NATIONAL HEALTH INVESTORS INC
Form 10-K
February 17, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
(Mark One)

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

For the fiscal year ended December 31, 2014

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

For the transition period from _____________ to _____________

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each Class	Name of each exchange on which registered
Common stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [x] No [ ]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files) Yes [x] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§292.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporate by reference in Part III of this Form 10-K or any amendment to this Form 10-K [ ]

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

Large accelerated filer	[x]	Accelerated filer	[ ]
Non-accelerated filer	[ ]	Smaller reporting company	[ ]

(Do not check if a smaller reporting company)

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

The aggregate market value of shares of common stock held by non-affiliates on June 30, 2014 (based on the closing price of these shares on the New York Stock Exchange) was approximately $1,970,533,000. There were 37,564,987 shares of the registrant’s common stock outstanding as of February 13, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant’s definitive proxy statement for its 2015 annual meeting of stockholders are incorporated by reference into Part III, Items 10, 11, 12, 13, and 14 of this Form 10-K.

Table of Contents

Table of Contents

PART I.

Forward Looking Statements

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

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

Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected or contemplated in the forward-looking statements. Such risks and uncertainties include, among other things, the following risks described in more detail under the heading "Risk Factors" under Item 1A:

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

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

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

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

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

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

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

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

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

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

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

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

* We are exposed to risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests;

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

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

Table of Contents

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

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

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

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

ITEM 1. BUSINESS

General

National Health Investors, Inc., is a self-managed real estate investment trust ("REIT") specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of real estate investments in independent, assisted and memory care communities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments include mortgages and notes, the preferred stock and marketable securities of other REITs, and a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 (“RIDEA”). Through this RIDEA joint venture, we invest in facility operations managed by independent third-parties. We fund our real estate investments primarily through: (1) cash flow, (2) debt offerings, including bank lines of credit and ordinary term debt, and (3) the sale of equity securities.

At December 31, 2014, our continuing operations consisted of investments in real estate and mortgage and other notes receivable involving 183 facilities located in 31 states. These investments involve 106 senior housing communities, 71 skilled nursing facilities, 4 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of $900,000) consisted of properties with an original cost of approximately $1,987,949,000, rented under triple-net leases to 24 lessees, and $63,630,000 aggregate carrying value of mortgage and other notes receivable due from 15 borrowers.

All of our investments in real estate and mortgage loans secured by real estate are located within the United States. We are managed as one reporting unit, rather than multiple reporting units, for internal reporting purposes and for internal decision making. Therefore, we have concluded that we operate as a single segment. Information about revenues from our tenants and borrowers, a measure of our income, and total assets can be found in Item 8 of this Form 10-K.

Types of Facilities

Senior Housing Communities

As of December 31, 2014, our portfolio included 103 senior housing communities (“SHO”) leased to operators and mortgage loans secured by 3 SHOs. SHOs within our portfolio are either need-driven or discretionary for end users and consist of assisted living facilities, independent living facilities, entrance-fee communities and senior living campuses which are more fully described below.

Need-Driven Senior Housing

Assisted Living Facilities. As of December 31, 2014, our portfolio included 62 assisted living facilities (“ALF”) leased to operators and mortgage loans secured by 3 ALFs. ALFs are free-standing facilities that provide basic room and board functions for elderly residents. As residents typically receive assistance with activities of daily living such as bathing, grooming, memory care services and administering medication, we consider these facilities to be need-driven senior housing. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. Operators of ALFs

Table of Contents

are typically paid from private sources without assistance from government. ALFs may be licensed and regulated in some states, but do not require the issuance of a Certificate of Need (“CON”) as required for skilled nursing facilities.

Senior Living Campuses. As of December 31, 2014, our portfolio included 6 senior living campuses ("SLC") leased to operators. SLCs are either freestanding or multi-site campuses that include skilled nursing beds combined with an independent or assisted living facility that provides basic room and board functions for elderly residents. They may also provide assistance to residents with activities of daily living such as bathing, grooming and administering medication and as such are considered need-driven senior housing. On-site staff personnel are available to assist in minor medical needs on an as-needed basis. As the decision to transition to a senior living campus is typically more than a lifestyle choice and is usually driven by the need to receive some moderate level of care, we consider this facility type to be need-driven. Operators of SLCs are typically paid from private sources and from government programs such as Medicare and Medicaid for skilled nursing residents.

Discretionary Senior Housing

Entrance-Fee Communities. As of December 31, 2014, our portfolio included 7 entrance-fee communities ("EFC") leased to operators. Entrance-fee communities, frequently referred to as continuing care retirement communities or CCRCs, typically include a combination of detached homes, an independent living facility, an assisted living facility and a skilled nursing facility on one campus. These communities appeal to residents because there is no need to relocate when health and medical needs change. EFCs are classified as either Type A, B, or C depending upon the amount of healthcare benefits included in the entrance fee. “Type A” EFCs, or “Lifecare” communities include substantially all future healthcare costs. Communities providing a modified healthcare contract offering access to skilled nursing care but only paying for a maximum number of days are referred to as “Type B.” Finally, "Type C" EFCs, the type we recently added to our portfolio, are fee-for-service communities which do not provide any healthcare benefits and correspondingly have the lowest entrance fees. However, monthly fees may be higher to reflect the current healthcare components delivered to each resident. EFC licensure is state-specific, but generally the skilled nursing beds included in our EFC portfolio are subject to state licensure and regulation. As the decision to transition to an EFC is typically made as a lifestyle choice and not as the result of a pressing medical concern, we consider the decision to transition to a EFC to be discretionary.

Independent Living Facilities. As of December 31, 2014, our portfolio included 28 independent living facilities (“ILF”) leased to operators. ILFs offer specially designed residential units for the active and ambulatory elderly and provide various ancillary services for their residents including restaurants, activity rooms and social areas. Services provided by ILF operators are generally paid from private sources without assistance from government programs. ILFs may be licensed and regulated in some states, but do not require the issuance of a CON as required for skilled nursing facilities. As ILFs typically do not provide assistance with activities of daily living, we consider the decision to transition to an ILF facility to be discretionary.

Medical Facilities

As of December 31, 2014, our portfolio included 69 medical facilities leased to operators and mortgage loans secured by 8 medical facilities. The medical facilities within our portfolio consist of skilled nursing facilities, hospitals and medical office buildings, which are more fully described below.

Skilled Nursing Facilities. As of December 31, 2014, our portfolio included 64 skilled nursing facilities (“SNF”) leased to operators and mortgage loans secured by 7 SNFs. SNFs provide some combination of skilled and intermediate nursing and rehabilitative care, including speech, physical and occupational therapy. As the decision to utilize the services of a SNF is typically made as a the result of a pressing medical concern, we consider this to be a need driven medical facility. The operators of the SNFs receive payment from a combination of private pay sources and government programs such as Medicaid and Medicare. SNFs are required to obtain state licenses and are highly regulated at the federal, state and local level. Most SNFs must obtain a CON from the state before opening or expanding such facilities. Some SNFs also include assisted living beds.

Hospitals. As of December 31, 2014, our portfolio included 3 hospitals (“HOSP”) leased to operators and a mortgage loan secured by 1 hospital. Hospitals provide a wide range of inpatient and outpatient services, including acute psychiatric and rehabilitation services, and are subject to extensive federal, state and local legislation and regulation. Hospitals undergo periodic inspections regarding standards of medical care, equipment and hygiene as a condition of licensure. Services provided by hospitals are generally paid for by a combination of private pay sources and government programs. As the decision to utilize the services of a hospital is typically made as a the result of a pressing medical concern, we consider this to be a need driven medical facility.

Table of Contents

Medical Office Buildings. As of December 31, 2014, our portfolio included 2 medical office buildings (“MOB”) leased to operators. MOBs are specifically configured office buildings whose tenants are primarily physicians and other medical practitioners. As the decision to utilize the services of an MOB is typically made as a the result of a pressing medical concern, we consider this to be a need driven medical facility. MOBs differ from conventional office buildings due to the special requirements of the tenants. Each of our MOBs is leased to one lessee, and is either physically attached to or located on an acute care hospital campus. The lessee sub-leases individual office space to the physicians or other medical practitioners. The lessee is responsible to us for the lease obligations of the entire building, regardless of their ability to sub-lease the individual office space.

Nature of Investments

Our investments are typically structured as acquisitions of properties through purchase-leaseback transactions, acquisitions of properties from other real estate investors, mortgage loans or, in operations through structures allowed by RIDEA. We have also provided construction loans for facilities for which we were already committed to provide long-term financing or for which the operator agreed to enter into a purchase option and lease with us upon completion of construction or after the facility is stabilized. The annual lease rates on our leases and the annual interest rates on our mortgage and construction loans ranged between 6.5% and 14% during 2014. We believe our lease and loan terms are competitive within our peer group. Typical characteristics of these transactions are as follows:

Leases. Our leases generally have an initial leasehold term of 10 to 15 years with one or more 5-year renewal options. The leases are "triple net leases" under which the tenant is responsible for the payment of all taxes, utilities, insurance premium costs, repairs and other charges relating to the ownership and operation of the properties, including required levels of capital expenditure each year. The tenant is obligated at its expense to keep all improvements, fixtures and other components of the properties covered by "all risk" insurance in an amount equal to at least the full replacement cost thereof, and to maintain specified minimal personal injury and property damage insurance, protecting us as well as the tenant. The leases also require the tenant to indemnify and hold us harmless from all claims resulting from the use and occupancy of each facility by the tenant and related activities, and to indemnify us against all costs related to any release, discovery, clean-up and removal of hazardous substances or materials on, or other environmental responsibility with respect to each facility.

Most of our existing leases contain annual escalators in rent payments. For financial statement purposes, rental income is recognized on a straight-line basis over the term of the lease. The acute care hospital and MOBs which we own and lease give the lessee an option to purchase the underlying property at the greater of i) our acquisition costs; ii) the then fair market value as established by independent appraisers or iii) the sum of the land costs, construction costs and any additional capital improvements made to the property by us. In addition, the acute care hospital and MOB leases contain a right of first refusal for the lessee if we receive an offer to buy the underlying leased property.

Some of the obligations under the leases are guaranteed by the parent corporation of the lessee, if any, or affiliates or individual principals of the lessee. In some leases, the third party operator will also guarantee some portion of the lease obligations. Some obligations are backed further by other collateral such as security deposits, machinery, equipment, furnishings and other personal property.

We monitor our triple-net lessee tenant credit quality and identify any material changes by performing the following activities:

- Obtaining financial statements on a monthly, quarterly and/or annual basis to assess the operational trends of our tenants and the financial position and capability of those tenants
- Calculating the operating cash flow for each of our tenants

- Calculating the lease service coverage ratio and other ratios pertinent to our tenants
- Obtaining property-level occupancy rates for our tenants
- Verifying the payment of taxes by our tenants
- Obtaining certificates of insurance for each tenant
- Obtaining financial statements of our lessee guarantors on an annual basis
- Conducting a periodic inspection of our properties to ascertain proper maintenance, repair and upkeep
- Monitoring those tenants with indications of continuing and material deteriorating credit quality through discussions with our executive management and Board of Directors

RIDEA Transactions. Our arrangement with Bickford Senior Living ("Bickford") is structured to be compliant with the provisions of RIDEA which permits NHI to receive rent payments through a triple-net lease between a property company and an operating company and gives NHI the opportunity to capture additional value on the improving performance of the operating

Table of Contents

company through distributions to a Taxable REIT Subsidiary ("TRS"). Accordingly, the TRS holds our 85% equity interest in an unconsolidated operating company, which we do not control, and provides an organizational structure that will allow the TRS to engage in a broad range of activities and share in revenues that would otherwise be non-qualifying income under the REIT gross income tests.

