



Q3 2015 SUPPLEMENTAL





Timber Ridge at Talus
Issaquah, WA

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Forward looking statements and risk factors:

This Supplemental Information and other materials we have filed or may file with the Securities and Exchange Commission, as well as information included in oral statements made, or to be made, by our senior management contain certain “forward-looking” statements as that term is defined by the Private Securities Litigation Reform Act of 1995. All statements regarding our expected future financial position, results of operations, cash flows, funds from operations, continued performance improvements, ability to service and refinance our debt obligations, ability to finance growth opportunities, and similar statements including, without limitations, those containing words such as “may,” “will,” “believes,” anticipates,” “expects,” “intends,” “estimates,” “plans,” and other similar expressions are forward-looking statements.

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking. Such risks and uncertainties include, among other things, the risks which are described under the heading “Risk Factors” in Item 1A in our Form 10-K for the year ended December 31, 2014.

In this Supplemental Information, we refer to non-GAAP financial measures. These non-GAAP measures are not prepared in accordance with generally accepted accounting principles. A reconciliation of the non-GAAP financial measures to the most directly comparable GAAP measures is included in this presentation.

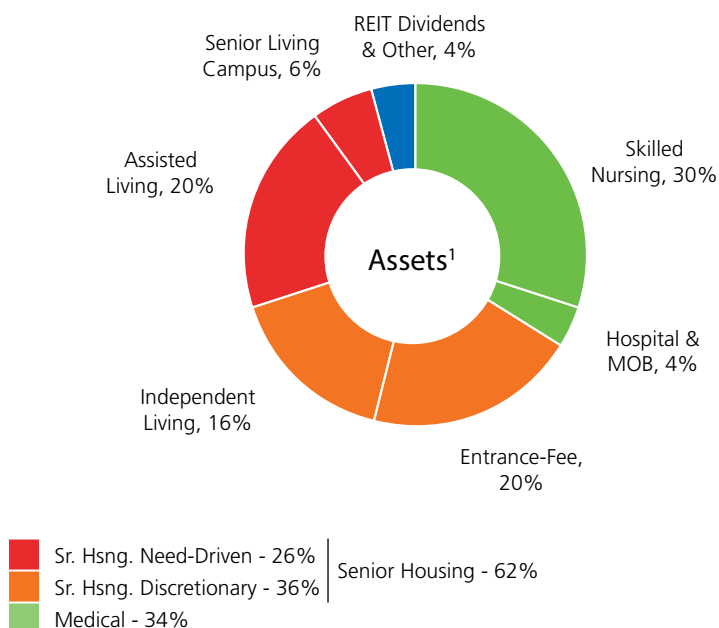
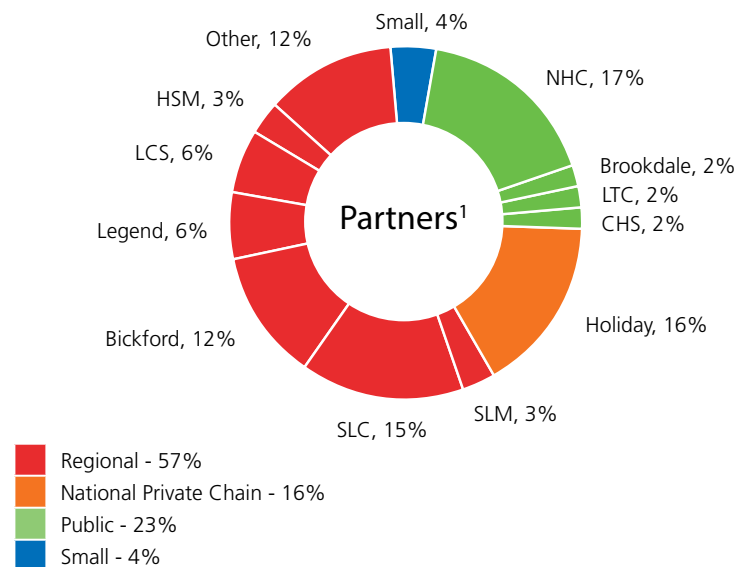
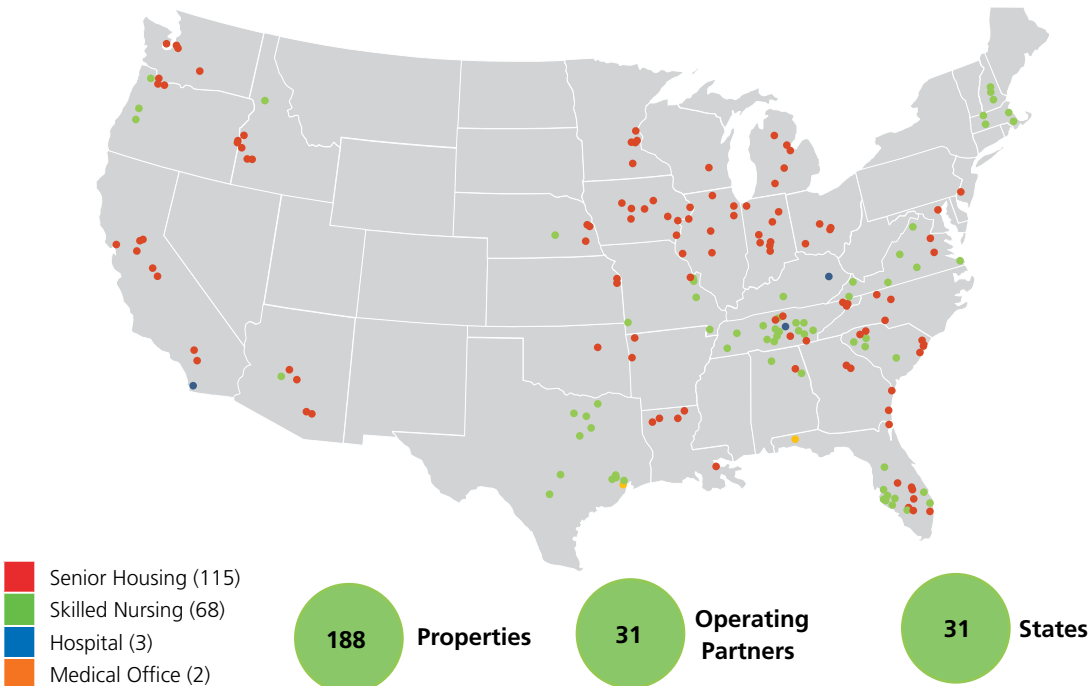
Throughout this presentation, certain abbreviations and acronyms are used to simplify the format. A list of definitions is provided at the end of this presentation to clarify the meaning of any reference that may be ambiguous.

