NATIONAL HEALTH INVESTORS INC
Form 10-Q
November 10, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008 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.)

750-B South Church Street
Murfreesboro, TN
37130
(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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

See definition of large accelerated filer , accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer _X_	Accelerated filer ___
Non-accelerated filer ____	Smaller reporting company ___

(Do not check if a smaller reporting company)

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

Yes __ No X

There were 27,774,419 shares of common stock outstanding of the registrant as of October 31, 2008.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

NATIONAL HEALTH INVESTORS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except share amounts)

	September 30, 2008	December 31, 2007
Assets	*(unaudited)*	
Real estate properties:		
Land	$ 26,310	$ 26,314
Buildings and improvements	284,595	283,093
	310,905	309,407
Less accumulated depreciation	(127,622)	(121,952)
Real estate properties, net	183,283	187,455
Mortgage and other notes receivable, net	109,935	141,655
Investment in preferred stock	38,132	38,132
Cash and cash equivalents	97,437	75,356
Marketable securities	38,623	55,816
Accounts receivable, net	2,657	1,899
Assets held for sale, net	629	---
Prepaid expenses and other assets	604	419
Total Assets	$ 471,300	$ 500,732
Liabilities		
Notes and bonds payable	$ 5,705	$ 9,512
Accounts payable and other accrued expenses	3,943	7,479
Dividends payable	15,276	37,466
Deferred income	120	137
Total Liabilities	25,044	54,594
Commitments and Contingencies		
Stockholders Equity		

Common stock, $.01 par value; 40,000,000 shares authorized; 27,774,419 and 27,752,239 shares, issued and outstanding, respectively	278	278
Capital in excess of par value	462,496	462,278
Cumulative net income	823,015	778,872
Cumulative dividends	(857,711)	(809,658)
Unrealized gains on marketable securities	18,178	14,368
Total Stockholders Equity	446,256	446,138
Total Liabilities and Stockholders Equity	$ 471,300	$ 500,732

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, 2007 is taken from the audited consolidated financial statements at that date.

NATIONAL HEALTH INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(in thousands except share and per share amounts)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(unaudited)		*(unaudited)*	
Revenues:				
Mortgage interest income	$ 2,400	$ 2,599	$ 7,214	$ 9,092
Rental income	13,220	12,989	40,017	38,052
	15,620	15,588	47,231	47,144
Expenses:				
Interest	62	465	247	4,475
Depreciation	1,925	2,083	5,936	6,956
Amortization of loan costs	3	3	11	71
Legal expense	310	161	1,041	554
Franchise, excise, and other taxes	108	68	525	330
General and administrative	453	1,227	2,241	4,438
Loan and realty losses (recoveries)	---	(21,300)	---	(23,000)
	2,861	(17,293)	10,001	(6,176)
Income before non-operating income	12,759	32,881	37,230	53,320
Non-operating income (investment interest and other)	701	2,556	4,464	9,803
Income from continuing operations	13,460	35,437	41,694	63,123
Discontinued operations				
Income (loss) from operations discontinued	2,491	1,101	2,449	3,208
Net gain on sale of real estate	---	---	---	669
	2,491	1,101	2,449	3,877
Net income	$ 15,951	$ 36,538	$ 44,143	$ 67,000
Weighted average common shares outstanding:				
Basic	27,767,394	27,703,539	27,750,377	27,703,439
Diluted	27,785,708	27,786,198	27,783,141	27,787,604
Earnings per common share:				
Basic:				

Income from continuing operations	$ .48	$ 1.28	$ 1.50	$ 2.28
Discontinued operations	.09	.04	.09	.14
Net income per share	$ .57	$ 1.32	$ 1.59	$ 2.42
Diluted:				
Income from continuing operations	$ .48	$ 1.27	$ 1.50	$ 2.27
Discontinued operations	.09	.04	.09	.14
Net income per share	$ .57	$ 1.31	$ 1.59	$ 2.41

