NATIONAL HEALTH INVESTORS INC
Form 10-Q
August 07, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2018

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

For the transition period from _____________ to _____________

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files) Yes [x] No [ ]

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

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

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

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

There were 42,174,948 shares of common stock outstanding of the registrant as of August 3, 2018.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2018 (unaudited)	December 31, 2017
Assets:		
Real estate properties:		
Land	$200,197	$191,623
Buildings and improvements	2,598,660	2,471,602
Construction in progress	5,093	2,678
	2,803,950	2,665,903
Less accumulated depreciation	(415,332)	(380,202)
Real estate properties, net	2,388,618	2,285,701
Mortgage and other notes receivable, net	149,676	141,486
Cash and cash equivalents	3,045	3,063
Straight-line rent receivable	108,771	97,359
Other assets	23,126	18,212
Total Assets	$2,673,236	$2,545,821
Liabilities and Equity:		
Debt	$1,225,720	$1,145,497
Accounts payable and accrued expenses	16,814	16,302
Dividends payable	42,172	39,456
Lease deposit liabilities	21,325	21,275
Deferred income	5,833	1,174
Total Liabilities	1,311,864	1,223,704
Commitments and Contingencies		
Stockholders' Equity:		
Common stock, $.01 par value; 60,000,000 shares authorized; 42,171,866 and 41,532,154 shares issued and outstanding	422	415
Capital in excess of par value	1,333,874	1,289,919
Cumulative net income in excess of dividends	24,938	32,605
Accumulated other comprehensive income (loss)	2,138	(822)
Total Stockholders' Equity	1,361,372	1,322,117
Total Liabilities and Equity	$2,673,236	$2,545,821

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, 2017 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,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Revenues:				
Rental income	$69,869	$65,725	$139,122	$128,853
Interest income	3,087	4,101	6,580	7,352
	72,956	69,826	145,702	136,205
Expenses:				
Depreciation	17,794	16,819	35,129	32,963
Interest, including amortization of debt discount and issuance costs	12,220	11,732	23,834	23,393
Legal	223	146	334	202
Franchise, excise and other taxes	266	267	612	534
General and administrative	2,765	2,521	6,935	6,630
Loan and realty losses	1,849	—	1,849	—
	35,117	31,485	68,693	63,722
Income before investment and other gains and losses	37,839	38,341	77,009	72,483
Investment and other gains	—	—	—	10,088
Loss on convertible note retirement	—	(96)	(738)	(96)
Net income	$37,839	$38,245	$76,271	$82,475
Weighted average common shares outstanding:				
Basic	41,704,814	40,982,244	41,618,487	40,468,024
Diluted	41,786,829	41,245,173	41,681,854	40,679,345
Earnings per common share:				
Net income per common share - basic	$.91	$.93	$1.83	$2.04
Net income per common share - diluted	$.91	$.93	$1.83	$2.03

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 COMPREHENSIVE INCOME
(in thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(unaudited)		(unaudited)	
Net income	$37,839	$38,245	$76,271	$82,475
Other comprehensive income (loss):				
Change in unrealized gains on securities	—	—	—	(26)
Reclassification for amounts recognized in investment and other gains	—	—	—	(10,038)
Increase (decrease) in fair value of cash flow hedges	727	(690)	2,373	(225)
Reclassification for amounts recognized as interest expense	76	645	352	1,434
Total other comprehensive income (loss)	803	(45)	2,725	(8,855)
Comprehensive income	$38,642	$38,200	$78,996	$73,620

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

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

	Six Months Ended June 30,	
	2018	2017
	(unaudited)	
Cash flows from operating activities:		
Net income	$76,271	$82,475
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	35,129	32,963
Amortization of issue costs, debt discounts and prepaid expenses	2,100	2,479
Amortization of commitment fees and note receivable discounts	(589)	(349)
Amortization of lease incentives	132	20
Straight-line rental income	(11,797)	(12,005)
Non-cash interest income on construction loans	(943)	(470)
Gain on sale of real estate	—	(50)
Loss on convertible note retirement	738	96
Gain on sale of marketable securities	—	(10,038)
Loan and realty losses	1,849	—
Non-cash stock-based compensation	1,794	1,865
Change in operating assets and liabilities:		
Other assets	(5,759)	(2,321)
Accounts payable, accrued expenses and other liabilities	2,900	283
Net cash provided by operating activities	101,825	94,948
Cash flows from investing activities:		
Investments in mortgage and other notes receivable	(9,845)	(30,950)
Collections of mortgage and other notes receivable	2,775	24,155
Investments in real estate	(129,558)	(128,411)
Investments in real estate development	—	(8,446)
Investments in renovations of existing real estate	(4,269)	(2,891)
Proceeds from disposition of real estate properties	—	450
Proceeds from sale of marketable securities	—	18,182
Net cash used in investing activities	(140,897)	(127,911)
Cash flows from financing activities:		
Proceeds from revolving credit facilities	179,000	153,000
Payments on revolving credit facilities	(73,000)	(123,000)
Payments on term loans	(568)	(394)
Debt issuance costs	—	(4)
Taxes remitted on employee stock awards	(325)	(360)
Proceeds from issuance of common shares	44,920	79,772
Convertible note redemption	(29,985)	(2,762)
Dividends paid to stockholders	(80,988)	(74,651)
Net cash provided by financing activities	39,054	31,601
Decrease in cash and cash equivalents	(18)	(1,362)
Cash and cash equivalents, beginning of period	3,063	4,832

Cash and cash equivalents, end of period	$3,045	$3,470

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 (CONTINUED)
(in thousands)

	Six Months Ended June 30,	
	2018	2017
	(unaudited)	
Supplemental disclosure of cash flow information:		
Interest paid, net of amounts capitalized	$22,403	$21,667
Supplemental disclosure of non-cash investing and financing activities:		
Change in accounts payable related to investments in real estate construction	$273	$598
Tenant investment in leased asset	$3,775	$1,250

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
(unaudited, in thousands, except share and per share amounts)

	Common Stock					
	Shares	Amount	Capital in Excess of Par Value	Cumulative Net Income in Excess of Dividends	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances at December 31, 2017	41,532,154	$ 415	$ 1,289,919	$ 32,605	$ (822)	$ 1,322,117
Cumulative effect of change in accounting principle	—	—	—	(235)	235	—
Total comprehensive income	—	—	—	76,271	2,725	78,996
Equity component in redemption of convertible notes	—	—	(2,427)	—	—	(2,427)
Issuance of common stock, net	628,403	7	44,913	—	—	44,920
Taxes paid on employee stock awards	—	—	(325)	—	—	(325)
Shares issued on stock options exercised	11,309	—	—	—	—	—
Non-cash stock-based compensation	—	—	1,794	—	—	1,794
Dividends declared, $2.00 per common share	—	—	—	(83,703)	—	(83,703)
Balances at June 30, 2018	42,171,866	$ 422	$ 1,333,874	$ 24,938	$ 2,138	$ 1,361,372

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

NATIONAL HEALTH INVESTORS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2018
(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 of which these notes are an integral part include all normal, recurring adjustments that 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, 2017 has been derived from the audited consolidated financial statements at that date. We assume that users of these condensed consolidated financial statements have read or have access to the audited December 31, 2017 consolidated financial statements and that the adequacy of additional disclosure needed for a fair presentation, except regarding 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, 2017 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, 2017, which are included in our 2017 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.

Principles of Consolidation - The accompanying condensed consolidated financial statements include our accounts and the accounts of our wholly-owned subsidiaries, joint ventures, partnerships and consolidated variable interest entities ("VIE"), if any. All intercompany transactions and balances have been eliminated in consolidation.

