

NATIONAL HEALTHCARE CORP

Form S-4/A

August 07, 2007

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As filed with the Securities and Exchange Commission on August 7, 2007

Registration No. 333-142189

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

AMENDMENT NO. 3

**FORM S-4
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

NATIONAL HEALTHCARE CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

8051
*(Primary Standard Industrial
Classification Code Number)*

52-2057472
*(I.R.S. Employer
Identification Number)*

**100 Vine Street, Suite 1400
Murfreesboro, Tennessee 37130
(615) 890-2020**
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

**Robert G. Adams
President and Chief Executive Officer
National HealthCare Corporation
100 Vine Street, Suite 1400
Murfreesboro, Tennessee 37130
(615) 890-2020**
(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public: As soon as practicable after the date hereof.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED AUGUST 7, 2007

**National Health Realty, Inc.
100 Vine Street, Suite 1402
Murfreesboro, Tennessee 37130**

**National HealthCare Corporation
100 Vine Street, Suite 1400
Murfreesboro, Tennessee 37130**

A MERGER PROPOSAL YOUR VOTE IS VERY IMPORTANT

To the stockholders of National Health Realty, Inc. and National HealthCare Corporation:

On December 20, 2006, Davis Acquisition Sub LLC (an indirect wholly-owned subsidiary of National HealthCare Corporation), NHC/OP, L.P. (a direct and indirect wholly-owned subsidiary of National HealthCare Corporation), National HealthCare Corporation (NHC), and National Health Realty, Inc. (NHR), entered into an Agreement and Plan of Merger. Pursuant to the merger agreement and following stockholder approval on September 13, 2007, NHR completed a consolidation with its wholly-owned subsidiary, NEW NHR, Inc., which resulted in the formation of a new Maryland corporation (the Consolidated Company). As used in this joint proxy statement/prospectus, references to NHR mean, with respect to periods prior to _____, 2007, National Health Realty, Inc., and with respect to periods after _____, 2007, the Consolidated Company.

Subject to stockholder approval as described herein and consummation of certain other transactions specified in the merger agreement, NHR will be merged with and into Davis Acquisition Sub LLC, and Davis Acquisition Sub LLC will continue as a wholly-owned subsidiary of NHC/OP, L.P. and shall succeed to and assume all the rights and obligations of NHR.

Pursuant to the merger agreement, each outstanding common share of NHR not owned by Davis Acquisition Sub LLC, NHC/OP, L.P. or NHC will be converted into the right to receive one share of NHC Series A Convertible Preferred Stock (the Preferred Stock), plus \$9.00 in cash. In addition, immediately prior to the consummation of the merger, NHR will declare a special dividend payable to each holder of record of NHR common stock who shall receive the merger consideration at the effective time of the merger in an amount equal to the dividend that NHR would have declared and paid in the ordinary course of business in order to qualify as a REIT for the taxable year commencing on January 1, 2007 and ending on the effective date of the merger if NHR had not entered into the merger agreement. Each share of the Preferred Stock will be entitled to cumulative annual preferred dividends of \$0.80 per share and will have a liquidation preference of \$15.75 per share. The Preferred Stock will be listed on the American Stock Exchange and will be convertible at any time at the option of the holder into 0.24204 shares of NHC common stock, subject to adjustment.

NHC will hold a special meeting of stockholders on _____, 2007 at _____ a.m., Central time, at the principal executive offices of NHC, located at 100 Vine Street, Suite 1400, Murfreesboro, Tennessee 37130. At this meeting, stockholders of NHC will be asked (1) to consider and vote upon a proposal to adopt an amendment to the certificate of incorporation of NHC to increase the maximum number of shares of undesignated preferred stock having a par value of \$.01 per share from 10,000,000 shares to 25,000,000 shares, (2) to consider and vote upon a proposal to approve

the issuance of Series A Convertible Preferred Stock having a par value of \$.01 per share, pursuant to the merger agreement ((1) and (2) collectively, the NHC Proposal), (3) to approve the postponement or adjournment of the NHC special meeting for the solicitation of additional votes, if necessary, and (4) to transact any other business as may properly come before the NHC special meeting or any adjournment or postponement of the NHC special meeting.

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The affirmative vote of the holders of a majority of common shares outstanding and entitled to vote at the NHC special meeting is required to approve the amendment of the NHC certificate of incorporation. The affirmative vote of the holders of a majority of the outstanding common shares represented and voting at the NHC special meeting is required to approve the issuance of the Preferred Stock.

NHR will hold a special meeting of stockholders on _____, 2007 at _____ a.m., Central time, at the principal executive offices of NHR, located at 100 Vine Street, Suite 1402, Murfreesboro, Tennessee 37130. At this meeting, stockholders of NHR will be asked (1) to consider and vote upon the approval of the merger (the NHR Proposal), (2) to approve the postponement or adjournment of the NHR special meeting for the solicitation of additional votes, if necessary, and (3) to transact any other business as may properly come before the NHR special meeting or any adjournment or postponement of the NHR special meeting.

The affirmative vote of the holders of a majority of common shares outstanding and entitled to vote at the NHR special meeting and the affirmative vote of the holders of a majority of the common stock outstanding and entitled to vote, not owned by a director or officer of NHR, or any affiliate of NHR or NHC is required to approve the merger.

Before the merger can be completed, holders of the requisite number of outstanding shares of NHC common stock must vote in favor of the NHC Proposal at the NHC special meeting and holders of the requisite number of outstanding shares of NHR common stock must vote in favor of the NHR Proposal.

Holders of NHC common stock representing approximately 21.9% of the outstanding shares of NHC common stock as of March 1, 2007 have agreed to vote the shares of NHC common stock owned by them in favor of the NHC Proposal. NHR stockholders representing approximately 22.4% of the outstanding shares of NHR common stock as of March 1, 2007 have agreed to vote the shares of NHR common stock owned by them in favor of the NHR Proposal.

The merger agreement and the merger have been approved and declared advisable by (i) the sole managing member of Davis Acquisition Sub LLC, (ii) the general partner of NHC/OP, L.P., (iii) the board of directors of NHC, upon the unanimous recommendation of a special committee of its board of directors composed entirely of independent directors, and (iv) the board of directors of NHR, upon the unanimous recommendation of a special committee of its board of directors composed entirely of independent directors. Completion of the merger, which is expected to occur in the fall of 2007, is subject to the approval of certain matters by the requisite stockholders of NHC and NHR.

NHC's common shares are traded on the American Stock Exchange under the symbol NHC, and the closing price of NHC's common shares on _____, 2007 was \$ _____ per share. NHR's common stock is traded on the American Stock Exchange under the symbol NHR and the closing price of a share of NHR common stock on _____, 2007 was \$ _____ per share.

The board of directors of NHC has approved the merger agreement and the merger and has determined that the merger is in the best interest of NHC's stockholders. The board of directors of NHC recommends that NHC's stockholders vote FOR the NHC Proposal.

The board of directors of NHR has approved the merger agreement and the merger and has determined that the merger is advisable and in the best interest of NHR stockholders. The board of directors recommends that NHR stockholders vote FOR the NHR Proposal.

This joint proxy statement/prospectus provides NHC stockholders and NHR stockholders with detailed information about the special meetings and the proposed merger. You can also obtain information from publicly available documents filed by NHC and NHR with the Securities and Exchange Commission. **NHC and NHR encourage you to read this entire document carefully, including the section entitled Risk Factors beginning on page 47.**

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Your vote is very important. Whether or not you plan to attend the NHC special meeting or the NHR special meeting, please take time to vote on the proposal by completing and mailing the enclosed proxy card.

Sincerely,

Donald K. Daniel
Senior Vice President & Controller
Principal Accounting Officer
National Health Realty, Inc.

Robert G. Adams
President and Chief Executive Officer
National HealthCare Corporation

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger approved or disapproved of the transaction, passed upon the merits or fairness of the transaction or determined if this joint proxy statement/prospectus is adequate, accurate or complete. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated
and is first being mailed to stockholders on or about

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SOURCES OF ADDITIONAL INFORMATION

This joint proxy statement/prospectus includes information also set forth in documents filed by NHC and NHR with the SEC, and those documents include information about each company that is not included in or delivered with this document. You can obtain any of those documents filed with the SEC from NHC or NHR, as the case may be, or through the SEC or the SEC's web site. The address of that site is <http://www.sec.gov>. Stockholders of NHC or NHR may obtain documents filed with the SEC or documents incorporated by reference in this document, when available, free of cost, by directing a request to the appropriate company at:

National Health Realty, Inc.
100 Vine Street, Suite 1402
Murfreesboro, Tennessee 37130
Attention: Corporate Secretary
Telephone Number: (615) 890-2020

National HealthCare Corporation
100 Vine Street, Suite 1400
Murfreesboro, Tennessee 37130
Attention: Corporate Secretary
Telephone Number: (615) 890-2020

If you would like to request documents, in order to ensure timely delivery, you must do so at least five business days before the date of the respective special meeting. This means you must request this information no later than , 2007. NHC or NHR, as the case may be, will mail properly requested documents to requesting stockholders by first class mail, or another equally prompt means, within one business day after receipt of such requests.

See Where You Can Find More Information.

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NATIONAL HEALTHCARE CORPORATION

**NOTICE OF SPECIAL
MEETING OF STOCKHOLDERS**

To Be Held On , 2007

To the stockholders of National HealthCare Corporation:

NOTICE IS HEREBY GIVEN that the special meeting of stockholders of National HealthCare Corporation, a Delaware corporation (NHC), will be held at a.m., Central time, on , 2007, at 100 Vine Street, Suite 1400, Murfreesboro, Tennessee 37130 for the following purposes:

1. To consider and vote upon a proposal to adopt an amendment to the certificate of incorporation of NHC to increase the maximum number of shares of undesignated preferred stock having a par value of \$.01 per share from 10,000,000 shares to 25,000,000 shares.
2. To consider and vote upon a proposal to approve the issuance of shares of NHC Series A convertible preferred stock pursuant to the merger agreement.
3. To approve the postponement or adjournment of the NHC special meeting for the solicitation of additional votes, if necessary.
4. To transact any other business as may properly come before the NHC special meeting or any adjournment or postponement of the NHC special meeting.

Only NHC stockholders of record at the close of business on , 2007, the record date for the NHC special meeting, may vote at the NHC special meeting and any adjournments or postponements of the NHC special meeting. A complete list of NHC stockholders of record entitled to vote at the NHC special meeting will be available for the 10 days before the NHC special meeting at our executive offices for inspection for proper purposes by NHC stockholders during ordinary business hours.

Your vote is very important. The NHC board of directors has approved the merger agreement and the merger and recommends that you vote FOR all of the proposals set forth above. Whether or not you plan to attend the NHC special meeting, please submit your proxy card with voting instructions. If you hold your stock in your name as a stockholder of record, please sign, date and return the enclosed proxy card as soon as possible. If you hold your stock in street name through a bank or a broker, please direct your bank or broker to vote your stock in the manner described in the instructions you have received from your bank or broker.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/prospectus and the merger agreement attached to it as Annex A.

By order of the NHC board of directors

John K. Lines,
Secretary

Murfreesboro, Tennessee

, 2007

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NATIONAL HEALTH REALTY, INC.

**NOTICE OF SPECIAL
MEETING OF STOCKHOLDERS**

To Be Held On , 2007

To the stockholders of National Health Realty, Inc.:

NOTICE IS HEREBY GIVEN that the special meeting of stockholders of National Health Realty, Inc., a Maryland corporation (NHR), will be held at a.m., Central time, on , 2007, at 100 Vine Street, Suite 1402, Murfreesboro, Tennessee 37130 for the following purposes:

1. To consider and vote upon a proposal to approve the merger of NHR with and into Davis Acquisition Sub LLC, an indirect wholly-owned subsidiary of National HealthCare Corporation (NHC), in accordance with the terms of the Agreement and Plan of Merger, dated December 20, 2006, by and among Davis Acquisition Sub LLC (an indirect wholly-owned subsidiary of NHC), NHC/OP, L.P. (a direct and indirect wholly-owned subsidiary of NHC), NHC and NHR. Upon the effectiveness of the merger, the separate corporate existence of NHR will cease and Davis Acquisition Sub LLC will continue as the surviving company in the merger and will succeed to and assume all the rights and obligations of NHR in accordance with the Maryland General Corporation Law and the Delaware Limited Liability Company Act.
2. To approve the postponement or adjournment of the NHR special meeting for the solicitation of additional votes, if necessary.
3. To transact any other business as may properly come before the NHR special meeting or any adjournment or postponement of the NHR special meeting.

Only NHR stockholders of record at the close of business on , 2007, the record date for the NHR special meeting, are entitled to notice of and may vote at the NHR special meeting and any adjournments or postponements of the NHR special meeting. A complete list of NHR stockholders of record entitled to vote at the NHR special meeting will be available for the 10 days before the NHR special meeting at our executive offices for inspection for proper purposes by NHR stockholders during ordinary business hours.

Your vote is very important. The NHR board of directors, after giving consideration to the recommendation of the special committee to the board of directors, has approved the merger agreement and the merger and recommends that you vote FOR all of the proposals set forth above. Whether or not you plan to attend the NHR special meeting, please submit your proxy card with voting instructions. If you hold your stock in your name as a stockholder of record, please sign, date and return the enclosed proxy card as soon as possible. If you hold your stock in street name through a bank or a broker, please direct your bank or broker to vote your stock in the manner described in the instructions you have received from your bank or broker.

For more information about the merger and the other transactions contemplated by the merger agreement, please review the accompanying joint proxy statement/prospectus and the merger agreement attached to it as Annex A.

By order of the NHR board of directors

John K. Lines,
Secretary

Murfreesboro, Tennessee

, 2007

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QUESTIONS AND ANSWERS ABOUT THE MERGER

Q: When and where are the special stockholders meetings?

- A1: The NHC special meeting will take place on _____, 2007, at _____ a.m. Central Time, at 100 Vine Street, Suite 1400, Murfreesboro, Tennessee 37130.
- A2: The NHR special meeting will take place on _____, 2007, at _____ a.m. Central Time, at 100 Vine Street, Suite 1402, Murfreesboro, Tennessee 37130.

Q: What is happening at each special meeting?

