NATIONAL HEALTH INVESTORS INC
Form 10-Q
August 04, 2010

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, 2010

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

For the transition period from _____________ to _____________

Commission File Number 001-10822

National Health Investors, Inc.
(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	62-1470956 (I.R.S. Employer Identification No.)
222 Robert Rose Drive, Murfreesboro, Tennessee (Address of principal executive offices)	37129 (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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes [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.

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 27,670,316 shares of common stock outstanding of the registrant as of July 30, 2010.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2010 *(unaudited)*	December 31, 2009
Assets		
Real estate properties:		
Land	$ 41,711	$ 28,490
Buildings and improvements	416,486	322,296
	458,197	350,786
Less accumulated depreciation	(131,620)	(126,925)
Real estate properties, net	326,577	223,861
Mortgage notes receivable, net	76,087	94,588
Investment in preferred stock, at cost	38,132	38,132
Cash and cash equivalents	11,744	45,718
Marketable securities	19,832	21,322
Accounts receivable, net	3,640	2,189
Assets held for sale, net	33,420	33,420
Deferred costs and other assets	477	130
Total Assets	$ 509,909	$ 459,360
Liabilities and Stockholders' Equity		
Borrowings under revolving credit facility	$ 43,823	$ -
Earnest money deposit	3,325	150
Deferred real estate purchase consideration	4,000	3,000
Accounts payable and accrued expenses	2,868	2,754
Dividends payable	15,910	17,959
Deferred income	1,460	885
Total Liabilities	71,386	24,748
Commitments and Contingencies		
Stockholders' Equity		
Common stock, $.01 par value; 40,000,000 shares authorized; 27,670,316 and 27,629,505 shares issued and outstanding, respectively	277	276
Capital in excess of par value	461,917	459,842
Cumulative net income	935,743	900,611
Cumulative dividends	(972,027)	(940,220)

Unrealized gains on marketable securities		12,613		14,103
Total Stockholders' Equity		438,523		434,612
Total Liabilities and Stockholders' Equity	$	509,909	$	459,360

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, 2009 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 June 30,		Six Months Ended June 30,	
	2010	**2009**	**2010**	**2009**
	(unaudited)		*(unaudited)*	
Revenues:				
Rental income	$ 17,646	$ 12,118	$ 35,979	$ 24,776
Mortgage interest income	1,602	2,590	3,597	4,503
	19,248	14,708	39,576	29,279
Expenses:				
Depreciation	2,823	1,660	5,383	3,327
Legal expense	174	485	455	936
Franchise, excise and other taxes	252	139	530	414
General and administrative	1,331	1,257	5,137	2,845
Loan and realty recoveries	(573)	-	(573)	(1,077)
	4,007	3,541	10,932	6,445
Income before non-operating items	15,241	11,167	28,644	22,834
Non-operating income	1,285	1,700	2,717	3,435
Interest expense and amortization of loan costs	(474)	(28)	(702)	(70)
Income from continuing operations	16,052	12,839	30,659	26,199
Discontinued operations				
Income from operations - discontinued	1,133	2,576	2,469	4,265
Net gain on sale of real estate	2,004	-	2,004	-
Income from discontinued operations	3,137	2,576	4,473	4,265
Net income	$ 19,189	$ 15,415	$ 35,132	$ 30,464
Weighted average common shares outstanding:				
Basic	27,665,629	27,578,000	27,649,003	27,576,272
Diluted	27,729,034	27,592,050	27,705,257	27,587,139
Earnings per common share:				
Basic:				
Income from continuing operations	$ .58	$ .46	$ 1.11	$ .95
Discontinued operations	.11	.09	.16	.15
Net income per common share	$ .69	$ .55	$ 1.27	$ 1.10
Diluted:				
Income from continuing operations	$ .58	$ .46	$ 1.11	$ .95
Discontinued operations	.11	.09	.16	.15
Net income per common share	$ .69	$ .55	$ 1.27	$ 1.10

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

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

	Six Months Ended June 30,	
	2010	**2009**
	(unaudited)	
Cash flows from operating activities:		
Net income	$ 35,132	$ 30,464
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,452	3,892
Straight-line rent	(1,558)	(95)
Provision for loan and realty recoveries	(573)	(1,077)
Impairment of real estate assets in discontinued operations	-	25
Net gain on sale of real estate	(2,004)	-
Realized gain on sale of marketable securities	-	(117)
Amortization of loan costs	158	8
Share-based compensation	2,038	701
Change in operating assets and liabilities:		
Accounts receivable	106	(233)
Deferred costs and other assets	(505)	(124)
Accounts payable and other accrued expenses	114	(1,207)
Deferred income	575	548
Net cash provided by operating activities	38,935	32,785
Cash flows from investing activities:		
Investment in mortgage notes receivable	(8,621)	(3,901)
Collection of mortgage notes receivable	2,260	4,895
Prepayment of mortgage notes receivable	2,500	2,978
Acquisition of real estate properties	(88,475)	(39,516)
Receipt of earnest money deposit	3,175	-
Proceeds from disposition of real estate properties	6,247	175
Acquisition of marketable securities	-	(274)
Proceeds from sales of marketable securities	-	3,294
Net cash used in investing activities	(82,914)	(32,349)
Cash flows from financing activities:		
Net borrowings under revolving credit facility	43,823	-
Stock options exercised	37	-
Principal payments on debt	-	(1,225)
Dividends paid to stockholders	(33,855)	(34,199)
Net cash provided by (used in) financing activities	10,005	(35,424)

Decrease in cash and cash equivalents		(33,974)		(34,988)
Cash and cash equivalents, beginning of period		45,718		100,242
Cash and cash equivalents, end of period	$	11,744	$	65,254

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

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

	Six Months Ended June 30,			
	2010		2009	
	(unaudited)			
Supplemental disclosure of cash flow information:				
Interest paid	$	358	$	63
Supplemental schedule of non-cash activities:				
Settlement of mortgage note by real estate acquisition (Note 2 and 8)	$	22,936	$	-
Real estate purchase guarantee		-		1,000
Cash withheld at closing of real estate acquisition (Note 8)		1,000		-
Discount on mortgage note receivable purchased		-		1,132

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

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

	Common Stock Shares	Common Stock Amount	Capital in Excess of Par Value	Cumulative Income	Cumulative Dividends	Unrealized Gains on Marketable Securities	Total Stockholders' Equity
Balances at December 31, 2009	27,629,505	$ 276	$ 459,842	$ 900,611	$ (940,220)	$ 14,103	$ 434,612
Comprehensive income:							
Net income	-	-	-	35,132	-	-	35,132
Other comprehensive income:							
Unrealized holding gain arising during the period	-	-	-	-	-	(1,490)	(1,490)
Net gain recognized in other comprehensive income						(1,490)	(1,490)
Total comprehensive income							33,642
Shares issued on stock options exercised	40,811	1	37	-	-	-	38
Share-based compensation	-	-	2,038	-	-	-	2,038
Cash Dividends:							
Dividends to common stockholders, $1.15 per share	-	-	-	-	(31,807)	-	(31,807)
Balances at June 30, 2010 (*unaudited*)	27,670,316	$ 277	$ 461,917	$ 935,743	$ (972,027)	$ 12,613	$ 438,523

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

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NATIONAL HEALTH INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

(unaudited)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

We, the management of National Health Investors, Inc., ("NHI" or the "Company") believe that the unaudited condensed consolidated financial statements to which these notes are attached include all normal, recurring adjustments which are necessary to fairly present the condensed consolidated financial position, results of operations and cash flows of NHI in all material respects. The Condensed Consolidated Balance Sheet at December 31, 2009 has been derived from the audited consolidated financial statements at that date. We assume that users of these financial statements have read or have access to the audited December 31, 2009 consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations and that the adequacy of additional disclosure needed for a fair presentation, except in regard to material contingencies, may be determined in that context. Accordingly, footnotes and other disclosures which would substantially duplicate those contained in our most recent Annual Report on Form 10-K for the year ended December 31, 2009 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, 2009, which are included in our 2009 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.nhinvestors.com.

Discontinued Operations and Assets Held for Sale - We have reclassified for all periods presented the operations of the facilities meeting the accounting criteria as either being sold or held for sale as discontinued operations in the Condensed Consolidated Statements of Income. Long-lived assets classified as held for sale are reported separately in the Condensed Consolidated Balance Sheet.

Federal Income Taxes - We intend at all times to qualify as a real estate investment trust (REIT) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Therefore, we will not be subject to federal income tax provided we distribute at least 90% of our REIT taxable income to our stockholders and meet other requirements to continue to qualify as a REIT. Accordingly, no provision for federal income taxes has been made in the condensed consolidated financial statements. Our failure to continue to qualify under the applicable REIT qualification rules and regulations would have a material adverse impact on our financial position, results of operations and cash flows. Earnings and profits, which determine the taxability of dividends to stockholders, differ from net income reported for financial reporting purposes due primarily to differences in the basis of assets, recognition of commitment fees, estimated useful lives used to compute depreciation expense, recognition of straight-line lease income and stock-based compensation. Our tax returns filed for years beginning in 2007 are subject to examination by taxing authorities. We classify interest and penalties related to uncertain tax positions, if any, in our condensed consolidated financial statements as a component of general and administrative expense.

New Accounting Pronouncements - In February 2010, the Financial Accounting Standards Board issued Accounting Standards Update No. 2010-09, *Subsequent Events* (Topic 855). This update removes the requirement for the Company to disclose the date through which subsequent events have been evaluated in issued financial statements. The Company evaluates subsequent events after the balance sheet date through the issuance date of the financial statements.

NOTE 2. REAL ESTATE

At June 30, 2010, exclusive of assets held for sale, we had investments in 87 health care real estate properties leased to operators, of which 41 properties were leased to National HealthCare Corporation (NHC), a publicly-held company and our largest customer. The 41 properties leased to NHC include four facilities subleased to and operated by other companies, the lease payments of which are guaranteed by NHC. Our current lease with NHC expires December 31, 2021 (excluding 3 additional 5-year renewal options). For the six months ended June 30, 2010, rental income from continuing operations was $35,979,000, of which $17,849,000 (50%) was recognized from NHC consisting of base rent of $16,850,000 and percentage rent of $999,000, $485,000 of which related to final determination of NHC s 2009 revenues. For the six months ended June 30, 2009, our rental income from continuing operations was $24,776,000, of which $17,661,000 (71%) was recognized from NHC consisting of base rent of $16,850,000 and percentage rent for 2008 of $541,000 and percentage rent for 2009 of $270,000 (the base year for the percentage rent calculation having been 2007). For purposes of the percentage rent calculation described in the master lease agreement, NHC s revenue by facility is certified to NHI by March 31st of the following year.

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Acquisitions and New Leases of Real Estate

On February 1, 2010, we completed the purchase of six Florida skilled nursing facilities, consisting of 780 beds or 228,600 square feet, from Care Foundation of America, Inc. (CFA) for $67,000,000. The facilities are leased to affiliates of Health Services Management, Inc. (HSM), pursuant to a lease that commenced October 1, 2009, for $6,200,000 annually in aggregate rent, plus 3% annual escalators beginning October 1, 2011. The leases expire in 2014 and the tenant has a 3-year optional renewal term. We account for acquired businesses using the acquisition method as prescribed by Accounting Standards Codification Topic 805, *Business Combinations*. The facilities were part of our mortgage loan portfolio for 16 years. The purchase resulted in the dismissal of pending litigation with CFA, as described in Note 8. We funded the purchase with the full satisfaction of $23,300,000 in principal and interest on a mortgage note due from CFA, $29,700,000 in cash deposits and $14,000,000 in advances from our revolving credit facility. See Note 7 for additional information about our revolving credit facility. As part of this transaction, we recognized all identifiable tangible assets at fair value at the date of acquisition (there were no identifiable intangible assets or liabilities assumed) and attributed $4,690,000 of the purchase price to land value and $62,310,000 to the value of building and improvements. Certain costs related to this business combination totaled $490,000 and have been recorded as general and administrative expenses in our Condensed Consolidated Statement of Income for the six months ended June 30, 2010.

The revenue and earnings for the six facilities acquired from CFA included in our Condensed Consolidated Statement of Income for the six months ended June 30, 2010, and the pro forma revenue and earnings of the combined entity had the acquisition date been January 1, 2010, or January 1, 2009, are as follows *(in thousands)*.

	Revenue	Earnings
Actual from February 1, 2010 June 30, 2010	$ 2,583	$ 1,934
Combined pro forma from January 1, 2010 June 30, 2010	$ 42,676	$ 37,453
Combined pro forma from January 1, 2009 June 30, 2009	$ 32,379	$ 32,785

In March 2010, we completed a $12,500,000 purchase/leaseback transaction involving a 66-bed acute psychiatric hospital known as Alvarado Parkway Behavioral Institute in La Mesa, California. At the closing of this transaction, $11,500,000 was funded and $1,000,000 was withheld until such time as a $1,000,000 bank letter of credit is obtained by the seller. This facility is leased to Helix Healthcare for a term of 15 years at an initial lease payment of $1,500,000 plus annual fixed escalators.

In March 2010, we completed a $21,400,000 purchase/leaseback transaction involving four assisted living and memory care facilities totaling 126 units in Minnesota. The facilities, which are two to six years old, are leased to Suite Living Senior Specialty Services for a term of 15 years at an initial lease payment of $2,140,000 plus annual fixed escalators.

In June 2010, we completed an $11,500,000 purchase/leaseback transaction with Bickford Senior Living and its affiliates (Bickford) involving two assisted living facilities in Iowa and one in Indiana. The assisted living communities, two of which were built in 1998 and one in 2005, total 102 units. The three facilities are leased to Bickford over 15 years at an initial lease amount of $1,035,000 plus annual fixed escalators. The purchase of the three facilities brings the master lease with Bickford to a total of eight facilities.

In December 2009, we entered into a lease agreement as lessor, which became effective January 1, 2010, with Emeritus Senior Living as lessee to lease eight existing senior living communities located in Arizona, South Carolina, and Tennessee, consisting of 258 assisted living units, 66 memory care units, and 12 independent living cottages. The initial annual lease amount is $3,350,000 plus annual escalators and has an initial term of 15 years with two available extension options of five years each. The lease also contains a purchase option exercisable beginning in year 11 and extending through the initial lease termination date.

Planned or Completed Dispositions of Certain Real Estate

In June 2010, we completed a sale of two skilled nursing facilities in Texas to the current lessee Legend Healthcare and affiliates (Legend) for $6,247,000 in cash. These facilities were constructed in 1986 and 1990, total 182 beds, and were originally leased to Legend in March 2005 with a purchase option. NHI is deferring recognition of the tax gain on the sale of these facilities by utilizing the like-kind exchange rules under Section 1031 of the U.S. Internal Revenue Code. The net gain on the sale of these facilities was $2,004,000 for financial statement purposes.

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In December 2009, we accepted an earnest money deposit of $150,000 from our current lessee, affiliates of Fundamental Long Term Care Holdings, LLC (Fundamental), to sell six skilled nursing facilities in Texas. The planned sale of these facilities meets the accounting criteria as being held for sale and is expected to close when HUD financing is arranged by Fundamental. As of June 30, 2010 and December 31, 2009, the carrying value of $33,420,000 represents the lesser of the facilities net book value or fair value less cost to sell. At June 30, 2010, we had received additional earnest money deposits of $3,175,000. We have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Condensed Consolidated Statements of Income. The summary of operating results of all facilities classified as discontinued operations is shown in Note 11.

NOTE 3. MORTGAGE NOTES RECEIVABLE

At June 30, 2010, we had investments in mortgage notes receivable secured by real estate and UCC liens on the personal property of 33 health care properties. Certain of the notes receivable are also secured by guarantees of significant parties to the notes and by cross-collateralization of properties with the same owner.

As described in Note 2, a portion of the acquisition of the six Florida skilled nursing facilities from CFA was funded with the full satisfaction of $22,936,000 in mortgage note principal and $364,000 in accrued interest due from CFA. It is our policy to recognize mortgage interest income on non-performing mortgage loans in the period in which cash is received. During the six months ended June 30, 2010, we received payment and recognized interest income of $560,000 from CFA.

In March 2010, we entered into a $3,000,000 second mortgage loan secured by three skilled nursing facilities in Texas totaling 311 beds. Our loan is part of a bridge to long-term financing for the borrower. The mortgage includes a term of five years and a fixed interest rate of 14%.

In May 2010, we entered into a $1,000,000 second mortgage loan secured by a 116 bed skilled nursing facility and a 28-unit assisted living facility located in Texas. The mortgage includes a term of five years and a fixed interest rate of 14%.

In May 2010, we entered into a $1,000,000 participation agreement on a $6,500,000 bridge loan secured by a 125-bed skilled nursing facility located in Texas. Our loan is part of a bridge to long-term financing for the borrower. The mortgage includes a term of one year and a fixed interest rate of 14.5%.

In June 2010, we entered into a construction loan commitment to provide up to $13,870,000 for the development and construction of a 70-bed transitional rehabilitation center with a skilled nursing license in Mesa, Arizona. Construction on the facility began in June 2010 and is planned for completion in February 2011. NHI has the option to purchase and lease back the facility when it reaches a predetermined level of stabilized net operating income. The $13,870,000 commitment includes an $11,870,000 construction loan and an additional $2,000,000 supplemental draw available to the borrower when the facility achieves certain operating metrics. The loan is for a period of five years and requires payments of interest only at a rate of 10%. Until operations commence, interest payments will be accrued as part of the construction loan balance.

NOTE 4. INVESTMENTS IN MARKETABLE SECURITIES

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

During the six months ended June 30, 2010 and 2009, we recognized $627,000 and $746,000, respectively, of dividend and interest income from our marketable securities and have included these amounts in non-operating income in the Condensed Consolidated Statements of Income.