Unless otherwise noted, all amounts are unaudited and are as of or for the year-to-date period ended September 30th.

Overview

NATIONAL HEALTH INVESTORS, INC. (NYSE: NHI), is a real estate investment trust specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. NHI's portfolio consists of independent, assisted and memory care communities, entrance-fee retirement communities, skilled nursing facilities, medical office buildings and specialty hospitals.

Highlights	Diversified portfolio of exceptional healthcare properties
	Conservatively managed balance sheet
	Industry leading FFO growth
	Strong, growing dividend with low payout ratio



¹ based on annualized cash revenue for contracts in place at September 30, 2015

Summary Information

(dollar and share amounts in thousands)

Quarter Ended / As Of

	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014
Balance Sheet Data					
Gross cost of real estate assets	\$ 2,088,622	\$ 1,984,078	\$ 1,993,118	\$ 1,988,849	\$ 1,493,140
Total assets	2,133,125	2,012,820	2,019,716	1,982,960	1,488,168
Total liabilities	1,088,459	966,313	973,275	933,027	707,148
Total noncontrolling interests	9,762	9,824	9,902	10,008	9,897
Total stockholder's equity attributable to NHI	1,034,904	1,036,683	1,036,539	1,039,925	771,123
Operating Data					
Total revenue	\$ 58,282	\$ 56,313	\$ 55,751	\$ 45,734	\$ 44,478
Rental revenue - GAAP	54,459	52,670	52,495	42,944	41,669
Straight-line rents	6,184	6,219	6,089	3,771	4,203
Rental revenue - Cash	48,275	46,451	46,406	39,173	37,466
Adjusted EBITDA	56,253	53,525	51,693	44,543	42,195
Interest expense	9,772	9,287	8,412	5,652	7,005
General & administrative expense	1,691	2,514	3,845	2,158	2,164
Funds from operations per diluted common share	1.22	1.17	1.13	1.08	1.05
Normalized FFO per diluted common share	1.21	1.15	1.13	1.06	1.05
Normalized AFFO per diluted common share	1.07	1.01	.99	.94	.94
Normalized FAD per diluted common share	1.08	1.02	1.03	.95	.95
Regular dividends declared per common share	.85	.85	.85	.77	.77
Capitalization					
Common shares outstanding at end of each period	37,566	37,566	37,566	37,486	33,058
Market value of equity at end of each period	\$ 2,159,669	\$ 2,340,362	\$ 2,667,577	\$ 2,622,520	\$ 1,888,934
Total debt	1,009,144	893,032	899,420	862,726	640,963
Net debt	994,947	889,739	895,230	859,439	637,404
Total market capitalization, including net debt	3,154,616	3,230,101	3,562,807	3,481,959	2,526,338
Ratios					
Interest coverage ratio	5.8x	5.8x	6.1x	6.1x ²	6.0x
Fixed charge coverage ratio ¹	6.1x	6.2x	6.5x	6.3x	6.3x
Net debt to adjusted EBITDA (annualized)	4.6x	4.2x	4.3x	4.8x	3.8x
Dividend payout ratio for normalized FFO	70.2%	73.9%	75.2%	72.6%	73.3%
Dividend payout ratio for normalized AFFO	79.4%	84.2%	85.9%	81.9%	81.9%
Dividend payout ratio for normalized FAD	78.7%	83.3%	82.5%	81.1%	81.1%
Net debt as a percentage of market capitalization	31.5%	27.5%	25.1%	24.7%	25.2%
Secured debt as a percentage of net debt	12.6%	14.0%	13.8%	5.3%	18.4%
Portfolio Statistics					
Number of properties	188	187	184	183	174
RIDEA average occupancy	86.3%	85.8%	85.4%	84.0%	83.5%
RIDEA EBITDARM	\$ 7,168	\$ 6,903	\$ 6,810	\$ 6,787	\$ 5,995

¹YTD 2015 6.3x

²calculation adjusts for write-off of \$1,655,000 unamortized debt premium



Q3 2015

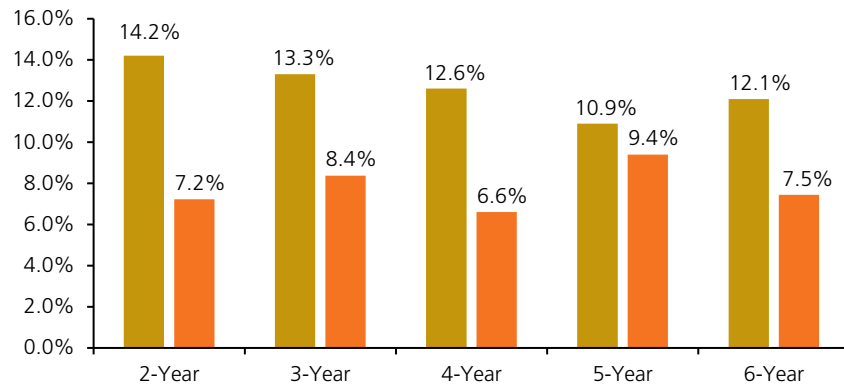
Brightwater
Myrtle Beach, SC

Page 4

Performance

Normalized FFO / Share (CAGR)

NHI vs Peer Avg



Peer Average Source: Wells Fargo Securities; based on mid-point of 2015 guidance and reported normalized FFO