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

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

	Nine Months Ended September 30, 2008	2007
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 44,143	$ 67,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,991	8,808
Impairment loss on marketable securities	1,000	---
Provision for loan and realty losses (recoveries)	1,600	(23,000)
Realized loss on sale of marketable securities	377	---
Net gain on sale of real estate	---	(711)
Gain on notes receivable	---	(468)
Amortization of loan costs	14	70
Deferred income	---	35
Amortization of deferred income	(17)	(55)
Share-based compensation expense (reversal)	(27)	452
Change in operating assets and liabilities:		
Accounts receivable	(758)	104
Prepaid expenses and other assets	(199)	(2,555)
Accounts payable and other accrued expenses	(3,536)	(3,675)
Net cash provided by operating activities	48,588	46,005
Cash flows from investing activities:		
Investment in mortgage and other notes receivable	---	(8,441)
Collection of mortgage and other notes receivable	31,720	5,108
Prepayment of mortgage notes receivable	---	49,873
Acquisition of property and equipment	(4,048)	(1,774)
Disposition of property and equipment	---	2,337
Acquisition of marketable securities	---	(252,897)

Sales of marketable securities	19,627	262,894
Net cash provided by investing activities	47,299	57,100
Cash flows from financing activities:		
Principal payments on debt	(3,807)	(102,526)
Stock options exercised	245	---
Dividends paid to stockholders	(70,244)	(53,563)
Net cash used in financing activities	(73,806)	(156,089)
Increase (decrease) in cash and cash equivalents	22,081	(52,984)
Cash and cash equivalents, beginning of period	75,356	158,815
Cash and cash equivalents, end of period	$ 97,437	$ 105,831
Supplemental Information:		
Interest payments on notes and bonds payable	$ 200	$ 7,738

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

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NATIONAL HEALTH INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(In thousands, except share and per share amounts)

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Cumulative Income	Cumulative Dividends	Unrealized Gains on Marketable Securities
ember 31, 2007	27,752,239	$ 278	$462,278	$778,872	$(809,658)	$ 14,368
e income:						
	---	---	---	44,143	---	---
ive income:						
d holding gains arising during period	---	---	---	---	---	2,433
assification adjustment for realized loss						
pairment loss in net income	---	---	---	---	---	1,377
n recognized in other comprehensive						
	---	---	---	---	---	3,810
ehensive income	---	---	---	---	---	---
exercised	51,680	---	245	---	---	---
k grants	25,000	---	---	---	---	---
k forfeitures	(54,500)	---	---	---	---	---
ompensation expense (reversal)	---	---	(27)	---	---	---
ommon stockholders, $1.73 per share	---	---	---	---	(48,053)	---
tember 30, 2008 *(unaudited)*	27,774,419	$ 278	$462,496	$823,015	$(857,711)	$ 18,178

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

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NATIONAL HEALTH INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2008

(unaudited)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

We, the management of National Health Investors, Inc., believe that the unaudited condensed consolidated financial statements to which these notes are attached include all normal, recurring adjustments which are necessary to fairly present the consolidated financial position, results of operations and cash flows of National Health Investors, Inc. ("NHI" or the "Company") in all material respects. We assume that users of these financial statements have read or have access to the audited December 31, 2007 consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnotes and other disclosures which would substantially duplicate the disclosure contained in our most recent annual report on Form 10-K for the year ended December 31, 2007 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. Our audited December 31, 2007 consolidated financial statements are available at our web site: www.nhinvestors.com.

Discontinued Operations and Assets Held for Sale - In accordance with Financial Accounting Standards Board (FASB) Statement No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), the results of operations for facilities meeting the accounting criteria as being sold or held for sale have been reported in the current and prior periods as discontinued operations in the Condensed Consolidated Statements of Income. The reclassifications to retroactively reflect the disposition of these facilities had no impact on previously reported net income. Long-lived assets classified as held for sale are reported separately in the Consolidated Balance Sheet for the current period.