Our investment in NHC convertible preferred stock has been in an unrealized loss position for at least twelve months immediately preceding June 30, 2010. We have evaluated the severity and duration of the impairment of this security by considering the strong financial condition of NHC and have concluded that we have the ability and intent to hold this investment for a reasonable period of time sufficient for a recovery of carrying value.

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

	June 30, 2010 Amortized Cost	June 30, 2010 Fair Value	December 31, 2009 Amortized Cost	December 31, 2009 Fair Value
Common and preferred stock of other REITs	$ 5,831	$ 18,546	$ 5,831	$ 20,185
NHC convertible preferred stock	1,388	1,286	1,389	1,137
	$ 7,219	$ 19,832	$ 7,220	$ 21,322

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

	June 30, 2010	December 31, 2009
Gross unrealized gains	$ 12,716	$ 14,355
Gross unrealized losses	(103)	(252)
	$ 12,613	$ 14,103

NOTE 5. INVESTMENT IN PREFERRED STOCK, AT COST

In September 1998, we purchased 2,000,000 shares of the cumulative preferred stock of LTC Properties, Inc. (LTC), a publicly-held REIT. The nonvoting preferred stock is convertible into common stock at a 1:1 ratio. The closing price of LTC s common stock at June 30, 2010 was $24.27 per share. The preferred stock has an annual cumulative coupon rate of 8.5% payable quarterly and a liquidation preference of $19.25 per share. The preferred stock is not redeemable by us or LTC. The preferred stock, which is not listed on a stock exchange, is considered a non-marketable security and is recorded at cost in our consolidated balance sheets. Amounts to be received from the 8.5% coupon rate are recorded as investment income when the dividend is declared. The carrying value of the preferred stock equals its cost of $38,132,000 at June 30, 2010 and 2009.

NOTE 6. FAIR VALUE MEASUREMENTS

Our financial instruments consist primarily of cash and cash equivalents, receivables, payables, and debt instruments. The carrying values of these financial instruments approximate their respective fair values as they are either short-term in nature, have variable rates that adjust according to current market rates or carry fixed interest rates which approximate current market rates. We estimate the fair values of other financial instruments using quoted market prices and discounted cash flow techniques. At June 30, 2010 and December 31, 2009, there were no material differences between the carrying amounts and fair values of our financial instruments.

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

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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.

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

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

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

	Fair Value Measurements at June 30, 2010 Using			
Description	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common and preferred stocks of other REITs	$ 18,546	$ 18,546	$ -	$ -
NHC convertible preferred stock	1,286	1,286	-	-
Total Marketable Securities	$ 19,832	$ 19,832	$ -	$ -

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

NOTE 7. REVOLVING CREDIT FACILITY

On February 1, 2010, we entered into a $100,000,000 unsecured revolving credit facility to fund new healthcare real estate investments. The new credit facility, which was provided by Regions Bank as agent and Pinnacle National

Bank as a participating bank, bears interest at a margin of 250 basis points over LIBOR with a floor of 1%, which at June 30, 2010 was 3.5%, and matures in February 2011. The unused balance fee is 0.5% per annum. The credit facility contains financial covenants related to our leverage ratio, fixed charge ratio, unencumbered asset ratio and tangible net worth ratio, all of which we were in compliance with at June 30, 2010. At June 30, 2010, the credit facility had an outstanding balance of $43,823,000. For the six months ended June 30, 2010, we recognized $544,000 in interest expense related to this credit facility.

NOTE 8. COMMITMENTS AND CONTINGENCIES

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

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

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

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As of June 30, 2010, we had pending commitments related to three health care real estate projects: (1) as described in Note 3, in June 2010 we entered into a construction loan commitment to provide up to $13,870,000 for the development and construction of a 70-bed transitional rehabilitation center in Mesa, Arizona; and as of June 30, 2010 we had funded a total of $3,421,000 toward this commitment, (2) one of our leases contains a provision whereby we will fund up to $750,000 of certain capital improvements and operating equipment purchases with the total being added to the base amount from which the lease payment is calculated, and (3) we were committed to fund an additional $50,000 on a mortgage note receivable. We have sufficient liquidity to fund these commitments and to finance new investments.

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

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

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

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

NOTE 9. SHARE-BASED COMPENSATION

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

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The 1997 and 2005 Share-Based Compensation Plans

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

In May 2005, our stockholders approved the 2005 Plan pursuant to which 1,500,000 shares of our common stock were available to grant as share-based payments to employees, officers, directors or consultants. As of June 30, 2010, 683,967 shares were available for future grants under the 2005 plan. The individual restricted stock and option grant awards vest over periods up to ten years. The term of the options outstanding under the 2005 Plan is up to ten years from the date of grant.

The NHI 1997 Stock Option Plan (the 1997 Plan) provides for the granting of options to key employees and directors of NHI to purchase shares of common stock at a price no less than the market value of the stock on the date the option is granted. As of June 30, 2010, no shares were available for future grants under this plan. The term of the options outstanding under the 1997 Plan is five years from the date of the grant.

Compensation expense is recognized only for the awards that ultimately vest. Accordingly, forfeitures that were not expected may result in the reversal of previously recorded compensation expense. The compensation expense reported for share-based compensation related to the 2005 Plan and the 1997 Plan totaled $2,038,000 for the six months ended June 30, 2010, consisting of $2,024,000 for stock options and $14,000 for restricted stock, as compared to $701,000 for the six months ended June 30, 2009, consisting of $672,000 for stock options and $29,000 for restricted stock. At June 30, 2010, we had $606,000 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: 2010 - $309,000; 2011 - $262,000, and 2012 - $35,000. Stock-based compensation is included in general and administrative expense in the Condensed Consolidated Statements of Income.

The following table summarizes our outstanding stock options for the six months ended June 30, 2010 and 2009:

	2010	2009
Options outstanding, January 1,	253,836	159,668
Options granted under 2005 Plan	395,000	275,000
Options exercised under 1997 Plan	(48,717)	(15,000)
Options exercised under 2005 Plan	(123,946)	-
Options outstanding, June 30,	476,173	419,668
Exercisable June 30,	312,331	302,249

The following table summarizes our restricted stock activity for the six months ended June 30, 2010 and 2009:

	2010	2009
Non-vested at January 1,	5,100	7,025
Vested during the period	(1,925)	(1,925)
Non-vested at June 30,	3,175	5,100

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NOTE 10. NON-OPERATING INCOME

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Dividends	$ 1,132	$ 1,173	$ 2,263	$ 2,339
Interest income	9	380	67	792
Realized gain on sale of marketable securities	-	141	-	117
Other revenue	144	6	387	187
	$ 1,285	$ 1,700	$ 2,717	$ 3,435

NOTE 11. DISCONTINUED OPERATIONS

As described in Note 2, the planned sale of the Fundamental facilities meets the accounting criteria as being held for sale and we have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Condensed Consolidated Statements of Income. Our lease revenue from the facilities was $1,167,000 and $1,250,000 for the three months ended June 30, 2010 and 2009, respectively, and $2,417,000 and $2,500,000 for the six months ended June 30, 2010 and 2009, respectively.

As described in Note 2, in June 2010 we sold two skilled nursing facilities in Texas to the current lessee Legend Healthcare and affiliates (Legend). We have reclassified the results of operations of these facilities as discontinued operations for all periods presented in our Condensed Consolidated Statements of Income. Our lease revenue for the three months and six months ended June 30, 2010 was negatively impacted by the accumulated straight-line lease adjustment of $13,000 which was written off as a result of the sale. Lease revenue from the facilities was ($13,000) and $119,000 for the three months ended June 30, 2010 and 2009, respectively, and $107,000 and $240,000 for the six months ended June 30, 2010 and 2009, respectively. The net gain on the sale of these facilities was $2,004,000 for financial statement purposes.

In January 2009, we received final payment of $642,000 related to the settlement of a terminated lease for one of our former Texas facilities that was sold in 2005 to a third-party operator.

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

In June 2009, we recognized for financial and tax purposes $1,494,000 of deferred credits which existed at the date of sale of a nursing home in Washington in 2004. 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.

Income from discontinued operations for the six months ended June 30, 2010 also includes a $14,000 refund related to a previously closed facility in Bellingham, Washington. Additionally, general and administrative expenses of $21,000 related to closed facilities in Washington and Kansas have been included in income from discontinued operations for the six months ended June 30, 2009.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues	$ 1,168	$ 2,863	$ 2,538	$ 4,876
Expenses:				
Depreciation	35	282	69	565
General and administrative	-	5	-	21
Impairment of real estate assets	-	-	-	25
	35	287	69	611
Income from operations - discontinued	$ 1,133	$ 2,576	$ 2,469	$ 4,265

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NOTE 12. EARNINGS PER SHARE

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Income from continuing operations	$ 16,052	$ 12,839	$ 30,659	$ 26,199
Discontinued operations	3,137	2,576	4,473	4,265
Net income available to common stockholders	$ 19,189	$ 15,415	$ 35,132	$ 30,464
BASIC:				
Weighted average common shares outstanding	27,665,629	27,578,000	27,649,003	27,576,272
Income from continuing operations per common share	$ .58	$ .46	$ 1.11	$ .95
Discontinued operations per common share	.11	.09	.16	.15
Net income per common share	$ .69	$ .55	$ 1.27	$ 1.10
DILUTED:				
Weighted average common shares outstanding	27,665,629	27,578,000	27,649,003	27,576,272
Dilutive effect of:				
Stock options	60,625	11,384	53,179	8,198
Restricted shares	2,780	2,666	3,075	2,669
Average dilutive common shares outstanding	27,729,034	27,592,050	27,705,257	27,587,139
Income from continuing operations per common share	$ .58	$ .46	$ 1.11	$ .95
Discontinued operations per common share	.11	.09	.16	.15
Net income per common share	$ .69	$ .55	$ 1.27	$ 1.10

Incremental shares excluded since anti-dilutive:				
Stock options with an exercise price in excess of the market price for our common shares	1,764	21,088	3,057	21,786

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Item 2.

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

Forward Looking Statements

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

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

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

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

- We are exposed to risks related to government regulations and the effect they have on our tenants and mortgagors business;

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

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

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

- We depend on the success of future acquisitions and investments;

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

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

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

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

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

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

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

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See the notes to the annual audited consolidated financial statements in our most recent Annual Report on Form 10-K for the year ended December 31, 2009, and Business and Risk Factors under Item 1 and Item 1A therein, for a discussion of various governmental regulations and other operating factors relating to the healthcare industry and the risk factors inherent in them. You should carefully consider these risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones facing the Company. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition, results of operations, or cash flows could be materially adversely affected. In that case, the trading price of our shares of stock could decline and you may lose part or all of your investment. Given these risks and uncertainties, we can give no assurance that these forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

Executive Overview

NHI, a Maryland corporation incorporated in 1991, is a real estate investment trust ("REIT") which invests in income-producing health care properties primarily in the long-term care industry. As of June 30, 2010, our portfolio consisted of real estate and mortgage investments (excluding assets held for sale) with a carrying value totaling approximately $401,894,000 and other investments in preferred stock and marketable securities of $57,964,000 resulting in total invested assets of $459,858,000. 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 investing in leased properties and mortgage loans nationwide, primarily in the long-term health care industry. These investments include skilled nursing facilities, assisted living facilities, medical office buildings, independent living facilities, an acute psychiatric hospital, an acute care hospital and a transitional rehabilitation center, all of which are collectively referred to herein as "Health Care Facilities". We have funded these investments in the past through three sources of capital: (1) current cash flow, including principal prepayments from our borrowers, (2) the sale of equity securities, and (3) debt offerings, including bank lines of credit, the issuance of convertible debt instruments, and the issuance of ordinary debt.

Portfolio

At June 30, 2010, our continuing operations consisted of investments in real estate and mortgage notes receivable in 120 health care properties located in 23 states consisting of 81 skilled nursing facilities, 28 assisted living facilities, 4 medical office buildings, 4 independent living facilities, 1 acute psychiatric hospital, 1 acute care hospital and 1 transitional rehabilitation center. These investments consisted of approximately $325,807,000 of net real estate investments with 17 lessees and $76,087,000 aggregate carrying value of mortgage notes receivable from 15

borrowers.

As more fully described in Note 2 to the condensed consolidated financial statements, 41 of our properties are leased to NHC. Consistent with our strategy of diversification, we have increased our portfolio over time so that the portion of our portfolio leased by NHC has been reduced from 100% of our total portfolio on October 17, 1991 (the date we began operations) to 12.8% of our total portfolio on June 30, 2010, based on the net book value of these properties. In 1991, these assets were transferred by NHC to NHI at their then current net book value in a non-taxable exchange. Many of these assets were substantially depreciated as a result of having been presented in NHC s financial statements for as many as 20 years. As a result, we believe that the fair value of these assets is significantly in excess of their net book value. To illustrate, rental income for the year ended December 31, 2009 from NHC was $34,782,000 or approximately 65.2% of the net book value of the facilities leased to NHC. Subsequent additions to the portfolio related to non-NHC investments reflect their higher value based on existing costs at the date the investment was made.

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

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The following tables summarize our investments in real estate (excluding corporate office and assets held for sale) and mortgage notes receivable as of June 30, 2010:

Real Estate Properties	Properties	Beds/Sq. Ft.*		Net Investment
Skilled Nursing Facilities	51	6,858	$	177,829,000
Assisted Living Facilities	26	1,585		114,186,000
Medical Office Buildings	4	124,427*		8,541,000
Independent Living Facilities	4	456		7,001,000
Acute Psychiatric Hospitals	1	66		12,398,000
Acute Care Hospitals	1	55		5,852,000
Total Real Estate Properties	87			325,807,000
Mortgage Notes Receivable				
Skilled Nursing Facilities	30	3,061		68,012,000
Assisted Living Facilities	2	146		4,654,000
Transitional Rehabilitation Center	1	70		3,421,000
Total Mortgage Notes Receivable	33	3,277		76,087,000
Total Portfolio	120		$	401,894,000

Portfolio Summary	Properties	Investment Percentage		Net Investment
Real Estate Properties	87	81.1%	$	325,807,000
Mortgage Notes Receivable	33	18.9%		76,087,000
Total Portfolio	120	100.0%	$	401,894,000
Summary of Facilities by Type				
Skilled Nursing Facilities	81	61.2%	$	245,841,000
Assisted Living Facilities	28	29.6%		118,840,000
Medical Office Buildings	4	2.1%		8,541,000
Independent Living Facilities	4	1.7%		7,001,000
Acute Psychiatric Hospitals	1	3.1%		12,398,000
Acute Care Hospitals	1	1.5%		5,852,000
Transitional Rehabilitation Center	1	0.9%		3,421,000
Total Real Estate Portfolio	120	100.0%	$	401,894,000
Portfolio by Operator Type				
Public	56	25.3%	$	101,650,000
Regional	50	60.5%		243,091,000

Small	14	14.2%		57,153,000
Total Real Estate Portfolio	120	100.0%	$	401,894,000
Public Operators				
National HealthCare Corp.	41	12.8%	$	51,498,000
Sunrise Senior Living, Inc.	1	2.9%		11,804,000
Community Health Systems, Inc.	4	2.7%		11,004,000
Sun Healthcare Group, Inc.	2	1.9%		7,526,000
Emeritus Senior Living	8	4.9%		19,818,000
Total Public Operators	56	25.3%	$	101,650,000

Exclusive of assets held for sale, operators who operate more than 3% of our total real estate investments are as follows: American HealthCare, LLC; Bickford Senior Living; Community Living Partnerships, LLC; ElderTrust of Florida, Inc.; Emeritus Senior Living; Health Services Management, Inc.; Helix Healthcare, Inc.; National HealthCare Corp.; Legend Healthcare, LLC; and SeniorTrust of Florida, Inc.

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As of June 30, 2010, the average effective quarterly rental income was $1,808 per licensed bed for skilled nursing facilities, $3,045 per unit for assisted living facilities, $1,023 per unit for independent living facilities, $6,343 per bed for acute psychiatric hospitals, $12,841 per bed for acute care hospitals and $3 per square foot for medical office buildings.

We invest a portion of our funds in the common and preferred shares of other publicly-held REITs to ensure the substantial portion of our assets are invested for real estate purposes. At June 30, 2010, our investment in common and preferred shares of publicly-held REITs was $57,964,000. Refer to Notes 4, 5 and 6 of our condensed consolidated financial statements for further information.

Areas of Focus

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

Real Estate and Mortgage Write-downs (Recoveries)

Our borrowers and tenants experience periods of significant financial pressures and difficulties similar to other health care providers. Governments at both the federal and state levels have enacted legislation to lower or at least slow the growth in payments to health care providers. Furthermore, the costs of professional liability insurance have continued to increase significantly.

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

The following table summarizes our write-downs and recoveries for the six months ended June 30, 2010 and 2009, respectively.

Write-downs (Recoveries)	Six Months Ended June 30,	
(in thousands)	2010	2009
Real estate	$ -	$ 25
Mortgage notes receivable	(573)	(1,077)
	$ (573)	$ (1,052)

During the three months ended June 30, 2010, we received payments totaling $573,000 as a recovery of previous mortgage note write-downs. The payments resulted from the settlement of bankruptcy proceedings related to a former borrower.

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

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

We believe that the carrying amounts of our real estate properties are recoverable and notes receivable are realizable (including those identified as impaired or non-performing) and are supported by the value of the underlying collateral. However, it is possible that future events could require us to make significant adjustments to these carrying amounts.

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Acquisitions and New Leases of Real Estate

See Note 2 to the condensed consolidated financial statements.

Planned or Completed Dispositions of Certain Real Estate

See Note 2 to the condensed consolidated financial statements.

Results of Operations

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

Three Months Ended June 30, 2010 Compared to Three Months Ended June 30, 2009

Net income for the three months ended June 30, 2010, was $19,189,000 versus $15,415,000 for the same period in 2009, an increase of $3,774,000 or 24.4%. Diluted earnings per common share were $.69 in 2010 versus $.55 in 2009, an increase of $.14 or 25.4%. The significant items affecting net income are described below.