Dividends

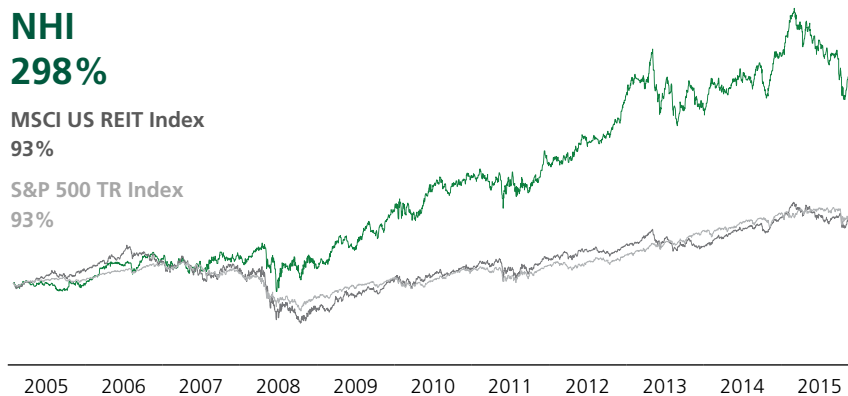


10-Year Total Return

NHI
298%

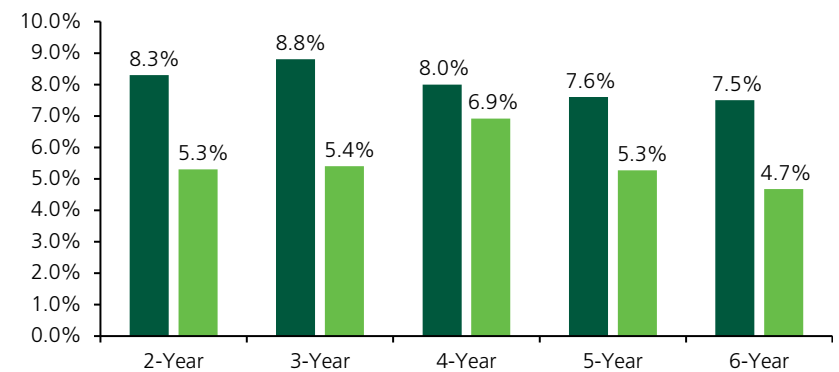
MSCI US REIT Index
93%

S&P 500 TR Index
93%



Dividends / Share (CAGR)

NHI vs Peer Avg



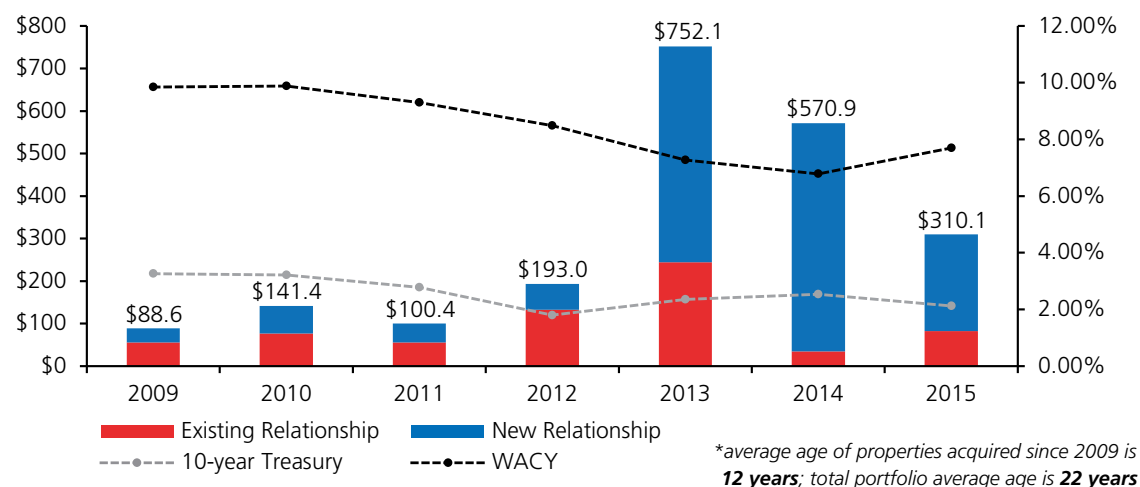
Peer Average Source: Wells Fargo Securities; based on peer company projections and dividend history

Investments

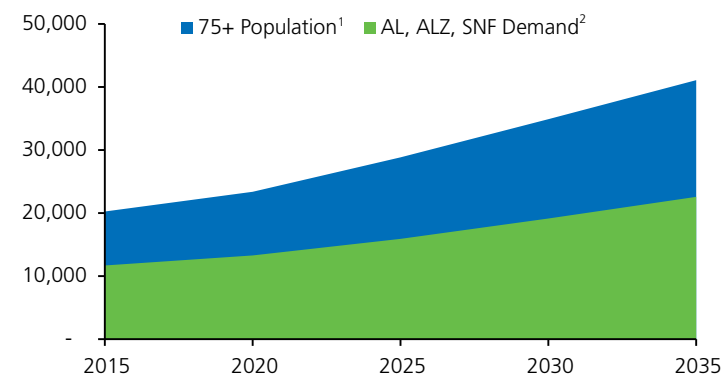
We invest in *relationships*,
not just properties.®

- Focused on growing with our 31 operating partners and select new customers
- Diversified investment plan emphasizing private pay senior housing properties
- Experienced operators with proven record of quality care and value creation

Investment History*



Population Projection



¹ U.S. Census Bureau, National Population Projections

² U.S. Census, Americans with Disabilities, Household Economic Studies, July 2012; American Academy of Neurology, February 2013; National Center for Health Statistics Long-Term Care Services in the U.S. - 2014 Overview