- A1: At the NHC special meeting, stockholders of NHC will be asked (1) to consider and vote upon a proposal to adopt an amendment to the certificate of incorporation of NHC to increase the maximum number of shares of undesignated preferred stock having a par value of \$.01 per share from 10,000,000 shares to 25,000,000 shares, (2) to consider and vote upon a proposal to approve the issuance of Series A convertible preferred stock, having a par value of \$.01 per share, pursuant to the merger agreement, (3) to approve the postponement or adjournment of the NHC special meeting for the solicitation of additional votes, if necessary, and (4) to transact any other business as may properly come before the NHC special meeting or any adjournment or postponement of the NHC special meeting.
- A2: At the NHR special meeting, stockholders of NHR will be asked (1) to consider and vote upon the approval of the merger, (2) to approve the postponement or adjournment of the NHR special meeting for the solicitation of additional votes, if necessary, and (3) to transact any other business as may properly come before the NHR special meeting or any adjournment or postponement of the NHR special meeting.

Q: What will happen in the merger?

- A: If the merger is approved and all other conditions to the merger have been satisfied or waived, NHR will merge with and into Davis Acquisition Sub LLC, upon the terms and subject to the conditions set forth in the merger agreement. Upon effectiveness of the merger, the separate corporate existence of NHR shall cease and Davis Acquisition Sub LLC shall continue as the surviving person in the merger and a wholly-owned subsidiary of NHC/OP, L.P., which is a wholly-owned subsidiary of NHC and shall succeed to and assume all the rights and obligations of NHR.

Q: Why are the parties proposing to merge?

- A: The parties believe that the combined company will provide the present stockholders of each company with a more focused, flexible and efficient corporation whose purpose and activities are more closely aligned with those of its stockholders. See Special Factors NHC's Reasons for, and Advantages of, the Merger and Special Factors NHR's Reasons for, and Advantages of, the Merger.

Q: What will NHR stockholders receive in the merger?

- A: Upon the effectiveness of the merger, each issued and outstanding share of common stock, par value \$0.01 per share, of NHR, other than any such shares directly owned by Davis Acquisition Sub LLC, NHC/OP, L.P. or NHC, will be converted into the right to receive cash and shares of the Preferred Stock, having the rights and

designations set forth in the Certificate of Designations, the form of which is attached to this proxy statement/prospectus as Annex C. In addition, immediately prior to the consummation of the merger, NHR will declare a special dividend payable to each holder of record of NHR common stock who shall receive the merger consideration at the effective time of the merger in an amount equal to the dividend that NHR would have declared and paid in the ordinary course of business in order to qualify as a real estate investment trust (REIT) for the taxable year commencing on January 1, 2007 and ending on the effective date of the merger if NHR had not entered into the merger agreement.

Q: Are stockholders able to exercise dissenters' rights?

A1: The stockholders of NHC will not be entitled to exercise dissenters' rights with respect to any matter to be voted upon at the NHC special meeting.

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A2: The stockholders of NHR will not be entitled to exercise dissenters' rights with respect to any matter to be voted upon at the NHR special meeting.

Q: When do you expect to complete the merger?

A: We expect to complete the merger in the fall of 2007.

Q: How will the combined company's business be different?

A: The merger will provide NHC with a larger asset and equity base that is anticipated to enhance NHC's future growth and prospects for long-term increases in stockholder value. Following the merger, NHC will no longer be required to make lease payments to NHR. Assuming the continuation of current operating trends, the elimination of such required lease payments will result in a substantial increase in the annual recurring free cash flow of NHC, even after providing for the dividends that NHC will be required to pay on the Preferred Stock. In addition, the merger will (i) reduce the expense and management time required to manage two public companies, (ii) eliminate the possibility that NHR could be acquired by a competitor of NHC, (iii) broaden NHC's access to debt financing sources and (iv) eliminate the financial uncertainty that resulted from the periodic negotiation and renegotiation of the leasing terms of the properties that NHR leased to NHC.

Q: How will the combined company be managed?

A: NHR is currently managed by a wholly-owned subsidiary of NHC pursuant to the Restated Advisory, Administrative Services and Facilities Agreement (the Management Agreement), which will be terminated upon the consummation of the merger. NHR does not have any officers or employees who are not also officers or employees of NHC. Following the merger, these officers and employees will be officers or employees of NHC only, and perform substantially the same functions as they did before the merger, except that they will not have the duties of managing NHR as a separate public company. The merger will not affect the composition of the current board of directors of NHC, except that, under certain circumstances, the holders of Preferred Stock will have the right to elect two directors to the NHC board of directors. The directors of NHR will resign following the merger.

Q: What will be the composition of the board of directors of NHC and NHR following the merger?

A: Immediately following the merger, NHC will have the same board of directors it has today. The certificate of designations governing the Preferred Stock will allow the holders of the Preferred Stock the right to elect two additional directors to the board of directors of NHC in limited circumstances. NHR, whose successor will be merged into Davis Acquisition Sub LLC, will cease to exist as a company. Davis Acquisition Sub LLC will continue to be managed by its sole managing member following the merger.

Q: What are the U.S. federal income tax consequences of the merger?

A: Assuming that the merger is completed as currently contemplated, it is expected that the receipt of cash and shares of the Preferred Stock by stockholders of NHR in exchange for their common stock of NHR pursuant to the merger should be a taxable transaction for U.S. federal income tax purposes. The specific tax consequences to stockholders of NHR of the merger will depend on their own particular situation.

YOU SHOULD READ CERTAIN MATERIAL U.S. FEDERAL INCOME TAX CONSEQUENCES FOR A MORE COMPLETE DISCUSSION OF THE U.S. FEDERAL INCOME TAX CONSEQUENCES OF

THE MERGER. TAX MATTERS ARE COMPLICATED AND THE TAX CONSEQUENCES OF THE MERGER TO YOU WILL DEPEND UPON THE FACTS OF YOUR PARTICULAR SITUATION. BECAUSE INDIVIDUAL CIRCUMSTANCES MAY DIFFER, WE URGE YOU TO CONSULT WITH YOUR TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES OF THE MERGER TO YOU, INCLUDING THE APPLICABILITY OF U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER TAX LAWS.

Q: How will NHC be treated for U.S. federal income tax purposes following the merger?

A: NHR is organized and has operated in a way intended to qualify it as a real estate investment trust (REIT) for U.S. federal income tax purposes. Generally, a REIT, with certain limited exceptions, is not taxed at the corporate level on its ordinary net income or capital gains distributed currently to its

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stockholders. This treatment substantially eliminates the double taxation (at the corporate and stockholder levels) that typically results from the use of corporate investment vehicles. NHC is not and will not be a REIT and will be taxable as a corporation for U.S. federal income tax purposes. Consequently, NHC will be subject to tax (including applicable alternative minimum tax) on its taxable income at regular corporate rates. Distributions to holders of stock in NHC will not be deductible by NHC, nor are distributions required to be made. Generally, if NHC makes a distribution to holders of its stock, all such distributions will be taxable to such holders as dividends, to the extent of NHC's current or accumulated earnings and profits. Dividends to individual holders of stock of NHC may qualify as qualified dividend income for U.S. federal income tax purposes, taxable at reduced rates. Corporate holders of stock of NHC may be eligible for the dividends received deduction with respect to dividends on stock of NHC.

Q: What stockholder vote is required to approve the items to be voted on at each special meeting, including the merger?

A1: With respect to the NHC special meeting:

the affirmative vote of the holders of a majority of common shares outstanding and entitled to vote thereon at the NHC special meeting is required to approve the amendment of the NHC certificate of incorporation; and

the affirmative vote of the holders of a majority of the outstanding common shares represented and voting at the NHC special meeting is required to approve the issuance of shares of the Preferred Stock and on each other matter to be acted on, including any postponement or adjournment of the NHC special meeting to solicit additional votes.

A2: With respect to the NHR special meeting, approval of the merger is conditioned on receiving:

the affirmative vote of the holders of a majority of all common stock outstanding and entitled to vote thereon at the NHR special meeting; and

the affirmative vote of the holders of a majority of the common stock outstanding and entitled to vote thereon that are not owned by an affiliate of NHR, including any director or officer of NHR or NHC, or any of their affiliates.

On each other matter to be acted on at the NHR special meeting, including any postponement or adjournment of the NHR special meeting to solicit additional votes, the approval of a majority of the outstanding common stock present in person or represented by proxy at the NHR special meeting is required to approve such matter.

Q: Do the boards recommend approval of the proposals?

A: Yes. Based on the recommendation of their respective special committees, taking into consideration the fairness opinions of their respective financial advisors, which are attached to this proxy statement/prospectus as Annex D and Annex E, the boards of directors of NHC and NHR each approved and adopted the merger agreement and the transactions contemplated thereby and recommend that you vote FOR approval of the NHC Proposal or the NHR Proposal, as the case may be.

Q: What do I need to do now?

A: We urge you to read carefully this joint proxy statement/prospectus, including its annexes and the documents incorporated by reference herein. You also may want to review the documents referenced under Where You Can

Find More Information and consult with your accounting, legal and tax advisors.

Q: How do I vote my shares?

A1: Holders of shares of NHC common stock may indicate how they want to vote on their proxy card and then sign and mail their proxy card in the enclosed return envelope as soon as possible so that their shares may be represented at the NHC special meeting. Holders of shares of NHC common stock may also attend the NHC special meeting in person instead of submitting a proxy.

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Unless such shares are held in a brokerage account, if holders of shares of NHC common stock sign, date and send their proxy and do not indicate how they want to vote, such proxies will be voted **FOR** the NHC Proposal and all other proposals to be voted on at the NHC special meeting. If such shares are held in a brokerage account, please see the answer to the next question. If holders of shares of NHC common stock fail either to return their proxy card or if they **ABSTAIN** with respect to the NHC Proposal to amend the NHC certificate of incorporation, the effect will be a vote **AGAINST** such proposal. With respect to the issuance of Preferred Stock pursuant to the merger, the postponement or adjournment of the NHC special meeting or any other business as may properly come before the NHC special meeting; if the holders of shares of NHC common stock fail to return their proxy card, such shares of NHC common stock will not be counted for purposes of the such vote.

- A2: If you hold shares of NHR common stock in your name, please sign, date and return your proxy card with voting instructions. If your stock is held in **street name** through a bank or a broker, please direct your bank or broker to vote your stock in the manner described in the instructions you have received from your bank or broker. Also, you may attend the special meeting in person instead of submitting a proxy. Unless your shares are held in a brokerage account, if you sign, date and send your proxy and do not indicate how you want to vote, your proxy will be voted **FOR** the NHR Proposal and all other proposals to be voted on at the NHR special meeting. If your shares are held in a brokerage account, please see the answer to the next question.

Abstentions will be counted as shares that are present and entitled to vote for purposes of determining the number of shares that are present and entitled to vote with respect to any particular matter, but will not be counted as votes in favor of such matter. Accordingly, an abstention from voting on the NHR Proposal will have the same legal effect as a vote **AGAINST** the matter. With respect to any other matter to be voted on at the NHR special meeting, a vote to **ABSTAIN** will have no effect on the outcome of such other matters.

Q: If my NHC common stock or NHR common stock are held in a brokerage account or in **street name, will my broker vote my shares for me?**

- A: If you are an NHC stockholder or NHR stockholder, and, in either case, if you do not provide your bank or broker with instructions on how to vote your **street name** shares, your bank or broker will not be permitted to vote them. Also, if your bank or broker has indicated on the proxy that it does not have discretionary authority to vote such **street name** shares, your bank or broker will not be permitted to vote them. Either of these situations results in a **broker non-vote**.

A **broker non-vote** with respect to the NHC special meeting will not be considered as present and entitled to vote with respect to any matter presented at the NHC special meeting, but will be counted for purposes of establishing a quorum. A **broker non-vote** with respect to the issuance of the Preferred Stock will have the effect of a vote **AGAINST** such matter. With respect to all other matters to be voted on at the NHC special meeting, a **broker non-vote** will have no effect on the outcome of such matter.

A **broker non-vote** on the NHR Proposal or any other proposal requiring a specified percentage of the outstanding voting stock will have the same effect as a vote **AGAINST** such proposal. With respect to all matters requiring a specified percentage of the votes cast to be voted on at the NHR special meeting, a **broker non-vote** will have no effect on the outcome of such matter.

You should, therefore, provide your bank or broker with instructions on how to vote your shares or arrange to attend the NHC special meeting and/or the NHR special meeting, as the case may be, and vote your shares in person to avoid a **broker non-vote**. You are urged to utilize telephone or Internet voting if your bank or broker has provided you with the opportunity to do so. See the relevant voting instruction form for instructions. If your

bank or broker holds your shares and you attend the special meeting in person, you should bring a letter from your bank or broker identifying you as the beneficial owner of the shares and authorizing you to vote your shares at the meeting.

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Q: What do I do if I want to change my vote?

A: You may change your vote at any time before the vote takes place at the NHC special meeting and/or the NHR special meeting, as the case may be. To do so, you may either complete and submit a new proxy card or send a written notice stating that you would like to revoke your proxy. In addition, you may elect to attend the NHC special meeting and/or the NHR special meeting, as the case may be, and vote in person, as described above.

Q: Should I send in my NHR share certificates now?

A: No. If the merger is completed, written instructions will be sent to stockholders of NHR with respect to the exchange of their share certificates for the merger consideration described in the merger agreement, including the appropriate number of shares of the Preferred Stock.

Q: Who can I contact with any additional questions?

A: You may call the Corporate Secretary of NHC or NHR at:

National HealthCare Corporation
100 Vine Street, Suite 1400
Murfreesboro, Tennessee 37130
(615) 890-2020

National Health Realty, Inc.
100 Vine Street, Suite 1402
Murfreesboro, Tennessee 37130
(615) 890-2020

Q: Where can I find more information about the companies?

A: You can find more information about NHC and NHR in the documents described under [Where You Can Find More Information](#) .

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SUMMARY

*This summary highlights selected information from this joint proxy statement/prospectus and may not contain all the information that is important to you. To fully understand the NHC proposal, the NHR proposal and for a more complete description of the legal terms of the merger, you should read carefully this entire document, including the annexes and documents incorporated by reference herein, and the other documents to which we have referred you. For information on how to obtain the documents that we have filed with the SEC, see *Where You Can Find More Information* .*

NHC (page 81)

NHC is a leading provider of long-term health care services. As of March 1, 2007, it operated or managed 73 long-term health care centers with 9,129 beds in 10 states and provided other services in two additional states. These operations are provided by separately funded and maintained subsidiaries. NHC provides long-term health care services to patients in a variety of settings, including long-term nursing centers, managed care specialty units, sub-acute care units, Alzheimer's care units, homecare programs, assisted living centers and independent living centers. In addition, it provides management and accounting services to owners of long-term health care centers and advisory services to NHR, and prior to November 1, 2004, to National Health Investors, Inc.