A VIE is broadly defined as an entity with one or more of the following characteristics: (a) the total equity investment at risk is insufficient to finance the entity's activities without additional subordinated financial support; (b) as a group, the holders of the equity investment at risk lack (i) the ability to make decisions about the entity's activities through voting or similar rights, (ii) the obligation to absorb the expected losses of the entity, or (iii) the right to receive the expected residual returns of the entity; or (c) the equity investors have voting rights that are not proportional to their economic interests, and substantially all of the entity's activities either involve, or are conducted on behalf of, an investor that has disproportionately few voting rights.

We apply Financial Accounting Standards Board ("FASB") guidance for our arrangements with VIEs which requires us to identify entities for which control is achieved through means other than voting rights and to determine which business enterprise is the primary beneficiary of the VIE. In accordance with FASB guidance, management must evaluate each of the Company's contractual relationships which creates a variable interest in other entities. If the Company has a variable interest and the entity is a VIE, then management must determine whether the Company is the primary beneficiary of the VIE. If it is determined that the Company is the primary beneficiary, NHI would consolidate the VIE. We identify the primary beneficiary of a VIE as the enterprise that has both: (i) the power to direct the activities of the VIE that most significantly impact the entity's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits of the VIE that could be significant to the entity. We perform this analysis on an ongoing basis.

At June 30, 2018, we held an interest in eight unconsolidated VIEs, and, because we generally lack either directly or through related parties any material input in the activities that most significantly impact their economic performance,

we have concluded that NHI is not the primary beneficiary. Accordingly, we account for our transactions with these entities and their subsidiaries at amortized cost.

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Our VIEs are summarized below by date of initial involvement. For further discussion of the nature of the relationships, including the sources of our exposure to these VIEs, see the notes to our condensed consolidated financial statements cross-referenced below.

Date	Name	Source of Exposure	Carrying Amount	Maximum Exposure to Loss	Note Reference
2012	Bickford Senior Living	Various[1]	$39,492,000	$58,503,000	Notes 2, 3
2014	Senior Living Communities	Notes and straight-line receivable	$40,573,000	$54,742,000	Notes 2, 3
2014	Life Care Services affiliate	Notes receivable	$56,226,000	$59,763,000	Note 3
2015	Affiliates of East Lake	Straight-line receivable	$3,877,000	$3,877,000	Note 2
2016	Senior Living Management	Notes and straight-line receivable	$26,425,000	$26,425,000	Note 3
2017	Navion Senior Solutions	Straight-line receivable	$454,000	$454,000	—
2017	Evolve Senior Living	Note receivable	$9,918,000	$9,918,000	—
2018	Comfort Care Senior Living	Straight-line receivable	$6,000	$6,000	Note 2

[1] Notes, straight-line rent receivables, and unamortized lease incentives

We are not obligated to provide support beyond our stated commitments to these tenants and borrowers whom we classify as VIEs, and accordingly our maximum exposure to loss as a result of these relationships is limited to the amount of our commitments, as shown above and discussed in the notes. When the above relationships involve leases, some additional exposure to economic loss is present. Generally, additional economic loss on a lease, if any, would be limited to that resulting from a short period of arrearage and non-payment of monthly rent before we are able to take effective remedial action, as well as costs incurred in transitioning the lease. The potential extent of such loss will be dependent upon individual facts and circumstances, cannot be quantified, and is therefore not included in the tabulation above. Typically, the only carrying amounts involving our leases are accumulated straight-line receivables. For VIE relationships listed above without a note reference, please refer to our most recent Annual Report on Form 10-K for the year ended December 31, 2017.

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

Earnings Per Share - The weighted average number of common shares outstanding during the reporting period is used to calculate basic earnings per common share. Diluted earnings per common share assumes the exercise of stock options using the treasury stock method, to the extent dilutive. Diluted earnings per share also incorporate the potential dilutive impact of our convertible senior notes. We apply the treasury stock method to our convertible debt instruments, the effect of which is that conversion will not be assumed for purposes of computing diluted earnings per share unless the average share price for the period exceeds the conversion price per share.

Reclassifications - We have reclassified certain balances where necessary to conform the presentation of prior periods to the current period. These reclassifications had no effect on previously reported net income.

New Accounting Pronouncements - For a review of recent accounting pronouncements pertinent to our operations and management's judgment as to the impact that the eventual adoption of these pronouncements will have on our financial position and results of operations, see Note 11.

NOTE 2. REAL ESTATE

As of June 30, 2018, we owned 219 health care real estate properties located in 33 states and consisting of 143 senior housing communities (“SHO”), 71 skilled nursing facilities (“SNF”), 3 hospitals and 2 medical office buildings. Our senior housing communities include assisted living facilities, senior living campuses, independent living facilities, and entrance-fee communities. These investments (excluding our corporate office of $2,471,000) consisted of properties with an original cost of approximately $2,801,479,000 rented under triple-net leases to 29 lessees.

We acquired the following real estate properties during the six months ended June 30, 2018 (in thousands):

Operator	Date	Properties	Asset Class	Amount
The Ensign Group	January/May 2018	3	SNF	43,404
Bickford Senior Living	April 2018	5	SHO	69,750
Comfort Care Senior Living	May 2018	2	SHO	17,140
				$130,294

Ensign

On January 12, 2018, NHI acquired from a developer a 121-bed skilled nursing facility in Waxahachie, Texas for a cash investment of $14,404,000, and on May 9, 2018, we acquired from another developer two 132-bed skilled nursing facilities in Garland and Fort Worth, Texas for a cash investment totaling $29,000,000. Additional consideration of $1,275,000 for the Waxahachie property and $1,250,000 for each of Garland and Ft. Worth were contributed by the lessee, The Ensign Group ("Ensign"). We have capitalized the tenant contributions as a component of the cost of the facilities and have recorded the contributions as deferred revenue, which we are amortizing to revenue over the term of the master lease to which these properties have now been added. The remaining term of the master lease extends through April 2031, plus renewal options. The blended initial lease rate is set at 8.1%, subject to annual escalators based on prevailing inflation rates. The acquisition was accounted for as an asset purchase and fulfills our commitment to acquire and lease to Ensign four skilled nursing facilities in New Braunfels, Waxahachie, Garland and Fort Worth, Texas.

Comfort Care

On May 31, 2018, NHI acquired two assisted living facilities comprising a total of 106 units in Bridgeport and Saginaw, Michigan for a cash investment of $17,140,000, inclusive of $100,000 in closing costs. We leased the facilities to affiliates of Comfort Care Senior Living ("Comfort Care") at an initial lease rate of 7.25% with annual escalators adjusted for prevailing inflation rates, subject to a floor and ceiling of 2% and 3%, respectively. The lease provides for an initial six-month lease cash escrow. With the acquisition, NHI also obtained fair value-based purchase options for two newly constructed facilities operated by Comfort Care, with the purchase option windows to open upon stabilization. The acquisition was accounted for as an asset purchase.

Our relationship to Comfort Care consists of our leasehold interests and purchase options and is considered a variable interest, analogous to a financing arrangement. Comfort Care is structured to limit liability for potential damage claims, is capitalized for that purpose and is considered a VIE within the definition set forth in Note 1.

Affiliates of East Lake Capital Management

In documents we have previously filed with and furnished to the SEC, we have used the shorthand "East Lake" to refer to the East Lake Capital Management affiliated entities for whom we act as landlord. These entities consist of EL FW Intermediary I, LLC (for the Freshwater/Watermark continuing care retirement communities) and SH Regency Leasing, LLC (for the three assisted living facilities in Tennessee, Indiana and North Carolina referred to as "Regency").

Our relationship with the affiliates of East Lake Capital Management ("Affiliates") consists of our leasehold interests and is considered a variable interest, analogous to a financing arrangement. The Affiliates are structured to limit liability for potential damage claims, are capitalized for that purpose and are considered VIEs within the definition set forth in Note 1. See Note 6 for a discussion of the complaint filed by East Lake against NHI and the status of our lease with the affiliated entities.