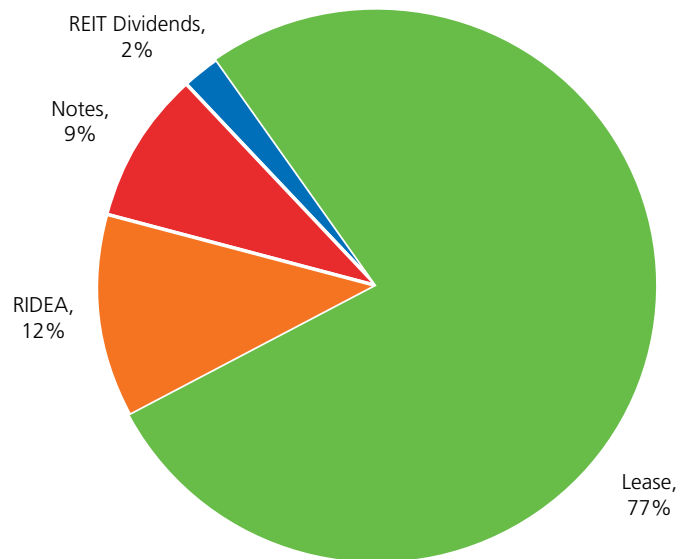
Asset Class	Investment Type	Units	Location	Yield	Total	Funded	Remaining
Recent Investment							
Senior Housing	Lease	413	IN, NC, TN	7.00%	\$ 66,900,000	\$ (66,900,000)	\$ -
Senior Housing	Lease	40	OR	7.75%	\$ 6,700,000	\$ (6,700,000)	\$ -
Senior Housing	Lease	42	MI	7.50%	\$ 6,000,000	\$ (6,000,000)	\$ -
Senior Housing	RIDEA	92	OH	8.00%	\$ 21,000,000	\$ (21,000,000)	\$ -
Entrance-Fee Community	Senior Note	220	WA	6.75%	\$ 60,000,000	\$ (28,000,000)	\$ 32,000,000
Development Activity							
Senior Housing	Construction Loan	273	NC, SC, WA	8.02%	\$ 109,500,000	\$ (44,392,000)	\$ 65,108,000
Senior Housing	Construction	408	CA, IL, IN, VA	9.00%	\$ 62,500,000	\$ (15,824,000)	\$ 46,676,000
Senior Housing	Renovation	n/a	Various	7.72%	\$ 8,633,000	\$ (6,199,000)	\$ 2,434,000

Investments

We understand senior housing,
because *we've done it.*

- Transactions tailored to customer needs balanced with stringent underwriting
- Flexible approach to deal structure and transaction size

Investment Structure¹

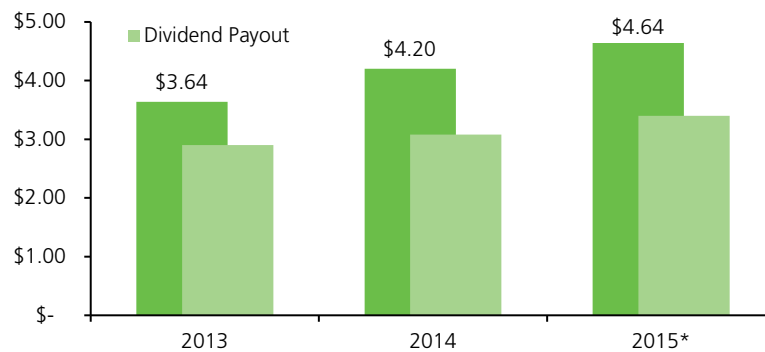


¹ based on annualized cash revenue for contracts in place at September 30, 2015

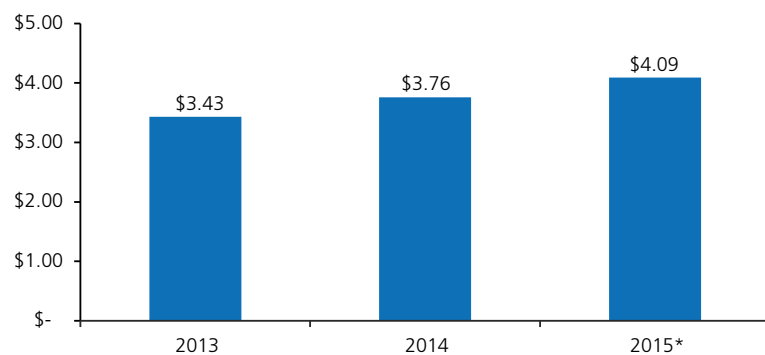


Financial

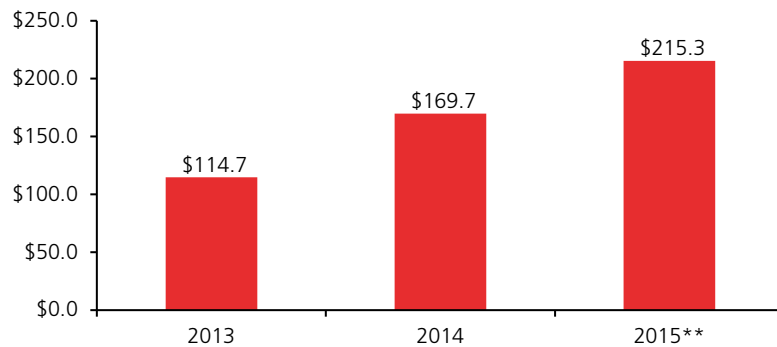
Normalized FFO (per diluted share)



Normalized AFFO (per diluted share)



Adjusted EBITDA (millions, **annualized)



* mid-point of guidance range

Q3 2015



TrustPoint Hospital
Murfreesboro, TN

Capital Structure

A disciplined approach to
value creation.

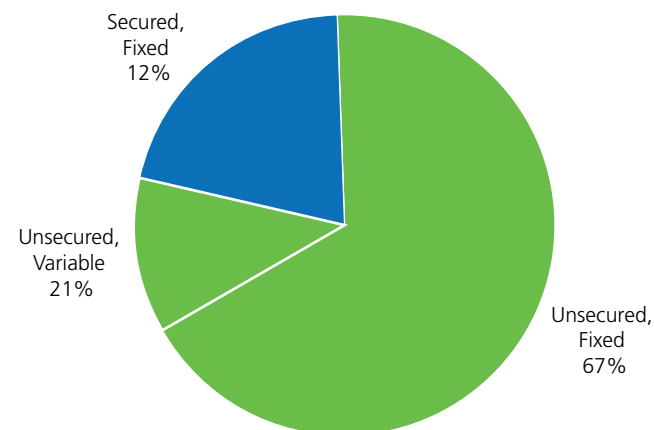
- Low leverage Balance Sheet
- Staggered long-term debt maturities
- Target 60/40 Equity/Debt Funding Mix