Construction loans. From time to time, we also provide construction loans that by their terms convert to mortgage loans upon the completion of the construction of the facility. We may also obtain a purchase option to acquire the facility at a future date and lease the facility back to the operator. The terms of such construction loans are for a period which commences upon the closing of such loans and terminates upon the earlier of (a) the completion of the construction of the applicable facility or (b) a specific date. During the term of the construction loan, funds are usually advanced pursuant to draw requests made by the borrower in accordance with the terms and conditions of the loan. Interest is typically assessed on these loans at rates equivalent to the eventual mortgage rate upon conversion. In addition to the security of the lien against the property, we will generally require additional security and collateral in the form of either payment and performance completion bonds or completion guarantees by the borrower's parent, affiliates of the borrower or one or more of the individuals who control the borrower.

Mortgage loans. We have first mortgage loans with maturities of at least 5 years from inception with varying amortization schedules from interest only to fully amortizing. Most of the loans are at a fixed interest rate; however, some interest rates increase based on scheduled fixed rate increases. In most cases, the owner of the facility is committed to make minimum annual capital expenditures for the purpose of maintaining or upgrading their respective facility. Additionally, most of our loans are collateralized by first mortgage liens and corporate or personal guarantees.

We have made mortgage loans to borrowers secured by a second deed-of-trust where there is a process in place for the borrower to obtain long-term financing, primarily with a U.S. government agency, and where the historical financial performance of the underlying facility meets our loan underwriting criteria. The interest rates on our second mortgage loans currently range from 12% to 14% per annum.

Other notes receivable. We have provided a revolving credit facility to a borrower whose business is to provide bridge loans to owner-operators who are qualifying for long-term HUD financing secured by real estate. Our interest rate on the credit facility is 13.5%. We have provided loans to borrowers involved in the skilled nursing and senior housing industries who have pledged personal and business guarantees as security for the loans. The interest rates on these loans currently range from 8% to13.5%.

Investment in preferred stock and marketable securities of other healthcare REITs. We invest a portion of our funds in the preferred and common shares of other publicly-held REITs to ensure the substantial portion of our assets is invested for real estate purposes.

Competition and Market Conditions

We compete with other REITs, private equity funds and other investors (including, but not limited to, banks, insurance companies, and investment banks who market securities in mortgage funds) in the acquisition, leasing and financing of health care real estate.

Operators of our facilities compete on a local and regional basis with operators of facilities that provide comparable services. Operators compete for residents and/or patients and staff based on quality of care, reputation, physical appearance of facilities, services offered, family preference, physicians, staff and price. Competition is with independent operators as well as companies managing multiple facilities, some of which are substantially larger and have greater resources than the operators of our facilities. Some of these facilities are operated for profit while others are owned by governmental agencies or tax exempt not-for-profit organizations.

The SNFs which either secure our mortgage loans or we lease to operators receive the majority of their revenues from Medicare, Medicaid and other government programs. From time to time, these facilities have experienced Medicare and Medicaid revenue reductions brought about by the enactment of legislation to reduce government costs. In particular, the establishment of a Medicare Prospective Payment System ("PPS") for SNF services to replace the cost-based reimbursement system significantly reduced Medicare reimbursement to SNF providers. While Congress subsequently took steps to mitigate the impact of PPS on SNFs, other federal legislative policies have been adopted and continue to be proposed that would reduce the growth rate of Medicare and/or Medicaid payments to SNFs. State Medicaid funding is not expected to keep pace with inflation according to industry studies. Any changes in government reimbursement methodology that reduce reimbursement to levels that are insufficient to cover the operating costs of our borrowers and lessees could adversely impact us.

Table of Contents

Senior housing communities generally rely on private-pay residents who may be negatively impacted in an economic downturn. The success of these facilities is often impacted by the existence of comparable, competing facilities in a local market.

Operator Diversification

For the year ended December 31, 2014, approximately 26% of our portfolio revenue was from publicly-owned operators, 40% was from regional operators, 5% was from smaller operators and 29% from national chains which are privately owned. We consider the operator to be an important factor in determining the creditworthiness of the investment, and we generally have the right to approve any changes in operators.

For the year ended December 31, 2014, operators of facilities which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Brookdale Senior Living; Fundamental; Health Services Management; Holiday Retirement; Legend Healthcare; and National HealthCare Corp.

Major Customers

We have three operators, an affiliate of Holiday Retirement ("Holiday"), National HealthCare Corporation (“NHC”) and Bickford Senior Living ("Bickford"), from whom we individually derive at least 10% of our income from operations. Beginning in December 2014, a fourth major operator, Senior Living Communities, LLC (“Senior Living”), leased eight retirement communities from us which contractually obligates Senior Living in 2015 to make lease payments which aggregate to more than 17% of our total revenues for 2014.

Holiday

In December 2013 we acquired 25 independent living facilities from Holiday, an affiliate of Holiday Retirement. We have leased this portfolio to NH Master Tenant, LLC, a subsidiary of Holiday. Our tenant continues to operate the facilities pursuant to a management agreement with a Holiday-affiliated manager. The master lease term of 17 years began in December 2013 and provides for initial base rent of $31,915,000 plus annual escalators of 4.5% in the first 3 years and a minimum of 3.5% each year thereafter.

Of our total revenue from continuing operations, $43,817,000 (25%) was recorded as rental income from Holiday for the year ended December 31, 2014.

NHC

NHC is a publicly-held company and the lessee of our legacy properties. We lease 42 facilities to NHC comprised of 3 independent living facilities and 39 skilled nursing facilities (4 of which are subleased to other parties for whom the lease payments are guaranteed to us by NHC). These facilities are leased to NHC under the terms of an amended Master Lease Agreement dated October 17, 1991 ("the 1991 lease") which includes our 35 remaining legacy properties and a Master Lease Agreement dated August 30, 2013 ("the 2013 lease") which includes seven skilled nursing facilities acquired from ElderTrust of Florida, Inc. on August 31, 2013. Under the terms of the 1991 lease, base annual rental of $30,750,000 escalates by 4% of the increase, if any, in each facility’s revenue over a 2007 base year. Similarly, the 2013 lease provides for base annual rental of $3,450,000 plus percentage rent equal to 4% of the increase, if any, in each facility's annual revenue over a 2014 base year.

Of our total revenue from continuing operations, $36,446,000 (21%), $34,756,000 (29%) and $33,056,000 (35%) in 2014, 2013 and 2012, respectively, were derived from the two lease agreements with NHC.

NHC owned 1,630,462 shares of our common stock at December 31, 2014. The chairman of our board of directors is also a director on NHC's board.

Bickford

As of December 31, 2014, we owned an 85% equity interest and an affiliate of Bickford, Sycamore Street, LLC, owned a 15% equity interest in our consolidated subsidiary ("PropCo") which owns 31 assisted living/memory care facilities. The facilities are leased to an operating company, ("OpCo"), in which we retain a non-controlling 85% ownership interest. Our joint venture is structured to comply with the provisions of RIDEA.

The current annual contractual rent from OpCo to PropCo is $22,595,000, plus fixed annual escalators. During the quarter ended December 31, 2014, PropCo completed construction and received certificates of occupancy on one assisted living facility

Table of Contents

which had been under development. Under the terms of the current development lease agreement, PropCo receives rent of 9% on the total amount of development costs, including land, which totaled $7,811,000 at December 31, 2014.

Of our total revenue from continuing operations, $21,421,000 (12%), $14,586,000 (12%) and $5,164,000 (6%) were recorded as rental income from Bickford for the years ended December 31, 2014, 2013, and 2012, respectively.

Senior Living Communities

On December 17, 2014, we acquired a portfolio of eight retirement communities (the "Senior Living Portfolio") with a total of 1,671 units from Health Care REIT, Inc. and certain of its affiliates for a cash purchase price of $476,000,000. The Senior Living Portfolio includes 7 entrance-fee communities and 1 senior living campus.

We have leased the Senior Living Portfolio under a triple-net master lease with an affiliate of Senior Living which will continue to manage the facilities. The 15-year master lease contains two 5-year renewal options and provides for year one cash rent of $31,000,000, subject to annual escalators of 4% in years two through four and 3% thereafter.

In connection with the Senior Living acquisition, we provided a $15,000,000 revolving line of credit to Senior Living, the maturity of which mirrors the term of the master lease. Borrowings will be used primarily to finance construction projects within the Senior Living Portfolio, including building additional units. Amounts outstanding under the facility, $2,816,000 at December 31, 2014, bear interest at an annual rate equal to the 10-year U.S. Treasury rate, 2.17% at December 31, 2014, plus 6%.

Commitments and Contingencies

The following table summarizes information as of December 31, 2014 related to our outstanding commitments and contingencies which are more fully described in the notes to the consolidated financial statements, included herein.

	Asset Class	Type	Total	Funded	Remaining
Commitments:					
Senior Living Communities	SHO	Revolving Credit	$15,000,000	$(2,816,000)	$12,184,000
Capital Funding Group	Mezz. Note	Revolving Credit	$15,000,000	$(15,000,000)	$—
Bickford Senior Living	SHO	Construction	$9,000,000	$(7,811,000)	$1,189,000
Chancellor Health Care	SHO	Construction	$8,000,000	$(4,584,000)	$3,416,000
Kentucky River Medical Center	Hospital	Renovation	$8,000,000	$(7,583,000)	$417,000
Santé Partners	SHO	Renovation	$3,500,000	$(2,621,000)	$879,000
Prestige Senior Living	SHO	Renovation	$2,000,000	$(1,555,000)	$445,000
Holiday Retirement	SHO	Renovation	$1,500,000	$(1,126,000)	$374,000
Senior Living Management	SHO	Renovation	$700,000	$(13,000)	$687,000
Sycamore Street (Bickford affiliate)	SHO	Revolving Credit	$500,000	$(500,000)	$—
Contingencies:					
Prestige Senior Living	SHO	Lease Inducement	$6,390,000	$—	$6,390,000
Sycamore Street (Bickford affiliate)	SHO	Letter-of-credit	$3,550,000	$—	$3,550,000
Discovery Senior Living	SHO	Lease Inducement	$2,500,000	$—	$2,500,000
Santé Partners	Hospital	Loan	$2,000,000	$—	$2,000,000
Santé Partners	SHO	Lease Inducement	$2,000,000	$—	$2,000,000

Sources of Revenues

General. Our revenues are derived primarily from rental income, mortgage and other note interest income and income from our other investments, substantially all of which are in the securities of other healthcare REITs. During 2014, rental income was $166,279,000 (94%), interest income from mortgages and other notes was $7,013,000 (4%) and income from our other investments was $4,217,000 (2%) of total revenue from continuing operations of $177,509,000. Our revenues depend on the operating success of our facility operators whose source and amount of revenues are determined by (i) the licensed beds or other capacity of the facility, (ii) the occupancy rate of the facility, (iii) the extent to which the services provided at each facility are utilized by the patients, (iv) the mix of private pay, Medicare and Medicaid patients at the facility, and (v) the rates paid by private paying patients and by the Medicare and Medicaid programs.