Major Tenants

Bickford

On April 30, 2018, we acquired an assisted living/memory-care portfolio in Ohio and Pennsylvania totaling 320 units and comprised of five facilities, one of which is subject to a ground lease with remaining term, including extensions, of 50 years. The purchase price was $69,750,000, inclusive of $500,000 in closing costs and a $1,750,000 commitment for specified capital improvements, which will be added to the lease base upon funding. This portfolio is

in a separate master lease with Bickford Senior Living ("Bickford") which provides for a lease rate of 6.85%, with annual fixed escalators over a term of 15 years plus renewal options, subject to a fair market value rent reset feature available to NHI between years three and five. We accounted for the acquisition as an asset purchase.

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As of June 30, 2018, our Bickford portfolio consists of leases with lease expiration dates as follows (in thousands):

	Lease Expiration					
	Sep/Oct 2019	June 2023	Sept 2027	May 2031	Apr 2033	Total
Number of Properties	10	13	4	20	5	52
2018 Contractual Rent	$9,264	$11,133	$1,515	$19,970	$3,105	$44,987
Straight Line Rent Adjustment	(617)	588	221	3,813	607	4,612
Total Revenues	$8,647	$11,721	$1,736	$23,783	$3,712	$49,599

Of our total revenues, $12,411,000 (17%) and $9,899,000 (14%) were recognized as rental income from Bickford for the three months ended June 30, 2018 and 2017, including $1,203,000 and $907,000 in straight-line rent income, respectively. Of our total revenues, $23,856,000 (16%) and $19,273,000 (14%) were recognized as rental income from Bickford for the six months ended June 30, 2018 and 2017, including $2,372,000 and $1,816,000 in straight-line rent income, respectively.

Senior Living

As of June 30, 2018, we leased nine retirement communities totaling 1,970 units to Senior Living Communities, LLC ("Senior Living"). The 15-year master lease, which began in December 2014, contains two 5-year renewal options and provides for an annual escalator of 4% effective January 1, 2018 and 3% thereafter.

Of our total revenues, $11,457,000 (16%) and $11,431,000 (16%) in rental income were derived from Senior Living for the three months ended June 30, 2018 and 2017, respectively, including $1,359,000 and $1,746,000 in straight-line rent income. Of our total revenues, $22,905,000 (16%) and $22,862,000 (17%) in rental income were derived from Senior Living for the six months ended June 30, 2018 and 2017, respectively, including $2,717,000 and $3,492,000 in straight-line rent income.

Holiday

As of June 30, 2018, we leased 25 independent living facilities to an affiliate of Holiday Retirement ("Holiday"). The 17-year master lease, which began in December 2013, currently provides for a minimum annual escalator of 3.5% through the end of the lease term.

Of our total revenues, $10,954,000 (15%) and $10,954,000 (16%) were derived from Holiday for the three months ended June 30, 2018 and 2017, including $1,530,000 and $1,849,000 in straight-line rent income, respectively. Of our total revenues, $21,908,000 (15%) and $21,908,000 (16%) were derived from Holiday for the six months ended June 30, 2018 and 2017, including $3,061,000 and $3,698,000 in straight-line rent income, respectively. Our tenant operates the facilities pursuant to a management agreement with a Holiday-affiliated manager.

NHC

As of June 30, 2018, we leased 42 facilities under two master leases to National HealthCare Corporation ("NHC"), a publicly-held company and the lessee of our legacy properties. The facilities leased to NHC consist of 3 independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). These facilities are leased to NHC under the terms of an amended master lease agreement originally dated October 17, 1991 ("the 1991 lease") which includes our 35 remaining legacy properties and a master lease agreement dated August 30, 2013 ("the 2013 lease") which includes 7 skilled nursing facilities acquired from a third party.

The 1991 lease has been amended to extend the lease expiration to December 31, 2026. There are two additional 5-year renewal options, each at fair rental value of such leased property as negotiated between the parties and determined without including the value attributable to any improvements to the leased property voluntarily made by NHC at its expense. Under the terms of the 1991 lease, the base annual rental is $30,750,000 and rent escalates by 4% of the increase, if any, in each facility's revenue over a 2007 base year. The 2013 lease provides for a base annual rental of $3,450,000 and has a lease expiration of August 2028. Under the terms of the 2013 lease, rent escalates 4% of the increase, if any, in each facility's revenue over the 2014 base year. For both the 1991 lease and the 2013 lease, we refer to this additional rent component as "percentage rent." During the last three years of the 2013 lease, NHC will have the option to purchase the facilities for $49,000,000.

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The following table summarizes the percentage rent income from NHC (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Current year	$853	$782	$1,706	$1,563
Prior year final certification[1]	—	—	285	194
Total percentage rent income	$853	$782	$1,991	$1,757

[1] For purposes of the percentage rent calculation described in the master lease agreement, NHC's annual revenue by facility for a given year is certified to NHI by March 31st of the following year.

Of our total revenues, $9,389,000 (13%) and $9,318,000 (13%) were derived from NHC for the three months ended June 30, 2018 and 2017, respectively. Of our total revenues, $19,064,000 (13%) and $18,831,000 (14%) were derived from NHC for the six months ended June 30, 2018 and 2017, respectively.

The chairman of our board of directors is also a director on NHC's board of directors. As of June 30, 2018, NHC owned 1,630,462 shares of our common stock.

Tenant Transition

During the three months ended June 30, 2018, we identified a single-property lease as non-performing. In accordance with our revenue recognition policies, we will recognize future rental income from the lease in the period in which cash is received, approximately $150,000 of which is in arrears at June 30, 2018. Additionally, we determined to transition the lease to a new tenant. As a consequence of this determination, we judged the related straight-line receivable to be uncollectible, and, accordingly, we wrote off the balance of $1,436,000 pertaining to the original tenant.

Tenant Non-Compliance

In October 2017, we issued a letter of forbearance to one of our tenants for a default on our lease terms involving mandated lease coverage ratios and working capital. Lease revenues from the tenant and its affiliates comprise less than 4% of our rental income, and the related straight-line rent receivable was approximately $4,059,000 at June 30, 2018. The tenant has maintained its status as current on all rent payments to NHI, and we have made no rent concessions.

Further, we have determined that another of our tenants is in material non-compliance with provisions of our lease regarding mandated coverage ratios and working capital. Lease revenues from the tenant comprise less than 2% of our rental income, and the related straight-line rent receivable was approximately $1,200,000 at June 30, 2018. Through June 30, 2018, the tenant has continued to be current on its rent payments to NHI, and we have made no rent concessions.

The defaults mentioned above typically give rise to considerations regarding the impairment or recoverability of the related assets, and we give additional attention to the nature of the defaults' underlying causes. As of June 30, 2018, consequently, our assessment of likely undiscounted cash flows, calculated at the lowest level for which identifiable asset-specific cash flows are largely independent, reveals no impairment on the underlying real estate for either of the non-compliant operations discussed above.

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NOTE 3. MORTGAGE AND OTHER NOTES RECEIVABLE

At June 30, 2018, we had net investments in mortgage notes receivable with a carrying value of $106,817,000, secured by real estate and UCC liens on the personal property of 10 facilities, and other notes receivable with a carrying value of $42,859,000, guaranteed by significant parties to the notes or by cross-collateralization of properties with the same owner. No allowance for doubtful accounts was considered necessary at June 30, 2018 or December 31, 2017. Revenue of $3,056,000 and $6,516,000 from mortgage and other notes receivable reported for the three and six months ended June 30, 2018, respectively, is included as Interest income in our Condensed Consolidated Statements of Income.

