commitment, (2) 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; during the six months ended June 30, 2011, we funded \$481,000 of this commitment, and (3) we were committed to fund an additional \$50,000 on a mortgage note receivable. We believe we have sufficient liquidity to fund these commitments and to finance new investments.

As described in Note 2, we have agreed to sell six skilled nursing facilities to our current lessee, affiliates of Fundamental. We are committed to finance a portion of the purchase price, not to exceed \$8,000,000, with individual loans for each facility to be repaid over a term of five years with interest of 11.5% per annum plus annual fixed escalators. This is not reflected in the table above as we cannot predict if or when it will be funded.

Table of ContentsFunds From Operations

Our funds from operations (FFO) for the six months ended June 30, 2011 increased \$9,060,000 or 23.7% over the same period in 2010 due primarily to gains of \$8,809,000 on sales of a portion of our investment in marketable securities. Our normalized FFO for the six months ended June 30, 2011 increased \$1,828,000 or 5.0% over the same period in 2010. The increase in normalized FFO was primarily the result of the impact on net income of our new real estate investments in 2010. FFO represents net earnings available to common stockholders, excluding the effects of asset dispositions, plus depreciation associated with real estate investments. Diluted FFO assumes the exercise of stock options using the treasury stock method. We define normalized FFO as FFO excluding certain items which, due to their infrequent or unpredictable nature, may create some difficulty in comparing funds from operations for the current period to similar prior periods.

We believe that FFO and normalized FFO are important supplemental measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires 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, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative, and should be supplemented with a measure such as FFO. The term FFO was designed by the REIT industry to address this issue. Our measure may not be comparable to similarly titled measures used by other REITs. Consequently, our FFO 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 Company's FFO to that of other REITs. FFO in and of itself does not represent cash generated from operating activities in accordance with generally accepted accounting principles (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 as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs.

The following table reconciles net income to FFO and Normalized FFO and is presented for basic and diluted weighted average shares (*in thousands, except share and per share amounts*):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2011	2010	2011	2010
Net income	\$ 25,117	\$ 19,189	\$ 44,210	\$ 35,132

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Elimination of certain non-cash items in net income:

Real estate depreciation - continuing operations	2,730	2,617	5,421	5,013
Real estate depreciation - discontinued operations	-	66	-	131
Net gain on sale of real estate	-	(2,004)	(2,299)	(2,004)
Funds from operations	\$ 27,847	\$ 19,868	\$ 47,332	\$ 38,272
Collection and recognition of past due rent	-	-	-	(1,520)
Recoveries of previous write-downs	-	(573)	-	(573)
Gains on sales of marketable securities	(8,655)	-	(8,809)	-
Change in fair value of interest rate swap agreement ⁽¹⁾	988	-	(266)	-
Other items	-	(40)	-	250
Normalized FFO	\$ 20,180	\$ 19,255	\$ 38,257	\$ 36,429

BASIC

Weighted average common shares outstanding	27,708,136	27,665,629	27,702,432	27,649,003
FFO per common share	\$ 1.00	\$.72	\$ 1.71	\$ 1.38
Normalized FFO per common share	\$.73	\$.70	\$ 1.38	\$ 1.32

DILUTED

Weighted average common shares outstanding	27,799,616	27,729,034	27,797,863	27,705,257
FFO per common share	\$ 1.00	\$.72	\$ 1.70	\$ 1.38
Normalized FFO per common share	\$.73	\$.70	\$ 1.38	\$ 1.32

(1) Beginning with the three months ended June 30, 2011, the Company has included in its definition of normalized FFO the change in the fair value of an interest rate swap agreement, a non-cash adjustment. Accordingly, the normalized FFO per basic and diluted common share for the three months ended March 31, 2011 is now \$0.65 rather than \$0.70 per basic and diluted common share, as previously reported.

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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.

Funds Available for Distribution

Our funds available for distribution (FAD) for the six months ended June 30, 2011 increased \$9,078,000 or 23.2% over the same period in 2010 due primarily to gains of \$8,809,000 on sales of a portion of our investment in marketable securities. Our normalized FAD for the six months ended June 30, 2011 increased \$2,112,000 or 5.7% over the same period in 2010. The increase in normalized FAD was primarily the result of the impact on net income of our new real estate investments in 2010. FAD represents net earnings available to common stockholders, excluding the effects of asset dispositions and straight-line rent adjustments, plus depreciation, stock based compensation and changes in the fair value of our interest rate swap agreement, if any. Diluted FAD assumes the exercise of stock options using the treasury stock method. We define normalized FAD as FAD excluding certain items which, due to their infrequent or unpredictable nature, may create some difficulty in comparing funds from operations for the current period to similar prior periods.