Total revenues for the three months ended June 30, 2010, were $19,248,000 versus $14,708,000 in 2009, an increase of $4,540,000 or 30.8%. Rental income increased $5,528,000 or 45.6% from the same period in 2009 primarily as a result of (1) $1,550,000 from HSM for leases of the six Florida skilled nursing facilities acquired February 1, 2010 from CFA, (2) $1,389,000 from Legend Healthcare, LLC for new leases that commenced in July and August, 2009, (3) an $853,000 increase in straight-line rent income recognized as a result of acquisitions made and leases entered into in 2009 and 2010, (4) $605,000 from Bickford Senior Living for new leases that commenced

during the fourth quarter of 2009 and second quarter of 2010, (5) $535,000 from Suite Living Senior Specialty Services for new leases that commenced in March 2010, (6) $375,000 from Helix Healthcare for a lease that commenced in March 2010, and (7) other adjustments to existing leases of $221,000.

Mortgage interest income for the three months ended June 30, 2010 decreased $988,000 or 38.2% to $1,602,000 from the same period in 2009. We received $922,000 less in interest income during the second quarter of 2010 when compared to the same period in 2009 as a result of the satisfaction of CFA s mortgage on six Florida skilled nursing facilities. Additionally, interest income received from existing mortgages decreased by $341,000 when compared to the same period in 2009 due to normal amortization, final maturity or early payoff; such decrease being partially offset by $275,000 in interest income received on new mortgage investments. Unless we continue to make new investments in mortgages in 2010 and future years, our mortgage interest income will continue to decrease due to the normal amortization and scheduled maturity of our loans.

Total expenses (excluding loan and realty recoveries which are required to be shown as a reduction of expenses for financial reporting purposes and expenses related to discontinued operations) for the three months ended June 30, 2010, were $4,580,000 versus $3,541,000 for the same period in 2009, an increase of $1,039,000 or 29.3%. Depreciation expense increased $1,163,000 over the same period in 2009 due to new real estate investments made in 2009 and the first three months of 2010.

Non-Operating Items

Non-operating income for the three months ended June 30, 2010, was $1,285,000 versus $1,700,000 for the same period in 2009, a decrease of $415,000 or 24.4%. Non-operating income consists primarily of dividend and interest income on our investments in marketable securities and bank deposits. Interest income for the second quarter of 2010 was $9,000 versus $380,000 for the same period in 2009, a decrease of $371,000 or 97.6%, due primarily to lower bank deposits as a result of new real estate and mortgage note investments funded in 2009 and 2010. Interest expense and amortization of loan costs increased $446,000 as a result of borrowings on our revolving credit facility which we used to finance new investments.

Discontinued Operations

See Note 11 to the condensed consolidated financial statements.

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Six Months Ended June 30, 2010 Compared to Six Months Ended June 30, 2009

Net income for the six months ended June 30, 2010, was $35,132,000 versus $30,464,000 for the same period in 2009, an increase of $4,668,000 or 15.3%. Diluted earnings per common share were $1.27 in 2010 versus $1.10 in 2009, an increase of $.17 or 15.5%. The significant items affecting net income are described below.

Total revenues for the six months ended June 30, 2010, were $39,576,000 versus $29,279,000 in 2009, an increase of $10,297,000 or 35.2%. Rental income increased $11,203,000 or 45.2% from the same period in 2009 primarily as a result of (1) $2,778,000 from Legend Healthcare, LLC for new leases that commenced in July and August, 2009, (2) $2,583,000 from HSM for leases of the six Florida skilled nursing facilities acquired February 1, 2010 from CFA, (3) $1,520,000 in past-due rent received and recognized into income from RGL Development, LLC, (4) a $1,463,000 increase in straight-line rent income recognized as a result of acquisitions made and leases entered into in 2009 and 2010, (5) $1,205,000 from Bickford Senior Living for new leases that commenced during the fourth quarter of 2009 and second quarter of 2010, (6) $650,000 from Suite Living Senior Specialty Services for new leases that commenced in March 2010, (7) $467,000 from Helix Healthcare for a lease that commenced in March 2010, (8) a $187,000 increase in percentage rent recognized from NHC, (9) a $175,000 increase in revenue from existing properties newly leased to Emeritus Senior Living in January, 2010 and (10) other adjustments to existing leases of $175,000.

Mortgage interest income for the six months ended June 30, 2010 decreased $906,000 or 20.1% to $3,597,000 from the same period in 2009. We received $362,000 less in interest income during the first six months of 2010 when compared to the same period in 2009 as a result of the satisfaction of CFA s mortgage on six Florida skilled nursing facilities. Additionally, interest income received from existing mortgages decreased by $968,000 when compared to the same period in 2009 due to normal amortization, final maturity or early payoff; such decrease was partially offset by $424,000 in interest income received on new mortgage investments. Unless we continue to make new investments in mortgages in 2010 and future years, our mortgage interest income will continue to decrease due to the normal amortization and scheduled maturities of our loans.

Total expenses (excluding loan and realty recoveries which are required to be shown as a reduction of expenses for financial reporting purposes and expenses related to discontinued operations) for the six months ended June 30, 2010, were $11,505,000 versus $7,522,000 for the same period in 2009, an increase of $3,983,000 or 52.9%. General and administrative expenses increased $2,292,000 primarily as the result of additions to our executive management team and staff during 2009. There was a $1,337,000 increase in stock-based compensation expense, $490,000 in transaction costs related to the CFA acquisition which were expensed as incurred, a $365,000 increase in payroll-related expenses, and smaller items totaling $100,000. We recognize stock-based compensation for financial reporting purposes for all stock options granted over the requisite service period using the fair value for these grants as

estimated at the date of grant for employees and the end of the reporting period for non-employees using the Black-Scholes pricing model. Depreciation expense increased $2,056,000 over the same period in 2009 due to new real estate investments made in 2009 and the first three months of 2010.

Non-Operating Items

Non-operating income for the six months ended June 30, 2010, was $2,717,000 versus $3,435,000 for the same period in 2009, a decrease of $718,000 or 20.9%. Non-operating income consists primarily of dividend and interest income on our investments in marketable securities and bank deposits. Interest income for the six months ended June 30, 2010 was $67,000 versus $792,000 for the same period in 2009, a decrease of $725,000 or 91.5%, due primarily to lower bank deposits as a result of new real estate and mortgage note investments made in 2009 and during the six months ended June 30, 2010. Interest expense and amortization of loan costs increased $632,000 as a result of borrowings on our revolving credit facility which we used to finance new investments.

Discontinued Operations

See Note 11 to the condensed consolidated financial statements.

Liquidity and Capital Resources

Sources and Uses of Funds

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

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

	Six Months Ended June 30, 2010	2009	$ Change	% Change
Cash and cash equivalents at beginning of period	$ 45,718	$ 100,242	$ (54,524)	(54.39%)
Cash provided by operating activities	38,935	32,785	6,150	18.76%
Cash (used in) provided by investing activities	(82,914)	(32,349)	(50,565)	(156.31%)
Cash provided by (used in) financing activities	10,005	(35,424)	45,429	128.24%
Cash and cash equivalents at end of period	$ 11,744	$ 65,254	$ (53,510)	(82.00%)

Operating Activities Net cash provided by operating activities for the six months ended June 30, 2010 increased compared to the same period in 2009 primarily as a result of lease revenue from new acquisitions. Certain working capital changes also affected operating cash and were primarily due to the timing of collections of accounts receivable and the payments of accounts payable and accrued expenses.

Investing Activities Net cash used in investing activities for the six months ended June 30, 2010 increased compared to the same period in 2009 due primarily to our real estate acquisitions and investments in mortgage notes. Cash used to fund new investments in real estate properties and mortgage loans in 2010 was $88,475,000 and $8,621,000, respectively. Cash proceeds of $6,247,000 were received on the sale of two skilled nursing facilities to our lessee Legend Healthcare. During 2010, we received earnest money deposits totaling $3,175,000 from our current lessee Fundamental toward the sale of six skilled nursing facilities in Texas which is expected to close when HUD financing is arranged by Fundamental. Collections and prepayments of mortgage notes receivable in 2010 amounted to $4,760,000.

Financing Activities Net cash provided by financing activities was $10,005,000 for the six months ended June 30, 2010 compared to $35,424,000 used in financing activities for the same period in 2009. Net borrowings under our revolving credit facility in 2010 used to fund new real estate and mortgage loan investments were $43,823,000. Dividends paid to stockholders during 2010 were $33,855,000.

Liquidity

At June 30, 2010, our liquidity was strong, with cash, highly-liquid marketable securities and available borrowing capacity on our revolving credit facility of $87,753,000. Cash proceeds from lease and mortgage collections, loan payoffs and the recovery of previous write-downs have been distributed as dividends to stockholders, used to retire our indebtedness, and accumulated in bank deposits for the purpose of making new real estate and mortgage loan investments.

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

On February 1, 2010 we entered into a $100,000,000 unsecured revolving credit facility to fund new healthcare real estate investments. The new credit facility, which was provided by Regions Bank as agent and Pinnacle National Bank as a participating bank, bears interest at a margin of 250 basis points over LIBOR with a floor of 1% and matures in February 2011. The unused balance fee is 0.5% per annum. The facility contains certain representations, warranties, and financial and other covenants customary in such loan agreements. At June 30, 2010, we had available borrowing capacity on our revolving credit facility of $56,177,000.

We intend to comply with REIT dividend requirements that we distribute at least 90% of our taxable income for the year ending December 31, 2010 and thereafter. During the first six months of 2010, we declared (1) a quarterly dividend of $.575 per common share for stockholders of record on March 31, 2010, payable on May 10, 2010; and (2) a quarterly dividend of $.575 per common share for stockholders of record on June 30, 2010, payable on August 10, 2010.

Dividends declared for the fourth quarter of each fiscal year are paid by the end of the following January and are treated for tax purposes as having been paid in the fiscal year just ended as provided in IRS Code Sec. 857(b)(8). The 2009 fourth quarter dividend was $.55 per common share, plus a special dividend of $.10 per common share, and both were paid on January 29, 2010.

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Off Balance Sheet Arrangements

We currently have no outstanding guarantees or letters of credit. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. At June 30, 2010, we did not participate in any such financial instruments.

Contractual Obligations and Contingent Liabilities

As of June 30, 2010, our contractual payment obligations and contingent liabilities were as follows *(in thousands)*:

	Total	Year 1	Year 2-3
Borrowings under revolving credit facility, including interest[1]	$ 44,748	$ 44,748	$ -
Construction loan commitment	10,449	10,449	-
Deferred real estate purchase consideration	4,000	1,500	2,500
Capital improvements	750	750	-
Mortgage note advances	50	50	-
	$ 59,997	$ 57,497	$ 2,500

(1) Interest was calculated at 3.5%, the interest rate at June 30, 2010, through expiration of the credit facility based on the balance outstanding at June 30, 2010. It also includes an unused balance fee of 0.5%.

Contingencies

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

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

Commitments

As of June 30, 2010, we had pending commitments related to three health care real estate projects: (1) as described in Note 3, in June 2010 we entered into a construction loan commitment to provide up to $13,870,000 to Santé Mesa, LLC for the development and construction of a 70-bed transitional rehabilitation center in Mesa, Arizona; and as of June 30, 2010 we had funded a total of $3,421,000 toward this commitment, (2) one of our leases contains a provision whereby we will fund up to $750,000 of certain capital improvements and operating equipment purchases with the total being added to the base amount from which the lease payment is calculated, and (3) we were committed to fund an additional $50,000 on a mortgage note receivable. We have sufficient liquidity to fund these commitments and to finance new investments.

Funds From Operations

Our funds from operations (FFO) for the six months ended June 30, 2010 was $38,272,000 compared to $34,304,000 for the same period in 2009, an increase of $3,968,000 or 11.6%. The increase in FFO was primarily the result of the impact on net income of our new investments in 2009 and 2010 and the associated impact on real estate depreciation, a non-cash adjustment to FFO. FFO represents net earnings available to common stockholders, excluding the effects of asset dispositions, plus depreciation associated with real estate investments. Diluted FFO assumes the exercise of stock options using the treasury stock method.

We believe that FFO is an important supplemental measure of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets requires straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen and fallen with market conditions, presentations of operating results for a REIT that uses historical cost accounting for depreciation could be less informative, and should be supplemented with a measure such as FFO. The term FFO was designed by the REIT industry to address this issue. Our measure may not be comparable to similarly titled measures used by other REITs. Consequently, our FFO may not provide a meaningful measure of our performance as compared to that of other REITs. Since other REITs may not use our definition of FFO, caution should be exercised when comparing our Company s FFO to that of other REITs. FFO in and of itself does not represent cash generated from operating activities in accordance with generally accepted accounting principles (GAAP) (FFO does not include changes in operating assets and liabilities) and therefore should not be

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considered an alternative to net earnings as an indication of operating performance, or to net cash flow from operating activities as determined by GAAP as a measure of liquidity, and is not necessarily indicative of cash available to fund cash needs.

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

The results of operations for facilities included in assets held for sale or facilities sold have been reported in the current and prior periods as discontinued operations. The reclassifications to retrospectively reflect the disposition of these facilities had no impact on previously reported FFO.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net income	$ 19,189	$ 15,415	$ 35,132	$ 30,464
Elimination of certain non-cash items in net income:				
Real estate depreciation - continuing operations	2,654	1,635	5,087	3,287
Real estate depreciation - discontinued operations	29	277	57	553
Net gain on sale of real estate	(2,004)	-	(2,004)	-
Funds from operations	$ 19,868	$ 17,327	$ 38,272	$ 34,304
BASIC				
Weighted average common shares outstanding	27,665,629	27,578,000	27,649,003	27,576,272
Basic FFO per common share	$ .72	$ .63	$ 1.38	$ 1.24
DILUTED				

Weighted average common shares outstanding		27,729,034		27,592,050		27,705,257		27,587,139
Diluted FFO per common share	$	.72	$	.63	$	1.38	$	1.24

Impact of Inflation

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

New Accounting Pronouncements

See Note 1 to the condensed consolidated financial statements for the impact of new accounting standards.

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Item 3.

Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

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

As of June 30, 2010, $43,823,000 of our debt bears interest at variable rates, currently 3.5%. A hypothetical 10% increase or decrease in interest rates would decrease or increase, respectively, our future earnings and cash flows related to these debt instruments by $153,400 annually.

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

Equity Price Risk

We consider our investments in marketable securities of $19,832,000 at June 30, 2010 as available-for-sale securities. Increases and decreases in the fair market value of our investments in other marketable securities are unrealized gains and losses that are recorded in stockholders equity. The investments in marketable securities are recorded at their fair value based on quoted market prices. Thus, there is exposure to equity price risk, which is the potential change in fair value due to a change in quoted market prices. We monitor our investments in marketable securities to consider evidence of whether any portion of our original investment is likely not to be recoverable, at which time we would record an impairment charge to operations. A hypothetical 10% change in quoted market prices

would result in a related $1,983,200 change in the fair value of our investments in marketable securities.

Item 4.

Controls and Procedures.

Evaluation of Disclosure Control and Procedures. As of June 30, 2010, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer (CEO) and our Chief Accounting Officer (CAO), of the effectiveness of the design and operation of management s disclosure controls and procedures (as defined in rules 13a-15(e) and 15d-15(e) under the Securities and Exchange Act of 1934) to ensure information required to be disclosed in our filings under the Securities and Exchange Act of 1934, is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC rules and forms; and (ii) accumulated and communicated to our management, including our CEO and our CAO, as appropriate, to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving desired control objectives, and management is necessarily required to apply its judgment when evaluating the cost-benefit relationship of potential controls and procedures. Based upon the evaluation, the CEO and our CAO concluded that the design and operation of these disclosure controls and procedures were effective as of June 30, 2010.

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

Changes in Internal Control over Financial Reporting. There were no changes in our internal control over financial reporting identified in management s evaluation during the three months ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1.

Legal Proceedings.

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

On December 31, 1999, NHI acquired six Florida properties from the Chapter 11 bankruptcy trustee for York Hannover Nursing Centers, Inc. On January 1, 2000, NHI sold those properties to Care Foundation of America, Inc., a Tennessee nonprofit corporation (CFA) for $32.7 million, ($6.8 million of which was ultimately due to National HealthCare Corporation ("NHC"), which had contributed to the purchase price consideration, under the terms of an inter-creditor agreement between NHI and NHC), with NHI financing 100% of the purchase price, and the debt having an original maturity date of July 1, 2001. The maturity date of the debt was subsequently extended several times over the years, with the most recent extension making the balance of $22,936,000 due December 31, 2008. On December 30, 2008, CFA filed for Chapter 11 bankruptcy in the U.S. District Court for the Middle District of Tennessee (Case No. 08-12367). On January 2, 2009, CFA filed an adversary proceeding complaint against NHI in the bankruptcy case (the CFA Adversary Proceeding). As disclosed in Note 8 of the notes to the consolidated financial statements, CFA s complaint alleged in part that NHI exercised dominion and control over CFA s board of directors from 1999 until sometime in 2008 and that NHI had used that control to cause CFA to buy and finance the six Florida homes on terms that were not fair to CFA. CFA also alleged that these transactions constituted excess benefit transactions as defined in Section 4958 of the Internal Revenue Code. NHI denied CFA s claims and filed a counterclaim seeking a declaratory judgment as to the validity and enforceability of CFA s outstanding secured debt to NHI. In June 2009, the bankruptcy court granted a motion to intervene filed by the Tennessee Attorney General s Office. In December 2009, NHI agreed to purchase the six Florida properties (which are leased to a third-party for $6.2 million annually, plus escalators over the initial lease term expiring in 2014) from CFA for a total of $67 million; CFA agreed to pay the full amount of its outstanding balance due to NHI as a credit against the purchase price (CFA had continued to pay interest of 9.5% on the principal amount due during the bankruptcy); and the parties agreed to dismiss with prejudice their respective claims in the CFA Adversary Proceeding. The transaction and the resolution of the claims were approved by both the bankruptcy court and the Tennessee Attorney General s Office. The transaction closed on February 1, 2010.