Table of Contents

Governmental and other concerns regarding health care costs have and may continue to result in significant downward pressure on payments to health care facilities, and there can be no assurance that future payment rates for either governmental or private health care plans will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care have had and could continue to have an adverse effect on revenues of our lessees and borrowers and thereby adversely affect those lessees' and borrowers' abilities to make their lease or debt payments to us. Failure of the lessees or borrowers to make their lease or debt payments would have a direct and material adverse impact on us.

Medicare and Medicaid. A significant portion of the revenue of our SNF lessees and borrowers is derived from government funded reimbursement programs, such as Medicare and Medicaid. Reimbursement under these programs is subject to periodic payment review and other audits by federal and state authorities. Medicare is uniform nationwide and reimburses skilled nursing centers under a Prospective Payment System (“PPS”) which is based on a predetermined, fixed amount. PPS was instituted as mandated by the Balanced Budget Act of 1997 and became effective July 1, 1998. PPS is an acuity based classification system that uses nursing and therapy indexes adjusted by geographical wage indexes to calculate per diem rates for each Medicare patient. Payment rates are updated annually and are generally adjusted each October when the federal fiscal year begins. The current acuity classification system is named Resource Utilization Groups IV (“RUGs IV”) and was effective October 1, 2010. PPS as implemented in 1998 had an adverse impact on the healthcare industry and our lessees’ and borrowers’ business by decreasing payments materially, which adversely impacted our business. Refinements in the form of temporary add-ons provided some relief until October 1, 2002. Since then, annual market basket (inflationary) increases have continued to improve payments; however, other federal legislative policies have been adopted and continue to be proposed that could reduce Medicare payments to nursing facilities. For example, the Centers for Medicare and Medicaid Services ("CMS") announced the Skilled Nursing Facilities – PPS final rule for fiscal year 2012 which cut Medicare payments to SNF operators by a net 11.1% beginning October 1, 2011. CMS announced the final rule for fiscal 2013 that increased Medicare payments to SNF operators by a net 1.8% for the fiscal year beginning October 1, 2012. CMS announced a final rule outlining a 1.4% increase in their Medicare reimbursement for fiscal 2014 beginning on October 1, 2013. CMS announced a final rule that increased Medicare payment to SNF operators by a net 2% for the fiscal year beginning October 1, 2014. The failure of Congress to agree on spending reductions to meet long-term deficit goals would trigger automatic spending cuts of 2% to Medicare.

RUGs IV incorporates changes to PPS that significantly altered how SNFs are paid for rendering care. Some examples are as follows:

- A shift to 66 payment categories from 53 payment categories;
- Changes related to assessment reference dates and qualifiers that will significantly reduce utilization of rehabilitation and extensive service categories;
- Modification to therapy services related to estimating treatments and utilization of concurrent therapy that will likely result in RUG classifications at much lower levels of therapy than previous results; and
- Adjustments related to assistance with activities of daily living (ADLs) and an increased emphasis on ADL scores in the nursing case mix indices and related RUG payment rates.

Medicaid is a joint federal and state program designed to provide medical assistance to “eligible needy persons.” Medicaid programs are operated by state agencies that adopt their own medical reimbursement methodology and standards. Payment rates and covered services vary from state to state. In many instances, revenues from Medicaid programs are insufficient to cover the actual costs incurred in providing care to those patients. State Medicaid plans subject to budget constraints are of particular concern to us given the repeal of the Boren Amendment by the Balanced Budget Act of 1997. The Boren Amendment provided fair reimbursement protection to nursing facilities. Changes in federal funding coupled with state budget problems have produced an uncertain environment. Industry studies predict the Medicaid crisis will continue with states' required contribution to Medicare Part D and anticipated budget deficits. States will more than likely be unable to keep pace with nursing center inflation. States are under pressure to pursue other alternatives to long term care such as community and home-based services. Furthermore, several of the states in which we have investments have actively sought to reduce or slow the increase of Medicaid spending for nursing home care.

Medicare and Medicaid programs are highly regulated and subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations and administrative and judicial interpretations of existing law. Moreover, as health care facilities have experienced increasing pressure from private payors attempting to control health care costs, reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Healthcare reimbursement will likely continue to be of significant importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our lessees’ and borrowers’ costs of doing business and on the amount of reimbursement by government and other third-party payors. There can be no assurance that future payment rates for either government or private payors will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care could adversely affect the operating revenues of our SNF and hospital lessees and borrowers, and thereby adversely affect their ability to make their lease or debt payments to us. Failure of our lessees and borrowers to make their scheduled lease and loan payments to us would have a direct and material adverse impact on us.

Government Regulation

Licensure and Certification. The health care industry is highly regulated by federal, state and local law and is directly affected by state and local licensing requirements, facility inspections, state and federal reimbursement policies, regulations concerning capital and other expenditures, certification requirements and other such laws, regulations and rules. Sanctions for failure to comply with these regulations and laws include (but are not limited to) loss of licensure, fines and loss of certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The failure of any lessee or borrower to comply with such laws, requirements and regulations could affect their ability to operate the facility or facilities and could adversely affect such lessee's or borrower's ability to make lease or debt payments to us.

In the past several years, due to rising health care costs, there has been an increased emphasis on detecting and eliminating fraud and abuse in the Medicare and Medicaid programs. Payment of any consideration in exchange for referral of Medicare and Medicaid patients is generally prohibited by federal statute, which subjects violators to severe penalties, including exclusion from the Medicare and Medicaid programs, fines and even prison sentences. In recent years, both federal and state governments have significantly increased investigation and enforcement activity to detect and punish wrongdoers. In addition, legislation has been adopted at both state and federal levels which severely restrict the ability of physicians to refer patients to entities in which they have a financial interest.

It is anticipated that the trend toward increased investigation and enforcement activity in the area of fraud and abuse, as well as self-referral, will continue in future years. Certain of our investments are with lessees or borrowers which are partially or wholly owned by physicians. In the event that any lessee or borrower were to be found in violation of laws regarding fraud and abuse or self-referral, that lessee's or borrower's ability to operate the facility could be jeopardized, which could adversely affect the lessee's or borrower's ability to make lease or debt payments to us and thereby adversely affect us.

Certificates of Need. The SNFs and hospitals in which we invest are also generally subject to state statutes which may require regulatory approval in the form of a CON prior to the construction or expansion of facilities to accommodate new beds (or addition of new beds to existing facilities), the addition of services or certain capital expenditures. CON requirements are not uniform throughout the United States and are subject to change. We cannot predict the impact of regulatory changes with respect to CONs on the operations of our lessees and borrowers; however, in our primary market areas, a significant reduction in new construction of long-term care beds has occurred.

Investment Policies

Our investment objectives are (i) to provide consistent and growing current income for distribution to our stockholders through investments primarily in health care related facilities or in the operations thereof through independent third-party management, (ii) to provide the opportunity to realize capital growth resulting from appreciation, if any, in the residual value of our portfolio properties, and (iii) to preserve and protect stockholders' capital through a balance of diversity, flexibility and liquidity. There can be no assurance that these objectives will be realized. Our investment policies include making investments in real estate, mortgage and other notes receivable, the securities of other publicly-held REITs, and joint ventures structured to comply with the provisions of RIDEA.

As described in Item 7 and in the notes to the consolidated financial statements, included herein, we have funded or made commitments to fund new investments in real estate and loans since January 1, 2014 totaling $780,453,000, and we anticipate making additional investments in 2015 that meet our underwriting criteria. In making new investments, we consider such factors as (i) the geographic area and type of property, (ii) the location, construction quality, condition and design of the property, (iii) the current and anticipated cash flow and its adequacy to meet operational needs, and lease or mortgage obligations to provide a competitive income return to our investors, (iv) the growth, tax and regulatory environments of the communities in which the properties are located, (v) occupancy and demand for similar facilities in the same or nearby communities, (vi) the quality, experience and creditworthiness of the management operating the facilities located on the property and (vii) the mix of private and government-sponsored residents. There can be no assurances that investments meeting our standards regarding these attributes will be found or closed.

Table of Contents

We will not, without the approval of a majority of the Board of Directors, enter into any joint venture relationships with or acquire from or sell to any director, officer or employee of NHI, or any affiliate thereof, as the case may be, any of our assets or other property.

The Board of Directors, without the approval of the stockholders, may alter our investment policies if it determines that such a change is in our best interests and our stockholders' best interests. The methods of implementing our investment policies may vary as new investment and financing techniques are developed or for other reasons.

Future investments in health care related facilities or businesses may utilize borrowed funds or issuance of equity when it is advisable in the opinion of the Board of Directors. We may negotiate lines of credit or arrange for other short or long-term borrowings from lenders. We may arrange for long-term borrowings from institutional investors or through public offerings. We have previously invested and may in the future invest in properties subject to existing loans or secured by mortgages, deeds of trust or similar liens with favorable terms or in mortgage investment pools.

Executive Officers of the Company

The table below sets forth the name, position and age of each of our executive officers. Each executive officer is appointed by the Board of Directors, serves at its pleasure and holds office for a term of one year. There is no "family relationship" among any of the named executive officers or with any director. All information is given as of February 13, 2015:

Name	Position	Age
J. Justin Hutchens	President and Chief Executive Officer	40
Roger R. Hopkins	Chief Accounting Officer	53
Kristin S. Gaines	Chief Credit Officer	43
Kevin Pascoe	Executive Vice President Investments	34
Eric Mendelsohn	Executive Vice President Corporate Finance	53

J. Justin Hutchens joined NHI in February 2009 as President and COO. Pursuant to a succession plan, in March 2011 he was appointed CEO. Prior to joining NHI, Mr. Hutchens acquired 15 years of senior care operations experience. His background includes multi-site management with assisted living and skilled nursing facilities (1997 - 2003). He has national operating experience (2003 -2009) as the Senior Vice-President and COO of Summerville Senior Living and Executive Vice-President and COO of Emeritus Senior Living (NYSE: ESC). Mr. Hutchens holds a Master of Science in Management from Regis University and a Bachelor of Science in Human Services from the University of Northern Colorado. He was awarded Executive Certificates in Measurement and Control of Organizational Performance from the University of Michigan, and Strategy and Innovation from the MIT Sloan School of Management.

Roger R. Hopkins joined NHI in 2006 when he was named Chief Accounting Officer in December 2006. He has over 30 years of public accounting and financial management experience. Until 2006, he was a partner in the Tennessee regional accounting firm of Rodefer Moss & Co, PLLC and, previously, was a senior manager in the Nashville, Tennessee office of Deloitte & Touche. Mr. Hopkins received a Bachelor of Science in Accounting from Tennessee Technological University in 1982 and is a Certified Public Accountant.

Kristin S. Gaines was appointed NHI's Chief Credit Officer in February 2010. She joined NHI in 1998 as a Credit Analyst. During her tenure with NHI, Ms. Gaines has had a progressive career in the areas of finance and operations. Her experience has resulted in a breadth of expertise in underwriting, portfolio oversight and real estate finance. Ms. Gaines holds a MBA and a Bachelor of Business Administration in Accounting from Middle Tennessee State University.

Kevin Pascoe joined National Health Investors in June 2010. Mr. Pascoe oversees NHI's portfolio of assets, relationship management with existing tenants and conducts operational due diligence on NHI's new investment opportunities.He has over 10 years of health care real estate background including his experience with General Electric - Healthcare Financial Services (2006 – 2010) where he most recently served as a Vice-President. With GE HFS he moved up through the organization while working on various assignments including relationship management, deal restructuring, and special assets. He also was awarded an assignment in the GE Capital Global Risk Rotation Program. Mr. Pascoe holds a Master of Business Administration and a Bachelor of Business Administration in Economics from Middle Tennessee State University.