NHC common stock trades on the American Stock Exchange under the symbol **NHC** . NHC executive offices are located at 100 Vine Street, Suite 1400, Murfreesboro, Tennessee 37130 and its telephone number is (615) 890-2020.

NHR (page 81)

NHR is a Maryland corporation that began operations on January 1, 1998 and operates as a real estate investment trust, or REIT. Currently its assets, through its subsidiary NHR/OP, L.P., its operating partnership, include the real estate of 23 health care facilities, including 16 licensed skilled nursing facilities, six assisted living facilities and one independent living center. NHR also owns seven first and second promissory notes with outstanding principal balances totaling \$12,216,000 at June 30, 2007 that are secured by the real property of the health care facilities. Its revenues are derived primarily from rent and interest income from these real estate properties and mortgage notes receivable. Its primary lessee is NHC, which leases 14 of its 23 properties and guarantees the lease payments on the remaining nine properties.

NHR common stock trades on the American Stock Exchange under the symbol **NHR** . NHR executive offices are located at 100 Vine Street, Suite 1402, Murfreesboro, Tennessee 37130 and its telephone number is (615) 890-2020.

The NHC Special Meeting (page 66)

NHC will hold the NHC special meeting at a.m., Central time, on , at the principal executive offices of NHC located at 100 Vine Street, Suite 1400, Murfreesboro, Tennessee 37130. At the NHC special meeting, holders of NHC common stock will be asked (1) to consider and vote upon a proposal to adopt an amendment to the certificate of incorporation of NHC to increase the maximum number of shares of undesignated preferred stock having a par value of \$.01 per share from 10,000,000 shares to 25,000,000 shares, (2) to consider and vote upon a proposal to approve the issuance of Series A convertible preferred stock, having a par value of \$.01 per share; pursuant to the merger agreement, (3) to approve the postponement or adjournment of the NHC special meeting for the solicitation of additional votes, if necessary, and (4) to transact any other business as may properly come before the NHC special meeting or any adjournment or postponement of the NHC special meeting.

You can vote at the NHC special meeting only if you owned NHC common stock at the close of business on _____, 2007, which is the record date for the meeting.

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The NHR Special Meeting (page 69)

NHR will hold the NHR special meeting at a.m., Central time, on , at the principal executive offices of NHR located at 100 Vine Street, Suite 1402, Murfreesboro, Tennessee 37130, to vote upon the following items: (1) the approval of the merger, (2) the postponement or adjournment of the NHR special meeting for the solicitation of additional votes, if necessary, and (3) other business as may properly come before the NHR special meeting or any adjournment or postponement of the NHR special meeting.

You can vote at the NHR special meeting only if you owned NHR common stock at the close of business on , 2007, which is the record date for the meeting.

The Merger Proposal (pages 12 and 72)

Pursuant to Articles of Consolidation approved by the stockholders of NHR on , 2007 and filed and accepted for record with the Maryland State Department of Assessments and Taxation on , 2007, NHR consolidated with its wholly-owned subsidiary NEW NHR, Inc., forming the Consolidated Company, which is also named National Health Realty, Inc. The capital stock of the Consolidated Company consists solely of the issued and outstanding shares of common stock of NHR outstanding immediately prior to the effectiveness of the consolidation. Each issued and outstanding share of common stock of NEW NHR, Inc. was cancelled in the consolidation. The Consolidated Company succeeded by operation of the consolidation to the business, properties, assets and rights and became subject to all of the obligations and liabilities of NHR, including the merger agreement.

Under the terms of the merger agreement between Davis Acquisition Sub LLC, a Delaware limited liability company and an indirect wholly-owned subsidiary of NHC, NHC/OP, L.P., a wholly-owned subsidiary of NHC, NHC and NHR, NHR will merge with and into Davis Acquisition Sub LLC, whereby each issued and outstanding share of NHR common stock, par value \$0.01 per share, other than any such shares directly owned by Davis Acquisition Sub LLC, NHC/OP, L.P. and NHC, will be converted into the right to receive \$9.00 in cash and one share of Preferred Stock. In addition, promptly following the effectiveness of the merger each of the holders of NHR common stock on the NHR record date will receive a special dividend for the period from January 1, 2007 until the closing date of the merger in an amount consistent with NHR's past practice. Upon effectiveness of the merger, the separate corporate existence of NHR shall cease, and Davis Acquisition Sub LLC shall continue as the surviving company in the merger and shall succeed to and assume all the rights and obligations of NHR in accordance with the Maryland General Corporation Law and the Delaware Limited Liability Company Act.

The Stockholders of NHR Will Receive Shares of NHC's Series A Convertible Preferred Stock and Cash in the Merger (page 72)

If the merger is completed, each issued and outstanding share of common stock, par value \$0.01 per share, of NHR, other than any such shares directly owned by Davis Acquisition Sub LLC, NHC/OP, L.P., or NHC, will be converted into the right to receive cash and shares of Series A Convertible Preferred Stock, par value \$0.01 per share, of NHC having the rights and designations set forth in the Certificate of Designations. In addition, immediately prior to the consummation of the merger, NHR will declare a special dividend payable to each holder of record of NHR common stock who shall receive the merger consideration at the effective time of the merger in an amount equal to the dividend that NHR would have declared and paid in the ordinary course of business in order to qualify as a REIT for the taxable year commencing on January 1, 2007 and ending on the effective date of the merger if NHR had not entered into the merger agreement.

Please do not send in your stock certificates at this time. You will receive written instructions to do so after the merger is complete.

Completion of the Merger

It is currently expected that the merger will be completed after stockholders have approved the NHC Proposal and the NHR Proposal at the special meetings, if regulatory approvals and other required matters are

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completed by that time. NHC and NHR are working to complete the merger in the fall of 2007, but in no event later than December 14, 2007. See Description of the Merger Agreement Closing; Completion of the Merger.

Ownership of NHC After the Merger

Immediately following the merger, the existing NHC stockholders will own approximately the same percentage of shares of NHC common stock issued and outstanding prior to the merger and the existing stockholders of NHR will hold 100% of the outstanding shares of the Preferred Stock.

Recommendations of the Special Committees and the Boards of Directors (pages 21 and 31)

Special Committee Recommendations. Each special committee unanimously recommended to its respective board that the NHC Proposal and the NHR Proposal, as applicable, was advisable and in the best interests of each company and its stockholders, and that the merger agreement and the transactions contemplated thereby should be approved.

NHC Board Recommendation. The board of directors of NHC adopted the recommendation of its special committee that the merger agreement and the transactions contemplated thereby should be approved and that the NHC Proposal should be submitted to stockholders for approval. **The NHC board of directors believes that the NHC Proposal is advisable and in the best interests of the company's stockholders, and it recommends that the company's stockholders vote FOR approval of the NHC Proposal.**

NHR Board Recommendation. The board of directors of NHR adopted the recommendation of its special committee that the merger agreement and the transactions contemplated thereby should be approved and that the NHR Proposal should be submitted to stockholders for approval. **The NHR board of directors believes that the NHR Proposal is advisable and in the best interests of the stockholders of NHR, and it recommends that such stockholders vote FOR approval of the NHR Proposal.**

NHC's and NHR's Reasons for the Merger (pages 23 and 34)

NHC's Reasons for the Merger

The following outline of factors considered by the NHC board of directors is not intended to be exhaustive, but includes the material factors considered by the NHC board of directors.

1. The financial presentation of Avondale Partners, LLP (Avondale Partners) to the NHC board of directors and Avondale Partners' opinion addressed to the NHC special committee that the merger consideration to be paid by Davis Acquisition Sub LLC in the merger was fair, from a financial point of view, to both Davis Acquisition Sub LLC and NHC;
2. the unanimous recommendation of the NHC special committee in favor of the merger and related transactions in light of (i) the composition of the two-member non-employee NHC special committee, each of whom the NHC board of directors had previously determined were unaffiliated with NHR, (ii) the in-depth review of NHR's business, assets, liabilities and financial condition by the NHC special committee, (iii) the protracted arms-length negotiations of the NHC special committee with the NHR special committee and (iv) the retention by the NHC special committee of independent legal and financial advisors possessing experience with transactions similar to the merger to assist the NHC special committee;

3. the increase in operating flexibility expected to result from the merger, which will allow NHC to renovate and expand its facilities;

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4. the expected increase in annual recurring free cash flow resulting from the elimination of annual lease payment obligations of NHC to NHR, even after providing for the dividends on the Preferred Stock. In addition, the merger will eliminate the financial uncertainty that resulted from the periodic negotiation and renegotiation of the leasing terms of the properties that NHC leased from NHR;
5. the benefits arising from a management team focused on NHC's core business and freed of the burden of managing two public companies;
6. the elimination of the possibility that NHR could be acquired by a competitor of NHC;
7. the belief that the expected increase in annual recurring free cash flow and larger asset base will allow NHC to more easily access a broader range of debt financing sources and obtain borrowings on improved terms; and
8. the expected reduction in redundant expenses relating to corporate overhead and the costs of managing a public company.

NHR's Reasons for the Merger

1. The merger consideration represents a premium on the trading price of NHR common stock. The face value of the per share merger consideration (a cash payment of \$9.00 and a share of Preferred Stock with a liquidation preference of \$15.75) represents (1) a 17.5% premium over the average of the closing prices of NHR stock on the 20 trading days prior to the merger announcement (\$21.07), (2) a 10% increase over NHC's initial proposal and (3) a 16.3% premium over the closing price of NHR's common stock on December 20, 2006, the last trading day prior to the announcement of the merger agreement.
2. The merger will provide the stockholders of NHR with ownership in a company with a larger and more diversified asset and equity base, and with greater access to capital.
3. The stockholders of NHR will receive the Preferred Stock, which has many of the same dividend characteristics as the NHR stock, but with a greater potential for growth and appreciation.
4. Following the merger, NHC and NHR expect to achieve operational efficiencies and eliminate duplication of functions between the two companies.

Interests of NHC and NHR Management in the Merger (page 44)

Members of the NHC board of directors and members of the NHR board of directors have interests in the merger that are different from, or in addition to, or that may conflict with, the interests they share with you as stockholders of NHC or NHR, as the case may be.

NHR is managed by a wholly-owned subsidiary of NHC pursuant to the Management Agreement. For its services, NHC is entitled to annual compensation of the greater of 2.5% of NHR's gross consolidated revenues or \$500,000. The amount accrued for advisory services in 2006 was \$524,000. All officers of NHR are appointed by NHC, and are also officers of NHC. The Management Agreement may be terminated by either party on 90 days notice and will be terminated upon the consummation of the merger.

Anticipated Accounting Treatment of the Merger (page 45)

NHC intends to account for the merger as a purchase transaction under accounting principles generally accepted in the United States. Under the purchase method of accounting, the assets and liabilities of NHR will be recorded, as of the completion of the merger, at their respective fair values and added to those of NHC. These allocations will be based upon valuations that have not yet been finalized. The financial condition and results of operations of NHC after completion of the merger will reflect NHR's balances and results after completion of the merger but will not be restated retroactively to reflect the historical financial position or results of operations of NHR.

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Following the completion of the merger, the earnings of the combined company will reflect purchase accounting adjustments, including the effect of changes in the cost bases for assets and liabilities on depreciation and amortization expense. Long-lived assets will be evaluated for impairment when events or changes in economic circumstances indicate the carrying amount of such assets may not be recoverable. The goodwill, if any, resulting from the merger, which is not subject to amortization, will be reviewed for impairment at least annually. Any future impairments or market value adjustments would reduce the asset carrying values and result in changes to earnings for the combined company.

Dividends and Distributions (page 44)

Under the merger agreement, NHR is permitted to make normal quarterly cash dividends to the holders of its common stock.

Under the merger agreement, NHR is permitted to make (i) the dividend, the record date for which was December 29, 2006, in the amount of \$0.4325 per share of NHR's common stock or as is otherwise equal to the dividend that NHR determines is necessary to qualify as a REIT for its taxable year ended December 31, 2006, and (ii) a special dividend payable immediately prior to the consummation of the merger in an amount equal to the dividend that NHR would have declared and paid in the ordinary course of business for the portion of 2007 preceding the effective time of the merger, in order to qualify as a REIT for its 2007 taxable year, if NHR had not entered into the merger agreement.

Conditions to the Merger (page 75)

The merger will be completed only if specific conditions, including, among others, the following, are met or waived by the parties to the merger agreement:

the NHR Proposal and the NHC Proposal shall have been approved by the requisite votes of the NHR and NHC stockholders, as applicable;

the registration statement, including this joint proxy statement/prospectus, shall have been declared effective by the SEC;

the shares of the Preferred Stock to be issued in the merger shall have been approved for listing on the American Stock Exchange;

the NHR reorganization shall have been consummated, including the merger of NHR and its wholly-owned subsidiary, NHR-Delaware, Inc., a Delaware corporation, with NHR as the surviving entity;

the limited partnership units of NHR/OP, L.P. held by Adams Mark, L.P. and National Health Corporation will be purchased by Davis Acquisition Sub LLC for consideration equivalent to the consideration paid in the merger for the shares of NHR common stock;

the representations and warranties of the parties to the merger agreement shall be true, except for inaccuracies that would not have a material adverse effect;

the requisite covenants of each of the parties shall have been performed in accordance with the merger agreement;

no limitations or other restraints (including any pending or threatened suit, action or proceeding by any governmental entity) shall be in effect which would prevent the consummation of the merger or cause a material adverse effect on Davis Acquisition Sub LLC, NHC/OP, L.P., on the one hand, or NHR, on the other hand; and

since the date of the merger agreement, there shall not have been a material adverse effect relating to NHR, on the one hand, or Davis Acquisition Sub LLC, NHC/OP, L.P. or NHC, on the other hand.