Bickford

At June 30, 2018, our construction loans to Bickford are summarized as follows:

Commencement	Rate	Maturity	Commitment	Drawn	Location
July 2016	9%	5 years	$14,000,000	$(13,047,000)	Illinois
January 2017	9%	5 years	14,000,000	(8,107,000)	Michigan
January 2018	9%	5 years	14,000,000	(1,834,000)	Virginia
			$42,000,000	$(22,988,000)	

The promissory notes are secured by first mortgage liens on substantially all real and personal property as well as a pledge of any and all leases or agreements which may grant a right of use to the subject property. Usual and customary covenants extend to the agreements, including the borrower's obligation for payment of insurance and taxes. NHI has a purchase option on the properties at stabilization, whereby the lease rate will be set with a floor of 9.55%, based on NHI's total investment, plus fixed annual escalators. On these and future loan development projects, Bickford as the borrower is entitled to up to $2,000,000 per project in incentive loan draws based upon the achievement of predetermined operational milestones, the funding of which will increase the principal amount, NHI's future purchase price under option and, upon exercise, eventual lease payment to NHI.

Our loans to Bickford represent a variable interest as do our leases, which are considered analogous to financing arrangements. Bickford is structured to limit liability for potential claims for damages, is capitalized to achieve that purpose and is considered a VIE within the definition set forth in Note 1.

Timber Ridge

In February 2015, we entered into an agreement to lend up to $154,500,000 to LCS-Westminster Partnership III LLP ("LCS-WP"), an affiliate of Life Care Services ("LCS"). The loan agreement conveys a mortgage interest and facilitated the construction of Phase II of Timber Ridge at Talus ("Timber Ridge"), a Type-A Continuing Care Retirement Community in Issaquah, WA managed by LCS. Our loan to LCS-WP represents a variable interest. As an affiliate of a larger company, LCS-WP is structured to limit liability for potential damage claims, is capitalized to achieve that purpose and is considered a VIE within the definition set forth in Note 1.

The loan took the form of two notes under a master credit agreement. The senior note ("Note A") totals $60,000,000 at a 6.75% interest rate with 10 basis-point escalators after year three, and has a term of 10 years. We have funded $56,463,000 of Note A as of June 30, 2018. Note A is interest-only and is locked to prepayment for three years. After year three in February 2018, the prepayment penalty starts at 5% and declines 1% per year. Note B was a construction loan for up to $94,500,000 at an annual interest rate of 8% and a five-year maturity and was fully drawn during 2016. We began receiving repayment with new resident entrance fees upon the opening of Phase II during the fourth quarter of 2016. The balance remaining on Note B at December 31, 2017, of $1,953,000 was repaid during the first quarter of 2018, resulting in the recognition of interest income of $515,000 in unamortized commitment fees.

NHI has an option to purchase the entire Timber Ridge property for the greater of fair market value or $115,000,000 during a window of 120 days that is set to open in February 2019.

Senior Living Communities

In connection with the acquisition in December 2014 of properties leased to Senior Living, we provided a $15,000,000 revolving line of credit, the maturity of which mirrors the 15-year term of the master lease. Borrowings are used to finance construction projects within the Senior Living portfolio, including building additional units. Up to $5,000,000 of the facility may be used to meet general working capital needs. Amounts outstanding under the facility, $831,000 at June 30, 2018, bear interest at an annual rate equal to the prevailing 10-year U.S. Treasury rate, 2.85% at June 30, 2018, plus 6%.

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NHI has two mezzanine loans totaling $14,000,000 to affiliates of Senior Living, whose purpose was to partially fund construction of a 186-unit senior living campus on Daniel Island in South Carolina, which opened in April 2018. The loans bear interest payable monthly at a 10% annual rate and mature in March 2021. The lending arrangement provides NHI with a purchase option at fair value on the campus upon its meeting certain operational metrics. The community opened in the first quarter of 2018. The option is to remain open during the term of the loans, plus any extensions.

Our loans to Senior Living and its subsidiaries represent a variable interest as does our lease, which is considered to be analogous to a financing arrangement. Senior Living is structured to limit liability for potential damage claims, is appropriately capitalized for that purpose and is considered a VIE within the definition set forth in Note 1.

Other Loan Activity

During the quarter ended June 30, 2018, we took a direct write-off of $413,000 (included in loan and realty losses) on a non-mortgage receivable with remaining balance of $400,000, secured by personal guarantees.

NOTE 4. OTHER ASSETS

Other assets consist of the following (in thousands):

	June 30, 2018	December 31, 2017
Accounts receivable and other assets	$9,709	$ 5,187
Regulatory escrows	8,208	8,208
Reserves for replacement, insurance and tax escrows	5,209	4,817
	$23,126	$ 18,212

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

NOTE 5. DEBT

Debt consists of the following (in thousands):

	June 30, 2018	December 31, 2017
Convertible senior notes - unsecured (net of discount of $1,771 and $2,637)	$118,229	$144,938
Revolving credit facility - unsecured	327,000	221,000
Bank term loan - unsecured	250,000	250,000
Private placement term loans - unsecured	400,000	400,000
HUD mortgage loans (net of discount of $1,361 and $1,402)	43,279	43,645
Fannie Mae term loans - secured, non-recourse	96,206	96,367
Unamortized loan costs	(8,994)	(10,453)
	$1,225,720	$1,145,497

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Aggregate principal maturities of debt as of June 30, 2018 for each of the next five years and thereafter are as follows (in thousands):

Twelve months ended June 30,	
2018	$1,166
2019	1,207
2020	1,256
2021	121,303
2022	703,353
Thereafter	409,561
	1,237,846
Less: discount	(3,132)
Less: unamortized loan costs	(8,994)
	$1,225,720

Our unsecured $800,000,000 credit facility provides for a $250,000,000 term loan and a $550,000,000 revolving credit facility with a due date of August 2022. The facility calls for floating interest on the term loan and revolver to be initially set at 30-day LIBOR plus 130 and 115 bps, respectively, based on current leverage metrics. Additional features include a 0% floor LIBOR base and a facility fee of 20 basis points. The employment of interest rate swaps to fix LIBOR on our bank term debt leaves only our revolving credit facility exposed to variable rate risk. Our swaps and the financial instruments to which they relate are described in the table below, under the caption "Interest Rate Swap Agreements."

At June 30, 2018, we had $223,000,000 available to draw on the revolving portion of our credit facility. The unsecured credit facility agreement requires that we maintain certain financial ratios within limits set by our creditors. To date, these ratios, which are calculated quarterly, have been within the limits required by the credit facility agreements.

Pinnacle Bank is a participating member of our banking group. A member of NHI's board of directors and chairman of our audit committee is also the chairman of Pinnacle Financial Partners, Inc., the holding company for Pinnacle Bank. NHI's local banking transactions are conducted primarily through Pinnacle Bank.

The composition our private placement term loans is summarized below (in thousands):

Amount	Inception	Maturity	Fixed Rate
$125,000	January 2015	January 2023	3.99%
50,000	November 2015	November 2023	3.99%
75,000	September 2016	September 2024	3.93%
50,000	November 2015	November 2025	4.33%
100,000	January 2015	January 2027	4.51%
$400,000			

In connection with our November 2017 acquisition of a facility in Tulsa, we assumed a Fannie Mae mortgage loan with remaining balance of $18,311,000. The mortgage amortizes through 2025 when a balloon payment will be due, is subject to prepayment penalties until 2024, and bears interest at a nominal rate of 4.6% with a remaining balance of $18,123,000 at June 30, 2018.

In March 2015 we obtained $78,084,000 in Fannie Mae financing. The term debt financing consists of interest-only payments at an annual rate of 3.79% and a 10-year maturity. The mortgages are non-recourse and secured by thirteen properties leased to Bickford. These notes, together with the Fannie Mae debt assumed in connection with the 2017

Tulsa acquisition mentioned above, are secured by facilities having a net book value of $140,121,000 at June 30, 2018.