Eric Mendelsohn joined NHI in January 2015. He has over 15 years of healthcare real estate and financing experience. Previously, Mr. Mendelsohn was with Emeritus Senior Living for 9 years, most recently as a Senior Vice President of Corporate

Table of Contents

Development where he was responsible for the financing and acquisition of assisted living properties, home health care companies, administration of joint venture relationships and executing corporate finance strategies. Prior to Emeritus, Mr. Mendelsohn was with the University of Washington as a Transaction Officer where he worked on the development, acquisition and financing of research, clinic and medical properties. Prior to that, Mr. Mendelsohn was a practicing transaction attorney, representing lenders and landlords. Mr. Mendelsohn has a BS from American University in International Relations, a Law Degree from Pepperdine University, and a Masters (LLM) in Banking and Finance from Boston University. Mr. Mendelsohn is a member of the Florida and Washington State Bar Associations.

We have a staff of 12, all serving in our corporate office in Murfreesboro, TN. Essential services such as internal auditing, tax compliance, information technology and legal services are outsourced to third-party professional firms.

Investor Information

We publish our annual report on Form 10-K, quarterly reports on Form 10-Q, quarterly Supplemental Information, current reports on Form 8-K, and press releases to our website at www.nhireit.com. We have a policy of publishing these on the website within two (2) business days after public release or filing with the SEC.

We also maintain the following documents on our web site:

The NHI Code of Ethics and Standards of Conduct. This has been adopted for all employees, officers and directors of the Company. The website will also disclose whether there have been any amendments or waivers to the Code of Ethics and Standards of Conduct. To date there have been none.

Information on our "NHI Valuesline" which allows all interested parties to communicate with NHI executive officers and directors. The toll free number is 877-880-2974 and the communications may be made anonymously, if desired.

The NHI Restated Audit Committee Charter.

The NHI Compensation Committee Charter.

The NHI Nomination and Corporate Governance Committee Charter.

We will furnish, free of charge, a copy of any of the above documents to any interested investor upon receipt of a written request.

Our transfer agent is Computershare. Computershare will assist registered owners with the NHI Dividend Reinvestment plan, change of address, transfer of ownership, payment of dividends, replacement of lost checks or stock certificates. Computershare's contact information is: Computershare Trust Company, N.A., P.O. Box 43078, Providence, RI 02940-3078. The toll free number is 800-942-5909 and the website is www.computershare.com.

The Annual Stockholders' meeting will be held at 8:00 a.m. local time on Thursday, May 7, 2015 at Stones River Country Club, 1830 NW Broad Street, Murfreesboro, TN.

ITEM 1A. RISK FACTORS

We depend on the operating success of our tenants and borrowers for collection of our lease and interest income.

Revenues to operators of our facilities are primarily driven by occupancy, Medicare and Medicaid reimbursement and private pay rates. Revenues from government reimbursement have, and may continue to, come under pressure due to reimbursement cuts and from widely-publicized federal and state budget shortfalls and constraints. Periods of weak economic growth in the U.S. which affect housing sales, investment returns and personal incomes may adversely affect senior housing occupancy rates. Expenses for the facilities are driven by the costs of labor, food, utilities, taxes, insurance and rent or debt service. Liability insurance and staffing costs continue to increase for our operators. To the extent any decrease in revenues and/or any increase in operating expenses results in a facility not generating enough cash to make scheduled payments to us, our revenues, net income and funds from operations would be adversely affected. Such events and circumstances would cause us to evaluate whether there was an impairment of the real estate or mortgage loan that should be charged to earnings. Such impairment would be measured as the amount by which the carrying amount of the asset exceeded its fair value. Consequently, we might be unable to maintain or increase our current dividend and the market price of our stock may decline.

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

When we decide to invest in the renovation of an existing property or in the development of a new property, we make assumptions about the future potential cash flows of that property. We estimate our return based on expected occupancy, rental rates and future capital costs. If our projections prove to be inaccurate due to increased capital costs, lower occupancy or other factors, our investment in that property may not generate the cash flow we expected.

We are exposed to the risk that our tenants and borrowers may not be able to meet the rent, principal and interest or other payments due us, which may result in an operator bankruptcy or insolvency, or that an operator might become subject to bankruptcy or insolvency proceedings for other reasons.

Although our operating lease agreements provide us the right to evict an operator, demand immediate payment of rent and exercise other remedies, and our mortgage loans provide us the right to terminate any funding obligations, demand immediate repayment of principal and unpaid interest, foreclose on the collateral and exercise other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. An operator in bankruptcy may be able to limit or delay our ability to collect unpaid rent in the case of a lease or to receive unpaid principal and/or interest in the case of a mortgage loan and to exercise other rights and remedies. We may be required to fund certain expenses (e.g. real estate taxes, maintenance and capital improvements) to preserve the value of a facility, avoid the imposition of liens on a facility and/or transition a facility to a new operator. In some instances, we have terminated our lease with an operator and leased the facility to another operator. In some of those situations, we provided working capital loans to, and limited indemnification of, the new operator. If we cannot transition a leased facility to a new operator, we may take possession of that facility, which may expose us to certain successor liabilities. Should such events occur, our revenue and operating cash flow may be adversely affected.

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

Our operators' businesses are affected by government reimbursement and private payor rates. To the extent that any of our facilities receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, such revenues may be subject to statutory and regulatory changes, retroactive rate adjustments, recovery of program overpayments or set-offs, administrative rulings, policy interpretations, payment or other delays by fiscal intermediaries, government funding restrictions (at a program level or with respect to specific facilities) and interruption or delays in payments due to any ongoing governmental investigations and audits at such facilities. In recent years, governmental payors have frozen or reduced payments to health care providers due to budgetary pressures. Such reductions in Medicare reimbursement will have an adverse effect on the financial operations of our borrowers and lessees who operate SNFs. Changes in health care reimbursement will likely continue to be of paramount importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or effect any future legislative reforms may have on the financial condition of the health care industry. There can be no assurance that adequate reimbursement levels will continue to be available for services provided by any facility operator, whether the facility receives reimbursement from Medicare, Medicaid or private payors. Significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an operator's liquidity, financial condition and results of operations, which could adversely affect the ability of an operator to meet its obligations to us. In addition, the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the facility or the replacement of the operator licensed to manage the facility.

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

ALF and SNF operators have experienced substantial increases in both the number and size of patient care liability claims in recent years, particularly in the states of Texas and Florida. As a result, general and professional liability costs have increased and may continue to increase. Nationwide, long-term care liability insurance rates are increasing because of large jury awards in states like Texas and Florida. Both Texas and Florida have now adopted SNF liability laws that modify or limit tort damages. Despite some of these reforms, the long-term care industry overall continues to experience very high general and professional liability costs. Insurance companies have responded to this claims crisis by severely restricting their capacity to write long-term care general and professional liability policies. No assurance can be given that the climate for long-term care general and professional liability insurance will improve in any of the foregoing states or any other states where the facility operators conduct business. Insurance companies may continue to reduce or stop writing general and professional liability policies for ALFs and SNFs. Thus, general and professional liability insurance coverage may be restricted, very costly or not available, which may adversely affect the facility operators' future operations, cash flows and financial condition and may have a material adverse effect on the facility operators' ability to meet their obligations to us.

Table of Contents

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

Under various federal and state laws, owners or operators of real property may be required to respond to the release of hazardous substances on the property and may be held liable for property damage, personal injuries or penalties that result from environmental contamination. These laws also expose us to the possibility that we may become liable to reimburse the government for damages and costs it incurs in connection with the contamination. Generally, such liability attaches to a person based on the person's relationship to the property. Our tenants or borrowers are primarily responsible for the condition of the property and since we are a passive landlord, we do not "participate in the management" of any property in which we have an interest. Moreover, we review environmental site assessment of the properties that we own or encumber prior to taking an interest in them. Those assessments are designed to meet the "all appropriate inquiry" standard, which qualifies us for the innocent purchaser defense if environmental liabilities arise. Based upon such assessments, we do not believe that any of our properties are subject to material environmental contamination. However, environmental liabilities, including mold, may be present in our properties and we may incur costs to remediate contamination, which could have a material adverse effect on our business or financial condition.

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

Our leases require that the lessee name us as an additional insured party on the tenant's insurance policy in regard to claims made for professional liability or personal injury. The leases also require the tenant to indemnify and hold us harmless for all claims resulting from the occupancy and use of each facility. We cannot give any assurance that these protective measures will completely eliminate any risk to us related to future litigation, the costs of which could have a material adverse impact on us.

We depend on the success of our future acquisitions and investments.

We are exposed to the risk that our future acquisitions may not prove to be successful. We could encounter unanticipated difficulties and expenditures relating to any acquired properties, including contingent liabilities, and newly acquired properties might require significant management attention that would otherwise be devoted to our existing business. If we agree to provide construction funding to an operator and the project is not completed, we may need to take steps to ensure completion of the project or we could lose the property. Moreover, if we issue equity securities or incur additional debt, or both, to finance future acquisitions, it may reduce our per share financial results. These costs may negatively affect our results of operations.

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

From time to time, we will have cash available from (1) the proceeds of sales of our securities, (2) principal payments on our notes receivable and (3) the sale of properties, including non-elective dispositions, under the terms of master leases or similar financial support arrangements. We must reinvest these proceeds, on a timely basis, in health care investments or in qualified short-term investments. We compete for real estate investments with a broad variety of potential investors. This competition for attractive investments may negatively affect our ability to make timely investments on terms acceptable to us. Delays in acquiring properties may negatively impact revenues and the amount of distributions to stockholders.

We may need to incur more debt in the future, which may not be available on terms acceptable to us.

We operate with a policy of incurring debt when, in the opinion of our Board of Directors, it is advisable. Currently, we believe that our current liquidity, availability under our unsecured credit facility, and our capacity to service additional debt will enable us to meet our obligations, including dividends, and continue to make investments in healthcare real estate. While we currently have a very low debt ratio, in the future, we may increase our borrowings. We may incur additional debt by borrowing under our unsecured credit facility, mortgaging properties we own and/or issuing debt securities in a public offering or in a private transaction. We believe we will be able to raise additional debt and equity capital at reasonable costs to refinance our credit facility at or prior to its maturity. Our ability to raise reasonably priced capital is not guaranteed; we may be unable to raise reasonably priced capital because of reasons related to our business or for reasons beyond our control, such as market conditions. If our access to capital becomes limited, it could have an impact on our ability to refinance our debt obligations, fund dividend payments, acquire properties and fund acquisition activities.

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

The terms of our current indebtedness as well as debt instruments that the Company may enter into in the future are subject to customary financial and operational covenants. Among other things, these provisions require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or

Table of Contents

acquisitions. Our continued ability to incur debt and operate our business is subject to compliance with these covenants, which limit operational flexibility. Breaches of these covenants could result in a default under applicable debt instruments, even if payment obligations are satisfied. Financial and other covenants that limit our operational flexibility, as well as defaults resulting from a breach of any of these covenants in our debt instruments, could have a material adverse effect on our financial condition and results of operations.