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Termination of the Merger Agreement (page 76)

Even if the stockholders of NHC and NHR approve the NHC Proposal and the NHR Proposal, as the case may be, Davis Acquisition Sub LLC and NHR can jointly agree to terminate the merger agreement by mutual written consent. Either Davis Acquisition Sub LLC and/or NHR may also terminate the merger agreement if, among others, any of the following occurs:

the merger shall not have been consummated by December 14, 2007, as long as the failure to complete the merger on or before that date is not the result of the failure by the terminating party to fulfill any of its obligations under the merger agreement;

either the requisite stockholders of NHC do not approve the NHC Proposal or the requisite stockholders of NHR do not approve the NHR Proposal;

any legal restraint or prohibition preventing the merger or which has a material adverse effect on either NHC or NHR shall have become final and nonappealable;

either NHR, on the one hand, or Davis Acquisition Sub LLC, NHC/OP, L.P. or NHC, on the other hand, shall have breached or failed to perform certain representations, warranties, covenants or agreements as set forth in the merger agreement;

NHR provides written notice that it is prepared, upon termination of the merger agreement, to enter into a binding definitive agreement in connection with a superior proposal; or

the board of directors of NHR fails (i) to recommend the NHR Proposal to its stockholders, (ii) to call or hold the NHR special meeting or to prepare and mail this joint proxy statement/prospectus, or (iii) to comply with its non-solicitation obligations under the merger agreement.

NHR is required to pay to Davis Acquisition Sub LLC a fee in the amount of \$9,444,000 if the merger agreement is terminated under certain circumstances. In addition, NHR, on the one hand, and Davis Acquisition Sub LLC, on the other hand, have agreed in the event of certain terminations to reimburse the reasonable out-of-pocket costs and expenses of the other party; provided, however, that neither party shall in any case be required to reimburse the aggregate costs and expenses of the other party in excess of \$2.0 million.

Solicitation of Other Offers (page 75)

The merger agreement contains provisions prohibiting NHR from actively seeking an alternate transaction prior to the time the merger agreement is terminated. The non-solicitation covenant generally prohibits NHR and its subsidiaries, as well as their officers, directors, employees, agents and representatives, from taking any action to solicit an alternative acquisition proposal.

Listing of NHC Series A Convertible Preferred Stock (page 44)

NHC has applied for the listing of the shares of the Preferred Stock on the American Stock Exchange.

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SPECIAL FACTORS

General Description of the Merger

Pursuant to the merger agreement, NHR will merge with and into Davis Acquisition Sub LLC, a Delaware limited liability company and an indirect wholly owned subsidiary of NHC. Pursuant to the merger agreement, each outstanding share of common stock of NHR, other than any such shares directly owned by Davis Acquisition Sub LLC, NHC/OP, L.P. or NHC, will be converted into the right to receive \$9.00 in cash and one share of Preferred Stock. In addition, promptly following the effectiveness of the merger, each of the holders of NHR common stock on the NHR record date will receive a special dividend for the period from January 1, 2007 until the closing date of the merger in an amount consistent with NHR's past practice. Upon effectiveness of the merger, the separate corporate existence of NHR shall cease and Davis Acquisition Sub LLC shall continue as the surviving person in the merger and shall succeed to and assume all the rights and obligations of NHR in accordance with the Maryland General Corporation Law and the Delaware Limited Liability Company Act. Set forth below is a diagram depicting the merger of NHR with and into Davis Acquisition Sub LLC.

Background of the Merger

NHR, which was spun off from NHC in 1998, has been managed by NHC, or an affiliate thereof, pursuant to the Management Agreement. NHR (through its operating subsidiary, NHR/OP, L.P.) has also leased

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most of its properties to NHC. In light of the foregoing, the NHR board of directors has periodically discussed and reviewed NHR's business, strategic direction and prospects.

In February 2006, the audit committee of the board of directors of NHC recommended to the full board of directors of NHC that Lawrence Tucker and Emil Hassan, each of whom the audit committee determined was not affiliated with NHR, undertake a study of the interfaces between the two companies, including a possible acquisition transaction. The board of directors accepted the recommendation of the audit committee and established a special committee consisting of Messrs. Tucker and Hassan, and requested that such special committee undertake such a study, with the assistance of NHC management. The NHC special committee was delegated the authority of the board to review, evaluate and, if appropriate, negotiate and recommend an acquisition transaction with NHR, and was authorized to retain independent legal and financial advisors to assist the NHC special committee. On February 24, 2006, the NHC special committee engaged Cahill Gordon & Reindel LLP (Cahill Gordon), as its legal counsel.

In February and March of 2006, the NHC special committee reviewed the relationships, business dealings and potential synergies that might result from a transaction between NHC and NHR and determined that explanatory discussions with NHR were in the best interests of NHC. At various points during this period, Cahill Gordon discussed with the NHC special committee its fiduciary duties in considering a transaction with an affiliated party.

On March 8, 2006 the NHC board and the NHR board held meetings of their respective boards of directors. During the NHR board meeting, the NHC special committee informed the NHR board that it was prepared to discuss a potential acquisition transaction between NHC and NHR. Among other potential benefits, the NHC special committee indicated that such a transaction could potentially eliminate the regulatory burden and expenses resulting from the operation and management of the two public companies by, in many cases, the same personnel. Given the existing relationship and affiliations between the companies, the NHC special committee suggested that the NHR board form a committee consisting of independent directors and that such committee retain its own legal and financial advisors.

Immediately following its meeting with the NHC special committee, the NHR board met separately to discuss the matter. As a result of such discussions, the NHR board resolved to appoint a special committee to evaluate an acquisition transaction with NHC, consisting of Mr. Jobe and Mr. Swanson, and authorized such special committee to retain its own legal and financial advisors. The NHR special committee was delegated the authority of the board to review, evaluate and, if appropriate, negotiate and recommend a business combination with NHC.

Later that same day the NHR special committee informed the NHC special committee that NHR was willing to explore a potential transaction between NHC and NHR, that NHR had established a special committee of its board for the review and consideration of such matters and that such special committee had been authorized to retain independent legal and financial advisors. The NHC special committee requested that each of NHC and NHR execute a mutual confidentiality agreement in order to facilitate the discussion and exchange of information and presented to the NHR special committee a confidentiality agreement drafted by independent counsel. Mr. Andrew Adams, as chairman of both companies, reminded the board members at each of the NHC and NHR board meetings of their duties as board members regarding confidentiality of information.

Following the board of directors meetings on March 8, 2006, the NHR special committee met telephonically and discussed the engagement of legal and financial advisors. The NHR special committee contacted representatives of the Nashville law firm of Waller Lansden Dortch & Davis, LLP (Waller Lansden), and representatives of Waller Lansden joined the meeting. Waller Lansden discussed with the members of the NHR special committee their duties as directors in considering a transaction with an affiliated party and advised the NHR special committee of its recommendation to engage special Maryland counsel to advise on the legal obligations of the NHR special committee members because Maryland was NHR's state of incorporation. Waller Lansden and Cahill Gordon negotiated a mutual confidentiality agreement, and on March 17, 2006, the special committees executed such confidentiality agreement.

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During the remainder of March and April of 2006, the NHC special committee continued its analysis of a potential acquisition transaction between NHC and NHR, but neither the NHC special committee nor the NHR special committee retained a financial advisor, and the special committees did not communicate further.

On March 31, 2006, Joel Jobe, a member of the NHR special committee died unexpectedly. Pursuant to resolutions adopted at the April 26, 2006 meeting of the board of directors of NHR, Mr. Jobe was replaced on the NHR board of directors by his son, James Jobe. At the same meeting, the NHR special committee was formally dissolved by resolution of the board of directors, having had no discussions with the NHC special committee since the March 8 meeting.

On May 3, 2006, the NHC board of directors held a meeting. At the meeting, the NHC special committee reported to the full NHC board of directors with respect to its analysis of a potential acquisition transaction between NHC and NHR. Following discussions of the matter with the full NHC board of directors, the NHC special committee indicated that it would continue to explore the potential for a transaction with NHR and would focus on developing the specific terms on which NHC might consider an acquisition transaction with NHR. Later in May of 2006, based upon the further analyses of the terms of an acquisition transaction with NHR by the NHC special committee, the NHC board of directors, upon the recommendation of the NHC special committee, determined not to pursue the potential acquisition transaction with NHR.

During the period from May 2006 until July 26, 2006, the NHC special committee and NHC's board of directors continued informally to discuss and evaluate a potential acquisition transaction with NHR. On July 26, 2006, after consultation with the NHC board of directors, Mr. Tucker of the NHC special committee contacted Mr. Swanson, formerly of the NHR special committee and indicated that NHC was interested in pursuing further discussions regarding an acquisition transaction between NHC and NHR. Mr. Swanson and Mr. Tucker communicated further in August of 2006 and Mr. Swanson agreed that he would bring the issue to the NHR board of directors.

On August 7, 2006, the NHC board of directors held a meeting at which the NHC special committee presented to the NHC board of directors a proposed offer for an acquisition transaction with NHR. Following discussions of the proposed offer, including with respect to the appropriate amount and types of merger consideration, the NHC board of directors authorized the presentation of such offer to NHR.

At the August 14, 2006 meeting of the board of directors of NHR, the board of directors resolved to form another NHR special committee, now composed of Mr. Swanson and James Jobe, who were determined to be independent of NHC. The NHR board of directors suggested a meeting between the NHR special committee and the NHC special committee. The NHR special committee contacted the NHC special committee following the August 14th board meeting to schedule a meeting to discuss the matter.

The NHR special committee and the NHC special committee met on August 22, 2006. The NHC special committee verbally indicated its willingness to submit a proposal to the NHR special committee to acquire the stock of NHR for a combination of cash and preferred stock. More specifically, the NHC special committee described a potential transaction pursuant to which each holder of NHR common stock would receive per share consideration of an amount of \$6.75 in cash and one share of NHC preferred stock with a liquidation value of \$15.75 and paying a cumulative annual dividend of \$0.80 per share. The NHC preferred stock would be convertible at the option of the holder into NHC common stock at a conversion price of \$54.00. In addition, the NHC preferred stock would be convertible at NHC's option into common stock after the fifth anniversary of its issuance. On September 5, 2006, Mr. Hassan of the NHC special committee contacted Mr. Swanson of the NHR special committee and reported that the NHC special committee was proposing that the conversion price of the NHC preferred stock would not be fixed at \$54.00, but would instead float until the execution of a merger agreement along with the market price of NHC's common stock.

On September 5, 2006, the members of the NHR special committee met with Don Daniel, Senior Vice President and Controller of both companies, to ask questions regarding the financial condition and prospects of NHR and NHC. The NHR special committee met with Dr. J. Paul Abernathy, a member of the board of directors of both companies, on September 11, 2006 pursuant to his request. Mr. Abernathy requested that the NHR special committee consider the tax consequences of any potential transaction with NHC. Mr. Abernathy

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also asked that the NHR special committee consider issues relevant to the NHR stockholder base, including his perception that such stockholders were comfortable with the current characteristics of NHR as a secure, high-dividend, tax-preferred REIT stock, in contrast to the more typical, and possibly more volatile form, of equity NHR stockholders might receive as the result of a transaction with NHC. On September 12, 2006, the NHR special committee met with Robert Adams, the Chief Executive Officer and President and a director of both companies, in order to gather information that might aid in its evaluation of the proposal from the NHC special committee.

On September 19, 2006, the board of directors of NHR met and discussed the status of the discussions regarding a potential transaction with NHC. The NHR special committee reported to the full board the information conveyed by the NHC special committee on August 22nd and September 5th and noted the recent rise in the market price of NHC common stock. The NHR special committee reported to the NHR board of directors its conclusion that an acquisition transaction with NHC was worth pursuing based on the discussions to date. The NHR board of directors asked clarifying questions regarding the proposal by the NHC special committee and discussed the potential mix of consideration. The board of directors directed the NHR special committee to confirm the potential proposal presented on August 22nd, obtain any background projections or other financial information prepared by the NHC special committee and authorized the NHR special committee to retain advisors assuming the proposal was confirmed.

The NHR special committee contacted the NHC special committee on September 22, 2006 and received pro forma financial information giving effect to the proposed transaction prepared by internal finance staff at NHC and reviewed by the NHC special committee.

On September 28, 2006, the NHC board of directors held a special meeting to obtain a report from the NHC special committee on the status of the potential acquisition transaction. The NHC special committee began by reviewing the terms of the original offer discussed by the NHC board of directors at its August 7, 2006 meeting. Following such review, the NHC special committee reported to the NHC board of directors that, due to a recent increase in the price of NHC common stock, it would not recommend that the NHC preferred stock to be issued in connection with the merger convert into NHC common stock at a conversion price of \$54.00 per share. Under a revised proposal submitted by the NHC special committee to the NHC board of directors, the total merger consideration to be paid per share of NHR common stock would be equal to 120% of the average closing price of the NHR common stock for the 20 trading sessions prior to the execution of a merger agreement, but no more than \$24.75 per share and no less than \$22.50 per share. The consideration to be paid would consist of cash and NHC preferred stock with a face value equal to \$15.75, a cumulative annual dividend of \$0.80 per share, and a conversion price for each share of NHC preferred stock equal to 120% of the average closing price of the NHC common stock for the 20 trading sessions prior to the signing of the merger agreement, but in no case less than \$50 per share. The NHC board of directors agreed with the revised proposal and authorized the negotiation of the final terms of the merger transaction with NHR.

On October 16, 2006, the NHC special committee contacted representatives of Avondale Partners and discussed with its representatives the possibility of engaging Avondale Partners to render a fairness opinion regarding the proposed acquisition transaction to the NHC special committee. The NHC special committee later formally engaged Avondale Partners pursuant to an engagement letter, the executed version of which was dated October 27, 2006. The NHC special committee specifically requested that Avondale Partners advise the committee of the fairness of the proposed transaction with NHR from NHC's perspective. In connection with the rendering of a fairness opinion, Avondale Partners agreed to perform certain financial advisory for the NHC special committee. The NHC special committee selected Avondale Partners because of its expertise and its reputation in investment banking and mergers and acquisitions and its relevant experience with advisory assignments in the healthcare and REIT industries. Avondale Partners is a nationally recognized investment banking firm regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities and private placements.

On October 9, 2006, the NHC special committee requested that the NHR special committee execute an amendment to the confidentiality agreement entered into in March. In addition, Mr. Tucker, of the NHC

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special committee, and Mr. Jobe, of the NHR special committee, discussed the acquisition proposal. Following negotiations and discussions, Mr. Tucker tentatively agreed, on behalf of the NHC special committee, that the acquisition consideration would have a stated value per share of NHR common stock equal to 120% of the average closing price of NHR common stock for the 20 trading sessions prior to signing of the merger agreement, but no less than \$23.00 per share nor more than \$24.75 per share. At a stated value of \$23.00 per share, the consideration would consist of \$7.25 per share in cash and \$15.75 face amount of NHC preferred stock. The proportion of cash and stock could be changed prior to signing but in any event would not be less than \$7.25 per share. The conversion price for the NHC preferred stock would be equal to 120% of the average closing price of NHC common stock for the 20 trading sessions prior to signing of the merger agreement, but no less than \$60.00 per share. Messrs. Tucker and Jobe also discussed a proposal whereby all of NHC's and NHR's directors would enter into individual voting agreements, pursuant to which each would commit to vote any shares of either company owned or controlled by them in favor of the contemplated transactions. On that same day, Mr. Swanson contacted Waller Lansden and, following discussions with Mr. Jobe, confirmed the engagement of Waller Lansden as counsel to the NHR special committee.