Debt

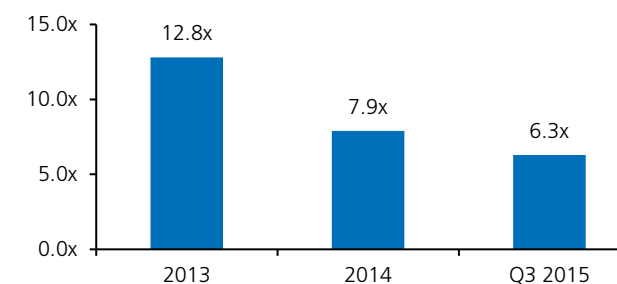
	Amount	Rate ¹	% of Total	Maturity ¹
Secured Debt				
Fixed Rate				
HUD Mortgage Loans	\$ 46,797	4.04%	4.6%	20 years
Fannie Mae Mortgage Loans	78,084	3.79%	7.7%	10 years
Total Secured Debt	124,881	3.88%	12.3%	
Unsecured Debt				
Fixed Rate				
Term Loans	\$ 475,000	4.00%	46.7%	7 years
Convertible Senior Notes	200,000	3.25%	19.7%	6 years
Variable Rate				
Revolving Credit Facility	217,000	1.69%	21.3%	5 years
Total Unsecured Debt	892,000			
Subtotal	1,016,881	3.35%	100.00%	
Note Discounts	(7,737)			
Total Debt	\$ 1,009,144			

¹ weighted average

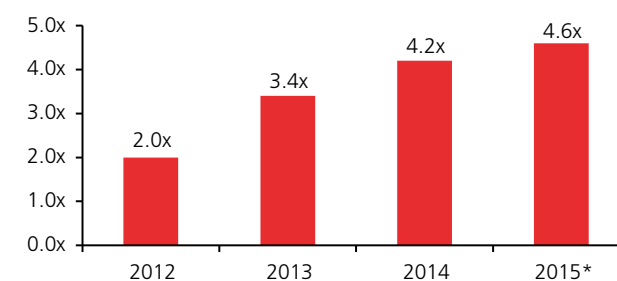
Total Debt



Fixed Charge Coverage



Net Debt to Adjusted EBITDA (*annualized)



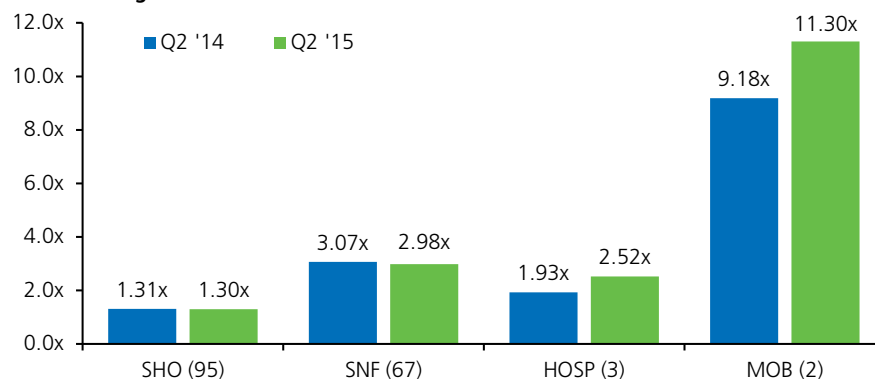
Industry Partners

					
Ownership	Public	Private National	Private	Private	Private National
Market Focus	SNF / SHO	SHO	SHO	SHO	SHO
5-Yr Investment	\$37.4m	\$492.9m	\$491.0m	\$362.1m	\$67.1m
% of Revenue ¹	17.6%	16.0%	15.0%	12.4%	6.3%

					
Ownership	Private	NFP	Private	Public	Private National
Market Focus	SNF	SNF	SHO	SHO	SNF
5-Yr Investment	\$124.3m	\$67m	\$16.3m	\$53.5m	\$27.8m
% of Revenue ¹	6.0%	3.3%	2.7%	2.4%	1.3%

¹ based on annualized cash revenue for contracts in place at September 30, 2015

Stabilized Lease Portfolio EBITDARM Coverage*



(#) indicates number of properties; excludes development & lease-up properties

* based on trailing twelve months; full portfolio coverage **2.18x**; SHO excludes the SLC lease portfolio; SLC's T12 Q2 '15 was 1.23x; SNF includes NHC coverage of 4.18x & 3.91x for Q2 '14 & Q2 '15, respectively.

¹ SHO includes coverage of 1.35x and 1.36x for Q2 '14 & Q2 '15, respectively, for need driven properties and 1.25x and 1.22x for Q2 '14 & Q2 '15, respectively, for discretionary properties