Since other REITs may not use our definition of FAD, caution should be exercised when comparing our Company's FAD to that of other REITs. FAD in and of itself does not represent cash generated from operating activities in accordance with GAAP (FAD 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 as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs.

	Three months ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income	\$ 25,117	\$ 19,189	\$ 44,210	\$ 35,132
Depreciation in continuing operations	2,947	2,786	5,832	5,309
Depreciation in discontinued operations	-	72	-	143
Net gain on sale of real estate	-	(2,004)	(2,299)	(2,004)
Straight-line lease revenue, net	(945)	(767)	(1,855)	(1,429)
Non-cash stock based compensation	274	217	2,645	2,038
	988	-	(266)	-

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Change in fair value of interest rate swap agreement				
Funds available for distribution	28,381	19,493	48,267	39,189
Collection and recognition of past due rent	-	-	-	(1,520)
Recoveries of previous write-downs	-	(573)	-	(573)
Gains on sales of marketable securities	(8,655)	-	(8,809)	-
Other items	-	(40)	-	250
Normalized FAD	\$ 19,726	\$ 18,880	\$ 39,458	\$ 37,346

BASIC

Weighted average common shares outstanding	27,708,136	27,665,629	27,702,432	27,649,003
FAD per common share	\$ 1.02	\$ 0.70	\$ 1.74	\$ 1.42
Normalized FAD per common share	\$ 0.71	\$ 0.68	\$ 1.42	\$ 1.35

DILUTED

Weighted average common shares outstanding	27,799,616	27,729,034	27,797,863	27,705,257
FAD per common share	\$ 1.02	\$ 0.70	\$ 1.74	\$ 1.41
Normalized FAD per common share	\$ 0.71	\$ 0.68	\$ 1.42	\$ 1.35

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Impact of Inflation

Inflation may affect us in the future by changing the underlying value of our real estate or by impacting our cost of financing our operations. Our revenues are generated primarily from long-term investments. 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.

Item 3.

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. Our mortgage notes receivable bear interest at fixed interest rates. Our investment in preferred stock, at cost, 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, respectively, are fixed, a hypothetical 10% change in interest rates has no impact on our future earnings and cash flows related to these instruments.

On November 3, 2010, we entered into an interest rate swap agreement to fix the interest rate on a \$50,000,000 term loan at 3.98% for five years. On January 31, 2011, we received proceeds from the term loan and paid off our revolving credit facility in full. We currently have \$50,000,000 available to draw on our revolving credit facility at a floating interest rate of 250 basis points over LIBOR.

Equity Price Risk

We consider our investments in marketable securities with a fair value of \$10,372,000 at June 30, 2011 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 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 \$1,037,200 change in the fair value of our investments in marketable securities.

Item 4.

Controls and Procedures.

Evaluation of Disclosure Control and Procedures. As of June 30, 2011, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and our Chief Accounting Officer (CAO), of the effectiveness of the design and operation of management's disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) to ensure information required to be disclosed in our filings under the Securities and Exchange Act of 1934, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms; and (ii) accumulated and communicated to our management, including our CEO and our CAO, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives, and management is necessarily required to apply its judgment when evaluating the cost-benefit relationship of potential controls and procedures. Based upon the evaluation, the CEO and our CAO concluded that the design and operation of these disclosure controls and procedures were effective as of June 30, 2011.

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

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in management's evaluation during the three months ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

On January 2, 2009, Care Foundation of America, Inc., a Tennessee nonprofit corporation (CFA) filed an adversary proceeding complaint against NHI in CFA 's 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 six Florida nursing 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; 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 was completed on February 1, 2010, and the CFA Adversary Proceeding has been dismissed with prejudice.

In November 2008, the Company was served with a Civil Investigative Demand by the Office of the Tennessee Attorney General (OTAG), which indicated that the OTAG was investigating transactions between the Company and three Tennessee nonprofit corporations, including CFA. NHI has provided OTAG with requested information and documents. OTAG agreed as part of the settlement of the CFA litigation that it will take no further action based on the Company '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. 3:09-991), 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 asserted 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 alleged that, as a result of that breach of duty, NHI has sustained damages in an amount not specified. The amended complaint sought no relief from NHI itself. The defendants filed a motion to dismiss the amended complaint for failure to make an adequate pre-filing demand. On September 21, 2010, the Court granted that motion, entered a judgment, and dismissed the action with prejudice. Despite that ruling, the Company's Board received a new demand letter from Mr. Shearer dated October 11, 2010 that again asserted that certain NHI directors and officers breached their fiduciary duties to NHI in connection with its transaction with CFA. In response to the October 11, 2010 demand, the Company's Board appointed a special committee that on December 6, 2010 made its report and recommendation to the Board. The Board considered the demand and unanimously accepted the special committee's recommendation to reject the demand on the basis that pursuing the proposed claims, in whole or in part, would not be in the best interests of the Company. Mr. Shearer was notified of the Board's determination by letter dated December 13, 2010. On February 3, 2011, Mr. Shearer filed a new derivative shareholder lawsuit (M.D. Tenn. Case No. 3:11-99), making the same claim and allegations as in the action that was dismissed with prejudice. The Company has responded to the new lawsuit by filing a motion to dismiss, in which the Company contends that Mr. Shearer lacks standing to bring the action given the Board's acceptance of the special committee's recommendation. The individual defendants have filed a separate motion to dismiss, in which they contend that the judgment in the first action precludes a subsequent action. Both motions have been fully briefed and are pending before the Court.