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

Real estate investments are relatively illiquid and, therefore, our ability to quickly sell or exchange any of our properties in response to changes in economic and other conditions may be limited. All of our properties are "special purpose" properties that cannot be readily converted to general residential, retail or office use. Facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Transfers of operations of facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be less than the net book value or the amount owed on any related mortgage loan, because the property may not be readily adaptable to other uses. The sale of the property or the replacement of an operator that has defaulted on its lease or loan could also be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. No assurances can be given that we will recognize full value for any property that we are required to sell for liquidity reasons. Should such events occur, our results of operations and cash flows could be adversely affected.

We are exposed to risks associated with our investments in unconsolidated entities, including our lack of sole decision-making authority and our reliance on the financial condition of other interests.

Our investments in unconsolidated entities could be adversely affected by our lack of sole decision-making authority regarding major decisions, our reliance on the financial condition of other interests, any disputes that may arise between us and other partners, and our exposure to potential losses from the actions of partners. Risks of dealing with parties outside NHI include limitations on unilateral major decisions opposed by other interests, the prospect of divergent goals of ownership including the likelihood of disputes regarding management, ownership or disposition of a property, or limitations on the transfer of our interests without the consent of our partners. Risks of the unconsolidated entity extend to areas in which the financial health of our partners may impact our plans. Our partners might become bankrupt or fail to fund their share of required capital contributions, which may hinder significant action in the entity. We may disagree with our partners about decisions affecting a property or the entity itself, which could result in litigation or arbitration that increases our expenses, distracts our officers and directors and disrupts the day-to-day operations of the property, including by delaying important decisions until the dispute is resolved; and finally, we may suffer losses as a result of actions taken by our partners with respect to our investments.

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

Our business model assumes that we can earn a spread between the returns earned from our investments in real estate as compared to our cost of capital, including debt and/or equity. Current interest rates on our debt are at historically low levels, and, as a result, the spread and our profitability on our investments have been at high levels. We are exposed to interest rate risk in the potential for a narrowing of our spread and profitability if interest rates increase in the future. Certain of our debt obligations are floating rate obligations with interest rates that vary with the movement of LIBOR or other indexes. Our revenues are derived mainly from fixed rate investments in real estate assets. Although our leases generally contain escalating rent clauses that provide a partial hedge against interest rate fluctuations, if interest rates rise, our interest costs for our existing floating rate debt and any new debt we incur would also increase. This increasing cost of debt could reduce our profitability by increasing the cost of financing our existing portfolio and our investment activity. Rising interest rates could limit our ability to refinance existing debt upon maturity or cause us to pay higher rates upon refinancing. We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities and through the use of derivative instruments, primarily interest rate swap agreements with major financial institutions. Increased interest rates may also negatively affect the market price of our common stock and increase the cost of new equity capital.

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

We periodically, but not less than quarterly, evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset, which could have a material adverse effect on our reported results of operations in the period in which the impairment charge occurs.

We depend on the ability to continue to qualify for taxation as a REIT.

We intend to operate as a REIT under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") and believe we have and will continue to operate in such a manner. Since REIT qualification requires us to meet a number of complex requirements, it is possible that we may fail to fulfill them, and if we do, our earnings will be reduced by the amount of federal taxes owed. A reduction in our earnings would affect the amount we could distribute to our stockholders.

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

Our charter, subject to certain exceptions, contains restrictions on the ownership and transfer of our common stock and preferred stock that are intended to assist us in preserving our qualification as a REIT. Our charter, provides that any transfer that would cause NHI to be beneficially owned by fewer than 100 persons or would cause NHI to be "closely held" under the Internal Revenue Code would be void, which, subject to certain exceptions, results in no person or entity being allowed to own, actually or constructively, more than 9.9% of the outstanding shares of our stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from the ownership limit and such an exemption has been granted through Excepted Holder Agreements to members of the Carl E. Adams family. Based on the Excepted Holder Agreements currently outstanding, the individual ownership limit for all other stockholders is approximately 7.5%. Our charter gives our Board of Directors broad powers to prohibit and rescind any attempted transfer in violation of the ownership limits. These ownership limits may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

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

The Maryland Business Combination Act provides that, unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions with an "interested stockholder" or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter, unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of a Maryland corporation. Unless our Board of Directors takes action to exempt us, generally or with respect to certain transactions, from this statute in the future, the Maryland Business Combination Act will be applicable to business combinations between us and other persons. The Company's Charter and Bylaws also contain certain provisions that could have the effect of making it more difficult for a third party to acquire, or discouraging a third party from attempting to acquire, control of the Company. Such provisions could limit the price that certain investors might be willing to pay in the future for the common stock. These provisions include a staggered board of directors, blank check preferred stock, and the application of Maryland corporate law provisions on business combinations and control shares. The foregoing matters may, together or separately, have the effect of discouraging or making more difficult an acquisition or change of control of the Company.

Other risks.

See the notes to the consolidated financial statements, “Business” under Item 1 and “Legal Proceedings” under Item 3 herein for a discussion of various governmental regulations and operating factors relating to the health care industry and other factors and the risks inherent in them. You should carefully consider each of the foregoing risks before making any investment decisions in the Company. These risks and uncertainties are not the only ones facing us. There may be additional risks that we do not presently know of or that we currently deem immaterial. If any of the risks actually occur, our business, financial condition or results of operations could be materially adversely affected. In that case, the trading price of our shares of stock could decline, and you may lose all or part of your investment. Given these risks and uncertainties, we can give no assurance that these forward-looking statements will, in fact, occur and, therefore, caution investors not to place undue reliance on them.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

Table of Contents

ITEM 2. PROPERTIES OWNED OR ASSOCIATED WITH MORTGAGE LOAN INVESTMENTS AS OF DECEMBER 31, 2014

Center	City	State	Lease (L)/ Mortgage (M)	Licensed Beds
SKILLED NURSING				
NHC HealthCare, Anniston	Anniston	AL	L	151
NHC HealthCare, Moulton	Moulton	AL	L	136
Sunbridge Estrella Care & Rehabilitation	Avondale	AZ	L	161
Ayers Health & Rehabilitation Center	Trenton	FL	L	120
Bayonet Point Health & Rehabilitation Center	Hudson	FL	L	180
Bear Creek Nursing Center	Hudson	FL	L	120
Brooksville Healthcare Center	Brooksville	FL	L	180
Cypress Cove Care Center	Crystal River	FL	L	120
Heather Hill Healthcare Center	New Port Richey	FL	L	120
Parkway Health & Rehabilitation Center	Stuart	FL	L	177
Royal Oak Nursing Center	Dade City	FL	L	120
The Health Center of Merritt Island	Merritt Island	FL	L	180
The Health Center of Plant City	Plant City	FL	L	180
Grangeville Health and Rehabilitation Center	Grangeville	ID	L	60
NHC HealthCare, Glasgow	Glasgow	KY	L	206
Buckley HealthCare Center	Greenfield	MA	L	120
Holyoke Health Care Center	Holyoke	MA	L	102
John Adams HealthCare Center	Quincy	MA	L	71
Longmeadow of Taunton	Taunton	MA	L	100
NHC Healthcare, Desloge	Desloge	MO	L	120
NHC Healthcare, Joplin	Joplin	MO	L	126
NHC Healthcare, Kennett	Kennett	MO	L	170
NHC Healthcare, Maryland Heights	Maryland Heights	MO	L	220
NHC HealthCare, St. Charles	St. Charles	MO	L	120
Maple Leaf HealthCare Center	Manchester	NH	L	114
Villa Crest HealthCare Center	Manchester	NH	L	165
Epsom Manor HealthCare Center	Epsom	NH	L	108
Timberview Care Center	Albany	OR	L	62
Creswell Health and Rehabilitation Center	Creswell	OR	L	53
Forest Grove Rehabilitation and Care Center	Forest Grove	OR	L	81
NHC Healthcare, Anderson	Anderson	SC	L	290
NHC Healthcare, Greenwood	Greenwood	SC	L	152
NHC HealthCare, Laurens	Laurens	SC	L	176
UniHealth Post-Acute Care-Orangeburg	Orangeburg	SC	L	88
NHC Healthcare, Athens	Athens	TN	L	98
NHC Healthcare, Chattanooga	Chattanooga	TN	L	207
NHC HealthCare, Dickson	Dickson	TN	L	211
NHC HealthCare, Franklin	Franklin	TN	L	80
NHC Healthcare, Hendersonville	Hendersonville	TN	L	122
NHC Healthcare, Johnson City	Johnson City	TN	L	160
NHC Healthcare, Lewisburg	Lewisburg	TN	L	102
NHC HealthCare, McMinnville	McMinnville	TN	L	150
NHC HealthCare, Milan	Milan	TN	L	122

NHC Healthcare, Oakwood	Lewisburg	TN	L	60
NHC HealthCare, Pulaski	Pulaski	TN	L	102
NHC Healthcare, Scott	Lawrenceburg	TN	L	62
NHC HealthCare, Sequatchie	Dunlap	TN	L	120

Table of Contents

Center	City	State	Lease (L)/ Mortgage (M)	Licensed Beds
SKILLED NURSING				
NHC HealthCare, Smithville	Smithville	TN	L	120
NHC Healthcare, Somerville	Somerville	TN	L	84
NHC Healthcare, Sparta	Sparta	TN	L	120
Canton Oaks	Canton	TX	L	120
Corinth Rehabilitation Suites	Corinth	TX	L	134
Heritage Place	Mesquite	TX	L	149
Legend Healthcare & Rehabilitation	Paris	TX	L	120
Legend Oaks Healthcare & Rehabilitation Center (East)	Houston	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center (Northwest)	Houston	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center	San Antonio	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center - Ennis	Ennis	TX	L	124
Legend Healthcare & Rehabilitation	Greenville	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center	Houston	TX	L	124
Legend Oaks Healthcare & Rehabilitation Center	Houston	TX	L	125
Legend Oaks Healthcare & Rehabilitation Center	Kyle	TX	L	126
Park Place Care Center	Georgetown	TX	M	164
Winterhaven Healthcare Center	Houston	TX	L	160
Heritage Hall - Brookneal	Brookneal	VA	M	60
Heritage Hall - Grundy	Grundy	VA	M	120
Heritage Hall - Laurel Meadows	Laurel Fork	VA	M	60
Heritage Hall - Virginia Beach	Virginia Beach	VA	M	90
Heritage Hall - Front Royal	Front Royal	VA	M	60
Heritage Hall - Lexington	East Lexington	VA	M	60
NHC HealthCare, Bristol	Bristol	VA	L	120
ASSISTED LIVING				
Regency Pointe Retirement Community	Rainbow City	AL	L	120
The Place at Gilbert	Gilbert	AZ	L	40
The Place at Glendale	Glendale	AZ	L	38
The Place at Tanque Verde	Tucson	AZ	L	42
The Place at Tucson	Tucson	AZ	L	60
Revere Court Memory Care	Sacramento	CA	L	56
Savannah Court of Bartow	Bartow	FL	L	30
Savannah Court of Lakeland	Lakeland	FL	L	30
Indigo Palms at Maitland	Maitland	FL	L	116
Discovery Village at Naples	Naples	FL	M	120
Brentwood at Fore Ranch	Ocala	FL	M	120
Savannah Court of St. Cloud	St. Cloud	FL	L	30
Savannah Court at Lake Oconee	Greensboro	GA	L	64
Bickford of Ames	Ames	IA	L	37
Bickford of Burlington	Burlington	IA	L	44
Bickford of Cedar Falls	Cedar Falls	IA	L	42
Bickford of Clinton	Clinton	IA	L	37
Bickford of Ft. Dodge	Ft. Dodge	IA	L	38
Bickford of Iowa City	Iowa City	IA	L	37
Bickford of Marshalltown	Marshalltown	IA	L	38