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

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

Item 1A.

Risk Factors.

During the quarter ended June 30, 2010, there were no material changes to the risk factors that were disclosed in Item 1A of National Health Investors, Inc. s Annual Report on Form 10-K for the year ended December 31, 2009.

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Item 6.

Exhibits.

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated by reference to Exhibit 3.1 to Form S-11 Registration Statement No. 33-41863)
3.2	Amendment to Articles of Incorporation (incorporated by reference to Exhibit A to the Company s Definitive Proxy Statement filed March 23, 2009)
3.3	Bylaws (incorporated by reference to Exhibit 3.2 to Form S-11 Registration Statement No. 33-41863)
31.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

NATIONAL HEALTH INVESTORS, INC.
(Registrant)

Date: August 4, 2010	/s/ W. Andrew Adams W. Andrew Adams Chairman, Board of Directors and Chief Executive Officer
Date: August 4, 2010	/s/ Roger R. Hopkins Roger R. Hopkins Chief Accounting Officer (Principal Accounting Officer)

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(1)
These shares of restricted stock vest in three equal annual installments beginning on March 1, 2015.

Realized Pay for 2014 Performance

The following table shows one way in which our Compensation Committee looks at the compensation paid and awarded to each of the named executive officers for service and performance with respect to 2014. This table differs from the Summary Compensation Table provided on page 38, which includes several items that are driven by accounting and actuarial assumptions that are not necessarily reflective of the compensation actually realized by the executive in a particular year. The primary difference between this supplemental table and the Summary Compensation Table is the method used to value long-term performance award units, stock options and stock awards. SEC rules require that the grant date fair value of all performance award units, stock options and stock awards be reported in the Summary Compensation Table in the row for the year in which they were granted, regardless of which year the awards were made with respect to or which year the awards pay out in the form of restricted shares of stock. As a result, a significant portion of the total compensation reported in the Summary Compensation Table relates to awards made for performance in prior years or, in the case of performance awards, awards for future years in which performance has not yet been determined and for which the value is uncertain (and which may end up having no value at all). In contrast, this table is provided to illustrate the actual cash and restricted stock received by each named executive officer for service and performance in 2014. Note that the amounts reported below differ substantially from the amounts determined under SEC rules and reported in the Summary Compensation Table on page 38 and this table is not a substitute for the Summary Compensation Table.

			Annual Bonus and LTI Awards			
Name and Principal Position	Year	Salary ($)	Restricted Stock(1)	Cash(2)	All Other Compensation ($)(3)	Total ($)(4)
Tim Naughton Chairman, Chief Executive Officer and President	2014	950,000	5,022,241	1,446,969	168,963	7,588,173
Tom Sargeant Chief Financial Officer (Retired May 2014)	2014	235,962	437,500	225,000	64,092	962,554
Kevin O’Shea Chief Financial Officer (Since June 2014)	2014	395,192	1,040,433	457,600	37,861	1,931,086
Matt Birenbaum Chief Investment Officer	2014	440,385	1,461,003	526,140	33,090	2,460,618
Sean Breslin Chief Operating Officer	2014	445,192	1,393,945	524,700	55,082	2,418,919
Steve Wilson EVP, Development	2014	420,192	1,607,538	632,910	46,837	2,707,477

(1)
Amounts in this column reflect the value of shares of restricted stock awarded in February 2015 (i) with respect to performance under the Annual Bonus program in 2014, and (ii) for achievement under the long-term incentive performance awards maturing on December 31, 2014, all with a value per share of $173.39, the closing price of the Company’s common stock on the NYSE on the date of the award. In the case of Mr. Wilson, it also includes a

discretionary stock award of $150,000 for performance in 2014.

(2)
Amounts in this column reflect the cash awards made in February 2015 with respect to performance under the Annual Bonus program in 2014.

(3)
Amounts in this column include the same components described in the “All Other Compensation” column of the Summary Compensation Table.

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(4)
The value of the shares of restricted stock awarded to the named executive officers in February 2014 related to their efforts associated with the integration of the operations and assets acquired as part of the Archstone acquisition in 2013 is not included in this table. Using, as of the award date, the closing stock price for the shares so awarded, those awards had the following values for the named executive officers: Mr. Naughton—$653,636; Mr. Sargeant—$71,100; Mr. O’Shea—$83,549; Mr. Birenbaum—$118,329; Mr. Breslin—$122,436; and Mr. Wilson—$0.

2015 COMPENSATION DETERMINATIONS

The following compensation determinations were made for 2015 for the named executive officers, other than Mr. Sargeant, who retired in May 2014:
Base Salary for 2015, effective March 1, 2015:

Name	Base Salary ($)
Mr. Naughton	950,000
Mr. O’Shea	500,000
Mr. Birenbaum	500,000
Mr. Breslin	500,000
Mr. Wilson	425,000

The target, threshold and maximum 2015 annual bonus for that officer:

Name	Annual Cash Bonus Targets			Annual Restricted Stock Bonus Targets		
	Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)
Mr. Naughton	712,500	1,425,000	2,850,000	—	—	—
Mr. O’Shea	250,000	500,000	1,000,000	162,500	325,000	650,000
Mr. Birenbaum	250,000	500,000	1,000,000	207,500	415,000	830,000
Mr. Breslin	250,000	500,000	1,000,000	256,250	512,500	1,025,000
Mr. Wilson	212,500	425,000	850,000	252,500	505,000	1,010,000

The target, threshold and maximum number of performance units granted in 2015 that may be earned for the performance period 2015-2017:

Name	2015-2017 Long-Term Incentive Award Targets Units		
	Threshold (#)	Target(1) (#)	Maximum (#)
Mr. Naughton	14,190	28,380	56,760
Mr. O'Shea	2,183	4,366	8,732
Mr. Birenbaum	2,687	5,374	10,748
Mr. Breslin	2,687	5,374	10,748
Mr. Wilson	1,680	3,359	6,718

(1)
The target number of units in column ( ) is derived from the following target dollar values: $4,225,000 for Mr. Naughton; $650,000 for Mr. O'Shea, $800,000 for Mr. Birenbaum, $800,000 for Mr. Breslin, and $500,000 for Mr. Wilson. To derive the target number of units, in each case 60% of the target dollar value (representing the portion of the award tied to TSR Metrics) was divided by the Monte Carlo value as of the date of the award for a unit based solely on the TSR metrics ($139.18 per unit) and 40% of the target dollar value (representing the portion of the award tied to Operating Metrics) was divided by the closing price of Common Stock on the date of the award ($166.23).

Based on awards made in previous years, the target, threshold and maximum number of performance units that may be earned at the end of 2015 are as follows:

Name	Long-Term Incentive Award Targets Units Maturing in 2015(1)		
	Threshold (#)	Target (#)	Maximum (#)
Mr. Naughton	12,938	25,876	51,752
Mr. O'Shea	2,027	4,054	8,108
Mr. Birenbaum	2,640	5,279	10,558
Mr. Breslin	2,264	4,528	9,056
Mr. Wilson	1,427	2,853	5,706

(1)
Includes units granted in February 2013 with respect to Total Shareholder Return metrics for the 2013-2015 measurement period and units granted in February 2014 with respect to relative Operating FFO per share growth and leverage metrics for the 2014-2015 measurement period.

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Other Benefits

Pursuant to our Deferred Compensation Plan, certain employees, including the named executive officers, may defer up to 25% of base annual salary and up to 50% of annual cash bonus on a pre-tax basis and receive a tax-deferred return on those deferrals. Deferral elections are made by eligible employees during an open enrollment period each year for amounts to be earned in the following year. Participating employees direct the deemed investment of their deferral accounts by selecting among certain available investments in mutual funds.

We have an employee stock purchase plan that allows our employees the opportunity to purchase up to $25,000 of our Common Stock per year at a 15% discount to the lower of the closing price of the Common Stock, as reported on the NYSE, on the first business day of the Purchase Period or the closing price of the Common Stock on the last day of the Purchase Period. For 2014 there were two Purchase Periods, January 1 – June 10th
and July 1 – December 10th with the opportunity to purchase up to $12,500 of our Common Stock at the discounted rate previously mentioned during each of the two purchase periods (up to $25,000 annually).

In addition, we maintain a 401(k) retirement savings plan and annually match 50% of the first six percent of base salary and cash bonus contributed to such plan by any employee (subject to certain tax limitations). We offer medical, dental and vision plans, a portion of the cost of which is paid by the employee. We also provide life insurance, accidental dismemberment insurance, and short-term and long-term disability insurance for each employee.

Mr. Naughton has an employment agreement with the Company pursuant to which certain other benefits are provided to him. The terms of such employment agreement are described in "Potential Payments Upon Termination or Sale Event" below.

Compensation Policies

Executive Stock Ownership Guidelines. The Company believes that stock ownership by its executive officers is important and has established formal Executive Stock Ownership Guidelines for officers who are at the executive vice president level or above or are subject to reporting under Section 16 of the Exchange Act. These guidelines provide that persons holding the title of Chairman of the Board, Chief Executive Officer or President are expected to maintain ownership of Common Stock (including unvested restricted shares) equal to six times their base salary. The multiples that apply to other covered officers are as follows: Chief Financial Officer and Executive Vice Presidents—three times; Senior Vice Presidents—one and one-half times; Vice Presidents—one time. The full text of the Executive Stock Ownership Guidelines, which includes the time periods by which such ownership must be achieved and a retention policy during periods of non-achievement, is posted on the "Investors" section of the Company's website (www.avalonbay.com) under "Corporate Governance Documents." The Company also has Director Stock Ownership Guidelines as discussed in "Director Compensation and Director Stock Ownership Guidelines."

Prohibition Against Hedging, Pledging or Borrowing Against Company Stock. The Company has adopted a formal policy prohibiting its executive officers and directors from (i) borrowing money from a broker or other lender that is secured by Company securities without the consent of the Company, and (ii) holding Company securities in a brokerage account that has outstanding "margin" debt. In addition, the policy prohibits sales of Company securities by an executive officer or director if he or she does not own the security at the time of the sale (a "Short Sale"), and prohibits the buying or selling of puts or calls in respect of any Company securities.

Severance Policy. The Board has adopted a Policy Regarding Shareholder Approval of Future Severance Agreements (the
"Severance Policy"). The Severance Policy generally provides that the Company will not, without stockholder approval or ratification, enter into or bind the Company to the terms of any future severance agreement with a senior executive officer that provides for severance benefits in excess of 2.99 times the sum of the officer's base salary plus annual bonus. The Severance Policy, which is posted on the "Investors" section of the Company's website (www.avalonbay.com) under "Corporate Governance Documents," provides additional detail regarding the application of this policy.

Policy on Recoupment of Incentive Compensation (Clawback Policy). The Board has adopted a Policy for Recoupment of Incentive Compensation (i.e., a compensation clawback policy), which applies to senior officers

(generally senior vice presidents and above). Pursuant to this policy, in the event the Company is required to prepare an accounting restatement due to the material non-compliance of the Company with any financial reporting requirement, then an independent committee of the Board of Directors may require any covered officer to repay to the Company all or part of any “Excess Compensation” that such officer had previously received. Excess Compensation is defined as that part of the incentive compensation received by a covered officer during the 3-year period preceding the publication of the restated financial statement that was in excess of the amount that such officer would have received had such incentive compensation been calculated based on the financial results reported in the restated financial statement. The full text of the policy is posted on the “Investors” section of the Company’s website (www.avalonbay.com) under “Corporate Governance Documents.”

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Practices with regard to dates and pricing of stock and option grants

The Compensation Committee determines the number of shares underlying options and shares of restricted stock to award to officers as part of annual compensation. Those members of the Board of Directors who would qualify for service on the Compensation Committee review and ratify these awards at the Board's regularly scheduled February meeting. The award date for options and stock grants is generally the date of ratification, but may be delayed to a date after such ratification if there is a pending announcement by the Company of material non-public information, such as an earnings release. The exercise price of each option granted is the closing price of our Common Stock on the award date. In all cases, our options are granted: (i) on the dates described above; (ii) on the date of a new hire's start with the Company as approved by the CEO in advance of the start date; (iii) on the date of approval by the CEO for retention or recognition purposes up to a Board-authorized maximum value of $250,000; or (iv) on the date of a terminated senior executive's departure from the Company, as set out in formal terms approved by the Compensation Committee in advance. Option exercise prices are determined by the NYSE closing price of our Common Stock on the date of grant. Additionally, all officers must receive prior authorization for any purchase or sale of our Common Stock, which, in the case of open market transactions, is generally only given during approved trading windows that are generally established in advance based upon earnings release dates.

Risk Considerations

The Compensation Committee reviewed and considered risks arising from the Company's compensation policies and practices for its employees. This review included consideration of the following specific elements of the Company's executive compensation policies and procedures:

- annual bonus and long-term incentive awards are based upon pre-existing, defined goals;
- annual goals contain multiple financial targets, including performance against a pre-approved budget;
- performance goals include both absolute performance and performance relative to industry peers;
- annual goals balance financial and non-financial performance;
- goals include corporate, business unit, and individual performance goals;
- performance goals include achievement against both single year and multiyear metrics;
- executive compensation is structured as a mix among salary, cash bonus, and equity awards;
- equity awards vest over time;
- bonus and long-term equity programs include maximum payouts or "caps";
-

all unvested equity awards are forfeited upon a termination for cause or voluntary termination under certain circumstances;

•

the metrics that are included in our long-term performance awards include a goal addressing appropriate leverage ratios;

•

achievement of metrics is not determined on an "all or nothing" basis, but rather goals may be achieved on a graduated basis based on performance against the stated target; and

•

while awards are generally made in relation to performance against specific goals, the Compensation Committee retains the discretion to adjust annual bonuses of cash and restricted stock as may be warranted by specific circumstances.

Following this review, the Compensation Committee concluded that any risks arising from the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company at this time.

Section 162(m)

The SEC requires that this report comment upon the Company's policy with respect to Section 162(m) of the Internal Revenue Code of 1986, as amended, which limits the deductibility on the Company's tax return of compensation over $1 million to the CEO and any of its three other most highly paid executive officers (other than the CFO) unless, in general, the compensation is paid pursuant to a plan which is performance-related, non-discretionary and has been approved by the Company's stockholders. The Company believes that, because it qualifies as a REIT under the Code and pays dividends sufficient to minimize federal income taxes, the payment of compensation that does not satisfy the requirements of Section 162(m) will generally not
affect the Company's net income. If that compensation does not qualify for a deduction under Section 162(m), there could be a modest effect on the Company's dividend requirements to qualify as a REIT or on the tax characterization of such dividends. The Company does not believe that Section 162(m) will materially affect its dividend requirements or the taxability of stockholder distributions, although no assurance can be given in this regard due to the variety of factors that affect the tax position of each stockholder. For these reasons, the Compensation Committee's compensation policy and practices are not directly guided by considerations relating to Section 162(m).

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Supplemental Appendix to Compensation Discussion and Analysis

The table below shows the adjustments to the Company's FFO for the year ended December 31, 2014 for non-routine items to calculate Operating FFO referred to on page 19 of this Proxy Statement.

	2014
FFO actual	$ 951,035
Non-Routine Items	
Archstone and other acquisition costs	(7,682)
Joint venture (gains) losses and costs(1)	(63,322)
Write-off of development rights and retail assets(2)	2,564
Compensation plan redesign and severance related costs	815
Business interruption insurance proceeds	(2,494)
Early extinguishment of consolidated debt	412
Gain on sale of land	(490)
Income taxes	9,243
FFO as adjusted for non-routine items ("Operating FFO")	$ 890,081
Operating FFO per share	$ 6.78

(1)
Amounts include the Company's proportionate share of gains and losses from joint ventures with Equity Residential as part of the Archstone acquisition, joint venture dispositions, including the Company's promoted interests, costs associated with the extinguishment of debt, and acquisition costs including certain costs incurred related to the Archstone acquisition.

(2)
Represents write-offs expensed by the Company during the period for development rights and retail tenants individually in excess of $1,000.

Net Debt to Adjusted EBITA is calculated by the Company as total debt that is consolidated for financial reporting purposes, less consolidated cash and cash in escrow, divided by annualized fourth quarter 2014 EBITDA as adjusted for NOI from discontinued operations and real estate assets sold or held for sale, not classified as discontinued operations; gain on sale of communities; and joint venture income.

Compensation Committee Report

The Compensation Committee of the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation, has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K of the Securities and Exchange Commission with management and, based on such review and discussions, the Compensation
Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee
Peter S. Rummell (Chair)
Lance R. Primis
H. Jay Sarles
W. Edward Walter

Compensation Committee Interlocks and Insider Participation

The Compensation Committee currently consists of Peter S. Rummell, Lance R. Primis, H. Jay Sarles, and W. Edward Walter. None of them has served as an officer of the Company or any of

its subsidiaries. No member of the Compensation Committee has any other business relationship or affiliation with the Company or any of its subsidiaries (other than his service as a director).

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Summary Compensation Table

The table below summarizes the compensation amounts paid in or earned by each of the named executive officers for the fiscal years in which they were named executive officers (years ending December 31, 2014, December 31, 2013 and December 31, 2012 for Messrs. Naughton and Sargeant; years ending December 31, 2014 and December 31, 2013 for Messrs. Breslin and Birenbaum, who became named executive officers in 2013; and the year ending December 31, 2014 in the case of Messrs. O'Shea and Wilson, who became named executive officers in 2014).