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Item 1A. Risk Factors.

During the quarter ended June 30, 2011, there were no material changes to the risk factors that were disclosed in Item 1A of National Health Investors, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010 except for a recent development that has increased the risk factor that stated as follows:

(Form 10-K) We are exposed to risks related to governmental payors and regulations and the effect they have on our tenants' and borrowers' business.

On July 29, 2011, the Centers for Medicare and Medicaid Services (CMS) announced the Skilled Nursing Facilities Prospective Payment System final rule for fiscal year 2012 that cuts Medicare payments to skilled nursing facility operators by a net 11.1% beginning October 1, 2011. Such reductions in Medicare reimbursement will have an adverse effect on the financial operations of our borrowers and lessees who operate skilled nursing facilities.

Item 5. Other Information

On May 3, 2011, the Compensation Committee of the Board of Directors approved an amendment to Justin Hutchens employment agreement. Mr. Hutchens' employment agreement previously provided that Mr. Hutchens would be granted an option to purchase 100,000 shares of common stock on February 25th of each year until February 2018 provided that Mr. Hutchens remains employed by NHI on that date, priced at the fair market price of NHI's common stock on the date granted. This provision did not change, however, the amendment provides that in the event there is a change in control (as defined below) of NHI, upon the closing of such change in control transaction, Mr. Hutchens will receive a grant of stock with a value equal to the spread between the price of NHI stock on the day prior to the announcement of the change in control transaction and the per share value received by the NHI shareholders in the change in control transaction. This would apply to each 100,000 option required to be granted under his agreement that has not been granted as of the date of the change in control. For example, if NHI stock is trading at \$50 per share and a change of control event occurs that provides the NHI shareholders will receive a value of \$55 per share, Mr. Hutchens would receive 9,091 shares of NHI stock for each option to purchase 100,000 shares that had not been granted yet. If NHI is not the surviving entity, Mr. Hutchens would receive the number of shares of the surviving entity that equal the number of shares he would have received for such NHI shares in the change in control transaction if the NHI stock had been issued to him immediately prior to the change in control transaction. However,

in the event that Mr. Hutchens remains the CEO of the surviving entity following the change in control transaction, his employment agreement would continue as in effect at such time, including the right to receive any remaining option grants and the grant of shares described above would not occur.

The term "change in control" means (i) the acquisition, directly or indirectly, of the beneficial or record ownership of more than fifty percent (50%) of the outstanding voting power of the Company (by operation of law or otherwise) by any Person, provided, however, that the merger or consolidation of the Company with another entity as a result of which more than 50% of the outstanding voting securities of the surviving or resulting entity (or of the parent entity of such resulting or surviving entity) shall be owned in the aggregate by the former owners of the Company, as the same shall have existed immediately prior to such merger or consolidation, shall not constitute a Change of Control, (ii) the sale of all or substantially all of the assets of the Company and its subsidiaries in one or more transactions, or (iii) the merger or consolidation of the Company with another entity as a result of which less than fifty percent (50%) of the outstanding voting securities of the surviving or resulting entity (or of the parent entity of such resulting or surviving entity) shall be owned in the aggregate by the former owners of the Company, as the same shall have existed immediately prior to such merger or consolidation; or (iv) a majority of members of the Board are replaced during any twelve (12) month period by directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election.

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Item 6.

Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form S-11 Registration Statement No. 33-41863)
3.2	Amendment to Articles of Incorporation (incorporated by reference to Exhibit A to the Company's Definitive Proxy Statement filed March 23, 2009)
3.3	Bylaws (incorporated by reference to Exhibit 3.2 to Form S-11 Registration Statement No. 33-41863)
10.1	Third Amendment dated May 3, 2011 to the Employment Agreement dated February 25, 2009 by and between NHI and J. Justin Hutchens
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Principal Financial Officer pursuant to 18 U.S.C.

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Section 1350, as adopted pursuant to Section
906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements 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.
(Registrant)

Date: August 3,
2011

/s/ J. Justin Hutchens

J. Justin Hutchens
President, Chief Executive Officer,
and Director

Date: August 3, 2011

/s/ Roger R. Hopkins

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