On October 12, 2006, the NHR special committee, the NHC special committee and their respective counsel met by conference call to discuss the proposal put forward by the NHC special committee, the process for moving forward with formal negotiations and the preparation of definitive documents. The special committees agreed that the proposed business combination would be in the form of a statutory merger and agreed that Waller Lansden would produce the initial draft of the merger agreement. Cahill Gordon was tasked with preparing the initial draft of the voting agreement and the certificate of designations setting forth the rights and preferences of the proposed NHC preferred stock to be issued to the NHR stockholders as part of the merger consideration.

Immediately following the conference call with the NHC special committee, the NHR special committee convened to discuss the engagement of special Maryland counsel and a financial advisor. Based on Mr. Swanson's prior favorable experience with 2nd Generation Capital, LLC (2nd Generation) in dealing with NHR's previous strategic initiatives, the NHR special committee determined that 2nd Generation would be the NHR special committee's first choice as financial advisor, if they were willing and able to serve in such capacity. The NHR special committee, with representatives of Waller Lansden, contacted 2nd Generation regarding its engagement as financial advisor to the NHR special committee. Following the call, representatives of Waller Lansden sent to 2nd Generation a term sheet regarding the proposed transaction, based on the October 12 conference call. The NHR special committee formally engaged 2nd Generation on October 17, 2006 pursuant to an executed engagement letter.

With the consent of the NHR special committee, on October 18, 2006, Waller Lansden contacted representatives of the Maryland law firm of Venable, LLP (Venable) to serve as counsel to the NHR special committee on matters of Maryland law. Representatives of the firms discussed whether NHC could merge with NHR obtaining a supermajority vote under the Maryland Business Combination Act or NHC complying with the fair price provisions of that statute. This discussion resulted from the fact that the NHR charter did not exempt business combinations with NHC from the Maryland Business Combination Act.

On October 17, 2006, Cahill Gordon distributed initial drafts of the certificate of designations relating to the NHC preferred stock and the voting agreement to the NHC special committee. Following the review by the NHC special committee and discussions with Cahill Gordon, on October 20, 2006, Cahill Gordon distributed initial drafts of the voting agreement and certificate of designations of the NHC preferred stock to the NHR special committee and its counsel.

The NHR special committee met by conference call on October 23, 2006 with representatives of Waller Lansden and 2nd Generation to discuss the draft merger agreement, which had been previously distributed to the NHR special committee and the other drafts of definitive documents received from Cahill Gordon. Following extensive discussion of the terms of the agreements, the NHR special committee requested that an initial draft of the merger agreement be

prepared and sent to the NHC special committee and its counsel.

Waller Lansden distributed the initial draft of the merger agreement to the NHC special committee and its counsel, on October 25, 2006. That same day, Waller Lansden sent a due diligence request to the general

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counsel of NHC and NHR, on behalf of the legal advisors and 2nd Generation, seeking additional due diligence information on the companies.

On October 27, 2006, the NHR special committee convened again by telephone to discuss the possible merger. Present on the call were representatives from Venable, Waller Lansden and 2nd Generation. 2nd Generation began the call with a detailed discussion of the financial background of the proposal and its evaluation of publicly available and certain confidential information regarding each of the companies and other comparable companies and transactions. The NHR special committee also heard from representatives of Venable, who discussed in detail Maryland law regarding the duties of the members of the NHR special committee in the present context.

During the period between October 23, 2006 and October 30, 2006, the NHC special committee, its counsel and members of NHC management had various discussions relating to (i) the structure and terms of the proposed transaction, including the potential tax consequences of such a transaction, (ii) issues raised by the initial drafts of the merger agreement and the comments on the certificate of designations and voting agreement and (iii) the fiduciary duties of the directors of NHC in the context of the contemplated transaction.

On October 30, 2006, 2nd Generation contacted Mr. Tucker of the NHC special committee, per the request of the NHR special committee. Mr. Tucker, on behalf of the NHC special committee, informed 2nd Generation that the NHC special committee's proposal was conditioned on any merger being a transaction in which the tax basis of the NHR assets was stepped up, thus resulting in taxable gain to the NHR stockholders. Following the call between Mr. Tucker and 2nd Generation, the NHR special committee, 2nd Generation and Waller Lansden held a conference call to discuss the issues raised by Mr. Tucker. Regarding the taxability of the transaction, 2nd Generation noted that the cash portion of the consideration was taxable in any event. The NHR special committee requested that 2nd Generation review the financial information and the proposed transaction in light of a fully taxable transaction structure and report back to the NHR special committee.

On October 30, 2006, Waller Lansden notified Cahill Gordon that the proposed transaction could be subject to the Maryland Business Combination Act because of the absence of an exemption in the original articles of incorporation of NHR. On October 31, 2006, representatives of Cahill Gordon, Waller Lansden and Venable met by telephone to discuss potential implications of the Maryland Business Combination Act. Waller Lansden and Cahill Gordon also discussed certain open issues regarding the merger agreement and the other transaction documents.

On November 3, 2006, the NHC special committee convened a meeting attended by its counsel during which Avondale Partners presented its preliminary analysis of the proposed transaction. The members of the NHC special committee commented on various aspects of the presentation and asked questions of the representatives of Avondale Partners with respect to each of the topics presented and discussed in considerable detail each of the matters presented, including the backup data and assumptions upon which Avondale Partner's analysis and conclusions were based. After taking into account the NHC special committee's discussions with Avondale Partners regarding the proposed transaction and based upon the NHC special committee's understanding of the terms of the proposed transaction as of the date of such meeting, and such other facts, analyses and assumptions as the NHC special committee deemed relevant, the NHC special committee expressed the view that it continued to believe that the proposed transaction would be in the best interests of NHC and its stockholders.

On November 6, 2006, the NHR special committee met by conference call with 2nd Generation and Waller Lansden regarding structural and financial issues in the proposed transaction. Having reviewed the transaction as a fully-taxable event to the NHR stockholders, representatives of 2nd Generation reported their preliminary belief that the proposal was within the range of fairness for the NHR stockholders. The NHR special committee and its advisors discussed the terms of the transaction in detail and open issues between the parties. The NHR special committee resolved that 2nd Generation should propose to the NHC special committee certain additional terms related to the

features of the NHC preferred stock.

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Pursuant to the request of the NHR special committee, 2nd Generation contacted Mr. Tucker, as representative of the NHC special committee, and on November 8, 2006 a conference call was held to discuss specific features of the NHC preferred stock, including NHC's ability to optionally redeem the NHC preferred stock and the amount of the cumulative annual dividend. That same day, representatives of Waller Lansden contacted Cahill Gordon and discussed open issues regarding the definitive agreements, including the amount of any termination fees in the event that the NHR special committee should terminate the proposed transaction following the execution of the merger agreement. Cahill Gordon expressed the view that the breakup fee should be 6% of transaction value, while Waller Lansden advocated 3%. Following this call, the NHC special committee was advised of the break up fee issue, and Avondale Partners was asked to prepare a survey of termination fees in comparable transactions, which they provided to the NHC special committee on November 9, 2006.

On November 10, 2006, the special committees of NHC and NHR, their counsel and 2nd Generation held a conference call to discuss open issues, including the cumulative annual dividend, the terms of the NHC preferred stock and the termination fee. The NHC special committee agreed to certain limitations on NHC's ability to optionally redeem the NHC preferred stock, but rejected any increase in the cumulative annual dividend. Following the call, the NHR special committee consulted with Venable regarding Maryland law regarding termination fees.

The NHR special committee, Waller Lansden and 2nd Generation met telephonically on November 13, 2006, and the NHR special committee agreed that it would request an increase in the cumulative dividend and a reduction in the termination fee. Upon receipt of the request, the NHC special committee agreed to consider it, and asked Avondale Partners to update its previous analysis based on the increase in the annual dividend from \$0.80 to \$0.85 per share. On November 14, 2006, Avondale Partners presented that analysis. After consideration of this analysis and other factors, the NHC special committee determined to reject the request to increase the dividend and communicated its decision to the NHR special committee. The NHR special committee agreed to consider its response.

On November 15, 2006, the special committees, their respective counsels and 2nd Generation again met by conference call to discuss timing of the signing of the definitive merger agreement and open issues between the parties. The NHC special committee rejected any increase in the cumulative dividend, and the parties agreed to reduce the termination fee in the amount of 3.5% of the transaction value, payable in certain circumstances in the event of a termination of a definitive merger agreement. The NHR special committee requested that the NHC special committee agree now to a fixed cash consideration amount and conversion price for the NHC preferred stock, rather than allowing those prices to continue to float on a daily basis until the signing of the merger agreement. The NHC special committee responded later that day with fixed cash consideration and conversion prices (subject to adjustment in the conversion price if the 20 trading day average price of the NHC common stock is either above a certain price or below a certain price), provided that the merger agreement was executed no later than November 30, 2006.

On November 16, 2006, Cahill Gordon and Venable held a conference call to discuss the Maryland Business Combination Act as such act related to the proposed transaction. Various potential alternatives were discussed to address the Maryland Business Combination Act requirement that, absent an exemption, a super majority vote or compliance with certain fair price provisions was required.

On November 20, 2006, Cahill Gordon, Waller Lansden and Venable held a conference call to discuss the Maryland Business Combination Act and the structure of the transaction and the effects of such structure.

On November 27, 2006, Waller Lansden, Venable and 2nd Generation met telephonically with the NHR special committee and Cahill Gordon met telephonically with the NHC special committee to update the respective special committees on the status of negotiations and discuss the Maryland Business Combination Act. Following such discussions with Cahill Gordon, on November 28, 2006, the NHC special committee reported to the NHC board of

directors at a special meeting of such directors on the status of negotiations and the discussions of the Maryland Business Combination Act.

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On November 28, 2006, the NHR special committee updated the board of directors on the status of negotiations and on efforts to structure the transaction in light of certain provisions of the Maryland Business Combination Act. The board of directors appointed Richard LaRoche, director and former general counsel of both companies, to work on behalf of the NHR board to study the transaction structure and recommend, on behalf of the NHR board of directors, a possible transaction structure that would not implicate the fair price or supermajority voting requirements of the Maryland Business Combination Act. Mr. LaRoche contacted representatives in the Baltimore office of Hogan & Hartson L.L.P. (Hogan & Hartson) to serve as special Maryland counsel for the board of directors of NHR.

On December 4, 2006, Mr. LaRoche and John Lines, the general counsel of both NHC and NHR, contacted Waller Lansden and asked that Waller Lansden and Venable work with Hogan & Hartson regarding the structure.

Following several days of work, Hogan & Hartson proposed a transaction structure that included a consolidation of NHR with a newly formed entity as part of the transaction, and Waller Lansden, Venable and Hogan & Hartson discussed this potential solution to provide an exemption to the Maryland Business Combination Act as well as several alternative structures that Waller Lansden or Venable had developed. The firms presented a number of possible transaction structures to the NHR special committee on December 12, 2006. Among the transaction structures presented was a consolidation of NHR with a subsidiary, followed by the proposed merger, which both Hogan & Hartson and Venable were willing to opine was permissible under Maryland law and would not implicate the Maryland Business Combination Act. The NHR special committee, after considering the various alternatives decided to pursue the consolidation structure and present it to the NHC special committee via Cahill Gordon. Both the proposed consolidation and the merger would require a stockholder vote, and the NHR special committee conditioned its acceptance of the proposed structure on approval by a majority of stockholders who are not affiliates of NHC.

On December 13, 2006, Waller Lansden contacted Cahill Gordon and presented the consolidation structure and the proposed voting standard. Following Cahill Gordon's call to the NHC special committee, the NHC special committee and the NHR special committee agreed to proceed with merger negotiations and board meetings of NHC and NHR were scheduled for December 20, 2006.

On December 15, 2006, each of the NHR special committee and the NHC special committee met and agreed to recommend to their respective boards the merger price of \$24.75 per share of NHR common stock, consisting of \$9.00 cash plus \$15.75 liquidation preference of NHC preferred stock; provided the signing of a merger agreement occurs no later than December 29, 2006.

Between December 13, 2006 and December 20, 2006, counsel for each special committee finalized the definitive documents related to the merger, including the merger agreement and the schedules thereto, the voting agreement and the certificate of designations.

On December 20, 2006, the NHC special committee and the NHR special committee and the boards of directors of each company held separate special meetings. At the NHC special committee meeting, Avondale Partners presented its analysis of the proposed acquisition transaction based on the final terms negotiated by the NHC special committee and the NHR special committee. Following the presentation and subsequent discussions, Avondale Partners delivered to the NHC board of directors its oral opinion, subsequently confirmed in writing, to the effect that, as of December 20, 2006, the merger consideration was fair, from a financial point of view, to both NHC and Davis Acquisition Sub LLC. Following the delivery of such opinion by Avondale Partners the NHC special committee recommended to the board of directors of NHC that the NHC board approve the merger, the merger agreement and each of the transactions contemplated thereby.

Following the adjournment of the NHC special committee meeting, the meeting of the NHC board of directors was held at which time the NHC board heard the report of the NHC special committee in which the NHC special committee recommended that the NHC board of directors approve the merger, the merger agreement and each of the transactions contemplated thereby, including the issuance of the Preferred Stock as part of the merger consideration. After further discussions by the NHC board of directors and its advisers, the NHC board of directors approved the merger, the merger agreement and each of the transactions contemplated

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thereby, including the issuance of the Preferred Stock and the submission of the NHC Proposal to the stockholders of NHC for consideration.

At the NHR special committee meeting, 2nd Generation, made an extensive financial presentation. Among other matters reviewed in detail, 2nd Generation (i) summarized the pertinent transaction provisions, (ii) described the assumptions used and basis for the financial analysis of NHR's prospects, (iii) discussed a valuation analysis of NHR using a variety of valuation methods, and (iv) reviewed its valuation of the preferred stock to be issued to NHR stockholders. 2nd Generation presented its analysis in connection with its determination that it could render a fairness opinion with respect to the proposed transaction and delivered its opinion both orally and in writing that the proposed transaction was fair to the stockholders of NHR.