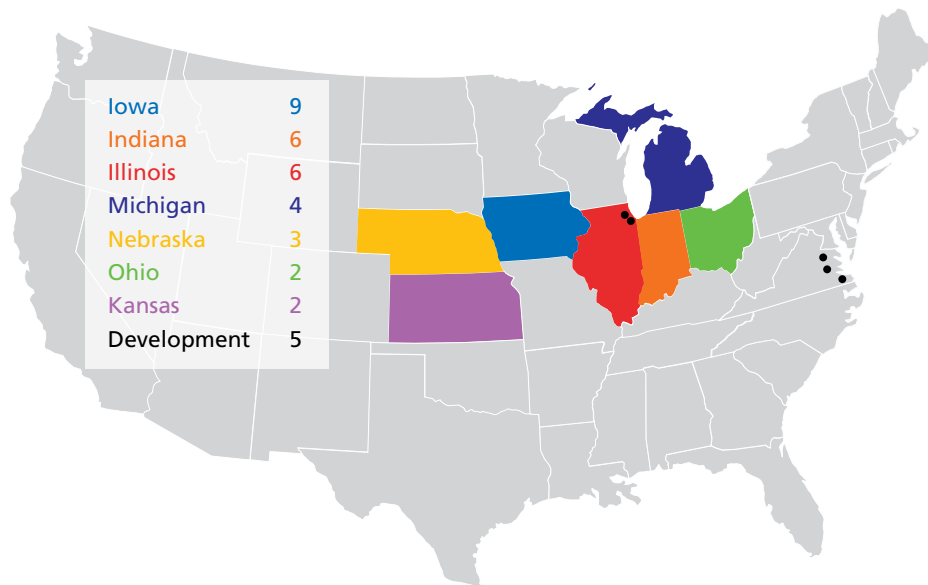


The Bedford
Vancouver, WA

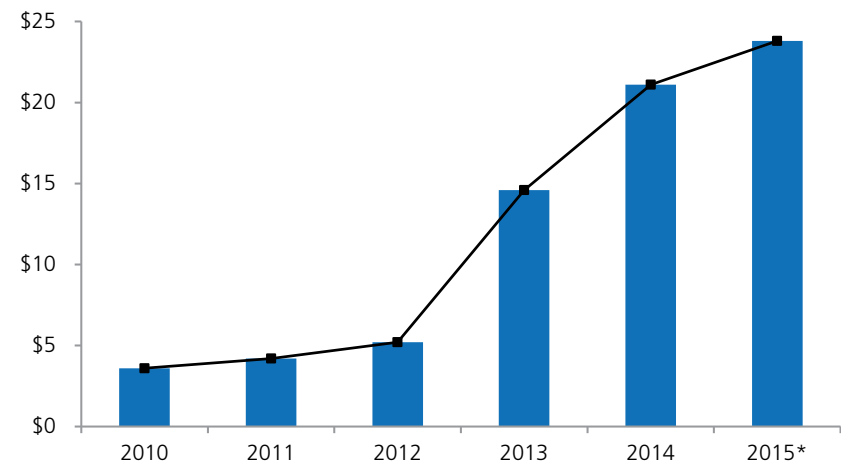
RIDEA Relationship



Bickford Senior Living manages and operates 49 Independent Living, Assisted Living, and Memory Care branches throughout the country and has experience in constructing over 150 of these types of communities for various owners. Their mission: "Bickford exists to enrich HAPPINESS in the lives of our residents, our beloved friends. Happiness is a very personal thing and it has become our mission to discover what that is for each of our residents, based on their life story, their expressed wishes and desires, even based on their day." As part of a joint venture relationship, NHI owns 85% of the operations and real estate in 32 Bickford communities and five locations currently in development, while affiliates of Bickford Senior Living own 15% and manage the communities. Our RIDEA structure is designed to follow the fundamental elements of a triple-net lease. Within the RIDEA, we continue to foresee organic growth potential from improving operations, but our agreements with Bickford also enforce growth through a hybrid feature providing a preferred payment stream subject to 3% escalation and payable first to NHI among the joint venture partners. As operations season and lease-up among our new developments is completed, we expect our equity share of RIDEA operating income to become a more visible component of our total income.



NHI Annual Revenue from Bickford (millions, *annualized)



RIDEA Operating Performance

Property Level Metrics

Quarter over Quarter

	Total		Same Store		Focus Properties ⁴	
	Q3 2015	Q3 2014	Q3 2015	Q3 2014	Q3 2015	Q3 2014
Number of properties	32	29	29	29	3	-
Number of units	1,606	1,355	1,355	1,355	251	-
Average unit occupancy	86.3%	83.3%	86.6%	83.3%	84.5%	-
Average monthly RPU ¹	\$ 4,811	\$ 4,794	\$ 4,903	\$ 4,794	\$ 4,232	\$ -
Operating revenue	\$ 19,625	\$ 16,234	\$ 17,260	\$ 16,234	\$ 2,365	\$ -
Less: operating expenses	12,457	10,239	10,984	10,239	1,474	-
EBITDARM	\$ 7,168	\$ 5,995	\$ 6,276	\$ 5,995	\$ 891	\$ -

Purchase Option Properties ³	
Q3 2015	Q3 2014
6	6
342	342
89.8%	94.6%
\$ 5,579	\$ 5,232
\$ 5,140	\$ 5,076
3,049	2,992
\$ 2,091	\$ 2,084

Sequential Quarter

	Total		Same Store		Focus Properties ⁴	
	Q3 2015	Q2 2015	Q3 2015	Q2 2015	Q3 2015	Q2 2015
Number of properties	32	31	29	29	3	2
Number of units	1,606	1,514	1,355	1,355	251	159
Average unit occupancy	86.3%	85.8%	86.6%	87.0%	84.5%	75.1%
Average monthly RPU ¹	\$ 4,811	\$ 4,796	\$ 4,903	\$ 4,861	\$ 4,232	\$ 4,153
Operating revenue	\$ 19,625	\$ 18,685	\$ 17,260	\$ 17,197	\$ 2,365	\$ 1,488
Less: operating expenses	12,457	11,782	10,984	10,704	1,474	1,079
EBITDARM	\$ 7,168	\$ 6,903	\$ 6,276	\$ 6,493	\$ 891	\$ 409

Purchase Option Properties ³	
Q3 2015	Q2 2015
6	6
342	342
89.8%	91.1%
\$ 5,579	\$ 5,553
\$ 5,140	\$ 5,190
3,049	3,050
\$ 2,091	\$ 2,140

Trailing 12 Months as of September 30,

	Total		
	2015	2014	
Number of properties	27	27	
Number of units	1,239	1,239	
Average unit occupancy	87.9%	85.4%	
Average monthly RPU ¹	\$ 4,842	\$ 4,778	Trailing 12 months includes properties operating in the portfolio for at least 24 months.
Operating revenue	\$ 63,276	\$ 60,657	
Less: operating expenses	39,428	37,233 ²	
EBITDARM	\$ 23,848	\$ 23,424	

Purchase Option Properties ³	
2015	2014
6	6
342	342
93.0%	89.4%
\$ 5,464	\$ 5,229
\$ 20,857	\$ 19,197
12,263	11,129
\$ 8,594	\$ 8,068

¹ revenue per occupied unit; calculation includes mid-quarter acquisitions

² includes one-time favorable worker's compensation adjustment of \$466k

³ 6 properties available to our joint venture under a \$97m purchase option

⁴ includes acquisitions & developments that have been in the portfolio for less than 5 quarters

Leadership



Eric Mendelsohn
President & CEO



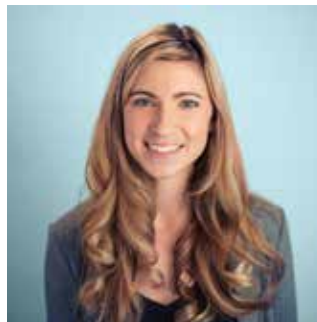
Kristin S. Gaines
Chief Credit Officer



Roger R. Hopkins
Chief Accounting Officer



Kevin Pascoe
EVP, Investments



Colleen Sullivan
Director of Investor Relations



Ron Reel
Controller

Analyst Coverage

Juan Sanabria	Bank of America Merrill Lynch
John Kim	BMO Capital Markets
John Roberts	J.J.B. Hilliard W.L. Lyons
Peter Martin	JMP Securities
Jordan Sadler	Key Banc Capital Markets
Rich Anderson	Mizuho Securities
Dan Bernstein	Stifel, Nicolaus & Company
Todd Stender	Wells Fargo Securities