Reclassifications At December 31, 2007, we determined that our investment in a privately-placed enhanced cash fund (which was historically classified as a cash equivalent in our consolidated balance sheet) should be classified as available-for-sale marketable securities. Based on our re-evaluation of this investment, we reclassified cash and marketable securities in our Consolidated Balance Sheet beginning with the year ended December 31, 2006. The accompanying Condensed Consolidated Statement of Cash Flows for 2007 has also been adjusted to reflect the reclassification of purchases and sales of securities in this enhanced cash fund.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued Statement No. 157, *"Fair Value Measurements"* (SFAS 157). This standard defines fair value, establishes a framework for measuring fair value and expands disclosure requirements about fair value measurements. SFAS No. 157 was effective for our Company on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position 157-2 *Effective Date of FASB Statement No. 157* , which delayed the effective date of SFAS No. 157 until January 1, 2009 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS No. 157 for our financial assets and liabilities did not have a material impact on our consolidated financial position or results of operations. We do not believe the adoption of SFAS No. 157 for our nonfinancial assets and liabilities, effective January 1, 2009, will have a material impact on our consolidated financial position or results of operations.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). This standard amends FASB Statement No. 115, *Accounting for Certain Investment in Debt and Equity Securities*, with respect to accounting for a transfer to the trading category for all entities with available-for-sale and trading securities electing the fair value option. This standard allows companies to elect fair value accounting for many financial instruments and other items that currently are not required to be accounted as such, allows different applications for electing the option for a single item or groups of items, and requires disclosures to facilitate comparisons of similar assets and liabilities that are accounted for differently in relation to the fair value option. SFAS 159 was effective for fiscal years beginning after January 1, 2008. The implementation of SFAS 159 did not have a material impact on our consolidated financial position or results of operations.

In December 2007, the FASB issued Statement No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51* (SFAS 160). This standard amends Accounting Research Bulletin No. 51 *Consolidated Financial Statements*, and FASB Statement no. 128, *Earnings Per Share*. A noncontrolling interest is defined in SFAS No. 160 as a portion of equity in a subsidiary not attributable, directly or indirectly, to a parent. The standard states that accounting and reporting for minority interests will be recharacterized as noncontrolling interests and classified as a component of equity. The standard is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We are currently assessing the impact the adoption of SFAS 160 will have on our consolidated financial position, results of operations and cash flows.

In December 2007, the FASB issued Statement No. 141 (Revised 2007), *Business Combinations* (SFAS 141(R)), which changes the accounting for business combinations including the following: (i) the measurement of acquirer shares issued in consideration for a business combination, (ii) the recognition of contingent consideration, (iii) the accounting for preacquisition gain and loss contingencies, (iv) the recognition of capitalized in-process research and development, (v) the accounting for acquisition-related restructuring cost accruals, (vi) the treatment of acquisition related transaction costs, and (vii) the recognition of changes in the acquirer s income tax valuation allowance. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Earlier adoption is prohibited. Accordingly, we are required to record and disclose business combinations, if any, following existing generally accepted accounting principles (GAAP) until January 1, 2009. We are currently assessing the impact the adoption of SFAS 141(R) will have on our consolidated financial position, results of operations and cash flows.

In May 2008, the FASB issued Statement No. 162, *the Hierarchy of Generally Accepted Accounting Principles* (SFAS 162) which identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The current GAAP hierarchy is set forth in the AICPA Statement on Auditing Standards No. 69, *The Meaning of Present*

Fairly in Conformity with Generally Accepted Accounting Principles (SAS No. 69). The FASB believes the GAAP hierarchy should be directed to entities because it is the entity (not the auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Accordingly, the FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB and has issued SFAS 162 to achieve that result. SFAS 162 is effective 60 days following the SEC s approval of the Public Accounting Oversight Board amendments to SAS No. 69. We do not expect the adoption of SFAS 162 to have an impact on our consolidated financial position, results of operations, or cash flows.

NOTE 3. INCOME TAXES

NHI intends at all times to qualify as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, NHI will not be subject to federal income tax provided it distributes at least 90% of its REIT taxable income to its stockholders and meets other requirements to continue to qualify as a REIT. Accordingly, no provision for federal income taxes has been made in the consolidated financial statements. NHI s failure to continue to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on the financial position, results of operations and cash flows of NHI.

In July 2006, the FASB issued Interpretation No. 48 *Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 requires that the financial statements reflect expected future

tax consequences of such positions presuming the taxing authorities full knowledge of the position and all relevant facts, but without considering time values. FIN 48 was adopted by us and became effective beginning January 1, 2007. The initial adoption and continuing implementation of FIN 48 has not had a material impact on our consolidated financial position or results of operations.

Our tax returns filed for years beginning in 2004 are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our financial statements as a component of general and administrative expense.