For 2014, the amounts under "Stock Awards" and "Total Compensation" include the grant date value of three performance awards made in February 2014 and maturing at the end of 2014, 2015 and 2016, and subject to vesting requirements thereafter. For 2013, those amounts include the grant date value of three performance awards made in February 2013 and maturing at the end of 2013, 2014 and 2015.

Executives are eligible to defer a portion of their salaries and bonuses under our Deferred Compensation Plan. The amounts shown below are before any deferrals under the Nonqualified Deferred Compensation Plan. Amounts deferred in 2014 are shown in the Nonqualified Deferred Compensation Table beginning on page 44 below.

Name and Principal Position	Year	Salary ($)(1)	Bonus ($)	Stock Awards ($)(2)(3)	Option Awards ($)(2)(4)	Non-equity Incentive Plan Compensation ($)(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(6)	All Other Compensation ($)(7)	Tot ($)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Tim Naughton(8)	2014	950,000	—	4,861,744	—	1,446,969	—	168,963	7
Chairman, Chief Executive Officer and President	2013	921,154	—	7,189,042	1,461,866	1,666,359	—	155,321	1
	2012	799,038	—	1,073,305	540,388	1,252,742	—	166,870	3
Tom Sargeant(9)	2014	235,962	662,500	71,100	—	—	—	64,092	1.
Chief Financial Officer (Retired May 2014)	2013	520,192	—	2,772,187	526,622	736,706	—	122,653	4.
	2012	499,231	—	697,722	351,244	613,680	—	133,672	2.
Kevin O'Shea(10)	2014	395,192	—	1,070,793	—	457,600	—	37,861	1.
Chief Financial Officer (Since June 2014)	2013		—				—		
	2012		—				—		
Matt Birenbaum(11)	2014	440,385	—	1,490,242	—	526,140	—	33,090	2.
EVP, Corporate Strategy	2013	395,192	—	1,312,165	314,019	405,888	—	23,239	2.
	2012		—				—		
	2014	445,192	—	1,458,723	—	524,700	—	55,082	2.

Sean Breslin(12) EVP, Investments & Asset Management	2013	418,269	—	1,531,444	466,327	423,708	—	45,092	2
	2012		—				—		
Steve Wilson(13) EVP, Development	2014	420,192	—	1,347,817	—	632,910	—	46,837	2
	2013		—				—		
	2012		—				—		

(1)
The amounts shown as salary in column (c) reflect actual payments received in each indicated year, which may vary slightly from the salary described in the Compensation Discussion and Analysis as a result of (i) the number of pay periods in each calendar year and (ii) the fact that salary increases may not go into effect until early March of each year.

(2)
The amounts in column (e) and column (f) include restricted stock and option awards actually granted during the fiscal year for service in the prior fiscal year. For example, the row for 2014 includes the value of stock and option awards made in February 2014 with respect to 2013 service.

(3)
The amounts in column (e) reflect the aggregate grant date fair value for awards made in the fiscal years ended December 31, 2012, December 31, 2013, and December 31, 2014 computed in accordance with FASB ASC Topic 718 for restricted stock awards and performance unit awards made pursuant to the Company's 2009 Stock Option and Incentive Plan. The value of restricted stock awards is based solely on the closing price of our Common Stock on the NYSE on the date of grant; as a result, no assumptions were used in the calculation of this value.

In 2014, in addition to restricted stock awards granted as part of the Annual Bonus Program, included in column (e), the Company made the following awards as part of its general performance award program for officers, also included in column (e):

- Awards based on TSR Metrics and Operating Metrics for the performance period 2014-2016. These awards had a grant date fair value of $111.77 per unit for the TSR Metric portion of the award, based on the Monte Carlo value on the date of grant, and $128.97per unit for the Operating Metric portion of the award, based on the closing price of our Common Stock on the NYSE on the date of grant.

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To transition to the inclusion of Operating Metrics in performance awards, the Company also made awards based on Operating Metrics for the measurement periods 2014 and 2014-2015. These awards had a grant date value of $128.97 per unit, based on the closing price of our Common Stock on the NYSE on the date of grant.

In addition, Mr. O'Shea received two supplemental performance awards in 2014 in recognition of his promotion to Chief Financial Officer:

•

Award based on TSR Metrics for the performance period 2012-2014. This award had a grant date value of $24.05 per unit (based on the Monte Carlo value on the date of grant).

•

Award based on TSR Metrics for the performance period 2013-2015. This award had a grant date value of $43.90 per unit (based on the Monte Carlo value on the date of grant).

The total value of the 2014 and 2014-2015 Operating Metrics performance unit awards and 2014-2016 TSR and Operating Metrics performance unit awards, if earned at maximum and valued at the closing price of our Common Stock on the NYSE on the date of grant, for the named executive officers is: Mr. Naughton—$9,249,728; Mr. Sargeant—$0; Mr. O'Shea—$1,750,123; Mr. Birenbaum—$2,476,482; Mr. Breslin—$2,020,186; and Mr. Wilson —$1,388,491. The total value of the 2012-2014 and 2013-2015 supplemental awards made to Mr. O'Shea if earned at maximum and valued at the closing price of our Common Stock on the NYSE on the date of grant is $528,777.
The values of TSR Metric performance awards included in column (e) for 2013 are:

•

$74.37 per unit for awards for measurement period 2011-2013 (based on the Monte Carlo value on the date of grant).

•

$59.39 per unit for awards for measurement period 2012-2014 (based on the Monte Carlo value on the date of grant).

•

$76.03 per unit for awards for measurement period 2013-2015 (based on the Monte Carlo value on the date of grant).

The total value of the 2011-2013, 2012-2014 and 2013-2015 performance unit awards, if earned at maximum and valued at the closing price of our Common Stock on the NYSE on the date of grant, for the named executive officers is: Mr. Naughton—$5,225,088; Mr. Sargeant—$2,100,089; Mr. Breslin—$735,018; and Mr. Birenbaum—$844,151.
(4)
The amounts in column (f) reflect the aggregate grant date fair value for option awards made pursuant to the Company's 2009 Stock Option and Incentive Plan in the fiscal years ended December 31, 2012, December 31, 2013, and December 31, 2014 computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of this amount are included in footnote 10 to the Company's audited financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 19, 2015.

(5)
The amounts shown in column (g) reflect the cash awards to the named individuals determined by the Compensation Committee in February of the following year (based upon the achievement of the performance metrics established in the year indicated, as more fully described in the Compensation Discussion and Analysis above) and ratified by the members of the full Board of Directors who would be qualified to serve on the Compensation Committee.

(6)
All earnings under the Company's nonqualified deferred compensation program are determined by reference to returns of actual mutual funds and the Company does not consider such earnings to be above market.

(7)
For 2014, the amounts shown in column (i) include, for each named executive officer (a) dividends paid on unvested shares of restricted stock during 2014 in the following amounts: Mr. Naughton—$128,427; Mr. Sargeant—$30,681; Mr. O'Shea—$29,126; Mr. Birenbaum—$24,355; Mr. Breslin—$46,400; and Mr. Wilson—$36,752; (b) amounts contributed the Company to the named executive officers' 401(k) accounts in the amount of $7,800 each, and (c) premiums paid by the Company in 2014 for Company-owned life insurance policies on the lives of such named executive officers for which the Company has endorsed the respective policies so that any death benefit, in excess of the cumulative premiums paid by the Company, will be paid to the beneficiaries of the deceased, which premiums were in the following amounts for each officer (such amounts representing payment of a whole-life premium which builds cash value in the Company-owned policy to support future repayment of the cumulative premiums; see "Potential Payments Upon Termination or Sale Event—Endorsement Split Dollar Agreements"): Mr. Naughton—$32,736; and Mr. Sargeant—$25,611. The amount shown includes premiums paid by the Company for a standard term life insurance policy in the face amount of $750,000 for: Mr. O'Shea—$935; Mr. Birenbaum—$935; Mr. Breslin—$883; and Mr. Wilson—$2,285.

(8)
Stock awards for Mr. Naughton in 2014 include the following: 5,093 shares of restricted stock awarded in respect of the Archstone integration; three performance unit awards consisting of 35,860 total target performance units maturing at the end of 2014, 2015, and 2016, which are subject to time-based vesting thereafter. Stock awards for Mr. Naughton in 2013 include the following: 12,597 shares of restricted stock awarded in respect of 2012 performance; 10,569 shares of restricted stock awarded in respect of the closing of the Archstone acquisition; three performance unit awards consisting of 20,061 target performance units each maturing at the end of 2013, 2014, and 2015, which are subject to time-based vesting thereafter.

In February 2014 Mr. Naughton was awarded 24,230 of target units for his 2014-2016 TSR Metrics and Operating Metrics Award. However, it had been the intention of the Compensation Committee and the independent members of the Board who qualify for service on the Compensation Committee to award 26,072 target units to Mr. Naughton for his 2014-2016 Performance Award. This error was discovered in 2015, and an additional 1,842 of 2014-2016 target units were awarded to Mr. Naughton in 2015. Had these 1,842 units been issued in February 2014, as originally intended, the amount in column (e) for Mr. Naughton for 2014 would have been increased by $216,458.

(9)
Stock awards for Mr. Sargeant in 2014 include the following: 554 shares of restricted stock awarded in respect of the Archstone integration. Stock awards for Mr. Sargeant in 2013 include the following: 5,726 shares of restricted stock awarded in respect of 2012 performance; 2,642 shares of restricted stock awarded in respect of the closing of the Archstone acquisition; three performance unit awards consisting of 8,063 target performance units each maturing at the end of 2013, 2014, and 2015, which are subject to time-based vesting thereafter.

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In connection with his retirment, Mr. Sargeant received (i) $225,000, which represented 5/12 of his 2014 target annual bonus amount of $540,000, and (ii) $437,500, which represented 5/12 of the original target dollar value used to determine the target number of units used for his 2012-2014 performance award.

(10)
Stock awards for Mr. O'Shea in 2014 include the following: 877 shares of restricted stock awarded in respect of 2013 performance; 651 shares of restricted stock awarded in respect of the Archstone integration; three performance unit awards consisting of 6,785 total target performance units maturing at the end of 2014, 2015, and 2016, which are subject to time-based vesting thereafter; two supplemental performance unit awards consisting of 2,050 total target performance units maturing at the end of 2014 and 2015, which are subject to time-based vesting thereafter.

(11)
Stock awards for Mr. Birenbaum in 2014 include the following: 1,782 shares of restricted stock awarded in respect of 2013 performance; 922 shares of restricted stock awarded in respect of the Archstone integration; three performance unit awards consisting of 9,601 total target performance units maturing at the end of 2014, 2015, and 2016, which are subject to time-based vesting thereafter. Stock awards for Mr. Birenbaum in 2013 include the following: 2,935 shares of restricted stock awarded in respect of 2012 performance; 1,972 shares of restricted stock awarded in respect of the closing of the Archstone acquisition; three performance unit awards consisting of 3,241 target performance units each maturing at the end of 2013, 2014, and 2015, which are subject to time-based vesting thereafter.

(12)
Stock awards for Mr. Breslin in 2014 include the following: 3,134 shares of restricted stock awarded in respect of 2013 performance; 954 shares of restricted stock awarded in respect of the Archstone integration; three performance unit awards consisting of 7,832 total target performance units maturing at the end of 2014, 2015, and 2016, which are subject to time-based vesting thereafter. Stock awards for Mr. Breslin in 2013 include the following: 3,374 shares of restricted stock awarded in respect of 2012 performance; 3,944 shares of restricted stock awarded in respect of the closing of the Archstone acquisition; three performance unit awards consisting of 2,822 target performance units each maturing at the end of 2013, 2014, and 2015, which are subject to time-based vesting thereafter.

(13)
Stock awards for Mr. Wilson in 2014 include the following: 5,477 shares of restricted stock awarded in respect of 2013 performance; three performance unit awards consisting of 5,383 total target performance units maturing at the end of 2014, 2015, and 2016, which are subject to time-based vesting thereafter.

Grants of Plan-Based Awards

The table below sets out the grants made to the named executive officers in 2014 under the Company's 2009 Stock Option and Incentive Plan.

Grants of Plan-Based Awards

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards: Number of Shares of Stock or Units	All Op Aw Nu Sec Un Op (#) (j)
Name (a)	Grant Date (b)	Threshold ($) (c)	Target ($) (d)	Maximum ($) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)		

								(#)(3) (i)
	2/13/2014	593,750	1,187,500	2,375,000				
	2/28/2014				12,115	24,230	48,460	
Mr. Naughton	2/28/2014				2,908	5,815	11,630	
	2/28/2014				2,908	5,815	11,630	
	2/13/2014							8,720
	4/01/2014							1,530
Mr. Sargeant	2/13/2014	270,000	540,000	1,080,000				
	2/13/2014							2,012
	4/01/2014							615
	2/13/2014	287,500	575,000	1,150,000				
	2/28/2014				2,036	4,071	8,142	
	2/28/2014				679	1,357	2,714	
Mr. O’Shea	2/28/2014				679	1,357	2,714	
	2/28/2014				513	1,025	2,050	
	2/28/2014				513	1,025	2,050	
	2/13/2014							1,830
	4/01/2014							128
	2/13/2014	357,500	715,000	1,430,000				
	2/28/2014				2,763	5,525	11,050	
Mr. Birenbaum	2/28/2014				1,019	2,038	4,076	
	2/28/2014				1,019	2,038	4,076	
	2/13/2014							3,290
	4/01/2014							247
	2/13/2014	406,250	812,500	1,625,000				
	2/28/2014				2,210	4,420	8,840	
Mr. Breslin	2/28/2014				853	1,706	3,412	
	2/28/2014				853	1,706	3,412	
	2/13/2014							4,598
	4/01/2014							215
	2/13/2014	427,500	855,000	1,710,000				
	2/28/2014				1,435	2,869	5,738	
Mr. Wilson	2/28/2014				629	1,257	2,514	
	2/28/2014				629	1,257	2,514	
	2/13/2014							5,766
	4/01/2014							121

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(1)
The amounts shown in columns (c), (d) and (e) reflect the threshold, target and maximum payment levels for 2014 under our annual bonus plan, which were established on February 13, 2014. The annual bonus is paid in cash and restricted stock except in the case of Mr. Naughton for whom the annual bonus is paid in cash only. The actual cash bonuses received by each of the named executive officers for performance in 2014, paid in 2015, are set out in column (g) of the Summary Compensation Table.

(2)
The amounts shown in columns (f), (g) and (h) reflect the threshold, target and maximum number of performance units awarded in 2014 for the performance periods 2014, 2014-2015, and 2014-2016 under the long-term incentive performance program. The grant date fair value of the 2014 and 2014-2015 performance awards related to operating metrics is based on the closing price on the grant date of $128.97. The grant date fair value of 2014-2016 awards is based on the closing price on the grant date of $128.97 for the operating metric portion of the award and the Monte Carlo value of $111.77 for the TSR metric portion of the award. For Mr. O'Shea, the amount shown also includes supplemental awards for the performance periods 2012-2014 and 2013-2015 with the grant date fair value of the awards based on the Monte Carlo value of $24.05 and $43.90, respectively.

(3)
The number of shares of restricted stock shown in column (i) granted on February 13, 2014 and April 1, 2014 represent the actual number of shares of restricted stock granted to the named executive officers, with respect to performance in 2013, and do not represent compensation for performance in 2014. With respect to all shares of restricted stock granted on February 13, 2014 and April 1, 2014 related to performance of the annual and multiyear bonus plans, 15% of the shares vested on March 1 in the year of issuance and 42.5% vested on the next two anniversaries of that date. With respect to shares of restricted stock granted on February 13, 2014 related to the integration of the Archstone acquisition, the shares vest equally in thirds on March 1 starting the year following the issuance. The shares of restricted stock, granted on February 13, 2014 and April 1, 2014 are subject to accelerated vesting (in the case of termination of employment without cause, upon death, disability or retirement, or upon a sale of the Company (as defined in the 2009 Plan)) or forfeiture of unvested shares (in the case of termination of employment for any other reason). Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of our Common Stock.

(4)
For the February 13, 2014 and April 1, 2014 grants of restricted stock, the value was calculated based on the closing price of the Common Stock on the date of grant of $128.34 and $131.27, respectively.