In March 2014 we issued $200,000,000 of 3.25% senior unsecured convertible notes due April 2021 (the “Notes”) with interest payable April 1st and October 1st of each year. The Notes were convertible at an initial conversion rate of 13.93 shares of common stock per $1,000 principal amount, representing a conversion price of approximately $71.81 per share for a total of approximately 2,785,200 underlying shares. The conversion rate is subsequently adjusted upon each occurrence of certain events, as defined in the indenture governing the Notes, including the payment of dividends at a rate exceeding that prevailing in 2014. The conversion option was accounted for as an “optional net-share settlement conversion feature,” meaning that upon conversion, NHI’s conversion obligation may be satisfied, at our option, in cash, shares of common stock or a combination of cash and shares of common stock. Because we have the ability and intent to settle the convertible securities in cash upon exercise, we use the treasury stock method to account for potential dilution.

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The embedded conversion options (1) do not require net cash settlement, (2) are not conventionally convertible but can be classified in stockholders' equity under Accounting Standards Codification ("ASC") 815-40, and (3) are considered indexed to NHI's own stock. Therefore, the conversion feature satisfies the conditions to qualify for an exception to the derivative liability rules, and the Notes are split into debt and equity components. The carrying value of the debt component was based upon the estimated fair value at the time of issuance of a similar debt instrument without the conversion feature and was approximately $192,238,000 at issuance. The difference of $7,762,000 between the contractual principal on the debt and the value allocated to the debt component was recorded as the equity component and represented the estimated value of the conversion feature of the instrument. The excess of the contractual principal amount of the debt over the estimated fair value of the debt component, the original issue discount, is being amortized to interest expense using the effective interest method over the estimated term of the Notes. The effective interest rate used to amortize the debt discount and the liability component of the debt issue costs is approximately 3.9% based on our estimated non-convertible borrowing rate at the date the Notes were issued. The total cost of issuing the Notes was $6,063,000, of which $275,000 was allocated to the equity component and $5,788,000 was allocated to the debt component and subject to amortization over the estimated term of the notes.

During the six months ended June 30, 2018, we continued to make targeted open-market repurchases of certain of the convertible notes. Settlement of the notes requires management to allocate the consideration we ultimately pay between the debt component and the equity conversion feature as though they were separate instruments. The allocation is effected by valuing the debt component first, with any remainder allocated to the conversion feature. Amounts expended to settle the notes are recognized first as a settlement of the notes at our carrying value and then are recognized in income to the extent the portion allocated to the debt instrument differs from carrying value. The remainder of the allocation, if any, is treated as settlement of equity and adjusted through our capital in excess of par account. A roll-forward of our note balances, including the effect of period amortization, net of issuance costs, is presented below:

	December 31, 2017	Cash Paid	Amortization	June 30, 2018
Face Amount	$147,575	$(27,575)	$ —	$120,000
Discount	(2,637)	$458	$ 408	(1,771)
Issuance Costs	(1,752)	$297	$ 285	(1,170)
Carrying Value	$143,186			$117,059

Total expenditures of $29,985,000 include paid amounts of $27,558,000 allocated to the note retirement with the remaining expenditure of $2,427,000 allocated to capital in excess of par. A loss of $738,000 for the six months ended June 30, 2018, resulted from the excess of cash expenditures over the book value of the notes retired, net of discount and issuance costs. No notes were retired during the three months ended June 30, 2018.

As of June 30, 2018, our senior unsecured convertible notes were convertible at a rate of 14.33 shares of common stock per $1,000 principal amount, representing a conversion price of approximately $69.79 per share for a total of 1,719,500 remaining underlying shares. For the six months ended June 30, 2018, dilution resulting from the conversion option within our convertible debt is 12,126 shares. If NHI's current share price increases above the adjusted $69.79 conversion price, further dilution will be attributable to the conversion feature. On June 30, 2018, the value of the convertible debt, computed as if the debt were immediately eligible for conversion, exceeded its face amount by $6,693,000.

Our HUD mortgage loans are secured by ten Bickford-operated properties having a net book value of $51,726,000 at June 30, 2018. Nine mortgage notes require monthly payments of principal and interest from 4.3% to 4.4% (inclusive of mortgage insurance premium) and mature in August and October 2049. One additional HUD mortgage loan

assumed in 2014 requires monthly payments of principal and interest of 2.9% (inclusive of mortgage insurance premium) and matures in October 2047.

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The following table summarizes interest expense (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Interest expense on debt at contractual rates	$11,414	$10,312	$21,941	$20,345
Losses reclassified from accumulated other comprehensive income into interest expense	76	645	352	1,434
Capitalized interest	(47)	(93)	(71)	(160)
Amortization of debt issuance costs and debt discount	777	868	1,612	1,774
Total interest expense	$12,220	$11,732	$23,834	$23,393

Interest Rate Swap Agreements

Our existing interest rate swap agreements will collectively continue through June 2020 to hedge against fluctuations in variable interest rates applicable to our $250,000,000 bank term loan. With the amendment to our credit facility in August 2017, the introduction to the bank term loan of a LIBOR floor not present in the hedges resulted in hedge inefficiency of $353,000, which we credited to interest expense in 2017. To better reflect earnings, on January 1, 2018, we adopted ASU 2017-12 Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, as discussed in Note 11. Upon the adoption of the new standard, we reversed cumulative ineffectiveness, resulting in a retroactive net charge to retained earnings and a credit to accumulated other comprehensive income of $235,000 as of January 1, 2018.

During the next twelve months, approximately $787,000 of gains, which are included in accumulated other comprehensive income, are projected to be reclassified into earnings. As of June 30, 2018, we employ the following interest rate swap contracts to mitigate our interest rate risk on the $250,000,000 term loan (dollars in thousands):

Date Entered	Maturity Date	Fixed Rate	Rate Index	Notional Amount	Fair Value
May 2012	April 2019	2.84%	1-month LIBOR	$40,000	$265
June 2013	June 2020	3.41%	1-month LIBOR	$80,000	$761
March 2014	June 2020	3.46%	1-month LIBOR	$130,000	$1,111

If the fair value of the hedge is an asset, we include it in our Condensed Consolidated Balance Sheets among other assets, and, if a liability, as a component of accrued expenses. See Note 10 for fair value disclosures about our interest rate swap agreements. Net asset/(liability) balances for our hedges included in accumulated other comprehensive income (loss) on our Condensed Consolidated Balance Sheets on June 30, 2018 and December 31, 2017 were $2,137,000 and $(588,000), respectively.

NOTE 6. COMMITMENTS AND CONTINGENCIES

In the normal course of business, we enter into a variety of commitments, typical of which are those for the funding of revolving credit arrangements, construction and mezzanine loans to our operators to conduct expansions and acquisitions for their own account, and commitments for the funding of construction for expansion or renovation to our existing properties under lease. In our leasing operations, we offer to our tenants and to sellers of newly-acquired properties a variety of inducements which originate contractually as contingencies but which may become commitments upon the satisfaction of the contingent event. Contingent payments earned will be included in the respective lease bases when funded. The tables below summarize our existing, known commitments and contingencies at June 30, 2018, according to the nature of their impact on our leasehold or loan portfolios.

	Asset Class	Type	Total	Funded	Remaining
Loan Commitments:					
Life Care Services Note A	SHO	Construction	$60,000,000	$(56,463,000)	$3,537,000
Bickford Senior Living	SHO	Construction	42,000,000	(22,989,000)	19,011,000
Senior Living Communities	SHO	Revolving Credit	15,000,000	(831,000)	14,169,000
			$117,000,000	$(80,283,000)	$36,717,000

See Note 3 for full details of our loan commitments. As provided above, loans funded do not include the effects of discounts or commitment fees. We expect to fully fund the Life Care Services Note A during 2018. Funding of the commitments for construction is made monthly based on inspection of work performed.