Bickford of Muscatine	Muscatine	IA	L	45
Bickford of Urbandale	Urbandale	IA	L	61
Prestige Assisted Living at Autumn Wind	Caldwell	ID	L	105
Indianhead Estates	Weiser	ID	L	25
Bickford of Bourbonnais	Bourbonnais	IL	L	65

Table of Contents

Center	City	State	Lease (L)/ Mortgage (M)	Licensed Beds
ASSISTED LIVING				
Bickford of Moline	Moline	IL	L	28
Bickford of Peoria	Peoria	IL	L	32
Bickford of Quincy	Quincy	IL	L	46
Bickford of Rockford	Rockford	IL	L	65
Bickford of Springfield	Springfield	IL	L	67
Bickford of Carmel	Carmel	IN	L	60
Bickford of Crawfordsville	Crawfordsville	IN	L	28
Bickford of Crown Point	Crown Point	IN	L	60
Bickford of Greenwood	Greenwood	IN	L	60
Bickford of Lafayette	LaFayette	IN	L	28
Bickford of Wabash	Wabash	IN	L	28
Bickford of Mission Springs	Mission	KS	L	91
Bickford of Overland Park	Overland Park	KS	L	79
West Monroe Arbors	West Monroe	LA	L	59
Bossier Arbors	Bossier City	LA	L	60
Bastrop Arbors	Bastrop	LA	L	38
Minden Arbors	Minden	LA	L	26
The Woodlands Assisted Living	Baltimore	MD	L	70
Bickford of Battle Creek	Battle Creek	MI	L	46
Bickford of Lansing	Lansing	MI	L	46
Bickford of Midland	Midland	MI	L	46
Bickford of Saginaw	Saginaw	MI	L	46
Traditions	Owatonna	MN	M	70
Gracewood Champlin	Champlin	MN	L	30
Gracewood Hugo	Hugo	MN	L	24
Gracewood Maplewood	Maplewood	MN	L	42
Gracewood North Branch	North Branch	MN	L	30
Bickford of Grand Island	Grand Island	NE	L	37
Bickford of Lincoln	Lincoln	NE	L	44
Bickford of Omaha Hickory	Omaha	NE	L	37
Halcyon Village	Marysville	OH	L	76
Bickford of Middletown	Middletown	OH	L	101
Clackamas View	Milwaukie	OR	L	25
Dorian Place	Ontario	OR	L	44
Wellsprings	Ontario	OR	L	32
The Place at Conway	Conway	SC	L	52
The Place at Gallatin	Gallatin	TN	L	49
The Place at Kingsport	Kingsport	TN	L	49
The Place at Tullahoma	Tullahoma	TN	L	49
Charleston House	Beaver Dam	WI	L	120
INDEPENDENT LIVING				
Apple Blossom Independent Senior Living Community	Rogers	AR	L	119
Butterfield Place Independent Senior Living Community	Fort Smith	AR	L	117
Bay Park Independent Senior Living Community	Pinole	CA	L	98
Bridgecreek Independent Senior Living Community	West Covina	CA	L	108

Camelot Independent Senior Living Community	Hemet	CA	L	136
Fig Garden Independent Senior Living Community	Fresno	CA	L	103
Hampshire Independent Senior Living Community	Merced	CA	L	115
Mistywood Independent Senior Living Community	Roseville	CA	L	117
Standiford Place Independent Senior Living Community	Modesto	CA	L	121

Table of Contents

Center	City	State	Lease (L)/ Mortgage (M)	Licensed Beds
INDEPENDENT LIVING				
Iris Place Independent Senior Living Community	Athens	GA	L	142
Riverplace Independent Senior Living Community	Columbus	GA	L	114
River's Edge Independent Senior Living Community	Savannah	GA	L	121
Chateau De Boise Independent Senior Living Community	Boise	ID	L	97
Arbor Glen Independent Senior Living Community	Fort Wayne	IN	L	120
Nouveau Marc Independent Senior Living Community	Kenner	LA	L	113
Lake St. Charles Retirement Center	St. Charles	MO	L	180
Yardley Commons Independent Senior Living Community	Voorhees	NJ	L	107
Worthington Independent Senior Living Community	Gahanna	OH	L	117
Silver Arrow Estates Independent Senior Living Community	Broken Arrow	OK	L	126
Astor House Independent Senior Living Community	Newberg	OR	L	121
Eagle Crest Independent Senior Living Community	Myrtle Beach	SC	L	120
Westminster Independent Senior Living Community	Greenville	SC	L	117
Colonial Hill Retirement Center	Johnson City	TN	L	63
Parkwood Retirement Apartments	Chattanooga	TN	L	30
Bedford Independent Senior Living Community	Vancouver	WA	L	103
Garden Club Independent Senior Living Community	Bellevue	WA	L	105
Kamlu Retirement Inn Independent Senior Living Community	Vancouver	WA	L	83
Orchard Park Independent Senior Living Community	Yakima	WA	L	101
SENIOR LIVING CAMPUS				
Linda Valley Care Center	Loma Linda	CA	L	181
Osprey Village at Amelia Island Plantation	Fernandina	FL	L	170
Savannah Court of Maitland	Maitland	FL	L	151
Savannah Court of Palm Beaches	W. Palm Beach	FL	L	144
Sunbridge Retirement & Rehab for Nampa	Nampa	ID	L	183
Ridgecrest	Mt. Airy	NC	L	84
Homestead Hills	Winston-Salem	NC	L	248
Sante Silverdale	Silverdale	WA	L	138
HOSPITALS				
Santé Mesa	Mesa	AZ	M	70
Alvarado Parkway Institute	La Mesa	CA	L	66
Kentucky River Hospital	Jackson	KY	L	55
TrustPoint Hospital (Polaris)	Murfreesboro	TN	L	60
MEDICAL OFFICE				Sq. Ft.
North Okaloosa	Crestview	FL	L	27,017
Pasadena Bayshore	Pasadena	TX	L	61,500
Corporate Office	Murfreesboro	TN	N/A	7,000

Table of Contents

10-YEAR LEASE EXPIRATIONS

The following table provides additional information on our leases which are scheduled to expire based on the maturity date contained in the most recent lease agreement or extension. We expect that, prior to maturity, we will negotiate new terms of a lease to either the current tenant or another qualified operator.

Year	Leases Expiring	Rentable Square Feet*	Number of Units/Beds	Annualized Gross Rent** (in thousands)	Percentage of Annualized Gross Rent	
2015	1	—	60	$313	.2	%
2016	4	—	604	5,365	2.9	%
2017	7	—	896	7,262	3.9	%
2018	2	61,500	88	1,080	.6	%
2019	—	—	—	—	—	%
2020	6	27,017	224	2,777	1.5	%
2021	2	—	344	1,904	1.0	%
2022	4	—	156	4,055	2.2	%
2023	2	—	254	2,763	1.5	%
2024	8	—	379	4,240	2.3	%
Thereafter	105	—	12,759	154,668	83.9	%

*Rentable Square Feet represents total square footage in two MOB investments.
**Annualized Gross Rent refers to the amount of lease revenue that our portfolio would generate if all leases were in effect for the twelve-month calendar year, regardless of the commencement date, maturity date, or renewals.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

Table of Contents

PART II.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's charter contains certain provisions which are designed to ensure that the Company's status as a REIT is protected for federal income tax purposes. One of these provisions provides that any transfer that would cause NHI to be beneficially owned by fewer than 100 persons or would cause NHI to be "closely held" under the IRS Code would be void, which, subject to certain exceptions, results in no stockholder being allowed to own, either directly or indirectly pursuant to certain tax attribution rules, more than 9.9% of the Company's stock. In 1991, the Board created an exception to this ownership limitation for Dr. Carl E. Adams, his spouse, Jennie Mae Adams, and their lineal descendants. Effective May 12, 2008, we entered into Excepted Holder Agreements with W. Andrew Adams and certain members of his family. These written agreements are intended to restate and replace the parties' prior verbal agreement. Based on the Excepted Holder Agreements currently outstanding, the individual ownership limit for all other stockholders is approximately 7.5%. Our charter gives our Board of Directors broad powers to prohibit and rescind any attempted transfer in violation of the ownership limits. These agreements were entered into in connection with the Company's announcement in 2008 of a stock purchase program pursuant to which the Company subsequently purchased 194,100 shares of its common stock in the public market from its stockholders.

A separate agreement was entered into with each of the spouse and children of Dr. Carl E. Adams and others within Mr. W. Andrew Adams' family. We needed to enter into such an agreement with each family member because of the complicated ownership attribution rules under the Internal Revenue Code. The agreement permits the Excepted Holders to own stock in excess of 9.9% up to the limit specifically provided in the individual agreement and not lose rights with respect to such shares. However, if the stockholder's stock ownership exceeds the limit, then such shares in excess of the limit become "Excess Stock" and lose voting rights and entitlement to receive dividends. The Excess Stock classification remains in place until the stockholder no longer exceeds the threshold limit specified in the Agreement. The purpose of these agreements is to ensure that the Company does not violate the prohibition against a REIT being closely held.

W. Andrew Adams' Excess Holder Agreement also provides that he will not own shares of stock in any tenant of the Company if such ownership would cause the Company to constructively own more than a 9.9% interest in such tenant. Again, this prohibition is designed to protect the Company's status as a REIT for tax purposes.

In order to qualify for the beneficial tax treatment accorded to a REIT, we must make distributions to holders of our common stock equal on an annual basis to at least 90% of our REIT taxable income (excluding net capital gains), as defined in the Internal Revenue Code. Cash available for distribution to our stockholders is primarily derived from interest payments received on our notes and from rental payments received under our leases. All distributions will be made by us at the discretion of the Board of Directors and will depend on our cash flow and earnings, our financial condition, bank covenants contained in our financing documents and such other factors as the Board of Directors deems relevant. Our REIT taxable income is calculated without reference to our cash flow. Therefore, under certain circumstances, we may not have received cash sufficient to pay our required distributions.

Our common stock is traded on the New York Stock Exchange under the symbol "NHI". As of February 13, 2015, there were approximately 810 holders of record of shares and approximately 27,800 beneficial owners of shares.

High and low stock prices of our common stock on the New York Stock Exchange and dividends declared for the last two years were:

	2014	2013
	Sales Price	Sales Price

Quarter Ended	High	Low	Cash Dividends Declared	High	Low	Cash Dividends Declared
March 31	$63.53	$54.75	$.77	$67.18	$57.24	$.70
June 30	64.84	58.85	.77	72.99	56.20	.735
September 30	65.29	57.00	.77	65.94	53.01	.735
December 31	71.75	56.53	.77	64.00	56.00	.735

The closing price of our stock on February 13, 2015 was $71.74.

Table of Contents

We currently maintain two equity compensation plans: the 2005 Stock Option, Restricted Stock and Stock Appreciation Rights Plan (“the 2005 Plan”) and the 2012 Stock Incentive Plan ("the 2012 Plan"). These plans have been approved by our stockholders. The following table provides information as of December 31, 2014 about our common stock that may be issued upon grants of restricted stock and the exercise of options under our existing equity compensation plans.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)
Equity compensation plans approved by security holders	871,671	$60.43	775,635[1]

[1]These shares remain available for grant under the 2005 Plan and the 2012 Plan.