NOTE 4. SHARE-BASED COMPENSATION

Effective January 1, 2006, we adopted FASB Statement No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified prospective application transition method. Under this method, compensation cost is recognized, beginning January 1, 2006, based on the requirements of SFAS 123(R) for all share-based payments granted after the effective date and for all awards granted to employees prior to January 1, 2006 that remained unvested on the effective date.

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

In May 2005, our stockholders approved the 2005 Stock Option, Restricted Stock and Stock Appreciation Rights Plan (the 2005 Plan) pursuant to which 1,500,000 shares of our common stock were available to grant as share-based payments to employees, officers, directors or consultants. As of September 30, 2008, 1,378,967 shares are available for future grants under this plan. The individual restricted stock and option grant awards vest over periods up to five years. The term of the options outstanding under the 2005 Plan is five years from the date of grant.

The NHI 1997 Stock Option Plan (the 1997 Plan) provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of September 30, 2008, no shares are available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Under FAS 123(R), compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected have resulted in the reversal of previously recorded compensation expense. The compensation expense (income) reported for share-based compensation related to the 2005 Plan and the 1997 Plan totaled ($27,000) for the nine months ended September 30, 2008, consisting of ($160,000) for restricted stock and $133,000 for stock options, as compared to $452,000 for the nine months ended September 30, 2007, consisting of $250,000 for restricted stock and $202,000 for stock options. At September 30, 2008, we had $264,000 of unrecognized compensation cost related to unvested restricted shares issued and unvested stock options, net of expected forfeitures, which is expected to be recognized over the following periods: 2008-$58,000; 2009-$135,000; 2010-$55,000; and 2011-$16,000. Stock-based compensation is included in general and administrative expense in the Condensed Consolidated Statements of Income. Compensation income related to restricted stock is the net amount of grants and forfeitures that have occurred in 2008.

The following table summarizes our stock option activity:

	Number of Shares
Outstanding December 31, 2007	326,000
Options granted under 1997 Plan	14,450
Options granted under 2005 Plan	80,550
Options exercised under 1997 Plan	(139,817)
Options exercised under 2005 Plan	(60,848)
Options forfeited under 1997 Plan	(14,450)
Options forfeited under 2005 Plan	(46,217)
Outstanding September 30, 2008	159,668
Exercisable September 30, 2008	120,000

The following table summarizes our restricted stock activity:

	Number of Shares
Restricted shares at December 31, 2007	48,700
Restricted shares granted under the 2005 Plan	25,000
Vested during the period	(12,175)
Restricted shares forfeited under the 2005 Plan	(54,500)
Restricted shares at September 30, 2008	7,025

NOTE 5. REAL ESTATE

The following table summarizes NHI s real estate properties which it leases to operators *(in thousands)*:

	September 30, 2008	December 31, 2007
Land	$ 26,310	$ 26,314
Buildings and improvements	284,595	283,093
	310,905	309,407
Less accumulated depreciation	(127,622)	(121,952)
Real estate properties, net	$183,283	$ 187,455

Of our leased facilities, 41 are leased to National HealthCare Corporation (NHC), a publicly-held company and our largest customer. For the nine months ended September 30, 2008 and 2007, our rental income from NHC was $25,275,000 in each period (base rent is $33,700,000 annually). These 41 facilities include four centers subleased to and operated by other companies, the lease payments of which are guaranteed to us by NHC.

Acquisition of Orangeburg, SC facility

In September 2008, we acquired for $4,015,000 in cash a nursing home facility in Orangeburg, SC consisting of land of $300,000, buildings and improvements of $3,715,000, and current assets and liabilities of $1,022,000 each. The facility was simultaneously leased to a third party operator.

Assets Held for Sale

In September 2008, we began a process to sell two nursing home facilities located in Hoisington and Emporia, Kansas. Based on a current evaluation of the physical condition of the properties and the estimate of undiscounted future cash flows from the properties, we concluded that an impairment charge of $1,600,000 was necessary to reduce the carrying value of the assets to fair value of $629,000. We estimate these properties will be sold within the next twelve months. In accordance with SFAS 144, the facilities meet the accounting criteria as being held for sale and the results of their operations have been reported in the current and prior periods as discontinued operations in the Condensed Consolidated Statements of Income.