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	Asset Class	Type	Total	Funded	Remaining
Development Commitments:					
EL FW Intermediary I, LLC	SHO	Renovation	$8,937,000	$(8,937,000)	$—
Bickford Senior Living	SHO	Renovation	4,150,000	(1,647,000)	2,503,000
Senior Living Communities	SHO	Renovation	6,830,000	(2,185,000)	4,645,000
Discovery Senior Living	SHO	Renovation	500,000	—	500,000
Woodland Village	SHO	Renovation	7,450,000	(2,750,000)	4,700,000
Chancellor Health Care	SHO	Construction	62,000	(62,000)	—
Navion Senior Solutions	SHO	Construction	650,000	—	650,000
			$28,579,000	$(15,581,000)	$12,998,000

As discussed in Note 2, we have satisfied our obligation to purchase skilled nursing facilities in Texas which had been leased to Legend and subleased to Ensign. Our commitment to fund renovations for EL FW Intermediary I, LLC, originally scheduled for up to $10,000,000, has expired. Our commitment to fund up to $650,000 in construction for Chancellor has expired.

	Asset Class	Type	Total	Funded	Remaining
Contingencies:					
Bickford Senior Living	SHO	Lease Inducement	$10,000,000	$(5,250,000)	$4,750,000
Bickford Senior Living	SHO	Incentive Draws	6,000,000	(250,000)	5,750,000
SH Regency Leasing, LLC	SHO	Lease Inducement	8,000,000	—	8,000,000
Navion Senior Solutions	SHO	Lease Inducement	4,850,000	—	4,850,000
Prestige Care	SHO	Lease Inducement	1,000,000	—	1,000,000
The LaSalle Group	SHO	Lease Inducement	5,000,000	—	5,000,000
			$34,850,000	$(5,500,000)	$29,350,000

Contingent lease inducement payments of $10,000,000 related to the five Bickford development properties constructed in 2016 and 2017 include a licensure incentive of $250,000 per property and a three-tiered operator incentive schedule paying up to an additional $1,750,000, based on the attainment of certain performance metrics. Upon funding, these payments are added to the lease base and amortized against rental income.

For a discussion of incentive loan draws of $6,000,000 available to Bickford related to our development loans in Illinois, Michigan and Virginia, see Note 3.

In connection with our July 2015 lease to SH Regency of three senior housing properties, NHI has committed to certain lease inducement payments of $8,000,000 contingent on reaching and maintaining certain metrics. The inducements are assessed as not probable of payment, and we have not recorded them on our balance sheets as of June 30, 2018. Not included in the above table is a seller earnout of $750,000, which is recorded on our condensed consolidated balance sheets within accounts payable and accrued expenses.

Litigation

On June 15, 2018, East Lake Capital Management LLC and certain related entities, including SH Regency Leasing LLC (“Regency”), filed suit against NHI and NHI-REIT of Axel, LLC (Case No. DC-18-07841 in the District Court of Dallas County, Texas; 95th Judicial District) for injunctive and declaratory relief and, unspecified monetary damages including attorney’s fees. The suit seeks, among other things, to enjoin NHI from making certain references to East Lake in NHI’s public filings. NHI asserts the claims are meritless and intends to vigorously defend itself. Subsequent to the receipt of the filed action, NHI has countersued Regency for declaratory judgment, specific performance, monetary damages, and attorneys’ fees relating to Regency’s alleged defaults under a lease with NHI-REIT of Axel, for,

among other things, the failure to provide required financial information under the lease. During the pendency of this litigation, NHI in its public filings will endeavor to refer to tenant-specific names, namely “EL FW Intermediary I, LLC” (for the Watermark continuing care retirement communities) and “SH Regency Leasing, LLC” (for the three Regency assisted living facilities). Management believes that the eventual resolution of this controversy will have no material adverse effect on the Company.

Our facilities are subject to claims and suits in the ordinary course of business. Our lessees and borrowers have indemnified, and are obligated to continue to indemnify us, against all liabilities arising from the operation of the facilities, and are further obligated to indemnify us against environmental or title problems affecting the real estate underlying such facilities. While there may be lawsuits pending against certain of the owners and/or lessees of the facilities, management believes that the ultimate

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resolution of all such pending proceedings will have no material adverse effect on our financial condition, results of operations or cash flows.

NOTE 7. INVESTMENT AND OTHER GAINS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Gain on sale of real estate	$ —	$ —	$ —	$ 50
Gain on sales of marketable securities	—	—	—	10,038
	$ —	$ —	$ —	$ 10,088

In January and February 2017, we recognized gains of $10,038,000 on sales totaling $11,718,000 of marketable securities with a carrying value $11,745,000 and an adjusted cost of $1,680,000 at December 31, 2016. Total proceeds of $18,182,000 from sales of marketable securities for 2017 included settlements occurring in 2017 of $6,464,000 that resulted from sales in December 2016.

NOTE 8. STOCK-BASED COMPENSATION

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

Stock-Based Compensation Plans

The Compensation Committee of the Board of Directors (“the Committee”) has the authority to select the participants to be granted options; to designate whether the option granted is an incentive stock option (“ISO”), a non-qualified option, or a stock appreciation right; to establish the number of shares of common stock that may be issued upon exercise of the option; to establish the vesting provision for any award; and to establish the term any award may be outstanding. The exercise price of any ISO’s granted will not be less than 100% of the fair market value of the shares of common stock on the date granted, and the term of an ISO may not be more than ten years. The exercise price of any non-qualified options granted will not be less than 100% of the fair market value of the shares of common stock on the date granted unless so determined by the Committee.

In May 2012, our stockholders approved the 2012 Stock Incentive Plan (“the 2012 Plan”) pursuant to which 1,500,000 shares of our common stock were made available to grant as stock-based payments to employees, officers, directors or consultants. Through a vote of our shareholders on May 7, 2015, we increased the maximum number of shares under the plan from 1,500,000 shares to 3,000,000 shares; increased the automatic annual grant to non-employee directors from 15,000 shares to 20,000 shares; and limited the Company’s ability to re-issue shares under the Plan. Through a second amendment approved on May 4, 2018, our shareholders voted to increase the maximum number of shares under the plan to 3,500,000 and to increase the automatic annual grant to non-employee directors to 25,000. The individual restricted stock and option grant awards may vest over periods up to five years. The term of the options under the 2012 Plan is up to ten years from the date of grant.

As of June 30, 2018, there were 891,668 shares available for future grants under the 2012 Plan.

In May 2005, our stockholders approved the NHI 2005 Stock Option Plan ("the 2005 Plan") pursuant to which 1,500,000 shares of our common stock were made available to grant as stock-based payments to employees, officers, directors or consultants. The 2005 Plan has expired and no additional shares may be granted under the 2005 Plan. The individual restricted stock and option grant awards vest over periods up to ten years. The term of the options outstanding under the 2005 Plan is up to ten years from the date of grant.

Compensation expense is only recognized for the awards that ultimately vest. Accordingly, forfeitures that were not expected will result in the reversal of previously recorded compensation expense. Non-cash compensation expense reported for the three months ended June 30, 2018 and 2017 was $368,000 and $342,000, respectively. Non-cash compensation expense reported for the six months ended June 30, 2018 and 2017 was $1,794,000 and $1,865,000, respectively. Non-cash compensation expense is included in general and administrative expense in the Condensed Consolidated Statements of Income.

At June 30, 2018, we had, net of expected forfeitures, $1,339,000 of unrecognized compensation cost related to unvested stock options which is expected to be expensed over the following periods: 2018 - $737,000, 2019 - $542,000 and 2020 - $60,000.