Also at the meetings, representatives of Waller Lansden discussed the terms and provisions of the merger agreement, the structure of the merger and the timing of the proposed transaction. Representatives of Venable discussed extensively with the members of the NHR special committee their duties as directors under Maryland law. Representatives of Hogan & Hartson discussed with the NHR special committee the consolidation structure and its analysis of the compliance of this structure with the Maryland Business Combination Act, and Hogan & Hartson delivered an opinion, with which Venable advised the NHR special committee that it was prepared to concur, that the consolidation, and the consolidation followed by the proposed merger complied with the Maryland Business Combination Act.

After the presentations to, and discussion among, the members of the NHR special committee, the NHR special committee unanimously agreed that the merger agreement was fair, in the best interests of NHR and its stockholders and should be unanimously recommended to the board of directors of NHR for approval.

Shortly after the NHR special committee meeting adjourned, the meeting of the NHR board of directors commenced. At this meeting, the NHR board of directors heard the report of the NHR special committee in which the NHR special committee recommended that the NHR board of directors approve the merger agreement and submit the merger agreement to the NHR stockholders for consideration, and Hogan & Hartson reviewed its Maryland law advice regarding Maryland law matters, including the compliance of the transaction with the Maryland Business Combination Act. After further discussions by the NHR board of directors and its advisers, the merger agreement was approved and the NHR board of directors recommended that it was advisable and in the best interest of NHR and its stockholders that NHR consolidate with a wholly owned subsidiary and subsequently merge with and into the Davis Acquisition Sub LLC, on substantially the terms and conditions set forth in the merger agreement and that the stockholders approve the consolidation and the merger. NHR board members W. Andrew Adams and Richard F. LaRoche, Jr. abstained from the NHR board of directors vote on the consolidation and the merger because of their membership on the board of directors of National Health Investors, Inc., another REIT affiliated with NHR and NHC.

Following the approval of the NHC and NHR boards of directors, the parties entered into the merger agreement. NHC and NHR issued a joint press release with respect to the merger on December 21, 2006.

On April 6, 2007, NHC, Davis Acquisition Sub LLC, NHC/OP, L.P. and NHR entered into Amendment and Waiver No. 1 to Agreement and Plan of Merger which, among other things, extended the termination date of the merger agreement from June 30, 2007 to August 31, 2007.

On August 2, 2007, the NHR special committee held a meeting by telephone, which included participants from Waller Lansden and 2nd Generation. At the meeting, the special committee determined that there had been no intervening facts and circumstances since December 20, 2006 that materially affected the special committee's prior recommendation regarding the approval and fairness of the merger.

On August 3, 2007, NHC, Davis Acquisition Sub LLC, NHC/OP, L.P. and NHR entered into Amendment No. 2 to Agreement and Plan of Merger, which extended the termination date of the merger agreement from August 31, 2007 to December 14, 2007.

Also, at a meeting of the NHR board of directors on August 3, 2007, the NHR board received information with respect to and, pursuant to Section 4.01(b) of the merger agreement, consented to NHC's adoption of a rights plan.

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Recommendations of the NHC Special Committee and the NHC Board of Directors

On December 20, 2006, the NHC special committee unanimously recommended to the NHC board of directors, after giving consideration to the presentation of Avondale Partners, which was the independent financial advisor to the NHC special committee, that the merger proposal and terms of the merger agreement were advisable, fair and in the best interest of NHC and its stockholders, and that the NHC board of directors should approve the merger, the merger agreement and each of the transactions contemplated thereby. Based on this recommendation, the fairness opinion of Avondale Partners, and other factors considered by the board of directors, the NHC board of directors approved the merger, the merger agreement and each of the transactions contemplated thereby, including the issuance of the Preferred Stock and the submission of the NHC Proposal to the NHC stockholders for consideration.

Fairness of the Offer and the Merger

The NHC board of directors, NHC/OP, L.P. and Davis Acquisition Sub LLC believe that the merger is advisable and in the best interests of both NHC's and NHR's stockholders. In addition NHC's board determined that it believed that the transaction was procedurally and substantively fair to unaffiliated stockholders of NHC and NHR. During its December 20, 2006 meeting, the NHC board of directors, based on the unanimous recommendation of the NHC special committee, the fairness opinion of Avondale Partners, and a number of other factors considered by the NHC board of directors, approved, by the unanimous vote of those directors present and voting, the merger, the merger agreement and each of the transactions contemplated thereby, including the issuance of the Preferred Stock and the submission of the NHC Proposal to the NHC stockholders for consideration. One director, Mr. Andrew Adams, a director and the chairman of each of NHC and NHR, abstained from the vote.

The NHC board of directors, NHC/OP, L.P. and Davis Acquisition Sub LLC considered a number of material factors, which in the opinion of NHC board members, NHC/OP, L.P. and Davis Acquisition Sub LLC supported the NHC board of directors' determination that the merger (including the pre-merger consolidation of NHR) is substantively and procedurally fair to NHC's and NHR's stockholders.

The factors supporting a determination of procedural and substantive fairness to NHR's unaffiliated stockholders included:

the NHR board of directors received a fairness opinion from 2nd Generation that the merger consideration to be paid by Davis Acquisition Sub LLC in the merger was fair from a financial point of view, to the stockholders of NHR;

the NHR special committee was represented by independent legal counsel, Waller Lansden and independent financial advisors, 2nd Generation;

the unanimous recommendation of the NHR special committee in favor of the merger and related transactions in light of (i) the composition of the two-member non-employee NHR special committee, each of whom the NHR board of directors had previously determined were unaffiliated with NHC, (ii) the in-depth review of NHR's and NHC's business, assets, liabilities and financial condition by the NHR special committee and (iii) the protracted arms-length negotiations of the NHC special committee with the NHR special committee;

the business, financial strength and prospects of NHR as a stand-alone entity was viewed less favorably when compared to the value of the merger consideration and participation with a larger NHC entity because of NHR's history of no acquisition and limited growth;

the nature of the representations, warranties, covenants and other provisions of NHC and NHR set forth in the draft of the merger agreement and certificate of designations for the NHC preferred stock were negotiated by the NHR special committee to protect the interests of NHR and its stockholders and, therefore were viewed as supporting the fairness of the merger;

the nature of the proposed consideration consisting of a combination of cash and NHC preferred stock to be paid by NHC upon the consummation of the merger, which was considered by the NHR special

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committee and the NHR board of directors to be favorable to the NHR stockholders based on the financial analysis of 2nd Generation and the opportunity for stockholders to receive a substantial amount of cash per share of NHC common stock and participate through the NHC preferred stock in the future of the merger entity;

the financial analysis conducted by 2nd Generation, on which the NHR special committee and board of directors relied, valued the merger consideration at \$26.18 per share, which supported the fairness of the transaction because it represented a 22.6% premium over the closing price on December 19, 2006, the day prior to execution of the merger agreement, which was the historical high price of NHR common stock. 2nd Generation also considered the historical market prices of NHR's common stock since inception, as described under the heading "Opinion of NHR's Financial Advisor 2nd Generation Merger Consideration Fairness Analysis; Historical Stock Trading Analysis";

although 2nd Generation does not believe that there is a single method for determining the going concern value of NHR, based on a precedent transactions analysis, comparable companies analysis, discounted cash flow analysis, dividend discount analysis and net asset value analysis conducted by 2nd Generation on which the NHR special committee and board of directors relied, the NHR special committee and board of directors believed that NHR's going concern as a stand-alone entity was less than the proposed merger consideration and, therefore, supported the fairness of the merger. 2nd Generation used, and the NHR special committee and board of directors believed, that the above tests were representative of NHR as a going concern because these methods are generally accepted by appraisers to determine going concern value;

the liquidation value of NHR, the replacement cost of NHR's assets, the potential market value of NHR's assets and the benefits to NHC as an operator of long-term health care facilities, of operational control of NHR's assets;

The factors supporting a determination of procedural and substantive fairness to NHC's stockholders included:

the financial presentation of Avondale Partners to the NHC board of directors on December 20, 2006 and Avondale Partner's opinion addressed to the NHC special committee that the merger consideration to be paid by Davis Acquisition Sub LLC in the merger was fair, from a financial point of view, to both Davis Acquisition Sub LLC and NHC. We have described Avondale Partner's opinion in detail under the heading "Special Factors Opinion of NHC's Financial Advisor Avondale Partners, LLC." While not specifically addressed to the unaffiliated stockholders of NHC, the NHC board of directors considers the fairness opinion to be relevant to the determination that the consideration paid in the merger was fair to NHC's stockholders, including its unaffiliated stockholders. The NHC board of directors was not aware of and did not consider any reports, opinions or appraisals received by any other filing person in connection with its deliberations;

the unanimous recommendation of the NHC special committee in favor of the merger and related transactions in light of (i) the composition of the two-member non-employee NHC special committee, each of whom the NHC board of directors had previously determined were unaffiliated with NHR, (ii) the in-depth review of NHR's business, assets, liabilities and financial condition by the NHC special committee, (iii) the protracted arms-length negotiations of the NHC special committee with the NHR special committee and (iv) the retention by the NHC special committee of independent legal and financial advisors possessing experience with transactions similar to the merger to assist the NHC special committee;

the business, financial strength and prospects of NHC as a stand-alone entity;

the absence of firm offers for NHR from unaffiliated persons during the two years prior to the execution of the merger agreement;

the nature of the representations, warranties, covenants and other provisions of NHC and NHR set forth in the draft of the merger agreement and certificate of designations for the NHC preferred stock;

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the nature of the proposed consideration consisting of a combination of cash and NHC preferred stock to be paid by NHC upon the consummation of the merger;

the expected U.S. Federal income tax consequences of the merger;

the current and historical market prices of NHR's common stock; as a result of which the merger price represented a 15.9% premium over the price of NHR common stock one day prior to the announcement of the merger and a 17.9% premium over the price of NHR common stock four weeks prior to the announcement of the merger;

the value of NHR based on a precedent transactions analysis, comparable companies analysis, discounted cash flow analysis, dividend discount analysis and net asset value analysis;

the liquidation value of NHR, the replacement cost of NHR's assets, the potential market value of NHR's assets and the benefits to NHC as an operator of long-term health care facilities, of operational control of NHR's assets;

the potential benefits of the contemplated merger with NHR, including the potential realization of (i) a larger asset and equity base, (ii) greater operating flexibility to renovate and expand facilities, (iii) an increase in annual recurring free cash flow resulting from the elimination of annual lease payment obligations of NHC to NHR, (iv) benefits arising from a management team focused on NHC's core business and freed of the burden of managing two public companies, (v) increased access to debt financing sources and (vi) reductions in redundant expenses relating to corporate overhead and the costs of managing a public company; and

the potential reduction in NHC's earnings per share resulting from the merger.

Because of the variety of factors considered, neither the NHC special committee nor the NHC board of directors found it practicable to assign relative weights to the specific factors considered in reaching their respective determinations. In approving the merger proposal and the terms of the merger agreement, the NHC relied on the conclusion and analysis of Avondale as to the substantive fairness of the merger.

Based primarily on the procedural safeguards resulting from the establishment and independent function of the NHC special committee and the receipt by such committee of the fairness opinion of Avondale Partners, the NHC board of directors believes that the merger is procedurally fair to NHC's unaffiliated stockholders despite the fact that (i) the terms of the merger agreement do not require the approval of a majority of the unaffiliated NHC stockholders for the consummation of the merger and (ii) no unaffiliated representative has been retained by NHC's non-employee directors to act solely on behalf of unaffiliated security holders for purposes of negotiating the terms of merger or to prepare a report concerning the fairness of the transaction. As stated above, the merger, the merger agreement and each of the transactions contemplated thereby, including the issuance of the Preferred Stock and the submission of the NHC Proposal to the NHC stockholders for consideration was approved by a majority of the non-employee members of the NHC board of directors.

NHC's Reasons for, and Advantages of, the Merger

The NHC board of directors' purpose in approving the merger, the merger agreement and each of the transactions contemplated thereby is to provide a larger asset and equity base for NHC, and thereby enhance NHC's future growth and prospects for long term increases in stockholder value. NHC is undertaking the merger at this time in order to capitalize on the expected resulting increase in NHC's annual recurring free cash flow. During the period following the

establishment of the NHC special committee in February of 2006 until the execution of the merger agreement on December 20, 2006, the NHC board of directors considered the alternative of continuing as a stand-alone company, but did not consider any other material acquisitions or mergers. The NHC board of directors believes that the merger is advisable and in the best interests of NHC's stockholders based on the following material reasons:

the financial presentation of Avondale Partners to the NHC board of directors on December 20, 2006, and Avondale Partners' opinion addressed to the NHC special committee that the merger consideration

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to be paid by Davis Acquisition Sub LLC in the merger was fair, from a financial point of view, to both Davis Acquisition Sub LLC and NHC. We have described Avondale Partner's opinion in detail under the heading Special Factors Opinion of NHC's Financial Advisor Avondale Partners, LLC;

the unanimous recommendation of the NHC special committee in favor of the merger and related transactions in light of (i) the composition of the two-member non-employee NHC special committee, each of whom the NHC board of directors had previously determined were unaffiliated with NHR, (ii) the in-depth review of NHR's business, assets, liabilities and financial condition by the NHC special committee, (iii) the protracted arms-length negotiations of the NHC special committee with the NHR special committee and (iv) the retention by the NHC special committee of independent legal and financial advisors possessing experience with transactions similar to the merger to assist the NHC special committee;

the increase in operating flexibility expected to result from the merger, which will allow NHC to renovate and expand its facilities;

the expected increase in annual recurring free cash flow resulting from the elimination of annual lease payment obligations of NHC to NHR, even after providing for the dividends on the Preferred Stock. In addition, the merger will eliminate the financial uncertainty that resulted from the periodic negotiation and renegotiation of the leasing terms of the properties that NHC leased from NHR;

the benefits arising from a management team focused on NHC's core business and freed of the burden of managing two public companies;

the elimination of the possibility that NHR could be acquired by a competitor of NHC;

the belief that the expected increase in annual recurring free cash flow and larger asset base will allow NHC to more easily access a broader range of debt financing sources and obtain borrowings on improved terms; and

the expected reduction in redundant expenses relating to corporate overhead and the costs of managing a public company.