NOTE 6. MORTGAGE AND OTHER NOTES RECEIVABLE

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

	September 30, 2008	December 31, 2007
Mortgage loans	$ 109,935	$ 134,605
Other loans NHC	---	7,050
Total	$ 109,935	$ 141,655

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

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

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

Loan Recoveries

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

American Medical Associates, Inc. (AMA) On May 1, 2004, we provided financing to purchasers of three Florida-based nursing homes formerly owned by AMA and previously financed by us. The amount of the new mortgage loans totaled $14,450,000 and the notes were to mature May 14, 2009. The notes were recorded net of a $5,200,000 loss on notes to AMA in 2002. Management s analysis of future expected cash flows consistent with FASB Statement No. 114, *Accounting by Creditors for Impairment of a Loan an amendment of FASB Statements No. 5 and 15* (SFAS 114), historical occupancy and operating income of the project resulted in additional net impairments of $2,000,000, which were recorded in 2005. Loans secured by two of the properties were paid during 2006, inclusive of $4,935,000 in recoveries, and a gain of $1,015,000.

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

NOTE 7. INVESTMENTS IN MARKETABLE SECURITIES

Our investments in marketable securities include available-for-sale securities. Unrealized gains and losses on available-for-sale securities are recorded in stockholders equity in accordance with FASB Statement No. 115 *Accounting for Certain Investments in Debt and Equity Securities* (SFAS 115). Realized gains and losses from securities sales are determined based upon specific identification of the securities.

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

	September 30, 2008		December 31, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale	$ 20,443	$ 38,623	$ 41,448	$ 55,816

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

	September 30, 2008	December 31, 2007
Gross unrealized gains	$ 18,286	$ 14,785
Gross unrealized losses	(108)	(417)
	$ 18,178	$ 14,368

At September 30, 2008, available-for-sale marketable securities consist of the common stock of other publicly traded

REITs having a fair value of $24,693,000, convertible preferred stock of NHC having a fair market value of $1,339,000, and investments in enhanced cash funds having a fair value of $12,591,000. None of these available-for-sale marketable securities have stated maturity dates.

During the nine months ended September 30, 2008 and 2007, we recognized $3,519,000 and $3,506,000, respectively, of dividend income from our marketable securities. Such income is included in non-operating income in the interim Condensed Consolidated Statements of Income.

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

A decline in the market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to operations and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and consider whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to a reporting date and forecasted performance of the investment. At September 30, 2008, we concluded there was an other-than-temporary impairment of the Fund and the IMA totaling $1,000,000 which we charged to operations.

For the nine-month period ended September 30, 2008, we received cash redemptions of principal totaling $19,627,000. Exclusive of the other-than-temporary impairment charge of $1,000,000, realized losses amounted to $377,000, which were charged to operations. At September 30, 2008, the fair market value of our investment in the Fund was estimated to be $6,519,000 and the fair market value of our investment in the separate IMA was estimated to be $6,072,000.

For periods prior to December 31, 2007, we classified investments in the enhanced cash funds as cash equivalents due to the characteristics of the Fund as being highly liquid and transactions between the Fund and our bank operating account being settled the same day. Due to the event described above, management re-evaluated the nature of the investment and determined that the investment should be reclassified as available-for-sale marketable securities for all periods presented in the condensed consolidated financial statements as described in Note 1.

NOTE 8. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS No. 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

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

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

The Company's adoption of SFAS No. 157 did not have an impact on our financial position or results of operations. The Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. FASB Staff Position FAS 157-2 delayed the effective date for all nonfinancial assets and liabilities until January 1, 2009, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

Effective January 1, 2008, the Company adopted SFAS No. 159, which provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with GAAP in the United States.

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

	September 30, 2008			
				Fair Value
Assets	Level 1	Level 2	Level 3	Measurements
Marketable Securities	$ 26,032	$ 12,591	$	$ 38,623
Total Assets	$ 26,032	$ 12,591	$	$ 38,623

NOTE 9. DEBT

On August 1, 2008, we paid off in cash one of our first mortgage revenue bonds of $538,000. The bonds were to have matured on November 1, 2010. There were no penalties or other fees related to paying off the bonds early.

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

At September 30, 2008, NHI has first mortgage revenue bonds payable of $4,675,000 collateralized by deeds-of-trust on four nursing facilities and unsecured senior notes payable of $1,030,000. The debt bears interest at variable rates (2.1% to 7.5% at September 30, 2008) with maturities from 2008 to 2014. We are in compliance with all requirements of the debt agreements at September 30, 2008.