The following graph demonstrates the performance of the cumulative total return to the stockholders of our common stock during the previous five years in comparison to the cumulative total return on the MSCI US REIT Index and the Standard & Poor’s 500 Stock Index. The MSCI US REIT Index is a free float-adjusted market capitalization weighted index that is comprised of Equity REIT securities. The MSCI US REIT Index includes securities with exposure to core real estate (e.g.residential and retail properties) as well as securities with exposure to other types of real estate (e.g.casinos, theaters).

	2009	2010	2011	2012	2013	2014
NHI	$100.00	$129.22	$162.68	$181.38	$188.71	$244.01
MSCI	$100.00	$128.48	$168.12	$164.46	$168.52	$219.71
S&P 500	$100.00	$115.06	$134.38	$136.29	$180.44	$205.14

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA.

The following table represents our financial information for the five years ended December 31, 2014. This financial information has been derived from our historical financial statements including those for the most recent three years included elsewhere in this Annual Report on Form 10-K and should be read in conjunction with those consolidated financial statements, accompanying footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7. Prior period financial information has been reclassified for presentation of operations discontinued in 2013 as described in the notes to the consolidated financial statements. These reclassifications had no impact on previously reported net income.

(in thousands, except share and per share amounts)

	Years Ended December 31,				
STATEMENT OF INCOME DATA:	2014	2013	2012	2011	2010
Revenues	$177,509	$117,828	$93,317	$83,739	$79,423
Income from continuing operations	103,052	79,498	72,834	69,817	58,729
Discontinued operations:					
Income from operations - discontinued	—	5,426	6,098	7,967	8,688
Gain on sales of real estate	—	22,258	11,966	3,348	2,004
Net income	103,052	107,182	90,898	81,132	69,421
Net income attributable to noncontrolling interest	(1,443)	(999)	(167)	—	—
Net income attributable to common stockholders	$101,609	$106,183	$90,731	$81,132	$69,421
PER SHARE DATA:					
Basic earnings per common share:					
Income from continuing operations	$3.04	$2.77	$2.61	$2.52	$2.12
Discontinued operations	—	.97	.65	.41	.39
Net income attributable to common stockholders	$3.04	$3.74	$3.26	$2.93	$2.51
Diluted earnings per common share:					
Income from continuing operations	$3.04	$2.77	$2.61	$2.51	$2.12
Discontinued operations	—	.97	.65	.41	.38
Net income attributable to common stockholders	$3.04	$3.74	$3.26	$2.92	$2.50
OTHER DATA:					
Common shares outstanding, end of year	37,485,902	33,051,176	27,857,217	27,751,208	27,689,392
Weighted average common shares:					
Basic	33,375,966	28,362,398	27,811,813	27,719,096	27,664,482
Diluted	33,416,014	28,397,702	27,838,720	27,792,592	27,732,959
Regular dividends declared per common share	$3.08	$2.90	$2.64	$2.495	$2.36
Special dividends declared per common share	$—	$—	$.22	$.22	$—
BALANCE SHEET DATA: (at year end)					
Mortgages and other notes receivable, net	$63,630	$60,639	$84,250	$78,672	$75,465

Real estate properties, net	$1,776,549	$1,247,740	$535,390	$394,795	$327,654
Preferred stock and marketable securities	$53,635	$50,782	$51,016	$49,496	$60,608
Assets held for sale, net	$—	$—	$1,611	$29,381	$36,853
Total assets	$1,982,960	$1,455,820	$705,981	$579,563	$509,341
Debt	$862,726	$617,080	$203,250	$97,300	$37,765
Total equity	$1,049,933	$777,160	$468,047	$443,485	$442,500

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following discussion and analysis is based primarily on the consolidated financial statements of National Health Investors, Inc. for the periods presented and should be read together with the notes thereto contained in this Annual Report on Form 10-K. Other important factors are identified in "Item 1. Business" and "Item 1A. Risk Factors" above.

Executive Overview

National Health Investors, Inc., is a self-managed real estate investment trust ("REIT") specializing in sale-leaseback, joint-venture, mortgage and mezzanine financing of need-driven and discretionary senior housing and medical investments. Our portfolio consists of real estate investments in independent, assisted and memory care communities, entrance-fee communities, senior living campuses, skilled nursing facilities, specialty hospitals and medical office buildings. Other investments include mortgages and notes, the preferred stock and marketable securities of other REITs, and a joint venture structured to comply with the provisions of the REIT Investment Diversification Empowerment Act of 2007 ("RIDEA"). Through this RIDEA joint venture, we invest in facility operations managed by independent third-parties. We fund our real estate investments primarily through: (1) cash flow, (2) debt offerings, including bank lines of credit and ordinary term debt, and (3) the sale of equity securities.

Portfolio

At December 31, 2014, our continuing operations consisted of investments in real estate and mortgage and other notes receivable involving 183 facilities located in 31 states. These investments involve 106 senior housing communities, 71 skilled nursing facilities, 4 hospitals, 2 medical office buildings and other notes receivable. These investments (excluding our corporate office of $900,000) consisted of properties with an original cost of approximately $1,987,949,000, rented under triple-net leases to 24 lessees, and $63,630,000 aggregate carrying value of mortgage and other notes receivable due from 15 borrowers.

We classify all of the properties in our portfolio as either senior housing or medical properties. We further classify our senior housing communities as either need-driven (assisted and memory care communities and senior living campuses) or discretionary (independent living and entrance-fee communities.) Medical properties within our portfolio include skilled nursing facilities, medical office buildings and specialty hospitals.

Table of Contents

The following tables summarize our investments in real estate and mortgage and other notes receivable as of December 31, 2014 (dollars in thousands):

Real Estate Properties	Properties	Beds/Sq. Ft.*		Revenue	%	
Need-Driven Senior Housing						
Assisted Living	62	3,144		$38,939	22.5	%
Senior Living Campus	6	881		7,068	4.1	%
Total Need-Driven Senior Housing	68	4,025		46,007	26.5	%
Discretionary Senior Housing						
Entrance-Fee Communities	7	1,587		1,505	0.9	%
Independent Living	28	3,114		45,120	26.0	%
Total Discretionary Senior Housing	35	4,701		46,625	26.9	%
Total Senior Housing	103	8,726		92,632	53.5	%
Medical Facilities						
Skilled Nursing Facilities	64	8,370		65,095	37.6	%
Hospitals	3	181		7,566	4.4	%
Medical Office Buildings	2	88,517	*	986	0.6	%
Total Medical Facilities	69			73,647	42.5	%
Total Real Estate Properties	172			$166,279	96.0	%
Mortgage and Other Notes Receivable						
Need-Driven Senior Housing	3	310		$1,022	0.6	%
Medical Facilities	8	664		2,589	1.5	%
Other Notes Receivable	—	—		3,402	2.0	%
Total Mortgage and Other Notes Receivable	11			7,013	4.0	%
Total Portfolio	183			$173,292	100.0	%

Portfolio Summary	Properties	Beds/Sq. Ft.*		Revenue	%	
Real Estate Properties	172			$166,279	96.0	%
Mortgage and Other Notes Receivable	11			7,013	4.0	%
Total Portfolio	183			$173,292	100.0	%
Summary of Facilities by Type						
Need-Driven Senior Housing						
Assisted Living	65	3,454		$39,962	23.0	%
Senior Living Campus	6	881		7,068	4.1	%
Total Need-Driven Senior Housing	71	4,335		47,030	27.1	%
Discretionary Senior Housing						
Entrance-Fee Communities	7	1,587		1,505	0.9	%
Independent Living	28	3,114		45,120	26.0	%
Total Discretionary Senior Housing	35	4,701		46,625	26.9	%
Total Senior Housing	106	9,036		93,655	54.0	%
Medical Facilities						
Skilled Nursing Facilities	71	8,964		66,480	38.4	%
Hospitals	4	251		8,769	5.0	%
Medical Office Buildings	2	88,517	*	986	0.6	%
Total Medical	77			76,235	44.0	%
Other	—			3,402	2.0	%

Total Portfolio	183	$173,292	100.0	%
Portfolio by Operator Type				
Public	53	$45,696	26.4	%
National Chain (Privately-Owned)	29	49,545	28.5	%
Regional	91	69,455	40.1	%
Small	10	8,596	5.0	%
Total Portfolio	183	$173,292	100.0	%

Table of Contents

For the year ended December 31, 2014, operators of facilities which provided more than 3% of our total revenues were (in alphabetical order): Bickford Senior Living; Brookdale Senior Living; Fundamental; Health Services Management; Holiday Retirement; Legend Healthcare; and National HealthCare Corp.

As of December 31, 2014, our average effective annualized rental income was $7,870 per bed for SNFs, $13,057 per unit for ALFs, $14,489 per unit for ILFs, $24,383 per unit for EFCs, $41,798 per bed for hospitals, and $11 per square foot for MOBs.

We invest a portion of our funds in the preferred and common shares of other publicly held healthcare REITs to ensure a substantial portion of our assets are invested for real estate purposes. At December 31, 2014, such investments had a carrying value of $53,635,000.

Areas of Focus

We are evaluating and will potentially make additional investments during 2015 while we continue to monitor and improve our existing properties. We seek tenants who will become mission-oriented partners in relationships where our business goals are aligned. This approach fuels steady, and thus, enduring growth for those partners and for NHI.

Following the recent Federal Reserve policy statement assuring near-zero interest rates for a “considerable time,” we expect debt costs to remain attractive in the near term and, as a result, increased competition for healthcare assets should continue. Within our industry, demand for healthcare real estate has been intensified by the availability of senior unsecured debt at historically low rates. As a result of the availability of debt and equity capital, a multitude of buyers seeking investment opportunities, including unlisted REITs and private equity funds, threaten to result in an oversold market and have led NHI to more value-based investment judgments.

As capitalization rates have fallen for existing healthcare facilities, there has been increased interest in constructing new facilities in hopes of generating better returns on invested capital. Using our relationship-driven model, we look for opportunities to support new and existing tenants and borrowers, with the capital needed to expand existing facilities and to initiate ground-up development of new facilities in markets where there is demonstrated demand for a particular product type. The projects we agree to finance have attractive upside potential and are expected to provide above-average returns to our shareholders to mitigate the risks inherent with property development and construction.

For the year ended December 31, 2014, approximately 37% of our revenue from continuing operations has come from operators of our skilled nursing facilities that receive a significant portion of their revenue from governmental payors, primarily Medicare and Medicaid. Such revenues are subject annually to statutory and regulatory changes, and in recent years, have been reduced due to federal and state budgetary pressures. In 2009, we began to diversify our portfolio by directing a significant portion of our investments into properties which do not rely primarily on Medicare and Medicaid reimbursement, but rather on private pay sources. While we will occasionally acquire skilled nursing facilities in good physical condition with a proven operator and strong local market fundamentals, our recent investment focus has been on acquiring need-driven and senior housing assets (including assisted living and memory care facilities, senior living campuses, independent living facilities and entrance-fee communities).