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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 weighted average fair value per share of options granted during the six months ended June 30, 2018 and 2017 was $4.49 and $5.75, respectively. The fair value of each grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2018	2017
Dividend yield	6.5%	5.3%
Expected volatility	19.4%	19.8%
Expected lives	2.9 years	2.9 years
Risk-free interest rate	2.39%	1.49%

The following table summarizes our outstanding stock options:

	Six Months Ended June 30,	
	2018	2017
Options outstanding January 1,	859,182	541,679
Options granted under 2012 Plan	560,000	485,000
Options exercised under 2012 Plan	(94,170)	(70,830)
Options forfeited under 2012 Plan	(15,000)	(6,668)
Options exercised under 2005 Plan	—	(15,000)
Options outstanding, June 30,	1,310,012	934,181
Exercisable at June 30,	854,990	540,830

NOTE 9. EARNINGS AND DIVIDENDS PER COMMON SHARE

The weighted average number of common shares outstanding during the reporting period is used to calculate basic earnings per common share. Diluted earnings per common share assume the exercise of stock options and the conversion of our convertible debt using the treasury stock method, to the extent dilutive. If our average stock price for the period increases over the conversion price of our convertible debt, the conversion feature will be considered dilutive.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$37,839	$ 38,245	$76,271	$ 82,475
BASIC:				
Weighted average common shares outstanding	41,704,819	40,982,244	41,618,487	40,468,024
DILUTED:				
Weighted average common shares outstanding	41,704,819	40,982,244	41,618,487	40,468,024
Stock options	57,759	66,137	51,241	63,901
Convertible subordinated debentures	24,251	196,792	12,126	147,420
Weighted average dilutive common shares outstanding	41,786,829	41,245,173	41,681,854	40,679,345

Net income per common share - basic	$.91	$ .93	$1.83	$ 2.04
Net income per common share - diluted	$.91	$ .93	$1.83	$ 2.03
Incremental shares excluded since anti-dilutive:				
Net share effect of stock options with an exercise price in excess of the average market price for our common shares	33,554	11,015	50,952	9,736
Regular dividends declared per common share	$1.00	$ .95	$2.00	$ 1.90

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NOTE 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial assets and liabilities measured at fair value (based on the hierarchy of the three levels of inputs described in Note 1 to the consolidated financial statements contained in our most recent Annual Report on Form 10-K) on a recurring basis have included marketable securities, derivative financial instruments and contingent consideration arrangements. Derivative financial instruments include our interest rate swap agreements. Contingent consideration arrangements relate to certain provisions of recent real estate purchase agreements involving business combinations.

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

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

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

	Balance Sheet Classification	Fair Value Measurement June 30, 2018	December 31, 2017
Level 2			
Interest rate swap asset	Other assets	$2,137	$ 159
Interest rate swap liability	Accounts payable and accrued expenses	$—	$ 747

Carrying amounts and fair values of financial instruments that are not carried at fair value at June 30, 2018 and December 31, 2017 in the Condensed Consolidated Balance Sheets are as follows (in thousands):

	Carrying Amount		Fair Value Measurement	
	2018	2017	2018	2017
Level 2				
Fixed rate debt	$653,381	$679,855	$639,232	$679,385
Level 3				
Mortgage and other notes receivable	$149,676	$141,486	$146,201	$140,049

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

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

Carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value due to their short-term nature. The fair value of our borrowings under our revolving credit facility and other variable rate debt are reasonably estimated at their notional amounts at June 30, 2018 and December 31, 2017, due to the predominance of floating interest rates, which generally reflect market conditions.

NOTE 11. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014 the Financial Accounting Standards Board (“FASB”) issued ASU 2014-09, Revenue from Contracts with Customers. ASU 2014-09 provides a principles-based approach for a broad range of revenue generating transactions, including the sale of real estate, which will generally require more estimates, judgment and disclosures than under current guidance. In August 2015 the FASB issued ASU 2015-14, which defers the effective date of ASU 2014-09. ASU 2014-09 is now effective for public entities for annual periods beginning after December 15, 2017, including interim periods therein.

The Company adopted this standard using the modified retrospective method on January 1, 2018. The ASU provides for revenues from leases to continue to follow the guidance in Topics 840 and 842 (when adopted) and provides for loans to follow established guidance in Topic 310. Because this ASU specifically excludes these areas of our operations from its scope, there was no impact to our accounting for lease revenue and interest income resulting from the ASU. Additionally, the other significant types

of contracts in which we periodically engage, sales of real estate to customers, typically never remain executory across points in time, so that nuances related to the timing of revenue recognition as mandated under Topic 606 are not expected to impact our results of operations or financial position. Because all performance obligations from these contracts can therefore be expected to continue to fall within a single period, the timing of our revenue recognition from future sales of real estate is not expected to be affected by the ASU. A number of practical expedients are available in applying the recognition and measurement principles within the standard, including those permitting the aggregation of contract revenues and costs with components of interest income or amortization expense whose period of aggregation, within parameters, is not considered to be of significant duration for separate treatment. We realized no significant revenues in 2017 or 2018 within the scope of ASU 2014-09, and, accordingly, adoption of the ASU did not have a material impact on the timing and measurement of the Company's revenues.

In February 2016 the FASB issued ASU 2016-02, Leases, which has been codified under Topic 842. Public companies will be required to apply ASU 2016-02 for all accounting periods beginning after December 15, 2018. Early adoption is permitted. All leases with lease terms greater than one year are subject to ASU 2016-02, including leases in place as of the adoption date. The principal difference between Topic 842 and previous guidance is that, for lessees, lease assets and lease liabilities arising from operating leases will be recognized in the balance sheet. While the accounting applied by a lessor is largely unchanged from that applied under previous GAAP, changes have been made to align i) certain lessor and lessee accounting guidance, and ii) key aspects of the lessor accounting model with the revenue recognition guidance in Topic 606, Revenue from Contracts with Customers, which we adopted January 1, 2018. Under Topic 842 provisions promulgated to conform with Topic 606, the presence of a lessee purchase option can result in recording as a financing a transaction that would otherwise meet the requirements for lease accounting under previous guidance. As a result, NHI may explore different structures to continue to apply lease accounting rather than record a financing similar to a long-term note. The accounting treatment for sale-leaseback transactions will mirror the current guidance for lessees which may result in a financing transaction. Upon adoption the Company anticipates grossing up rental income for property taxes and insurance currently paid by tenants.

The Company will continue to evaluate the impact of Topic 842 on our consolidated financial statements. In April 2018, the Company entered into a ground lease in connection with its acquisition of certain real estate assets. In accordance with current standards under Topic 840, we have accounted for the lease as an operating lease. As the lessee, under transition accounting on the adoption of Topic 842 in 2019, we expect to elect practical expedients that allow the continuation of accounting for this lease as an operating lease. Consistent with present standards, upon the adoption of ASU 2016-02, NHI will continue to account for lease revenue on a straight-line basis for most leases. Also consistent with NHI's current practice, under ASU 2016-02 only initial direct costs that are incremental to the lessor will be capitalized. While we have made steady progress in evaluating the extent to which adopting the provisions of ASU 2016-02 in 2019 will affect NHI, we cannot yet ascertain with accuracy what the effect of grossing up revenues and expenses will have on our presentation of operations. We expect little balance sheet impact from the adoption of ASU 2016-02. In July 2018 the FASB issued ASU 2018-11 Leases - Targeted Improvements, which provides an alternative adoption method at the transition date, allowing entities to recognize a cumulative effect adjustment to the opening balance of retained earnings upon adoption. We continue to study alternative methods by which NHI will adopt ASU 2016-02.

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses. ASU 2016-13 will require more timely recognition of credit losses associated with financial assets. While current GAAP includes multiple credit impairment objectives for instruments, the previous objectives generally delayed recognition of the full amount of credit losses until the loss was probable of occurring. The amendments in ASU 2016-13, whose scope is asset-based and not restricted to financial institutions, eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, we generally only considered past events and current conditions in measuring the incurred loss. The amendments in ASU 2016-13 broaden the information that we must consider in developing our expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more

timely information in the estimate of expected credit loss that will be more useful to users of the financial statements. ASU 2016-13 is effective for public entities for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Because we are likely to continue to invest in loans and generate receivables, adoption of ASU 2016-13 in 2020 will have some effect on our accounting for these investments, though the nature of those effects will depend on the composition of our loan portfolio at that time; accordingly, we are in the initial stages of evaluating the extent of the effects, if any, that adopting the provisions of ASU 2016-13 in 2020 will have on NHI.