The unsecured senior notes payable matured on October 1, 2008, at which time they were fully paid.

NOTE 10. COMMITMENTS AND CONTINGENCIES

At September 30, 2008, we were committed, subject to due diligence and financial performance goals, to fund approximately $217,000 in health care real estate projects, all of which are expected to be funded within the next 12 months.

We believe that we have operated our business so as to qualify as a REIT under Section 856 through 860 of the Internal Revenue Code of 1986, as amended (the Code) and we intend to continue to operate in such a manner, but no assurance can be given that we will be able to qualify at all times. If we qualify as a REIT, we will generally not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that typically applies to corporate dividends. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would cause us to owe state and federal income taxes and would have a material adverse impact on our financial position, results of operations and cash flows.

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

On December 31, 1999, NHI acquired six Florida properties from the Chapter 11 bankruptcy trustee for York Hannover Nursing Centers, Inc. On January 1, 2000, NHI sold those properties to Care Foundation of America, Inc., a newly-formed Tennessee not for profit corporation (CFA). CFA paid for these assets with a promissory note or notes in the total amount of $32.7 million having an original maturity date of July 31, 2001. The maturity date of the debt was subsequently extended several times and is currently due in full on December 31, 2008. CFA now alleges that NHI exercised total dominion and control over CFA until sometime in 2008, that NHI caused CFA to enter into the purchase and refinancing transactions, that NHI breached its fiduciary duty to CFA in connection with these transactions, and that these transactions were not fair to CFA and constituted excess benefit transactions as defined in Section 4958 of the Internal Revenue Code. CFA has threatened to file a lawsuit. CFA claims that it has sustained compensatory and punitive damages in excess of $25 million. As of September 30, 2008, the Company has not recorded a provision for this matter as NHI disputes CFA s allegations and intends to defend vigorously any lawsuit that may be initiated by CFA. An unfavorable outcome in such litigation or in IRS proceedings arising from CFA s claims could have a material adverse effect on NHI s consolidated financial position, results of operations or cash flows.

Under the Tennessee Nonprofit Corporation Act, the Attorney General has certain authority to investigate the affairs of not for profit corporations and commence certain civil proceedings if it is deemed appropriate. The Office of the Tennessee Attorney General has informed NHI that it is investigating transactions between NHI and three separate Tennessee not for profit corporations, including CFA. NHI has been told that a Civil Investigative Demand (CID) will likely be issued to NHI in connection with this investigation, although no CID has been received to date. At this time, NHI does not know whether legal proceedings will be commenced by the Tennessee Attorney General s office or, if commenced, what relief will be sought.

NOTE 11. EARNINGS PER COMMON SHARE

Basic earnings per common share is based on the weighted average number of common shares outstanding during the reporting period. Diluted earnings per common share assume the exercise of stock options and vesting of restricted shares using the treasury stock method.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
BASIC:				
Weighted average common shares outstanding	27,767,394	27,703,539	27,750,377	27,703,439
Income from continuing operations available to common stockholders	$ 13,460	$ 35,437	$ 41,694	$ 63,123
Discontinued operations	2,491	1,101	2,449	3,877
Net income available to common stockholders	$ 15,951	$ 36,538	$ 44,143	$ 67,000
Income from continuing operations per common share	$ .48	$ 1.28	$ 1.50	$ 2.28
Discontinued operations per common share	.09	.04	.09	.14
Net income per common share	$ .57	$ 1.32	$ 1.59	$ 2.42
DILUTED:				
Weighted average common shares outstanding	27,767,394	27,703,539	27,750,377	27,703,439
Stock options	15,157	59,961	23,986	63,386
Restricted shares	3,157	22,698	8,778	20,779
	27,785,708	27,786,198	27,783,141	27,787,604

Weighted average common shares outstanding								
Income from continuing operations available to common stockholders	$	13,460	$	35,437	$	41,694	$	63,123
Discontinued operations		2,491		1,101		2,449		3,877
Net Income available to common stockholders	$	15,951	$	36,538	$	44,143	$	67,000
Income from continuing operations per common share	$	.48	$	1.27	$	1.50	$	2.27
Discontinued operations per common share		.09		.04		.09		.14
Net income per common share	$	.57	$	1.31	$	1.59	$	2.41
Incremental shares excluded since anti-dilutive:								
Stock options		3,748		5,188		5,146		3,628