Investor Relations

National Health Investors, Inc.
222 Robert Rose Drive
Murfreesboro, Tennessee 37129
615.890.9100
csullivan@nhireit.com
www.nhireit.com

Balance Sheets

(in thousands, except per share amounts)

Assets:

Real estate properties:

Land	
Buildings and improvements	
Construction in progress	
Less accumulated depreciation	
Real estate properties, net	
Mortgage and other notes receivable, net	
Investment in preferred stock, at cost	
Cash and cash equivalents	
Marketable securities	
Straight-line rent receivable	
Equity-method investment and other assets	
Assets held for sale, net	
Total Assets	

September 30, 2015	December 31, 2014
(unaudited)	
\$ 136,336	\$ 127,566
1,939,943	1,854,855
12,343	6,428
2,088,622	1,988,849
(245,409)	(212,300)
1,843,213	1,776,549
117,828	63,630
38,132	38,132
14,197	3,287
35,148	15,503
53,646	35,154
29,615	50,705
1,346	-
\$ 2,133,125	\$ 1,982,960

Liabilities and Stockholders' Equity

Debt	
Accounts payable and accrued expenses	
Dividends payable	
Lease deposit liabilities	
Real estate purchase liabilities	
Deferred income	
Total Liabilities	

\$ 1,009,144	\$ 862,726
19,887	15,718
31,931	28,864
21,275	21,648
3,750	3,000
2,472	1,071
1,088,459	933,027

Commitments and Contingencies

National Health Investors Stockholders' Equity:

Common stock, \$.01 par value; 60,000,000 shares authorized; 37,566,221 and 37,485,902 shares issued and outstanding respectively	376	375
Capital in excess of par value	1,035,551	1,033,896
Cumulative dividends in excess of net income	(1,898)	(569)
Accumulated other comprehensive income	875	6,223
Total National Health Investors Stockholders' Equity	1,034,904	1,039,925
Noncontrolling interest	9,762	10,008
Total Equity	1,044,666	1,049,933
Total Liabilities and Equity	\$ 2,133,125	\$ 1,982,960

376	375
1,035,551	1,033,896
(1,898)	(569)
875	6,223
1,034,904	1,039,925
9,762	10,008
1,044,666	1,049,933
\$ 2,133,125	\$ 1,982,960



Cascades Verdae
Greenville, SC

Statements of Income

(in thousands, except share and per share amounts)

	Quarter to Date as of September 30,		2015		2014
Revenues:					
Rental income	\$		54,459	\$	41,669
Interest income from mortgage and other notes			2,507		1,754
Investment income and other			1,316		1,055
			<u>58,282</u>		<u>44,478</u>
Expenses:					
Depreciation			13,485		9,596
Interest, including amortization of debt discount and issuance costs			9,772		7,005
Legal			117		66
Franchise, excise and other taxes			114		78
General and administrative			1,691		2,164
			<u>25,179</u>		<u>18,909</u>
Income before equity-method investee and noncontrolling interest			33,103		25,569
Income (loss) from equity-method investee			(252)		(53)
Investment and other gains			1,126		-
Net income			<u>33,977</u>		<u>25,516</u>
Less: net income attributable to noncontrolling interest			(377)		(266)
Net income attributable to common stockholders	\$		<u>33,600</u>	\$	<u>25,250</u>
Weighted average common shares outstanding:					
Basic			37,566,221		33,055,992
Diluted			37,583,141		33,088,570
Earnings per common share:					
Net income attributable to common stockholders - basic	\$.89	\$.76
Net income attributable to common stockholders - diluted	\$.89	\$.76



Timber Ridge at Talus
Issaquah, WA

FFO, AFFO & FAD

(in thousands, except share and per share amounts)

	Quarter to Date as of September 30,	
	2015	2014
Net income attributable to common stockholders	\$ 33,600	\$ 25,250
Elimination of certain non-cash items in net income:		
Depreciation in continuing operations	13,485	9,596
Depreciation related to noncontrolling interest	(293)	(248)
Net Gain on sales of real estate	(1,126)	-
Funds from operations	45,666	34,598
Investment gains	(61)	-
Normalized FFO	45,605	34,598
Straight-line lease revenue, net	(6,184)	(4,203)
Straight-line lease revenue, net, related to noncontrolling interest	5	13
Amortization of original issue discount	277	252
Amortization of debt issuance costs	587	483
Amortization of debt issuance costs related to noncontrolling interest	(9)	(2)
Normalized AFFO	40,281	31,141
Non-cash share-based compensation	233	223
Normalized FAD	\$ 40,514	\$ 31,364

BASIC

Weighted average common shares outstanding	37,566,221	33,055,992
FFO per common share	\$ 1.22	\$ 1.05
Normalized FFO per common share	\$ 1.21	\$ 1.05
Normalized AFFO per common share	\$ 1.07	\$.94
Normalized FAD per common share	\$ 1.08	\$.95

DILUTED

Weighted average common shares outstanding	37,583,141	33,088,570
FFO per common share	\$ 1.22	\$ 1.05
Normalized FFO per common share	\$ 1.21	\$ 1.05
Normalized AFFO per common share	\$ 1.07	\$.94
Normalized FAD per common share	\$ 1.08	\$.95

Payout ratios:

Regular dividends per common share	\$.85	\$.77
Normalized FFO payout ratio per diluted common share	70.2%	73.3%
Normalized AFFO payout ratio per diluted common share	79.4%	81.9%
Normalized FAD payout ratio per diluted common share	78.7%	81.1%