Outstanding Equity Awards at Fiscal Year-End

	Option Awards(1)						Stock Awards(2)		
Name	Grant Date	Number of Securities Underlying Unexercised Options: Exercisable (#)	Number of Securities Underlying Unexercised Options: Unexercisable (#)(3)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Shares or Units of Stock That Have Not Vested ($)(5)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights

				(#)			(#)(4)		That Have Not Vested (#)(6)
(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
	2/9/2006	36,148	—	—	96.19	2/9/2016			
	2/8/2007	45,363	—	—	143.34	2/8/2017			
	2/11/2008	52,161	—	—	86.40	2/11/2018			
	2/11/2009	28,724	—	—	48.60	2/11/2019			
	2/11/2010	15,015	—	—	74.20	2/11/2020			
Mr. Naughton	2/16/2011	16,683	—	—	115.83	2/16/2021	1,632	266,652	
	2/16/2012	12,401	6,201	—	132.95	2/16/2022	3,230	527,750	
	2/13/2013	9,514	19,028	—	130.23	2/13/2023	7,559	1,235,065	20,061(8)
	3/13/2013	8,878	17,756	—	126.78	3/13/2023	6,342	1,036,219	
	2/13/2014	—	—	—			5,093	832,145	
	2/13/2014	—	—	—			3,083	503,731	
	2/28/2014	—	—	—					30,045(8)
	4/01/2014	—	—	—			1,020	166,658	
Mr. Sargeant	—	—	—	—	—	—	—	—	—
	2/16/2011	—	—	—			201	32,841	
	2/16/2012	—	729	—	132.95	2/16/2022	606	99,014	
	2/13/2013	—	1,528	—	130.23	2/13/2023	607	99,178	2,697(8)
Mr. O'Shea	3/13/2013	—	8,878	—	126.78	3/13/2023	3,171	518,110	
	2/13/2014	—	—	—			651	106,367	
	2/13/2014	—	—	—			1,003	163,880	
	2/28/2014	—	—	—					5,428(8)
	4/01/2014	—	—	—			86	14,052	
	2/8/2007	5,033	—	—	143.34	2/8/2017			
	2/16/2011	—	—	—			520	84,963	
	2/16/2012	—	2,541	—	132.95	2/16/2022	1,319	215,511	
Mr. Breslin	2/13/2013	2,548	5,096	—	130.23	2/13/2023	2,025	330,865	2,822(8)
	3/13/2013	3,363	6,726	—	126.78	3/13/2023	2,367	386,744	
	2/13/2014	—	—	—			954	155,874	
	2/13/2014	—	—	—			3,098	506,182	
	2/28/2014	—	—	—					6,126(8)
	4/01/2014	—	—	—			144	23,528	

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Name	Grant Date	Option Awards(1)					Stock Awards(2)		
Name	Grant Date	Number of Securities Underlying Unexercised Options: Exercisable (#)	Number of Securities Underlying Unexercised Options: Unexercisable (#)(3)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)	Option Exercise Price ($)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(4)	Market Value of Shares or Units of Stock That Have Not Vested ($)(5)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)(6)
(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Mr. Birenbaum	11/09/2011	—	—	—			401	65,519	
	2/16/2012	708	354	—	132.95	2/16/2022	77	12,581	
	2/13/2013	2,250	4,502	—	130.23	2/13/2023	979	159,959	3,241(8)
	3/13/2013	1,681	3,363	—	126.78	3/13/2023	1,184	193,454	
	2/13/2014	—	—	—			922	150,646	
	2/13/2014	—	—	—			2,013	328,904	
	2/28/2014								7,563(8)
	4/01/2014	—	—	—			165	26,959	
Mr. Wilson	2/16/2011	—	—	—			646	105,550	
	2/16/2012	—	1,992	—	132.95	2/16/2022	1,038	169,599	
	2/13/2013	—	4,825	—	130.23	2/13/2023	1,917	313,219	1,596(8)
	2/13/2014	—	—	—			1,169	191,003	
	2/13/2014	—	—	—			3,908	638,528	
	2/28/2014	—	—	—					4,126(8)
	4/01/2014	—	—	—			81	13,235	

(1)
Stock options granted under the Company’s 1994 Stock Incentive Plan and 2009 Stock Option and Incentive Plan become exercisable in three equal installments on the first, second and third anniversaries of the date of grant. All unvested options will automatically vest upon a termination without cause, or termination by death, disability or retirement, in which case the remaining term of the option will be 12 months or, if earlier, the expiration of the original ten year term of the option.

(2)

Stock awards granted under the Company's 1994 Stock Incentive Plan and 2009 Stock Option and Incentive Plan prior to 2014 have been made in the form of Restricted Stock which vests 20% on the first day of the month following the grant, and the remaining 80% which vests over the next four years, with 20% vesting on March 1 of each year, subject to accelerated vesting in the case of termination of employment without cause, upon death, disability or retirement, or upon a change-in-control of the Company (as defined in the Plans), or forfeiture of unvested shares in the case of termination of employment for any other reason. In 2014, Annual Stock awards earned as a result of the annual and multiyear bonus plans were made in the form of restricted stock with a vesting schedule of 15% on March 1, 2014 and 42.5% on March 1 each year thereafter. Stock awards made in 2014 related to the integration of Archstone vest in thirds starting on March 1, one year after the date of the grant. In addition, in the case of Mr. Naughton vesting of restricted stock will be accelerated under certain conditions, as described in his employment agreement with the Company. Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of our Common Stock.

(3)
The table below shows the vesting schedule for all unexercisable options:

Vesting Schedule for Unexercisable Options

		Vesting Schedule	
Name	Grant Date	2015	2016
Mr. Naughton	2/16/2012	6,201	
	2/13/2013	9,514	9,514
	3/13/2013	8,878	8,878
Mr. O'Shea	2/16/2012	729	
	2/13/2013	764	764
	3/13/2013	4,439	4,439
Mr. Breslin	2/16/2012	2,541	
	2/13/2013	2,548	2,548
	3/13/2013	3,363	3,363
	2/16/2012	354	
Mr. Birenbaum	2/13/2013	2,251	2,251
	3/13/2013	1,681	1,682
Mr. Wilson	2/16/2012	1,992	
	2/13/2013	2,412	2,413

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(4)
The table below shows the vesting schedule for all unvested shares of restricted stock:

Vesting Schedule for Unvested Restricted Stock

		Vesting Schedule		
Name	Grant Date	2015	2016	2017
Mr. Naughton	2/16/2011	1,632		
	2/16/2012	1,615	1,615	
	2/13/2013	2,520	2,519	2,520
	3/13/2013	2,114	2,114	2,114
	2/13/2014	1,697	1,698	1,698
	2/13/2014	1,541	1,542	
	4/01/2014	510	510	
Mr. O’Shea	2/16/2011	201		
	2/16/2012	303	303	
	2/13/2013	202	202	203
	3/13/2013	1,057	1,057	1,057
	2/13/2014	217	217	217
	2/13/2014	501	502	
	4/01/2014	43	43	
Mr. Breslin	2/16/2011	520		
	2/16/2012	659	660	
	2/13/2013	675	675	675
	3/13/2013	789	789	789
	2/13/2014	318	318	318
	2/13/2014	1,549	1,549	
	4/01/2014	72	72	
Mr. Birenbaum	11/9/2011	401		
	2/16/2012	77		
	2/13/2013	489	490	
	3/13/2013	395	394	395
	2/13/2014	307	307	308
	2/13/2014	1,006	1,007	
	4/01/2014	82	83	
Mr. Wilson	2/16/2011	646		
	2/16/2012	519	519	
	2/13/2013	639	639	639
	2/13/2014	389	390	390
	2/13/2014	1,954	1,954	
	4/01/2014	40	41	

(5)
Based on the closing price of the Common Stock as reported on the NYSE on December 31, 2014 of $163.39 per share.

(6)
The amounts in column (i) include three performance unit awards each maturing at the end of 2015, and 2016 which are subject to time-based vesting thereafter.

(7)
The amounts in column (j) reflect the grant date fair value for awards made in 2014. The award for performance period 2013-2015 was valued using the Monte Carlo value of $43.90 per unit. The award for performance period 2014-2015 was valued using the closing price on February 28, 2014 $128.97 per unit. For the award for performance period 2014-2016, 66.6% of the award tied to TSR was valued using the Monte Carlo value of $111.77 and 33.4% of the award tied to operating metrics was valued using the closing price on February 28, 2014 of $128.97 per unit.

(8)
This amount reflects the number of earned units for the performance period 2012-2014 which convert to shares of restricted stock in 2015 and are subject to time-based vesting thereafter.

Option Exercises and Stock Vested Table

The following table identifies the number of shares underlying options exercised during 2014 for each of the named executive officers, the value realized on such exercises, the number of shares of restricted stock that vested during 2014 for each such officer and the value of such shares on the date of vesting. The
value realized upon exercise of the options is the product of (1) the closing price on the NYSE of our Common Stock on the date of exercise minus the exercise price multiplied by (2) the number of shares of Common Stock underlying the exercised options.

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Name (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#) (b)	Value Realized on Exercise ($) (c)	Number of Shares Acquired on Vesting (#) (d)	Value Realized on Vesting ($)(1) (e)
Mr. Naughton	112,868	6,607,973	10,831	1,399,720
Mr. O'Shea	10,511	192,950	2,237	288,740
Mr. Sargeant	82,848	1,583,879	17,742	2,447.646
Mr. Breslin	10,397	327,728	3,761	485,452
Mr. Birenbaum	—	—	1,797	232,217
Mr. Wilson	22,861	491,770	3,076	396,935

(1)
These shares of restricted stock vested on March 1, 2014, April 15, 2014, and December 31, 2014. The closing price of our Common Stock, as reported on the NYSE for February 29, 2014 (business day preceding March 1, 2014 vesting) was $128.97 per share. The closing price of our Common Stock, as reported on the NYSE for April 15, 2014, was $134.55 per share. The closing price of the stock, as reported on the NYSE for December 31, 2014, was $163.39 per share.

Nonqualified Deferred Compensation

Pursuant to our Deferred Compensation Plan, certain employees of the Company, including the named executive officers, may defer up to 25% of base annual salary and up to 50% of annual cash bonus on a pre-tax basis and receive a tax-deferred return on those deferrals. Deferral elections are made by eligible employees during an open enrollment period each year for amounts to be earned in the following year. Participating employees direct the deemed investment of their deferral
accounts by selecting among certain available investment funds. The table below shows the Investment Funds available under the Deferred Compensation Plan and their annual rate of return for the calendar year ended December 31, 2014. Since the Investment Funds are all publicly available, we do not consider any of the earnings credited under the Deferred Compensation Plan to be "above market."

	Name of Fund	2014 Rate of Return (%)
(1)	American Beacon Stephens Sm Cp Gr Inv	-3.36%
	American Funds EuroPacific Growth R4	-2.66%
	American Funds Fundamental Investor R4	8.90%
	Artisan Mid Cap Value Institutional	1.76%
	Cohen & Steers Realty	30.18%
	Columbia Dividend Opportunities Z	9.99%
	Fidelity Retirement Money Market	0.01%
	JP Morgan Large Cap Growth Select	10.86%
	MFS Value R3	10.29%
	PIMCO Total Return Institutional	4.69%
(1)	Royce Pennsylvania Mutual Services	-1.04%

Spartan 500 Index Adv	13.62%
T. Rowe Price Emerging Markets Stock	1.41%
T. Rowe Price Mid Cap Growth Adv	12.87%
T. Rowe Price Retirement 2005	4.72%
T. Rowe Price Retirement 2010	4.99%
T. Rowe Price Retirement 2015	5.37%
T. Rowe Price Retirement 2020	5.63%
T. Rowe Price Retirement 2025	5.84%
T. Rowe Price Retirement 2030	6.05%
T. Rowe Price Retirement 2035	6.07%
T. Rowe Price Retirement 2040	6.18%

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	T. Rowe Price Retirement 2045	6.14%
	T. Rowe Price Retirement 2050	6.19%
	T. Rowe Price Retirement 2055	6.18%
(2)	T. Rowe Price Retirement Balanced	3.91%
(3)	Vanguard Total Bond Mkt Idx Adm	5.89%
	Wells Fargo Growth Adm	3.90%

(1)
The Royce Pennsylvania Mutual Services fund was removed effective June 9, 2014 and replaced by the American Beacon Stephens Small Cap Growth fund.

(2)
This fund was previously named the T. Rowe Price Retirement Income fund.

(3)
This fund was added to the plan's investment fund options effective December 22, 2014.

Benefits under our Deferred Compensation Plan will be paid out on the earlier of the employee's death or the date six months, 66 months, or 126 months following termination of employment (depending upon the employee's properly made election), or in ten annual installments beginning in the seventh month following departure from the company, or in one lump sum (or four annual installments) on a specified date that is at least five years after the deferral year while the employee is still employed with the Company, or in the event of an "Unforeseeable Financial Emergency" as determined by our Retirement Planning Committee (a committee of management designated by the Compensation Committee of the Board of Directors) in its sole discretion and in accordance with tax law requirements.

Name	Executive Contributions in Last Fiscal Year ($)(1)	Registrant Contributions in Last Fiscal Year ($)	Aggregate Earnings in Last Fiscal Year ($)	Aggregate Withdrawals/ Distributions in Last Fiscal Year ($)	Aggregate Balance at Last Fiscal Year End ($)
(a)	(b)	(c)	(d)	(e)	(f)
Mr. Naughton	237,500	—	396,119	—	4,169,358
Mr. Sargeant	—	—	61,166	2,465,203	—
Mr. O'Shea	—	—	—	—	—
Mr. Breslin	—	—	—	—	—
Mr. Birenbaum	—	—	—	—	—
Mr. Wilson	—	—	—	—	—

(1)
All contributions in column (b) are also included as compensation to the named executive officers in the Salary column of the Summary Compensation Table.

Potential Payments Upon Termination or Sale Event

The summaries of agreements below are qualified in their entirety by reference to the complete agreements, which have been included as exhibits to the Company's filings with the SEC.

As noted in the narrative disclosure to the Summary Compensation Table above, we are a party to an employment agreement with Mr. Naughton that will expire on December 31, 2015, unless renewed by mutual agreement, and that provides for severance benefits in the event that he is terminated without cause. The employment agreement provides that it would be considered a termination without cause of Mr. Naughton if his title is reduced to below that of Chief Executive Officer or if he does not report directly to the full Board. The employment agreement also provides that it would be a default if the Company takes bad faith actions with respect to Mr. Naughton's annual compensation and bonus awards, which bad faith must be demonstrated by reference to the awards set for and awarded other officers. Mr. Naughton must provide the Company notice of such an alleged default and an opportunity to cure. In the event of such a default that is not cured, he would be entitled to terminate his employment and receive the same level of severance as in a termination without cause.

Under the employment agreement, upon a termination of Mr. Naughton's employment without cause he would be entitled to two times his "Covered Compensation," which is defined as the sum of his annual base salary plus the average of his last two annual cash bonuses as of the date of termination, unless the termination is in connection with a sale of the Company, in which case he receives three times his Covered Compensation. Mr. Naughton would also receive a cash payment representing the pro rata value of his annual bonus and long term incentive award for the portion of the year worked, valued at target. Mr. Naughton's unvested restricted stock and options would also

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vest. Severance benefits upon a sale of the Company are based on a "double trigger": Mr. Naughton must be terminated without cause following the sale in order for severance benefits to be triggered under the agreements.

The employment agreement does not provide for a tax gross up if an excise tax is imposed on the severance benefits under Section 4999 of the Internal Revenue Code of 1986, as amended (the "golden parachute tax"), but if Mr. Naughton would be better off with reduced severance benefits in order to avoid the effect of the golden parachute tax then the benefits will be reduced accordingly. The employment agreement does not provide for additional perquisites.

To receive severance benefits under the employment agreements, Mr. Naughton must enter into a separation and release agreement with the Company containing general release, confidentiality, return of property, mutual non-disparagement and a one-year employee non-solicitation provisions.

Other Severance Arrangements

Our agreements with our directors and officers governing compensatory stock option and restricted stock awards provide for immediate vesting (and, in the case of stock options, immediate exercisability) if a sale of the Company occurs. In addition, upon the retirement, death, disability or termination without cause of an employee (as defined in the award agreements under the Stock Incentive Plans) (a) all of such employee's options shall automatically become fully exercisable and (absent a specific agreement providing otherwise) shall be exercisable for one year thereafter and (b) all of such employee's restricted shares of stock shall automatically vest. Retirement of an employee as defined in the award agreements under the Plan generally means the termination of employment, other than for cause, when the sum of the following equals or exceeds 70 years: (i) the number of full months (converted to years) of employment and other business relationships with the Company and any predecessor company (must be at least 120 months) and (ii) the employee's age on the date of termination (must be at least 50 years old). To qualify for retirement, the employee must also give six months' prior written notice to us of his intention to retire and enter into a one year non-solicitation and non-competition agreement with us. Under this formula, Messrs. Naughton and Wilson are currently eligible for retirement, and Messrs. O'Shea, Birenbaum, and Breslin will become eligible for retirement in October 2019, June 2019, and December 2019, respectively. As previously announced, Mr. Sargeant retired from the Company on May 31, 2014.

We have adopted an Officer Severance Program for the benefit of officers who do not have employment agreements. Under this program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause) within 18 months of a sale of the Company (as defined) or during the six months prior to a sale of the Company, such officer will generally receive a multiple of his Covered Compensation (as defined above) depending on the officer's title: for the Chief Executive Officer, the multiple is three times, for the Chief Financial Officer or an Executive Vice President, the multiple is two times, and for other officers the multiple is one times. The terminated officer would also receive (i) a cash payment representing the pro rata value of his annual bonus and long term incentive award for the portion of the year worked, valued at target, (ii) accelerated vesting of the officer's unvested restricted stock and options, and (iii) payment of COBRA insurance premiums for up to 18 months.

In the case of our multiyear performance awards, in the event a participant's employment terminates for any reason prior to the completion of a performance period, whether with or without cause, or by reason of death or disability or voluntary departure or retirement, the participant forfeits all units with respect to that performance period, except that for awards with a performance period that begins after January 1, 2015, upon a "qualifying termination" following one full year of employment during a three-year Performance Period , a pro rata portion of the award will vest and will be settled in fully vested shares of Common Stock after the end of the Performance Period to the extent the performance goals are achieved. A qualifying termination means a separation of employment due to death, disability, Retirement, or a termination without cause at a time when the age and service requirements for Retirement eligibility are met. If a sale of the Company occurs during a performance period, (i) if there is more than 12 months remaining in the performance period, all units with respect to that performance period are forfeited (unless the successor makes other arrangements for their continuation), and (ii) if there is less than 12 months remaining in the performance period, the performance period is deemed complete on the date of sale and achievement against the performance metrics is measured through the date of sale, with no proration on account of the shortened performance period and with vested

stock (or options) issued in settlement of any units earned.

Endorsement Split Dollar Agreements

The Company owns a whole-life insurance policy with respect to Mr. Naughton in the amount of $1,500,000. The Company has endorsed this Company-owned policy such that in the event of the death of the insured, the Company will be paid insurance proceeds equal to the cumulative premiums paid on the policy by the Company, with excess insurance proceeds being paid to the insured's estate or named beneficiary. The Company has agreed to (i) pay the premiums due on the policy through 2017 (provided that the insured pays a portion of the premium equal to the current term rate for the insured's age multiplied by the insured's current interest in the policy), (ii) after the last Company payment, withdraw cash from the policy equal to the cumulative premiums paid and (iii) thereafter assign the policy to the insured. The Company will cease making premium payments, and will

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withdraw an amount from the cash surrender value of the policy equal to the lesser of the cumulative premiums or the cash surrender value earlier than 2017, in the event of the insured's termination for cause or voluntary resignation without a constructive termination. In such case the policy will be reduced to a fully paid-up whole-life insurance policy.