If the merger is approved and all other conditions to the merger have been satisfied or waived, NHR will merge with and into Davis Acquisition Sub LLC, upon the terms and subject to the conditions set forth in the merger agreement. Upon effectiveness of the merger, the separate corporate existence of NHR shall cease and Davis Acquisition Sub LLC shall continue as the surviving person in the merger and a wholly-owned subsidiary of NHC/OP, L.P., which is a wholly-owned subsidiary of NHC and shall succeed to and assume all the rights and obligations of NHR. As a result, the interest of NHC in NHR's net book value will increase from approximately 3.65% to 100%. This will constitute an approximately \$107,570,000 increase in NHC's interest in NHR's net book value and will entitle NHC to all future income generated by NHR. For U.S. federal income tax purposes, NHC expects the merger to be treated as a taxable asset sale, which would thereby provide the purchaser with a step-up in the tax basis of the acquired assets. NHC expects that the receipt of cash and shares of the Preferred Stock by stockholders of NHR in exchange for their common stock of NHR pursuant to the merger should be a taxable transaction for U.S. federal income tax purposes.

Disadvantages to NHC of the Merger

NHC may experience a reduction in its earnings per share as a result of the merger. NHC believes, however, that this potential negative consequence will be offset by the accretive effects that the merger is expected to have on NHC's free cash flow.

Opinion of NHC's Financial Advisor Avondale Partners, LLC

At the December 20, 2006 meeting of the NHC special committee, Avondale Partners, LLC (Avondale Partners) rendered its oral opinion to the NHC special committee, subsequently confirmed in writing, to the effect that, as of December 20, 2006, and based upon and subject to certain matters stated therein, the merger

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consideration to be paid by Davis Acquisition Sub LLC in the merger was fair, from a financial point of view, to both Davis Acquisition Sub LLC and NHC.

The full text of Avondale Partners' written opinion dated December 20, 2006 delivered to the NHC special committee, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken, is attached as Annex D to this joint proxy statement/prospectus, and the written opinion is incorporated herein by reference. Holders of NHC common stock are urged to read the opinion carefully and in its entirety.

The Avondale Partners opinion was rendered at the request of the NHC special committee and for the benefit of the NHC special committee and NHC's full board of directors in their evaluation of the proposed merger.

The NHC special committee did not impose any limitations on Avondale Partners with respect to the investigations made or procedures followed in rendering its opinion. Further, the NHC special committee did not request the advice of Avondale Partners with respect to alternatives to the merger, and Avondale Partners did not advise the NHC special committee with respect to alternatives to the merger or NHC's underlying decision to proceed with or effect the merger. The opinion addresses only the fairness, from a financial point of view, of the merger consideration to be paid by Davis Acquisition Sub LLC in the merger to both Davis Acquisition Sub LLC and NHC. It does not address the relative merits of the merger as compared to alternative transactions or strategies that may be available to NHC, nor does it address NHC's underlying decision to engage in the merger.

Avondale Partners' opinion does not constitute a recommendation to you or any of NHC's other stockholders as to how you or any other NHC stockholder should vote or act with respect to the NHC Proposal.

Avondale Partners' opinion and its related presentation were among the many factors that the NHC special committee took into consideration in making its determination to approve, and to recommend to NHC's full board of directors that the board of directors approve, the merger and the transactions contemplated thereby. Avondale Partners' opinion was also among the many factors that NHC's board of directors took into consideration in making its determination to approve, and to recommend to NHC's stockholders that they approve, the NHC Proposal. The Avondale Partners opinion should not be viewed as determinative of the views of the NHC special committee or the NHC board of directors with respect to the NHC Proposal. The merger consideration was determined through negotiations between NHC and NHR.

The following description of Avondale Partners' opinion is only a summary of the analyses and examinations that Avondale Partners deemed material to its opinion. It is not a comprehensive description of all analyses and examinations actually conducted by Avondale Partners. The preparation of a fairness opinion necessarily is not susceptible to partial analysis or summary description. Avondale Partners believes that its analyses and the summary set forth below must be considered as a whole and that selecting portions of its analyses and of the factors considered, without considering all analyses and factors, would create an incomplete view of the process underlying the analyses set forth in its presentation to the NHC special committee. In addition, Avondale Partners may have given various analyses more or less weight than other analyses, and may have deemed various assumptions more or less probable than other assumptions. The fact that any specific analysis has been referred to in the summary below is not meant to indicate that this analysis was given greater weight than any other analysis described below and should not be taken to be the view of Avondale Partners with respect to the actual value of NHR.

In performing its analyses, Avondale Partners made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond the control of NHC or NHR. The analyses performed by Avondale Partners are not necessarily indicative of actual values or actual future results, which may be significantly more or less favorable than those suggested by these analyses. These analyses were

prepared solely as part of the analysis performed by Avondale Partners with respect to whether the merger consideration to be paid by Davis Acquisition Sub LLC in the merger is fair, from a financial point of view, to both Davis Acquisition Sub LLC and NHC, and were provided to the NHC

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special committee in connection with the delivery of Avondale Partners' opinion. The analyses do not purport to be appraisals or to reflect the prices at which a company might actually be sold or the prices at which any securities may trade at any time in the future. The Avondale Partners opinion does not address the number of shares of NHR common stock, if any, to be received by holders of NHR/OP, LP units in the conversion and/or redemption of such units prior to the merger.

No company or transaction used in the comparable company or comparable transaction analyses described below is identical to NHC or NHR or the merger. Accordingly, an analysis of the results of such analyses is not mathematical; rather, it involves complex considerations and judgments concerning differences in financial and operating characteristics of the companies and other factors that could affect the public trading value of the companies to which NHC, NHR and the merger are being compared.

Procedures Followed

In connection with its opinion, Avondale Partners:

- reviewed certain publicly available business and financial information relating to NHC and NHR that Avondale Partners deemed to be relevant;

- reviewed the merger agreement and certain exhibits and documents referenced therein;

- compared NHR from a financial point of view with certain other companies in the REIT industry that Avondale Partners deemed relevant;

- reviewed certain information, including financial forecasts relating to the business and prospects of NHC and NHR, furnished to Avondale Partners by management of NHC and NHR;

- considered the financial terms, to the extent publicly available, of selected recent business combinations in the REIT industry that Avondale Partners deemed to be comparable, in whole or in part, to the merger;

- interviewed senior management of NHC and NHR regarding each company's operating history and respective prospects;

- compared the trading histories of NHC common stock and NHR common stock from December 19, 2005 to December 19, 2006 and reviewed the trading history of NHR common stock from December 19, 2004 to December 19, 2006;

- reviewed publicly available premiums paid of certain other transactions Avondale Partners believed to be reasonably comparable to the merger;

- reviewed the potential pro forma financial results, financial condition and capitalization of NHC after giving effect to the merger; and

- performed other such analyses such as dividend discount and net asset valuation analyses and examinations as Avondale Partners deemed appropriate.

In preparing its opinion, Avondale Partners did not assume any responsibility to independently verify the information referred to above. Instead, with NHC's consent, Avondale Partners relied on the information being accurate and complete. Avondale Partners also made the following assumptions, in each case with NHC's consent, that:

the internal operating data and financial analyses and forecasts supplied to Avondale Partners were reasonably prepared on bases reflecting the best currently available estimates and judgments of NHC and NHR senior management as to NHC's and NHR's recent and likely future performance;

the merger will be consummated on the terms and subject to the conditions described in the merger agreement; and

all necessary governmental and regulatory approvals and third-party consents will be obtained on terms and conditions that will not have a material adverse effect on NHC.

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In addition, for purposes of its opinion, Avondale Partners:

relied on advice of NHC counsel and considered the Company's audited financial statements as to legal and financial reporting matters with respect to NHC, the merger and the merger agreement;

did not assume responsibility for making an independent physical inspection or appraisal of any of the assets, properties or facilities of NHR; and

was not authorized to and did not solicit indications of interest from any third party with respect to the purchase of all or part of NHR.

The Avondale Partners opinion was necessarily based upon market, economic, financial and other conditions as they existed on, and could be evaluated as of, the date of its opinion. Any change in such conditions would require a reevaluation of the Avondale Partners opinion. Accordingly, although subsequent developments may affect its opinion, Avondale Partners has not assumed any obligation to update or revise its opinion.

Summary of Financial and Other Analyses

The following represents a summary of the material financial analyses performed by Avondale Partners in connection with providing its opinion to the NHC special committee. Some of the summaries of financial analyses performed by Avondale Partners include information presented in tabular format. In order to fully understand the financial analyses performed by Avondale Partners, you should read the tables together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data set forth in the tables without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of the financial analyses performed by Avondale Partners.

Historical Stock Trading Analysis. Avondale Partners reviewed the historical stock prices and trading characteristics over the last two years of NHR common stock. The following table compares the merger price with various closing prices and averages over the last two years:

Prices as of 12/19/2006

Merger Price	\$ 24.75
1 Week Average	\$ 21.10
1 Month Average	\$ 21.05
3 Month Average	\$ 20.63
9 Month Average	\$ 19.30
1 Year Average	\$ 19.34
1 Year High	\$ 21.35
2 Year Average	\$ 19.31
2 Year High	\$ 21.35

Volume of Shares Traded Analysis. Avondale Partners reviewed the historical prices and historical trading activity of NHR common stock over the one-year and two-year time periods ended December 19, 2006. Avondale Partners calculated the total number of shares traded at certain share price ranges over the one year period ended December 19, 2006 beginning with \$16.75 to \$17.00 and increasing at \$0.25 increments to \$21.00 to \$21.25. Avondale Partners calculated the total number of shares traded at certain share price ranges over the two year period ended December 19,

2006 beginning with \$16.75 to \$17.00 and increasing at \$0.25 increments to \$21.00 to \$21.25. Avondale Partners observed that no shares traded above the merger price of \$24.75 per share in either the one year or two year time period ended December 19, 2006.

Premiums Paid Analysis. Avondale Partners reviewed the premiums paid for all REIT transactions where 100% of the target's shares were being acquired and other public transactions in the precedent acquisitions analysis for transactions with enterprise values ranging from \$100 to \$500 million for deals announced and closed between January 1, 2004 and December 15, 2006.

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Avondale Partners calculated the premiums paid in these transactions over the applicable stock price of the acquired company one day, one week and four weeks prior to the announcement of the respective acquisition offer.

	Premium One Day Prior to Announcement	Premium One Week Prior to Announcement	Premium Four Weeks Prior to Announcement
High	58.0%	60.9%	66.2%
Low	(3.7)%	(2.1)%	(2.6)%
Deal Premium	15.9%	17.6%	17.9%

Avondale Partners calculated the implied range of company share prices based on the NHC common stock price as of December 20, 2006 and the range of premiums paid for the selected time periods in the selected transactions. The range of premiums paid over the price of the acquired companies' share prices one day, one week and four weeks prior to announcement implied an equity value per share ranges of \$20.56 to \$33.74, \$20.62 to \$33.87 and \$20.45 to \$34.90, respectively, which compare to the merger price of \$24.75 per share.

Precedent Transactions Analysis. Based on public and other available information, Avondale Partners calculated the multiples of enterprise value (which Avondale Partners defined as equity value, plus debt, plus preferred stock, plus minority interest, less cash and cash equivalents) to last twelve months (LTM) revenues, as well as multiples of equity value to LTM funds from operations (FFO) implied in the following acquisitions of companies in the REIT industry announced since October 1, 2005:

Date Announced	Name of Acquiror	Name of Target
8/21/2006	Morgan Stanley Real Estate	Glenborough Realty Trust, Inc.
8/8/2006	Revenue Properties Co Ltd	Sizeler Property Investors, Inc.
7/10/2006	Kimco Realty Corp	Pan Pacific Ret Property, Inc.
7/9/2006	Centro Properties Group	Heritage Property Invest Trust Inc.
6/5/2006	Brookfield Properties Corp. and Blackstone Group LP	Trizec Properties Inc.
5/19/2006	Braveheart Holdings LP	Boykin Lodging Co.
5/2/2006	Health Care Property Investors Inc	CNL Retirement Properties, Inc.
3/6/2006	Blackstone Group LP	CarrAmerica Realty Corp.
2/21/2006	Blackstone Group LP	MeriStar Hospitality Corp.
2/10/2006	LBA Realty LLC	Bedford Property Investors, Inc.
12/22/2005	GE Capital Real Estate	Arden Realty Inc.
12/19/2005	Magazine Acquisition GP LLC	Town & Country Trust
12/7/2005	CalEast Industrial Investors	CenterPoint Properties Trust
10/24/2005	Prime Property Fund	Amli Residential Property Trust

The following table sets forth the multiples indicated by this analysis and the multiples implied by the proposed merger:

Enterprise Value to:	Proposed Transaction Multiples	Low	High
LTM Revenues	13.0x	2.0x	14.7x
LTM FFO	14.5x	13.3x	37.8x

Avondale Partners also calculated the implied company share price based on the range of revenue and FFO valuation multiples based on the precedent transactions analysis. This calculation resulted in an implied equity value per share range of \$4.34 to \$64.70 which compares to the merger price of \$24.75 per share.

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Comparable Company Analysis. Based on public filings and other publicly available information, Avondale Partners calculated the multiples of enterprise value (which Avondale Partners defined as equity value, plus debt, plus preferred stock, plus minority interest, less cash and cash equivalents) to the LTM, estimated calendar year 2006 (CY 2006), and estimated calendar year 2007 (CY 2007) revenues, and equity value to the LTM, estimated CY 2006, and estimated CY 2007 earnings per share (EPS) and funds from operations per share for companies in the REIT industry. Avondale Partners indicated that the companies listed below have some operations similar to some of the operations of NHR, but noted that none of these companies have the same management, composition, size, or combination of businesses as NHR:

Health Care Property Investors, Inc.

Health Care REIT, Inc.

Healthcare Realty Trust, Inc.

LTC Properties, Inc.

Medical Properties Trust

National Health Investors Inc.

Nationwide Health Properties, Inc.

Omega Healthcare Investors, Inc.

Senior Housing Properties Trust

Universal Health Realty Income Trust

Ventas Inc.

The following table sets forth the multiples indicated by this analysis:

Enterprise Value to:	Proposed Transaction Multiples	Low	High
LTM Revenue	13.0x	5.4x	17.5x
Estimated CY 2006 Revenues	13.3x	10.1x	15.7x
Estimated CY 2007 Revenues	13.1x	8.2x	14.1x
LTM FFO per share	14.5x	11.9x	18.4x
Estimated CY 2006 FFO per share	14.8x	13.2x	18.2x
Estimated CY 2007 FFO per share	14.5x	10.9x	16.8x
LTM EPS	20.7x	13.7x	45.2x
Estimated CY 2006 EPS	21.2x	14.6x	39.9x
Estimated CY 2007 EPS	20.2x	15.9x	41.6x

Avondale Partners also calculated the implied company share price based on the range of revenue, P/E and Price/FFO valuation multiples based on the comparable company analysis. The range of revenue, P/E and Price/FFO multiples implied equity value per share ranges of \$10.63 to \$33.14, \$16.43 to \$54.30, and \$18.58 to \$31.40, respectively, which compare to the merger price of \$24.75 per share.