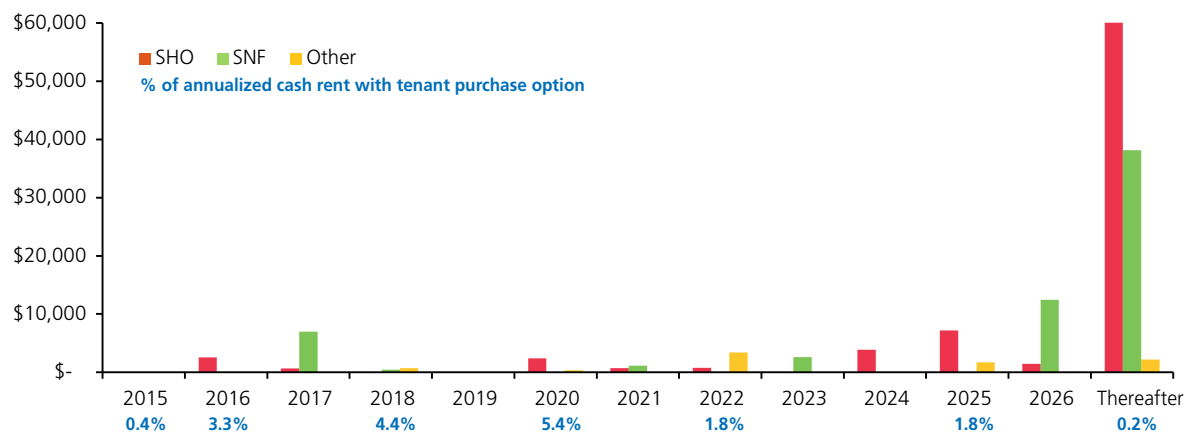
Portfolio Information

	Properties	Units / Sq. Ft. *	YTD Billed Rent	YTD Straight-Line	YTD Revenue
Leases					
Senior Housing - Need Driven					
Assisted Living	67	3,257	\$ 30,193	\$ 1,883	\$ 32,076
Senior Living Campus	10	1,344	7,080	735	7,815
Total Senior Housing - Need Driven	77	4,601	32,273	2,618	39,891
Senior Housing - Discretionary					
Independent Living	28	3,114	28,009	7,849	33,858
Entrance-Fee Communities	7	1,587	22,818	6,199	29,017
Total Senior Housing - Discretionary	35	4,701	50,827	14,048	62,875
Total Senior Housing	112	9,302	83,100	16,666	102,766
Medical Facilities					
Skilled Nursing	62	8,061	48,815	1,484	50,299
Hospitals	3	181	5,460	349	5,809
Medical Office Buildings	2	88,517*	758	(7)	750
Total Medical Facilities	67		55,033	1,826	56,858
Total Leases	179		\$ 138,133	\$ 18,492	\$ 159,624

Mortgages and Other Notes Receivable					
Senior Housing - Need Driven	2	190			\$ 583
Senior Housing - Discretionary	1	400			2,181
Medical Facilities	6	450			1,569
Other Notes Receivable	-	-			2,816
Total Mortgages	9	1,040			\$ 7,149

Lease Maturities

(annualized cash rent; \$ in thousands)



# of properties:	1	2	7	2	-	6	2	4	2	8	9	13	88
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Definitions

Annualized Revenues

The term Annualized Revenue refers to the amount of revenue that our portfolio would generate if all leases and mortgages were in effect for the twelve-month calendar year, regardless of the commencement date, maturity date, or renewals. Therefore, annualized revenue is used for financial analysis purposes, and is not indicative of actual or expected results.

Adjusted EDITDA & EBITDARM

We consider Adjusted EBITDA to be an important supplemental measure because it provides information which we use to evaluate our performance and serves as an indication of our ability to service debt. We define Adjusted EBITDA as consolidated earnings before interest, taxes, depreciation and amortization, including amounts in discontinued operations, excluding real estate asset impairments and gains on dispositions and certain items which, due to their infrequent or unpredictable nature, may create some difficulty in comparing Adjusted EBITDA for the current period to similar prior periods, and may include, but are not limited to, impairment of non-real estate assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, and recoveries of previous write-downs. Since others may not use our definition of Adjusted EBITDA, caution should be exercised when comparing our Adjusted EBITDA to that of other companies.

EBITDARM is earnings before interest, taxes, depreciation, amortization, rent and management fees.

CAGR

The acronym CAGR refers to the Compound Annual Growth Rate. The compound annual growth rate represents the year-over-year growth rate over a specified time period.

Normalized FFO, AFFO & FAD

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

FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT") and applied by us, is net income (computed in accordance with GAAP), excluding gains (or losses) from sales of real estate property, plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures, if any. The Company's computation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or have a different interpretation of the current NAREIT definition from that of the Company; therefore, caution should be exercised when comparing our Company's FFO to that of other REITs. Diluted FFO assumes the exercise of stock options and other potentially dilutive securities. Normalized FFO excludes from FFO certain items which, due to their infrequent or unpredictable nature, may create some difficulty in comparing FFO for the current period to similar prior periods, and may include, but are not limited to, impairment of non-real estate assets, gains and losses attributable to the acquisition and disposition of assets and liabilities, and recoveries of previous write-downs.

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

We believe that normalized AFFO is an important supplemental measure of operating performance for a REIT. GAAP requires a lessor to recognize contractual lease payments into income on a straight-line basis over the expected term of the lease.

This straight-line adjustment has the effect of reporting lease income that is significantly more or less than the contractual cash flows received pursuant to the terms of the lease agreement. GAAP also requires the original issue discount of our convertible senior notes and debt issuance costs to be amortized as a non-cash adjustment to earnings. Normalized AFFO is useful to our investors as it reflects the growth inherent in our contractual lease payments without the distortion caused by non-cash amortization.

We believe that normalized FAD is an important supplemental measure of operating performance for a REIT, also providing a useful indicator of the ability to distribute dividends to shareholders.



Definitions *(continued)*

Facility Types

SHO - Senior housing
MOB - Medical office building

HOSP - Hospital
SNF -Skilled nursing facility

Fixed Charges

The term *Fixed Charges* refers to interest expense and debt principal.

Peer Average

The peer average calculations provided by Wells Fargo Securities include the following diversified healthcare REITs:

Ventas, Inc. LTC Properties, Inc. Sabra Health Care REIT, Inc.
HCP, Inc. Health Care REIT, Inc.

Stabilized Lease

A newly acquired triple-net lease property is generally considered stabilized upon lease-up (typically when senior-care residents occupy at least 80% of the total number of certified units). Newly completed developments, including redevelopments, are considered stabilized upon lease-up, as described above.

Total Return

The term Total Return refers to the total return an investor would have realized on an annual basis over a certain period assuming that all dividends are reinvested on the dividend payment date.

RIDEA

Our joint ventures are designed to be compliant with the provisions of the REIT Diversification and Empowerment Act of 2007, or RIDEA.

WACY

The acronym WACY refers to Weighted Average Cash Yield, which is the anticipated rate of return upon initial investment excluding the impact of any discounts received or premiums paid.

Mistywood
Rosewood, CA