Severance Benefits

The tables below, together with the footnotes thereto and the additional information below, reflect the payments and benefits that the named executive officers would receive in the event of their termination of employment with the Company on December 31, 2014, under the indicated circumstances.

Timothy J. Naughton, Chairman, Chief Executive Officer and President

Executive Benefits and Payments Upon Termination	For Cause or Voluntary ($)	Termination Without Cause (Unrelated to a Sale Event) ($)	Death ($)	Termination Without Cause (Related to a Sale Event) ($)
A Severance (Cash)	—	4,819,101(1)	—	7,228,652(2)
B Life Insurance	29,945(3)	65,072(4)	(5)	65,072(4)

Kevin P. O'Shea, Chief Financial Officer

Executive Benefits and Payments Upon Termination	For Cause or Voluntary ($)	Termination Without Cause (Unrelated to a Sale Event) ($)	Death ($)	Termination Without Cause (Related to a Sale Event) ($)
A Severance (Cash)	—	—	—	1,439,597(6)
B Life Insurance	—	—	—	—

Matthew H. Birenbaum, Chief Investment Officer

Executive Benefits and Payments Upon Termination	For Cause or Voluntary ($)	Termination Without Cause (Unrelated to a Sale Event) ($)	Death ($)	Termination Without Cause (Related to a Sale Event) ($)
A	—	—	—	1,662,931(6)

Severance (Cash)				
B Life Insurance	—	—	—	—

Sean J. Breslin, Chief Operating Officer

Executive Benefits and Payments Upon Termination	For Cause or Voluntary ($)	Termination Without Cause (Unrelated to a Sale Event) ($)	Death ($)	Termination Without Cause (Related to a Sale Event) ($)
A Severance (Cash)	—	—	—	1,705,620(6)
B Life Insurance	—	—	—	—

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Stephen Wilson, Executive Vice President

Executive Benefits and Payments Upon Termination	For Cause or Voluntary ($)	Termination Without Cause (Unrelated to a Sale Event) ($)	Death ($)	Termination Without Cause (Related to a Sale Event) ($)
A Severance (Cash)	—	—	—	1,632,152(6)
B Life Insurance	—	—	—	—

Footnotes for all tables above:

(1) In accordance with the terms of his employment agreement, represents two times Covered Compensation for Mr. Naughton.

(2) In accordance with the terms of his employment agreement, represents three times Covered Compensation for Mr. Naughton.

(3) Represents the cash surrender value of the policy less the total aggregate premiums paid by the Company. The Company will recover its premiums in the future.

(4) Represents the estimated present value of three years of future premiums paid by the Company on the whole-life portion of a split-dollar life insurance policy. The Company will recover its premiums in the future.

(5) Upon death, (i) the officer's estate will receive a death benefit under a life insurance policy owned by the Company in the amount of $1.5 million with respect to Mr. Naughton and (ii) the Company will receive repayment of all premiums paid by the Company.

(6) In accordance with the terms of the Company's Officer Severance Plan, represents two times Covered Compensation (base salary and the average of the prior two year's cash bonuses) for Messrs. O'Shea, Birenbaum, Breslin and Wilson.

The following benefits apply generally to all similarly situated employees and are not included in the tables above:

- Upon a termination of any employee's employment without cause or upon death, disability or retirement of the employee (as defined in the 2009 Plan), all unvested shares of restricted stock held by an employee will immediately vest. The full value of the shares of restricted stock for which vesting would accelerate upon a termination on December 31, 2014 of each of the named executive officers (other than Mr. Sargeant, who retired on May 31, 2014), based on a closing price of $163.39 on December 31, 2014 is: Mr. Naughton—$4,567,974; Mr. O'Shea—$1,033,442; Mr. Breslin — $1,703,668; Mr. Birenbaum—$938,022; and Mr. Wilson—$1,240,130.

- Upon a termination of any employee's employment upon a sale of the Company (as defined in the 2009 Plan), all unvested shares of restricted stock held by an employee will immediately vest. This includes stock issued in settlement of units earned for performance periods with less than 12 months remaining at the time of the sale event. The full value of the shares of restricted stock for which vesting would accelerate upon a termination on December 31, 2014 of each of the named executive officers (other than Mr. Sargeant, who retired on May 31, 2014), based on a closing price of $163.39 on December 31, 2014 is: Mr. Naughton—$13,528,445; Mr. O'Shea—$2,506,893; Mr. Breslin—$3,378,905; Mr. Birenbaum—$2,898,865; and Mr. Wilson—$2,324,059. This amount includes stock issued in connection with performance awards whose performance periods end on December 31, 2014 and December 31, 2015.

- All unvested employee stock options provide for accelerated vesting upon termination of employment without cause or upon death, disability, retirement, or a sale of the Company (as defined in the 2009 Plan). The full in the money value of unvested options for which vesting would accelerate upon a termination on December 31, 2014 of each of the named executive officers (other than Mr. Sargeant, who retired on May 31, 2014) is: Mr. Naughton—$1,469,774; Mr. O'Shea—$397,883; Mr. Breslin — $492,570; Mr. Birenbaum—$283,182; and Mr. Wilson—$220,663.

- Upon a termination of any employee's employment due to retirement, the employee will receive the following:

- For six months, the Company will pay the employee's premium due for insurance benefits extended under COBRA.

- Pro-rated annual bonus.

- The employee may choose a gift from an on-line catalogue of retirement gifts.

- For multiyear performance awards whose performance period begins on or after January 1, 2015, upon a "qualifying termination" following one full year of employment during a three-year Performance Period , a pro rata portion of a

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performance award will vest and will be settled in fully vested shares of Common Stock after the end of the Performance Period to the extent the performance goals are achieved. A qualifying termination means a separation of employment due to death, disability, Retirement, or a termination without cause at a time when the age and service requirements for Retirement eligibility are met.

To receive retirement benefits, the officer must give six months' prior written notice to the Company of his intention to retire and enter into a one year non-solicitation and non-competition agreement.

- If any employee's employment terminates on or after the end of the calendar year for any reason other than for cause, the Company would compensate that individual with the annual cash bonus and the cash value of the annual restricted stock award that would have been paid to that employee in February or March of the following year. Accordingly, the value of the annual cash bonus and annual restricted stock award earned by the Named Executive Officers in respect of 2014 service is not included in the table above (but is described elsewhere in this Proxy Statement). For Mr. Naughton, if such a termination occurred in the middle of the year, he would receive a prorated portion of such amount (at target) under the terms of his employment agreement. Under the Company's Officer Severance Plan, in the event of such a termination in connection with a sale of the Company, Messrs. O'Shea, Breslin, Birenbaum and Wilson would receive a prorated portion of such amount (at target).

Director Compensation and Director Stock Ownership Guidelines

A director of the Company who is also an employee receives no additional compensation for his services as a director. Our Board and Nominating Committee periodically assess the total compensation for non-employee directors relative to the compensation provided by similarly sized real estate investment trusts, by our multi-family peer group, and by a group of cross-industry similarly sized companies.

On the fifth business day following each annual meeting of stockholders, each of our non-employee directors automatically receives a grant of a number of shares of restricted stock (or a deferred stock award in lieu thereof) equal to $125,000 ($130,000 beginning with the 2015 Annual Meeting) divided by the closing price of Common Stock as reported by the NYSE on the date of grant. Based on this formula, following the 2014 Annual Meeting, each non-employee director serving at the time received a restricted stock or deferred stock grant of 891 shares of Common Stock. Mr. Havner received a prorated award on October 15, 2014, of 565 shares for his service as a non-employee director from September 16, 2014 through May 21, 2015. All of such shares of restricted stock (or deferred stock awards) granted to non-employee directors vest in four quarterly installments over a one year period, subject to accelerated vesting upon departure from the Board except in the case of a voluntary departure by the director during his elected term that is not due to death or disability, or the director's removal for cause. If a director elected to receive a deferred stock award in lieu of restricted stock, then the director will receive shares of stock in respect of the vested portion of the deferred stock award within 30 days following termination of service as a director of the Company.

In addition, during 2014 non-employee directors received an annual cash retainer of $60,000 paid in four quarterly installments of $15,000 each. Beginning after the 2014 Annual Meeting, in addition to such annual cash retainer, non-employee directors who serve as the chairperson of the Audit, Compensation, Nominating, or Investment and Finance Committees received additional cash compensation of $10,000 per year, payable in four installments of $2,500 each (or a deferred stock award in lieu of cash).

In consideration for serving as Lead Independent Director, Mr. Primis received, in addition to the compensation described above, an annual fee of $30,000, payable in equal quarterly installments of $7,500. This amount was reduced to $25,000 per year payable at the rate of $6,250 per quarter after the 2014 Annual Meeting (but Mr. Primis received the additional compensation described above for serving as the chair of the Nominating Committee).

A non-employee director may elect to receive all or a portion of the cash portion of his or compensation for service as a director in the form of a deferred stock award equal to the cash payment amount divided by the last reported price on the NYSE on the date of grant.

With regard to the vesting of shares awarded to non-employee directors after the 2014 Annual Meeting and the payment of cash (or deferred stock awards in lieu of cash) after the 2014 Annual Meeting, the first three quarterly vesting and payments occur on September 1, December 1, and March 1 and the fourth and final vesting and payment will occur on the business day immediately preceding the next annual meeting of stockholders.

Under the Company's Corporate Governance Guidelines, non-employee directors are generally required to hold shares having a value that equals or exceeds five times the annual cash retainer paid to non-employee directors. This was a general guideline that was restated as a requirement for service as a director pursuant to an amendment to the Company's Corporate Governance Guidelines, and directors have five years from the date of such amendment (or, if later, five years from the commencement of their service as a director) to comply with such requirement.
The following table sets forth the compensation for service as a director of the Company received by each non-employee director in 2014, as recognized for financial reporting purposes. Mr. Brown is not included in the table as his service as a director began January 1, 2015.

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Director Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name	Fees Earned or Paid in Cash ($)(1)	Stock Awards ($)(2)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All other Compensation ($)(3)	Total ($)
Glyn F. Aeppel	55,000	125,061	—	—	—	—	180,061
Alan B. Buckelew	55,000	125,061	—	—	—	7,698	187,759
Bruce A. Choate	55,000	125,061	—	—	—	—	180,061
Ronald L. Havner, Jr.(4)	—	97,039	—	—	—	—	97,039
John J. Healy, Jr	—	180,018	—	—	—	589	180,607
Lance R. Primis	85,417	125,061	—	—	—	8,732	219,210
Peter S. Rummell	60,000	125,061	—	—	—	8,732	193,793
H. Jay Sarles	60,000	125,061	—	—	—	8,732	193,793
W. Edward Walter	60,000	125,061	—	—	—	8,732	193,793

(1)
For Mr. Primis, this includes $30,417 paid in 2014 for his service as Lead Independent Director during 2014. For Messrs. Primis, Rummell, Sarles, and Walter, this includes payment for service as Committee Chairperson.

(2)
The amounts in column (c) reflect the grant date fair value of the shares of restricted stock or deferred stock granted to each Director on May 29, 2014 equal to $125,000 divided by the closing price of Common Stock as reported by the NYSE on the date of grant. The value was calculated based on the closing price of the Common Stock on the date of grant of $140.36. (Mr. Havner received a prorated grant upon joining the Board in September 2014.) Mr. Havner's and Mr. Healy's stock award amounts also include their election to receive cash payments totaling $12,452 and $54,957, respectively, in the form of deferred units.

(3)
The amounts in column (g) reflect dividends paid on restricted stock. Directors may elect deferred stock awards in lieu of restricted stock. Dividends on deferred stock are automatically invested in the director deferred stock plan as additional deferred stock based on reinvestment at the closing price of the Common Stock on the dividend payment date. The value of reinvested dividends in 2014 on both unvested deferred stock awards and vested deferred stock awards for directors with deferred stock units were as follows: Glynn Aeppel—$6,464, Bruce Choate—$202,988, John Healy—$180,932, Peter Rummell—$7,145, and Ed Walter—$10,927.

(4)
Mr. Havner began serving on the Board of Directors on September 16, 2014.

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V. Officers, Stock Ownership And Other Information

Executive and Senior Officers

The following biographical descriptions set forth information with respect to each officer who is at the executive vice president level or above or who is subject to reporting under Section 16 of the Exchange Act. based on information furnished to the Company by each officer. There is no family relationship between any director, nominee, or executive officer of the Company. Officers of the Company are elected annually at the first meeting of the Board of Directors following each annual meeting of stockholders. Each officer holds office until the first meeting of the Board of Directors following the next annual meeting of stockholders and until his or her successor is duly elected and qualifies or until his or her earlier death, resignation or removal in the manner provided in the Company's Bylaws.

The Board of Directors has determined that Messrs. Naughton, O'Shea, Birenbaum, Breslin, Horey, McLaughlin, O'Shea, Schulman, and Wilson, and Ms. Shea are executive officers of the Company within the meaning of Rules 3b-7 and 16a-1(f) of the Exchange Act.

Mr. Naughton, 53, is the Company's Chairman, Chief Executive Officer and President and has been a director of the Company since September 2005. He has served as Chairman of the Board since May 2013, as Chief Executive Officer since January 2012, and as President since February 2005. Previously, Mr. Naughton served as Chief Operating Officer February 2001 to February 2005. Prior to assuming the Chief Operating Officer role, Mr. Naughton served as Senior Vice President—Chief Investment Officer, and prior to that served as the Company's Regional Vice President—Development and Acquisitions, with responsibility primarily in the Mid-Atlantic and Midwest regions of the country. Mr. Naughton has been with the Company or its predecessors since 1989. Mr. Naughton has served on the board of directors of Health Care REIT since December 2013, serves as an officer of NAREIT, is a member of The Real Estate Round Table, is a member and past chairman of the Multifamily Council of ULI, and is a member of the National Multi-Housing Council ("NMHC"), where he serves on the Executive Committee. Mr. Naughton received his Masters of Business Administration from Harvard Business School in 1987 and earned his undergraduate degree in Economics with High Distinction from the University of Virginia, where he was elected to Phi Beta Kappa.

Kevin P. O'Shea, 49, has been the Company's Chief Financial Officer since June 2015. Prior to that he was Executive Vice President—Capital Markets, from January 2013 to May 2015 and Senior Vice President—Investment Management after joining the Company in July 2003. Prior to joining the Company, Mr. O'Shea was an Executive Director at UBS Investment Bank, where his experience included real estate investment banking. Earlier in his career, Mr. O'Shea practiced commercial real estate and banking law as an attorney. Mr. O'Shea received his Masters Degree in Business Administration from Harvard Business School, his J.D. from Southern Methodist University and his undergraduate degree from Boston College. Mr. O'Shea serves as a Trustee of Urban Edge Properties, where he serves as the Chair of the Audit Committee.

Matthew H. Birenbaum, 49, became the Company's Chief Investment Officer in January 2015. He is responsible for the Company's investment strategy and oversees the Investments, Design, Sustainability and Market Research functions. Before assuming his current position, he was the Company's Executive Vice President—Corporate Strategy, a position he held from October 2011 until January 2015. Prior to joining the Company in October 2011, Mr. Birenbaum was the founding principal of Abbey Road Property Group, LLC, a multi-family development and investment firm based in Arlington, Virginia since 2006 and before that a Senior Vice President at EYA (formerly Eakin/ Youngentob Associates). Prior to joining EYA in 2003, Mr. Birenbaum was a Regional Vice President of Development with the Company. Mr. Birenbaum received his Bachelor of Arts from Brown University, where he graduated Phi Beta Kappa, and his Masters Degree from The Kellogg Graduate School of Management at Northwestern University, where he graduated with honors. He is an active member of ULI and is certified LEED-AP, and serves on the Board of the Arlington Partnership for Affordable Housing (APAH).

Sean J. Breslin, 48, is the Company's Chief Operating Officer, a position he has held since January 2015, with responsibility for the Company's Asset Management platform, including Property Operations, Asset Management , Engineering and Redevelopment. He was previously the Company's Executive Vice President—Investments and Asset Management since April 2012 with overall responsibility for the Company's investment platform, including property operations, asset management and redevelopment, and investment activity, including acquisition and dispositions. Mr. Breslin was responsible for the Company's investment and redevelopment platforms during 2010-2011, and was

the Senior Vice President—Redevelopment and Asset Management beginning in 2008, and Senior Vice President—Investments from 2006 through 2007. Mr. Breslin joined the Company as Vice President—Investments in 2002 and prior to that was the Chief Operating Officer of CWS Capital Partners. He received his Bachelors Degree from California State University, Long Beach and his Masters of Business Administration from the University of Texas. Mr. Breslin is a member of the Executive Committee of NMHC and is Chair of ULI’s Multifamily Council. He is also a member of the Executive Committee of the Real Estate Finance & Investment Center at the University of Texas at Austin.

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Michael M. Feigin, 54, is the Company's Chief Construction Officer. Prior to joining the Company in June 2014, he was Corporate Vice President Global Procurement and Travel for AECOM, an engineering and construction services company, from May 2012 to May 2014. Before that he was SVP Corporate Operations at AECOM from January 2012 to May 2012, SVP General Counsel at Weeks Marine from May to August 2011 and Managing Director for Navigant Consulting from September 2010 to May 2011, working with clients to manage risk in their organizations. Prior to that, from September 2006 to December 2009 he was Global Construction Industry Practice Leader for Marsh, an insurance broker and risk advisor. From October 2005 to September 2006, Mr. Feigin served as Executive Vice President and Chief Administration Officer of Bovis Lend Lease Holdings, Inc. (now Lend Lease Americas) where he was responsible for commercial risk management and deal approval, legal, insurance and bonding, human resources, information technology and cororate affairs. Mr. Feigin earned his BA from Yale University and his JD from Brooklyn Law School.