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

NOTE 12. NON-OPERATING INCOME

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Dividends	$ 1,166	$ 1,169	$ 3,519	$ 3,506
Interest income	707	1,544	2,415	5,712
Realized loss on sale of marketable securities	(112)	---	(377)	---
Other-than temporary impairment of marketable securities	(1,000)	---	(1,000)	---
Gain on disposal of assets	---	---	---	510
Other revenue (expense)	(60)	(157)	(93)	(718)
Total non-operating income	$ 701	$ 2,556	$ 4,464	$ 9,010

NOTE 13. DISCONTINUED OPERATIONS

We have reclassified for all periods presented the operations of the facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations in accordance with SFAS 144. Assets held for sale and income from discontinued operations related to these facilities is as follows *(in thousands, except per share amounts)*:

Balance Sheet:	September 30,2008	December 31, 2007
Land	$ 90	$ ---
Buildings and improvements	860	---
	950	---
Less accumulated depreciation	(321)	---
Assets held for sale, net	$ 629	$ ---

Statements of Income:	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues:				
Rental income	$ ---	$ ---	$ ---	$ 822
Facility operating revenues:	---	23,494	---	69,050
	---	23,494	---	69,872
Expenses:				
Interest	---	1	---	5
Depreciation	18	909	55	2,645
Facility operating expenses	12	21,483	17	64,014
Impairment of assets	1,600	---	1,600	---
	1,630	22,393	1,672	66,664
Operating income (loss)	(1,630)	1,101	(1,672)	3,208
Non-operating income	4,121	---	4,121	---
Gain on sale of assets	---	---	---	669
Total discontinued operations	$ 2,491	$ 1,101	$ 2,449	$ 3,877
Discontinued operations per common share:				
Basic	$ .09	$ .04	$ .09	$ .14
Diluted	$ .09	$ .04	$ .09	$ .14

In September 2008, we recognized into income for financial and tax purposes $4,121,000 of deferred credits which existed at the date of sale in 2003 of two nursing home facilities in Washington. At the expiration of the five-year statute of limitations, management concluded based on advice from counsel that we were legally released from any potential liability settlements.

NOTE 14. SUBSEQUENT EVENTS

In October 2008, we sold our Certificate of Need for 124 licensed nursing home beds in Davidson County, Tennessee to a third party for $1,488,000 in cash. We recognized a gain, net of certain previous capitalized costs, of $1,305,000.

Item 2.

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

Forward Looking Statements

References throughout this document to NHI or the Company include National Health Investors, Inc. and its wholly-owned subsidiaries. In accordance with the Securities and Exchange Commission s Plain English guidelines, this Quarterly Report on Form 10-Q has been written in the first person. In this document, the words we , our , ours and us refer only to National Health Investors, Inc. and its wholly-owned subsidiaries and not any other person. Unless the context indicates otherwise, references herein to the Company include all of our wholly-owned subsidiaries.

This Quarterly Report on Form 10-Q and other materials we have filed or may file with the Securities and Exchange Commission, as well as information included in oral statements made, or to be made, by our senior management contain certain forward-looking statements as that term is defined by the Private Securities Litigation Reform Act of 1995. All statements regarding our expected future financial position, results of operations, cash flows, funds from operations, continued performance improvements, ability to service and refinance our debt obligations, ability to finance growth opportunities, and similar statements including, without limitations, those containing words such as may , will , believes , anticipates , expects , intends , estimates , plans , and other similar e forward-looking statements.

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements as a result of, but not limited to, the following factors:

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national and local economic conditions, including their effect on the availability and cost of labor, utilities and materials;

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the effect of government regulations and changes in regulations governing the healthcare industry, including compliance with such regulations by us and our borrowers and/or lessees;

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changes in Medicare and Medicaid payment levels and methodologies and the application of such methodologies by the government and its fiscal intermediaries to our borrowers and/or lessees;

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the impact or implementation of the Board s analysis of strategic alternatives;

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the Company s ability to identify acceptable investments to utilize the significant cash balance from early loan repayments;

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the effect of potential or unknown environmental problems on any of the real property that NHI owns;

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the competitive environment in which we operate.