In November 2016, the FASB issued ASU 2016-18, Restricted Cash. ASU 2016-18 will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents, generally by requiring the inclusion of restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments in this ASU do not provide a definition of restricted cash or restricted cash equivalents. ASU 2016-18 is effective for public entities for fiscal years beginning after December 15, 2017, including interim periods. The adoption of ASU 2016-18 did not have a material effect on our consolidated financial statements.

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In January 2017 the FASB issued ASU 2017-01, Clarifying the Definition of a Business. ASU 2017-01 narrowed the definition of a business in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business-inputs, processes, and outputs. Currently the definition of outputs contributes to broad interpretations of the definition of a business. Additionally, the standard provides that when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. For purposes of this test, land and buildings can be combined along with the intangible assets for any in-place leases. For most of NHI's acquisitions of investment property, this screen would be met and, therefore, not meet the definition of a business. ASU 2017-01 became effective for public entities for fiscal years beginning after December 15, 2017, including interim periods. Early application of this standard is generally allowed for acquisitions acquired after the standard was issued but before the acquisition has been reflected in financial statements. We adopted the provisions of ASU 2017-01 in the first quarter of 2017. The adoption of ASU 2017-01 did not have a material effect on our consolidated financial statements. Our acquisitions in 2018 and 2017 were accounted for as asset purchases.

In August 2017 the FASB issued ASU 2017-12, Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities, which is available for early adoption in any interim period after issuance of the update, or alternatively requires adoption for fiscal years beginning after December 15, 2018. The purpose of this updated guidance is to better align a company's financial reporting for hedging activities with the economic objectives of those activities. On January 1, 2018, we adopted ASU 2017-12, among whose provisions is a change in the timing and income statement line item for ineffectiveness related to cash flow hedges. The transition method is a modified retrospective approach that will require the Company to recognize the cumulative effect of initially applying the ASU as an adjustment to accumulated other comprehensive income with a corresponding adjustment to the opening balance of retained earnings as of the beginning of the fiscal year that we adopt the update. The primary provision in the ASU requiring an adjustment to our beginning consolidated retained earnings in 2018 is the change in timing and income statement line item for ineffectiveness related to cash flow hedges. In applying the transition guidance provided in the ASU, as of January 1, 2018, cumulative ineffectiveness as adjusted for any prior off-market cashflow hedges was reclassified out of beginning retained earnings and into accumulated other comprehensive income. With the adoption of the ASU, the Company has achieved a better alignment of its financial reporting for hedging activities with the economic objectives of those activities.

NOTE 12. SUBSEQUENT EVENT

Bickford

In July 2018, we finalized and began funding a new loan commitment to Bickford. Initial funding on July 13, 2018, was $1,481,000 toward a maximum of $14,700,000 for the project. The agreement conveys a mortgage interest and provides for the construction of an assisted living facility in Canton, Michigan. The construction loan bears interest at 9% and conveys a purchase option to NHI, exercisable upon stabilization, as defined. Upon exercise of the purchase option, rent will be reset based on NHI's total investment, with a floor of 9.55%.

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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 consolidated 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 consolidated subsidiaries and not any other person. Unless the context indicates otherwise, references herein to "the Company" include all of our consolidated 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 limitation, those containing words such as "may," "will," "believes," "anticipates," "expects," "intends," "estimates," "plans," and other similar expressions, are forward-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 factors including, but not limited to, the following:

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

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

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

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

* Legislative, regulatory, or administrative changes could adversely affect us or our security holders.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

See the notes to the annual audited consolidated financial statements in our most recent Annual Report on Form 10-K for the year ended December 31, 2017, and “Business” and “Risk Factors” under Item 1 and Item 1A therein for a further discussion of these and of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. You should carefully consider these risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones facing the Company. There may be additional risks that we do not presently know of and/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 and 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., established in 1991 as a Maryland corporation, is a self-managed real estate investment trust (“REIT”) specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical facility investments. Our portfolio consists of real estate investments in independent living facilities, assisted living facilities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. We fund our real estate investments primarily through: (1) operating cash flow, (2) debt offerings, including bank lines of credit and term debt, both unsecured and secured, and (3) the sale of equity securities.

Portfolio

As of June 30, 2018, we had investments in real estate and mortgage and other notes receivable involving 229 facilities located in 33 states. These investments involve 149 senior housing properties, 75 skilled nursing facilities, 3 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of $2,471,000) consisted of properties with an original cost of approximately $2,801,479,000, rented under triple-net leases to 29 lessees, and $149,676,000 aggregate net carrying value of mortgage and other notes receivable due from 11 borrowers.

Our investments in real estate are located within the United States and our investments in mortgage loans are secured by real estate located within the United States. We are managed as one unit for internal reporting and decision making. Therefore, our reporting reflects our financial position and operations as a single segment.

We classify all of the properties in our portfolio as either senior housing or medical properties. Because our leases represent different underlying revenue sources and result in differing risk profiles, we further classify our senior housing communities as either need-driven (assisted living and memory care communities and senior living campuses) or discretionary (independent living and entrance-fee communities.)

Senior Housing – Need-Driven includes assisted living and memory care communities (“ALF”) and senior living campuses (“SLC”) which primarily attract private payment for services from residents who require assistance with activities of daily living. Need-driven properties are subject to regulatory oversight.

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Senior Housing – Discretionary includes independent living (“ILF”) and entrance-fee communities (“EFC”) which primarily attract private payment for services from residents who are making the lifestyle choice of living in an age-restricted multi-family community that offers social programs, meals, housekeeping and in some cases access to healthcare services. Discretionary properties are subject to limited regulatory oversight. There is a correlation between demand for this type of community and the strength of the housing market.

Medical Facilities within our portfolio receive payment primarily from Medicare, Medicaid and health insurance. These properties include skilled nursing facilities (“SNF”), medical office buildings (“MOB”) and hospitals that attract patients who have a need for acute or complex medical attention, preventative medicine, or rehabilitation services. Medical properties are subject to state and federal regulatory oversight and, in the case of hospitals, Joint Commission accreditation.

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The following tables summarize our investments in real estate and mortgage and other notes receivable as of June 30, 2018 (dollars in thousands):

Real Estate Properties	Properties	Beds/Sq. Ft.*	Revenue	%	Investment
Senior Housing - Need-Driven					
Assisted Living	93	4,618	$ 38,426	26.4 %	$ 851,970
Senior Living Campus	10	1,323	8,388	5.8 %	162,141
Total Senior Housing - Need-Driven	103	5,941	46,814	32.2 %	1,014,111
Senior Housing - Discretionary					
Independent Living	30	3,412	24,537	16.9 %	549,424
Entrance-Fee Communities	10	2,363	25,406	17.4 %	600,268
Total Senior Housing - Discretionary	40	5,775	49,943	34.3 %	1,149,692
Total Senior Housing	143	11,716	96,757	66.5 %	2,163,803
Medical Facilities					
Skilled Nursing Facilities	71	9,198	38,031	26.1 %	571,219
Hospitals	3	181	3,996	2.7 %	55,971
Medical Office Buildings	2	88,517 *	338	0.2 %	10,486
Total Medical Facilities	76		42,365	29.0 %	637,676
Total Real Estate Properties	219		$ 139,122	95.5 %	$ 2,801,479
Mortgage and Other Notes Receivable					
Senior Housing - Need-Driven	5	312	$ 1,736	1.2 %	$ 42,907
Senior Housing - Discretionary	1	400	2,399	1.7 %	56,226
Medical Facilities	4	270	348	0.2 %	7,684
Other Notes Receivable	—	—	2,033	1.4 %	42,859
Total Mortgage and Other Notes Receivable	10	982	6,516	4.5 %	149,676
Total Portfolio	229		$ 145,638	100.0 %	$ 2,951,155

Portfolio Summary	Properties	Beds/Sq. Ft.*	Revenue	%	Investment
Real Estate Properties	219		$139,122	95.5%	$2,801,479
Mortgage and Other Notes Receivable					