Leo S. Horey, 52, is the Company's Chief Administrative Officer. He has held this title since April 2012 and was Executive Vice President—Property Operations prior to that from January 2004. Mr. Horey was Senior Vice President—Property Operations from February 2001 through December 2003. Prior to assuming that office, Mr. Horey served since 1998 as Regional Vice President—Property Operations. Prior to 1998, Mr. Horey served since 1994 as Vice President—Property Operations for Avalon Properties. Previously, Mr. Horey had worked for Trammell Crow Residential since 1990. Mr. Horey received his Masters of Business Administration from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill, where he was a Richard H. Jenrette Fellow and currently serves on the Board of Visitors. He also holds a Bachelor of Science degree in Computer Science and Economics from Duke University. Mr. Horey is a member of the Executive Committee of NMHC.

William M. McLaughlin, 50, is the Company's Executive Vice President—Development, with responsibility for all of the Company's development activity in the Northeast, including New England, New York and New Jersey. He was Executive Vice President—Development and Construction from February 2010 until 2014 and prior to that was Senior Vice President—Development & Construction since 2009. He has been with the Company or its predecessors since 1994, and has
also served as Senior Vice President—Development and Vice President—Development. Before joining the Company, Mr. McLaughlin was with Lincoln Property Company. Mr. McLaughlin received his Bachelors Degree in Economics from Harvard College in 1986.

Edward M. Schulman, 52, is the Company's Executive Vice President—General Counsel and Secretary. Mr. Schulman joined the Company in February 1999 and has served as General Counsel since that time. Prior to joining the Company he was a corporate and securities law partner at Goodwin Procter LLP. Mr. Schulman is a magna cum laude graduate of Harvard Law School and received his undergraduate degree in economics from Princeton University, where he graduated with high honors.

Stephen W. Wilson, 58, is the Company's Executive Vice President—Development, with responsibility for all development activities for the West Coast, including Northern California, Southern California and the Pacific Northwest, as well as the Mid-Atlantic region. He was Executive Vice President— Development and Construction from February 201 until 2014, and prior to that was Senior Vice President—Development & Construction for the West Coast and Mid-Atlantic. Mr. Wilson has also served as Senior Vice President—Development and Vice President—Development. Prior to joining the Company in 1998, Mr. Wilson was a Senior Vice President and Chief Operating Officer for SU Development, Inc. of Bellevue, Washington and Senior Vice President of Continental Pacific, Inc. of Bellevue, Washington. Mr. Wilson received his B.A. in Business Administration (Accounting) from Washington State University. He is a member of ULI, chair of the ULI Transit Oriented Development Council, and a member of The American Institute of Certified Public Accountants.

Keri A. Shea, 45, has been the Company's Senior Vice President—Finance & Treasurer since 2013, and since 2009 has also been designated as the Company's principal accounting officer. Ms. Shea joined the Company in 2002 as Assistant Corporate Controller and was promoted to Corporate Controller in 2005 and Vice President in 2006. Prior to joining the Company, she served as the Corporate Controller for two start-up technology companies in the Washington, D.C. area. Prior to that Ms. Shea was with Arthur Andersen LLP for eight years. She is a certified public accountant and has a B.B.A. in Accounting from the College of William & Mary.

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Security Ownership of Certain Beneficial Owners and Management

The following table sets forth the beneficial ownership of Common Stock as to (i) each person or entity who is known by the Company to have beneficially owned more than 5% of the Common Stock as of March 1, 2015; (ii) each of the Company's directors and Nominees as of March 1, 2015; (iii) each of the Named Executive Officers as of March 1, 2015; and (iv) all directors and executive officers as a group as of March 1, 2015, based on representations of officers and directors of the
Company and filings through March 2015 received by the Company on Schedule 13G under the Exchange Act. All such information was provided by the stockholders listed and reflects their beneficial ownership known by the Company. All percentages have been calculated as of March 1, 2015 and are based upon 132,178,292 shares of Common Stock outstanding at the close of business on such date (unless otherwise indicated).

Name and Business Address of Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned(2)	Percent of Class (%)
Glyn F. Aeppel	1,901(3)	*
Matthew H. Birenbaum	35,644(4)	*
Sean J. Breslin	53,731(5)	*
Terry Brown	335(6)	*
Alan B. Buckelew	3,373	*
Bruce A. Choate	65,868(7)	*
Ronald Havner, Jr.	735(8)	*
John J. Healy, Jr.	42,898(9)	*
Timothy J. Naughton	398,098(10)	*
Kevin O'Shea	23,723(11)	*
Lance R. Primis	15,312	*
Peter S. Rummell	9,242(12)	*
H. Jay Sarles	17,903(13)	*
W. Edward Walter	7,796(14)	*
Stephen Wilson	34,870(15)	*
All current directors and executive officers as a group (19 persons)	940,898(16)	0.01
The Vanguard Group, Inc. 100 Vanguard Blvd., Malvern, PA 19355	20,030,284(17)	15.17
BlackRock, Inc. 55 East 52nd Street, New York, NY 10022	12,208,786(18)	9.2
Vanguard Specialized Funds-Vanguard REIT Index Fund 100 Vanguard Blvd., Malvern PA 19355	9,738,075(18)(19)	7.37
Invesco Ltd., 1555 Peachtree Street, NE, Atlanta, GA 30309	6,814,654(18)(20)	5.2

*
Less than one percent

(1)

The address for all directors and executive officers is AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203.

(2)
Except as otherwise noted, each individual in the table above has the sole voting and investment power over the shares listed.

(3)
Includes 1,901 shares issuable in the future under deferred stock awards granted to Ms. Aeppel in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(4)
Includes 8,925 shares issuable upon the exercise of stock options that vest on or before May 1, 2015.

(5)
Includes 19,396 shares issuable upon the exercise of stock options that vest on or before May 1, 2015.

(6)
Includes 335 shares issuable in the future under deferred stock awards granted to Mr. Brown in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(7)
Includes (i) 46,246 shares issuable in the future under deferred stock awards granted to Mr. Choate in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan and (ii) 19,622 shares held jointly with spouse.

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(8)
Includes 735 shares issuable in the future under deferred stock awards granted to Mr. Havner in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(9)
Includes 41,580 shares issuable in the future under deferred stock awards granted to Mr. Healy in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(10)
Includes 249,480 shares issuable upon the exercise of stock options that vest on or before May 1, 2015.

(11)
Includes 5,932 shares issuable upon the exercise of stock options that vest on or before May 1, 2015.

(12)
Includes 1,612 shares issuable in the future under deferred stock awards granted to Mr. Rummell in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(13)
Includes 16,340 shares held in a revocable trust.

(14)
Includes 2,466 shares issuable in the future under deferred stock awards granted to Mr. Walter in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

(15)
Includes 4,404 shares issuable upon the exercise of stock options that vest on or before May 1, 2015.

(16)
Includes (i) 376,963 shares issuable upon the exercise of stock options that vest on or before May 1, 2014, (ii) 93,228 shares issuable in the future under deferred stock awards, and (iii) 19,603 shares held in trust.

(17)
The number of shares and percentage ownership reported is based on a Schedule 13GA filed on February 11, 2015, reporting beneficial ownership as of December 31, 2014. The Schedule 13GA indicates that the reporting entity holds sole voting power with respect to 405,889 shares, shared voting power with respect to 106,937 shares, sole dispositive power with respect to 19,692,210 shares, and shared dispositive power with respect to 338,074 shares.

(18)
The number of shares and percentage ownership reported is based on a Schedule 13GA filed on January 13, 2015, reporting beneficial ownership as of December 31, 2014. The Schedule 13GA indicates that the reporting entity holds sole voting power with respect to 11,095,921 shares and sole dispositive power with respect to 12,208,786 shares.

(19)
This amount is included in the reported ownership of The Vanguard Group described in the table and in footnote 17 above. The number of shares and percentage ownership reported is based on Schedule 13G filed with the SEC on February 6, 2015 reporting beneficial ownership as of December 31, 2014. The Schedule 13G also reports that the reporting entity holds sole voting power with respect to all reported shares.

(20)

The number of shares and percentage ownership reported is based on a Schedule 13GA filed January 30, 2015, reporting beneficial ownership as of December 31, 2014. The Schedule 13GA indicates that the reporting entity holds sole voting power with respect to 3,910,944 shares, and sole dispositive power with respect to 6,814,654 shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires persons who are officers of the Company as defined by Section 16, directors of the Company and persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Insiders") to file reports of ownership and changes in ownership with the SEC and one national securities exchange on which such securities are registered. In accordance with Rule 16a-3(c) under the Exchange Act, the Company has designated the NYSE as the national securities exchange with which reports pursuant to Section 16(a) of the Exchange Act need to be filed. Insiders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of copies of such reports and written representations that no other reports were required during the fiscal year ended December 31, 2014, all filing requirements applicable to the Insiders were timely satisfied, with the exception of a Form 4 filed on behalf of Mr. Sargeant reporting the exercise of 2,210 stock options, and the related transfer of 1,420 shares of stock to the Company to pay for the exercise of such options, on May 27, 2014. Mr. Sargeant retired from the Company on May 31, 2014, and the Form 4 was filed on June 12, 2014.

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VI. Other Matters

Solicitation of Proxies

The cost of solicitation of proxies for the Annual Meeting will be paid by the Company. In addition to the solicitation of proxies by mail, the directors, officers and employees of the Company may also solicit proxies personally or by telephone without additional compensation for such activities. The Company will also request persons, firms, and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from such
beneficial owners. The Company will reimburse such holders for their reasonable expenses. The Company has engaged Morrow & Co., LLC, 470 West Ave, Stamford, CT 06902, a third party proxy solicitation firm. We anticipate that the cost of such third party proxy solicitation, which will be borne by the Company, will be approximately $9,500 plus reasonable out-of-pocket expenses.

Stockholder Proposals for Annual Meetings

Stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 for inclusion in the Company’s proxy statement and form of proxy for the 2016 Annual Meeting of Stockholders must be received by the Company by December 12, 2015. Such a proposal must also comply with the requirements as to form and substance established by the SEC for such a proposal to be included in the proxy statement and form of proxy.

In accordance with our Bylaws, as currently in effect, for a stockholder to nominate a director or for a proposal of a stockholder to be presented at the Company’s 2016 Annual Meeting of Stockholders, other than a stockholder proposal intended to be included in our proxy statement and submitted pursuant to Rule 14a-8 of the Exchange Act, a stockholder’s notice must be delivered to, or mailed and received at, the principal executive offices of the Company, together with all supporting documentation required by the Company’s Bylaws,
(A) not prior to November 12, 2015 nor later than 5:00 p.m., Eastern Time, on December 12, 2015 or (B) in the event that the date of the 2015 Annual Meeting of Stockholders is advanced or delayed by more than 30 days from May 21, 2016, (i) not earlier than the 150th day prior to the date of that meeting, and (ii) not later than 5:00 p.m., Eastern Time, on the later of (x) the 120th day prior to the date of that meeting or (y) the 10th day following the day on which public announcement of such annual meeting is first made. You may contact the Company’s Secretary at the address mentioned below for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates. Any such proposals should be mailed to: AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, Attention: Secretary.

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AVALONBAY COMMUNITIES, INC. BALLSTON TOwEr671 N. GLEBE rOAd, SUITE 800ArLINGTON, VA 22203Please take a moment now to authorize a proxy to vote these shares of AvalonBay Communities, Inc. common stock at the 2015 Annual Meeting of Stockholders.YOU CAN AUTHORIZE A PROXY TO VOTE THESE SHARES TODAY IN ONE OF THREE WAYS:BY INTERNET—www.proxyvote.comUse the Internet to authorize your proxy and transmit your voting instructions and for electronicdelivery of information up until 11:59 P.M. Eastern Time the day before the meeting date.Have your proxy card in hand when you access the web site and follow the instructions toobtain your records and to create an electronic voting instruction form.ELECTRONIC DELIVERY OF FUTURE STOCKHOLDER COMMUNICATIONSIf you would like to reduce the costs incurred by AvalonBay Communities, Inc. in mailing proxymaterials, you can consent to receiving all future proxy statements, proxy cards and annualreports electronically via e-mail or the Internet. To sign up for electronic delivery, please followthe instructions above to authorize your proxy using the Internet and, when prompted, indicatethat you agree to receive or access stockholder communications electronically in future years.BY PHONE - 1-800-690-6903Use any touch-tone telephone to authorize your proxy and transmit your voting instructionsup until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card inhand when you call and then follow the instructions.BY MAILMark, sign and date your proxy card and return it in the postage-paid envelope we haveprovided or return it to AvalonBay Communities, Inc., c/o Broadridge, 51 Mercedes Way,Edgewood, NY 11717. If you authorize a proxy to vote these shares by internet or telephoneyou do NOT need to mail this proxy card.TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS:M87075-P61513KEEP THIS PORTION FOR YOUR RECORDSTHIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.DETACH AND RETURN THIS PORTION ONLYAVALONBAY COMMUNITIES, INC.For Withhold For AllTo withhold authority to vote for any individualTHE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSALS 1, 2 and 3 AND A VOTE "AGAINST" PROPOSALSAllAllExceptnominee(s), mark “For All Except” and write the number(s) of the nominee(s) on the line below.4 and 5.1. To elect the following ten individuals to serve until the2016 Annual Meeting of Stockholders and until theirrespective successors are elected and qualify:! ! ! 01) Glyn F. Aeppel02) Terry S. Brown03) Alan B. Buckelew04) Ronald L. Havner, Jr.05) John J. Healy, Jr.06) Timothy J. Naughton07) Lance R. Primis08) Peter S. Rummell09) H. Jay Sarles10) W. Edward WalterFor Against Abstain2. To ratify the selection of Ernst & Young LLP as the Company’s independent auditors for the year ending December 31, 2015. ! ! !3. To adopt a resolution approving, on a non-binding advisory basis, the compensation paid to the Company’s Named Executive Officers, as disclosed pursuant toItem 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion set forth in the proxy statement.4. To adopt a stockholder proposal, if properly presented at the meeting, that the Board of Directors adopt, and present for stockholder approval, a "proxy access" bylaw. ! ! !5. To adopt a stockholder proposal, if properly presented at the meeting, that the Board of Directors adopt a policy addressing the separation of the roles ! ! !of CEO and Chairman.In addition, the proxies are authorized to vote and otherwise represent the undersigned on any other matter that may properly come before the AnnualMeeting or any adjournment or postponement thereof in the discretion of the proxy holder.If you authorize a proxy by mail, you must date, sign and return this card in order for these shares to be voted.Yes No Yes NoPlease indicate if you plan to attend this meeting.HOUSEHOLDING ELECTION—Please indicate if you consent to receive certain future investor communications in a single package per household.Please sign exactly as your name appears on this card and date. When signing as attorney, executor, administrator, trustee, guardian, officer of a corporation or other entity or in another representative capacity, please give your full title. If shares are held jointly, each holder should sign.Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owner) Date

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Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:The Notice, Proxy Statement and Annual Report to Stockholders are available at www.proxyvote.com.M87076-P61513AVALONBAY COMMUNITIES, INC.2015 ANNUAL MEETING OF STOCKHOLDERS, MAY 21, 2015, 8:00 A.M. LOCAL TIME THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS PROXYThe undersigned stockholder of AvalonBay Communities, Inc., a Maryland corporation (the “Company”), hereby appoints Timothy J. Naughton and Kevin P. O'Shea, and each of them, as proxies for the undersigned, each with full power of substitution, to

attend the Annual Meeting of Stockholders of the Company (the “Annual Meeting”), to be held at The Resort at Pelican Hill, 22701 Pelican Hill Road South, Newport Coast, CA 92657 on May 21, 2015, 8:00 a.m. local time, and any adjournments or postponements thereof, to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Annual Meeting and otherwise to represent the undersigned with all of the powers the undersigned would possess if personally present at the Annual Meeting. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Stockholders and of the Proxy Statement, the terms of each of which are incorporated herein by reference, and revokes any proxy heretofore given with respect to the Annual Meeting.IF THIS PROXY IS PROPERLY EXECUTED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST AS DIRECTED HEREIN, BUT IF THIS PROXY IS EXECUTED AND NO INSTRUCTIONS ARE SPECIFIED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST “FOR” EACH OF THE NOMINEES FOR DIRECTOR IN PROPOSAL 1 AND "FOR" PROPOSALS 2 AND 3, AND "AGAINST" PROPOSALS 4 AND 5. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF, INCLUDING WHETHER OR NOT TO ADJOURN THE ANNUAL MEETING, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST BY THE PROXIES IN THEIR DISCRETION. AT THE PRESENT TIME, THE BOARD OF DIRECTORS IS NOT AWARE OF ANY OTHER BUSINESS TO BE PRESENTED AT THE ANNUAL MEETING. THIS PROXY ALSO CONFERS DISCRETIONARY AUTHORITY ON THE PROXIES TO VOTE WITH RESPECT TO THE ELECTION OF ANY INDIVIDUAL AS DIRECTOR WHERE ONE OR MORE NOMINEES ARE UNABLE TO SERVE, OR FOR GOOD CAUSE WILL NOT SERVE, AND WITH RESPECT TO MATTERS INCIDENTAL TO THE CONDUCT OF THE ANNUAL MEETING. STOCKHOLDERS WHO PLAN TO ATTEND THE ANNUAL MEETING MAY REVOKE THEIR PROXY BY CASTING THEIR VOTE AT THE ANNUAL MEETING IN PERSON.SEE REVERSE SIDEPLEASE COMPLETE, DATE, SIGN AND PROMPTLY MAIL THIS PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPESEE REVERSE SIDE