See the notes to the annual financial statements in our most recent Annual Report on Form 10-K for the year ended December 31, 2007, and Business and Risk Factors under Item 1 and Item 1A therein, for a discussion of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. You should carefully consider these risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones facing the Company. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our shares of stock could decline and you may lose all or part of your investment. Given these risks and uncertainties, we can give no assurance that these forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

Executive Overview

NHI, a Maryland corporation incorporated in 1991, is a real estate investment trust (REIT) that invests primarily in income-producing health care properties with emphasis on the long-term health care sector. As of September 30, 2008, we had ownership interests in real estate and mortgage investments totaling approximately $293,847,000 and other investments in preferred stock and marketable securities of $76,755,000 resulting in total invested assets of approximately $370,602,000. Our mission is to invest in health care real estate which generates current income that will be distributed to stockholders. We have pursued this mission by making mortgage loans and acquiring properties to lease nationwide, primarily in the long-term health care industry.

Portfolio

As of September 30, 2008, we had investments in real estate and mortgage notes receivable in 124 health care facilities located in 17 states consisting of 84 long-term care facilities, 1 acute care hospital, 4 medical office buildings, 14 assisted living facilities, 4 retirement centers and 17 residential projects for the developmentally disabled. These investments consisted of approximately $109,935,000 aggregate carrying value amount of loans to 14 borrowers and $183,912,000 of net real estate investments with 17 lessees.

Of these 124 facilities, 41 are leased to NHC, a publicly-held company and our largest customer. For the nine month periods ended September 30, 2008 and 2007, our rental income from NHC was $25,275,000 in each period. These 41 facilities include four centers subleased to and operated by other companies, the lease payments of which are guaranteed to us by NHC.

Consistent with our strategy of diversification, we have increased our portfolio so that the portion of our portfolio leased by NHC has been reduced from 100% of our total portfolio on October 17, 1991 (the date we began operations) to 19.8% of total real estate portfolio on September 30, 2008, based on the net book value (carrying amount) of these properties. In 1991, these assets were transferred by NHC to NHI at their then current net book value in a non-taxable exchange. Many of these assets were substantially depreciated as a result of having been carried on NHC s books for as many as 20 years. As a result, we believe that the fair market value of these assets is significantly in excess of their net book value. To illustrate, rental income for the year ended December 31, 2007 from NHC was $33,700,000 or approximately 55.2% of our net book value of the facilities leased to NHC. Subsequent additions to the portfolio related to non-NHC investments reflect their higher value based on existing costs at the date the investment was made.

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

At September 30, 2008, 32.1% of the total invested assets of the health care facilities were operated by publicly-traded operators, 57.8% by regional operators, and 10.1% by small operators.

The following tables summarize our portfolio as of September 30, 2008:

Portfolio Statistics	Properties	Investment Percentage	Investments
Real Estate Properties	73	63%	$ 183,912,000
Mortgage Notes Receivable	51	37%	109,935,000
Total Real Estate Portfolio	124	100%	293,847,000

Real Estate Properties	Properties	Beds	Investments
Long-term Care Centers	50	6,923	$ 104,164,000
Assisted Living	14	1,133	56,520,000
Medical Office Buildings	4	124,427 sq. ft.	9,242,000
Retirement Centers	4	458	7,621,000
Hospitals	1	55	6,365,000
Total Real Estate Properties	73		183,912,000
Mortgage Notes Receivable			
Long-term Care Centers	34	3,581	$ 106,133,000
Developmentally Disabled	17	108	3,802,000
Total Mortgage Notes Receivable	51	3,689	109,935,000
Total Real Estate Portfolio	124		$ 293,847,000

Summary of Facilities by Type	Properties	Percentage of Total Dollars	Total Dollars
Long-term Care Centers	84	71.6%	$ 210,297,000
Assisted Living	14	19.2%	56,520,000
Medical Office Buildings	4	3.1%	9,242,000
Retirement Centers	4	2.6%	7,621,000
Hospitals	1	2.2%	6,365,000
Developmentally Disabled	17	1.3%	3,802,000
Total Real Estate Portfolio	124	100.0%	