Discounted Cash Flow Analysis. Avondale Partners performed a discounted cash flow analysis for the projected cash flows of NHR for the fiscal years ending December 31, 2007 through December 31, 2009, using projections and assumptions provided by NHR management, which projections were prepared for the purposes of these analyses. Avondale Partners used a range of discount rates (9.0% to 13.0%) and perpetuity growth rates (0.0% to 4.0%) on forecasted free cash flow for the fiscal year ending December 31, 2009 to calculate a range of implied equity values per share of NHR common stock. The following table sets forth the implied values indicated by this analysis:

(\$ in millions, except per share data)

	Low	High
Implied Enterprise Value	\$ 162.8	\$ 376.8
Implied Equity Value	\$ 169.9	\$ 383.9
Implied Price per Share	\$ 15.20	\$ 34.35

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This analysis resulted in an implied equity value per share range of \$15.20 to \$34.35 which compares to the merger price of \$24.75 per share.

Dividend Discount Analysis. Avondale Partners performed a dividend discount analysis to calculate an implied stock price, using projections and assumptions provided by NHR management which projections were prepared for the purposes of these analyses. Avondale Partners used a range of discount rates (10.0% to 12.0%) and dividend growth rates (0.5% to 4.5%) based on historical dividend growth rates to calculate a range of implied equity values per share. The following table sets forth the implied values indicated by this analysis:

(\$ in millions, except per share data)

	Low	High
Implied Enterprise Value	\$ 131.9	\$ 283.5
Implied Equity Value	\$ 139.0	\$ 290.6
Implied Price per Share	\$ 12.43	\$ 26.00

This analysis resulted in an implied equity value per share range of \$12.43 to \$26.00 which compares to the merger price of \$24.75 per share.

Net Asset Value Analysis. Avondale Partners performed a net asset value analysis to calculate an implied stock price. For this analysis, Avondale Partners applied a range of capitalization rates (7.0% to 13.5%) to annualized adjusted net operating income (net operating income, less capital expenditures). The resulting gross real estate values were combined with cash and cash equivalents, marketable securities, and mortgage notes and other notes receivable to arrive at total asset values. Total debt was then subtracted from such total asset values to arrive at estimated net asset values. The resulting estimated net asset values were then divided by the diluted shares outstanding to arrive at an estimated net asset values per share. In applying the range of capitalization rates, Avondale Partners took into consideration current market conditions. The following table sets forth the implied values indicated by this analysis:

(\$ in millions, except per share data)

	Low	High
Implied Enterprise Value	\$ 198.5	\$ 370.3
Implied Equity Value	\$ 205.6	\$ 377.3
Implied Price per Share	\$ 18.39	\$ 33.76

This analysis resulted in an implied equity value per share range of \$18.39 to \$33.76 which compares to the merger price of \$24.75 per share.

Pro Forma Merger Analysis. In the course of preparing its opinion, Avondale Partners also reviewed and considered other information and data, including the potential pro forma effect of the merger on the pro forma combined company's estimated earnings per share, as well as cash flow per share (which is cash flow from operations less capital expenditures) in calendar years 2007, 2008 and 2009 after giving effect to potential cost savings and other synergies anticipated to result from the merger developed jointly by NHC and NHR and compared that data to the estimated earnings per share of NHC on a standalone basis. Such analysis indicated that, after giving effect to potential cost savings and other synergies, the merger would be dilutive to the pro forma earnings per share of NHC by (10.5%), (8.9%), and (7.4%) respectively in calendar years 2007, 2008, and 2009. Such analysis also indicated that, after giving effect to potential cost savings and other synergies, the merger would be accretive to pro forma cash flow per share of

NHC by 16.2%, 14.0%, and 12.8% respectively in calendar years 2007, 2008, and 2009.

General

The NHC special committee selected Avondale Partners to render a fairness opinion to the NHC special committee with respect to the fairness, from a financial point of view, of the merger consideration to be paid by Davis Acquisition Sub LLC in the merger to both Davis Acquisition Sub LLC and NHC. During the selection process, the NHC special committee met with representatives of several investment banking firms active in the healthcare and REIT industries and collected proposals from two such entities. In its search, the

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NHC special committee focused on (i) the reputation of each firm and its experience in the healthcare and REIT industries, (ii) the professional experience of each representative that would be assigned to work on the project and (iii) the relative costs of such services. Based on Avondale's expertise and reputation in investment banking and mergers and acquisitions, as well as in the healthcare and REIT industries, and the other considerations mentioned above, the NHC special committee selected Avondale from among the firms considered. Prior to the selection of Avondale Partners to render the fairness opinion in connection with the merger, Avondale did not have any material relationship with NHC. Avondale Partners is a nationally recognized investment banking firm regularly engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, leveraged buyouts, negotiated underwritings, secondary distributions of listed and unlisted securities and private placements.

Avondale Partners became entitled to a fixed fee of \$200,000 upon its completion of the work necessary to render its opinion, regardless of the conclusion reached therein. No portion of Avondale Partner's fee was contingent upon consummation of the merger. Further, NHC reimbursed Avondale Partners for its reasonable out-of-pocket expenses incurred in connection with its engagement, including reasonable attorneys' fees, and agreed to indemnify Avondale Partners, its affiliates, and their respective partners, directors, officers, agents, consultants, employees and controlling persons against specific liabilities, including liabilities under applicable securities laws.

Avondale Partners was engaged to render its opinion with respect to the fairness, from a financial point of view, of the merger consideration to be paid by Davis Acquisition Sub LLC in the merger. Avondale Partners was not requested to, and did not, determine the consideration to be paid in the merger or participate in any discussion in negotiations relating to the merger. In the ordinary course of its business, Avondale Partners may trade in the equity securities of NHC or NHR for its own account and for the accounts of customers and, accordingly, may at any time hold a long or short position in these securities.

Recommendations of the NHR Special Committee and the NHR Board of Directors; Fairness of the Offer and the Merger

The NHR special committee and board of directors believe that the merger is advisable and in the best interests of NHR's stockholders, including its unaffiliated stockholders. On December 20, 2006, the NHR special committee to the NHR board of directors unanimously recommended to the board of directors, after giving consideration to the presentation of its legal advisors regarding Maryland law and the fairness opinion of 2nd Generation, which was the independent financial advisor to the special committee, that the merger agreement was fair, in the best interests of NHR and its stockholders and should be unanimously recommended to the board of directors of NHR for approval. Based on this recommendation, the presentation of the fairness opinion by 2nd Generation, and other factors considered by the board of directors, the NHR board of directors approved the merger agreement and recommended that it was advisable and in the best interest of NHR and its stockholders that NHR consolidate with a wholly owned subsidiary and subsequently merge with and into the Davis Acquisition Sub LLC, on substantially the terms and conditions set forth in the merger agreement and that the stockholders approve the consolidation and the merger.

The NHR special committee and board of directors considered a number of material factors, which in the opinion of NHR board members, supported the NHR special committee's and board of directors' determination that the merger (including the pre-merger consolidation of NHR) is substantively fair to NHR's stockholders, including its unaffiliated stockholders:

the financial presentation of 2nd Generation to the NHR board of directors on December 20, 2006 and 2nd Generation's opinion addressed to the NHR special committee that the merger consideration to be paid by Davis Acquisition Sub LLC in the merger was fair, from a financial point of view, to the stockholders of NHR. We have described 2nd Generation's opinion in detail under the heading "Special Factors" Opinion of NHR's Financial Advisor 2nd Generation. The NHR board of directors was not aware of and did not consider any

financial reports, opinions or appraisals received by any other filing person in connection with its deliberations;

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the unanimous recommendation of the NHR special committee in favor of the merger and related transactions in light of (i) the composition of the two-member non-employee NHR special committee, each of whom the NHR board of directors had previously determined were unaffiliated with NHC, (ii) the review of NHR's and NHC's business, assets, liabilities and financial condition by the NHR special committee, (iii) the protracted arms-length negotiations of the NHR special committee with the NHC special committee and (iv) the retention by the NHR special committee of independent legal and financial advisors possessing experience with transactions similar to the merger to assist the NHR special committee;

the business, financial strength and prospects of NHR as a stand-alone entity was viewed less favorably when compared to the value of the merger consideration and participation with a larger NHC entity because of NHR's history of no acquisitions and limited growth;

the nature of the representations, warranties, covenants and other provisions of NHC and NHR set forth in the draft of the merger agreement and certificate of designations for the NHC preferred stock were negotiated by the NHR special committee to protect the interests of NHR and its stockholders and, therefore, were viewed as supporting the fairness of the merger;

the nature of the proposed consideration consisting of a combination of cash and NHC preferred stock to be paid by NHC upon the consummation of the merger, which was considered by the NHR special committee and the NHR board of directors to be favorable to the NHR stockholders based on the financial analysis of 2nd Generation and the opportunity for stockholders to receive a substantial amount of cash per share of NHC common stock and participate through the NHC preferred stock in the future of the merger entity;

the financial analysis conducted by 2nd Generation, on which the NHR special committee and board of directors relied, valued the merger consideration at \$26.18 per share, which supported the fairness of the transaction because it represented a 22.6% premium over the closing price on December 19, 2006, the day prior to execution of the merger agreement, which was the historical high price of NHR common stock. 2nd Generation also considered the historical market prices of NHR's common stock since inception, as described under the heading "Opinion of NHR's Financial Advisor 2nd Generation Merger Consideration Fairness Analysis; Historical Stock Trading Analysis";

although 2nd Generation does not believe that there is a single method for determining the going concern value of NHR, based on a precedent transactions analysis, comparable companies analysis, discounted cash flow analysis, dividend discount analysis and net asset value analysis conducted by 2nd Generation on which the NHR special committee and board of directors relied, the NHR special committee and board of directors believed that NHR's going concern as a stand-alone entity was less than the proposed merger consideration and, therefore, supported the fairness of the merger. 2nd Generation used, and the NHR special committee and board of directors believed, that the above tests were representative of NHR as a going concern because these methods are generally accepted by appraisers to determine going concern value;

the potential benefits of the contemplated merger with NHC, including the potential realization of (i) a larger asset and equity base for NHC, (ii) greater operating flexibility of NHC to renovate and expand facilities, (iii) an increase in annual recurring free cash flow resulting from the elimination of annual lease payment obligations of NHC to NHR, (iv) benefits arising from a management team focused on NHC's core business and freed of the burden of managing two public companies, (v) increased access to debt financing sources and (vi) reductions in redundant expenses relating to corporate overhead and the costs of managing NHR as a public company.

The NHR special committee and board of directors considered the following factors that negatively affected the fairness determination:

the expected U.S. Federal income tax consequences of the merger, which will likely result in a taxable transaction to the NHR stockholders, and

the potential reduction in NHC's earnings per share resulting from the issuance of the NHC preferred stock in the merger;

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however, the NHR special committee and board of directors did not believe such factors materially affected the fairness determination because the transaction would be accretive to NHC in terms of cash flow and the premium paid for NHR common stock would be comparable to premiums paid in other taxable transactions involving cash as consideration.

Because of the variety of factors considered, neither the NHR special committee nor the NHR board of directors found it practicable to assign relative weights to the specific factors considered in reaching their respective determinations. The NHR special committee and board of directors expressly adopted and are relying on the analyses and conclusions of 2nd Generation as presented below.

The NHR special committee and board of directors believe that the merger is procedurally fair to NHR's unaffiliated stockholders, primarily based on the fact that (i) the terms of the merger agreement require the approval of a majority of the unaffiliated NHR stockholders for the consummation of the merger and (ii) 2nd Generation, as an unaffiliated representative, was retained by NHR's special committee of independent directors to act on behalf of unaffiliated security holders for purposes of assisting in the negotiation of the terms of merger or to prepare a report concerning the fairness of the transaction. As stated above, the merger, the merger agreement and each of the transactions contemplated thereby and the submission of the NHR Proposal to the NHR stockholders for consideration was approved by a majority of the non-employee members of the NHR board of directors.

The NHR special committee and board of directors did not consider the following factors to be materially relevant to its determinations set forth above, for the following reasons:

Net Book Value The NHR special committee and board of directors did not consider the Company's net book value, which is an accounting concept, to be material to the conclusion regarding the fairness of the merger because they believed that net book value is not a material indicator of the value of the Company as a going concern, but rather is indicative of historical cost. Because, as with NHR, real property is the primary asset of a REIT and the historical cost of such real property generally does not reflect the current value, net book value is seldom used as a measurement of value in NHR's industry. Although it was not considered by the NHR special committee or board of directors, NHR's net diluted book value per share (which gives effect to the exercise of all options) as of September 30, 2006 was approximately \$11.28 per share, which was below the proposed merger consideration.

Liquidation Value In the course of reaching its decision to approve the merger agreement, NHR's special committee and board of directors did not consider the liquidation value of NHR's assets. Liquidation value does not take into account existing tenant relationships and other operational efficiencies of a REIT that may not be immediately available to the purchaser or purchasers of NHR's properties and other assets in a liquidation; therefore, the NHR special committee and board of directors believed that the liquidation value would be lower than the Company's value as a viable going concern. As discussed above, the estimated going concern value of NHR was determined by 2nd Generation to be less than the proposed merger consideration. As a result, the NHR special committee and board of directors did not consider the liquidation value of the NHR assets.

Purchase prices paid for NHR common stock over the past two years by persons filing the Schedule 13e-3 related to this transaction There have been no such purchases known to the NHR board of directors, so it did not consider this in the course of reaching its decision to approve the merger agreement and did not consider it as relevant to a determination of fairness.

Firm offers of which NHR or any of the filing persons are aware made by any unaffiliated person, other than the filing persons, during the past two years for a merger or consolidation involving NHR, or the sale or other

transfer of all or any substantial part of the assets of NHR, or a purchase of NHR securities that would enable the holder to exercise control of the NHR. There have been no such offers known to the NHR board of directors, so it did not consider this in the course of reaching its decision to approve the merger agreement and did not consider it as relevant to a determination of fairness.