As a result of the Holiday investment we made in December 2013, our revenue from skilled nursing facilities, as a percentage of continuing operations revenue, has continued to decline. Our December 2014 acquisition of eight Senior Living communities further broadens the private payor model within our portfolio and reduces our exposure to the Government single-payor model. These acquisitions represent continued diversification across asset types and further exemplify our strategy of focusing on well-established tenants who are recognized leaders in their industries. Considering individual tenant lease revenue as a percentage of total revenue, Bickford Senior Living is our largest assisted living/memory care tenant, an affiliate of Holiday Retirement is our largest independent living tenant, National HealthCare Corporation is our largest skilled nursing tenant and for 2015 Senior Living Communities is expected to be our largest entrance-fee community tenant.

Our shift toward private payor facilities, as well as our recent expansion into the discretionary senior housing market, has resulted in a portfolio that is relatively balanced between medical facilities, need-driven senior housing and discretionary senior housing. The following table illustrates this shift by comparing our total lease revenue for 2013 compared to a full year of lease revenue for leases in place as of December 31, 2014 (in thousands):

Table of Contents

Year Ended December 31,

2013 % 2014* %

Medical Facilities 67,314 64% 74,427

Liquidation value, end of period (in 000 s)	$ 72,000	$ 72,000	$ 72,000	$ 72,000	$ 72,000	$ 72,000
Total shares outstanding (in 000 s)	3	3	3	3	3	3
Liquidation preference per share	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Liquidation value(d)	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Asset coverage per share	$129,916	$ 128,106	$ 103,507	$ 103,593	$ 111,687	$ 99,525
5.875% Series D						
Liquidation value, end of period (in 000 s)	$ 59,097	$ 59,097	$ 59,097	$ 59,097	$ 59,097	$ 59,097
Total shares outstanding (in 000 s)	2,364	2,364	2,364	2,364	2,364	2,364
Liquidation preference per share	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Average market value(e)	$ 25.14	$ 25.27	$ 25.75	$ 25.35	$ 25.03	$ 23.39
Asset coverage per share	$ 129.92	$ 128.11	$ 103.51	$ 103.59	$ 111.69	$ 99.53
Auction Rate Series E						
Liquidation value, end of period (in 000 s)	$ 28,000	$ 28,000	$ 28,000	$ 28,000	$ 28,000	$ 28,000
Total shares outstanding (in 000 s)	1	1	1	1	1	1
Liquidation preference per share	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Liquidation value(d)	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Asset coverage per share	$129,916	$ 128,106	$ 103,507	$ 103,593	$ 111,687	$ 99,525
6.200% Series F						
Liquidation value, end of period (in 000 s)				$ 146,260	$ 146,260	$ 146,260
Total shares outstanding (in 000 s)				5,850	5,850	5,850
Liquidation preference per share				$ 25.00	$ 25.00	$ 25.00
Average market value(e)				$ 25.57	$ 25.71	$ 24.08
Asset coverage per share				$ 103.59	$ 111.69	$ 99.53
Series G						
Liquidation value, end of period (in 000 s)	$ 70,361	$ 70,373	$ 70,413			
Total shares outstanding (in 000 s)	2,814	2,815	2,817			
Liquidation preference per share	$ 25.00	$ 25.00	$ 25.00			
Average market value(e)	$ 23.02	$ 23.91	$ 26.01			
Asset coverage per share	$ 129.92	$ 128.11	$ 103.51			
5.000% Series H						
Liquidation value, end of period (in 000 s)	$104,674	$ 104,757	$ 105,000			
Total shares outstanding (in 000 s)	4,187	4,190	4,200			
Liquidation preference per share	$ 25.00	$ 25.00	$ 25.00			
Average market value(e)	$ 22.64	$ 23.85	$ 25.55			
Asset coverage per share	$ 129.92	$ 128.11	$ 103.51			
Asset Coverage(f)	520%	512%	414%	414%	447%	398%

For six months ended June 30, 2014 and the year ended 2013 based on net asset value per share, adjusted for reinvestment of distributions at net asset value on the ex-dividend date. The years ended 2012, 2011, 2010, and 2009 were based on net asset value per share, adjusted for reinvestment of distributions at prices obtained under the Fund s dividend reinvestment plan. Total return for a period of less than one year is not annualized.

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund s dividend reinvestment plan. Total return for a period of less than one year is not annualized.

* Based on year to date book income. Amounts are subject to change and recharacterization at year end.

(a) Calculated based upon average common shares outstanding on the record dates throughout the periods.

(b) Amount represents less than $0.005 per share.

(c) Annualized.

(d) Since February 2008, the weekly auctions have failed. Holders that have submitted orders have not been able to sell any or all of their shares in the auctions.

(e) Based on weekly prices.

(f) Asset coverage is calculated by combining all series of preferred stock.

See accompanying notes to financial statements.

15

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited)

1. Organization. The Gabelli Equity Trust Inc. (the Fund) is a non-diversified closed-end management investment company organized as a Maryland corporation on May 20, 1986 and registered under the Investment Company Act of 1940, as amended (the 1940 Act), whose primary objective is long term growth of capital with income as a secondary objective. Investment operations commenced on August 21, 1986.

The Fund will invest at least 80% of its assets in equity securities under normal market conditions (the 80% Policy). The 80% Policy may be changed without shareholder approval. The Fund will provide shareholders with notice at least sixty days prior to the implementation of any changes in the 80% Policy.

2. Significant Accounting Policies. The Fund s financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP), which may require the use of management estimates and assumptions. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Security Valuation. Portfolio securities listed or traded on a nationally recognized securities exchange or traded in the U.S. over-the-counter market for which market quotations are readily available are valued at the last quoted sale price or a market s official closing price as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued at the most recently available price or, if the Board of Directors (the Board) so determines, by such other method as the Board shall determine in good faith to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by Gabelli Funds, LLC (the Adviser).

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market, but prior to the close of business on the day the securities are being valued. Debt instruments with remaining maturities of sixty days or less that are not credit impaired are valued at amortized cost, unless the Board determines such amount does not reflect the securities fair value, in which case these securities will be fair valued as determined by the Board. Debt instruments having a maturity greater than sixty days for which market quotations are readily available are valued at the average of the latest bid and asked prices. If there were no asked prices quoted on such day, the security is valued using the closing bid price. U.S. government obligations with maturities greater than sixty days are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. Futures contracts are valued at the closing settlement price of the exchange or board of trade on which the applicable contract is traded.

Securities and assets for which market quotations are not readily available are fair valued as determined by the Board. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of available financial and non-financial information about the company; comparisons with the valuation and changes in valuation of similar securities, including a comparison of foreign securities with the equivalent U.S. dollar value American Depositary Receipt securities at the close of the U.S. exchange; and evaluation of any other information that could be indicative of the value of the security.

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

The inputs and valuation techniques used to measure fair value of the Fund s investments are summarized into three levels as described in the hierarchy below:

Level 1 quoted prices in active markets for identical securities;
Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.); and
Level 3 significant unobservable inputs (including the Board s determinations as to the fair value of investments).

A financial instrument s level within the fair value hierarchy is based on the lowest level of any input both individually and in the aggregate that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of the Fund s investments in securities and other financial instruments by inputs used to value the Fund s investments as of June 30, 2014 is as follows:

		Valuation Inputs		
	Level 1 Quoted Prices	**Level 2 Other Significant Observable Inputs**	**Level 3 Significant Unobservable Inputs**	**Total Market Value at 6/30/14**
INVESTMENTS IN SECURITIES:				
ASSETS (Market Value):				
Common Stocks:				
Energy and Utilities	$ 96,671,688		$ 0	$ 96,671,688
Aerospace and Defense	45,136,993		275,192	45,412,185
Other Industries (a)	1,592,607,548			1,592,607,548
Total Common Stocks	1,734,416,229		275,192	1,734,691,421
Convertible Preferred Stocks (a)	1,007,979			1,007,979
Warrants (a)	321,924			321,924
Convertible Corporate Bonds (a)		$2,316,250		2,316,250
TOTAL INVESTMENTS IN SECURITIES ASSETS	$ 1,735,746,132	$2,316,250	$275,192	$1,738,337,574
OTHER FINANCIAL INSTRUMENTS:*				
LIABILITIES (Unrealized Depreciation):				
EQUITY CONTRACTS				
Futures Contracts Sold (b)	$ (82,633)	$	$	$ (82,633)

(a) Please refer to the Schedule of Investments (SOI) for the industry classifications of these portfolio holdings.
(b) Represents cumulative unrealized depreciation of futures contracts as reported in the SOI.
* Other financial instruments are derivatives reflected in the SOI, such as options, futures, forwards, and swaps, which may be valued at the unrealized appreciation/depreciation of the instrument.

The Fund did not have material transfers among Level 1, Level 2, and Level 3 during the six months ended June 30, 2014. The Fund s policy is to recognize transfers among Levels as of the beginning of the reporting period.

Additional Information to Evaluate Qualitative Information.

General. The Fund uses recognized industry pricing services approved by the Board and unaffiliated with the Adviser to value most of its securities, and uses broker quotes provided by market makers of securities not valued by these and other recognized pricing sources. Several different pricing feeds are received to value domestic equity securities, international equity securities, preferred equity securities, and fixed income securities. The data within these feeds is ultimately sourced from major stock exchanges and trading systems where these

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

securities trade. The prices supplied by external sources are checked by obtaining quotations or actual transaction prices from market participants. If a price obtained from the pricing source is deemed unreliable, prices will be sought from another pricing service or from a broker/dealer that trades that security or similar securities.

Fair Valuation. Fair valued securities may be common and preferred equities, warrants, options, rights, and fixed income obligations. Where appropriate, Level 3 securities are those for which market quotations are not available, such as securities not traded for several days, or for which current bids are not available, or which are restricted as to transfer. Among the factors to be considered to fair value a security are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models, current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. A significant change in the unobservable inputs could result in a lower or higher value in Level 3 securities. The circumstances of Level 3 securities are frequently monitored to determine if fair valuation measures continue to apply.

The Adviser reports quarterly to the Board the results of the application of fair valuation policies and procedures. These include back testing the prices realized in subsequent trades of these fair valued securities to fair values previously recognized.

Derivative Financial Instruments. The Fund may engage in various portfolio investment strategies by investing in a number of derivative financial instruments for the purposes of increasing the income of the Fund, hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase, or hedging against a specific transaction with respect to either the currency in which the transaction is denominated or another currency. Investing in certain derivative financial instruments, including participation in the options, futures, or swap markets, entails certain execution, liquidity, hedging, tax, and securities, interest, credit, or currency market risks. Losses may arise if the Adviser s prediction of movements in the direction of the securities, foreign currency, and interest rate markets is inaccurate. Losses may also arise if the counterparty does not perform its duties under a contract, or that, in the event of default, the Fund may be delayed in or prevented from obtaining payments or other contractual remedies owed to it under derivative contracts. The creditworthiness of the counterparties is closely monitored in order to minimize these risks. Participation in derivative transactions involves investment risks, transaction costs, and potential losses to which the Fund would not be subject absent the use of these strategies. The consequences of these risks, transaction costs, and losses may have a negative impact on the Fund s ability to pay distributions.

Collateral requirements differ by type of derivative. Collateral requirements are set by the broker or exchange clearing house for exchange traded derivatives, while collateral terms are contract specific for derivatives traded over-the-counter. Securities pledged to cover obligations of the Fund under derivative contracts are noted in the Schedule of Investments. Cash collateral, if any, pledged for the same purpose will be reported separately in the Statement of Assets and Liabilities.

The Fund s policy with respect to offsetting is that, absent an event of default by the counterparty or a termination of the agreement, the master agreement does not result in an offset of reported amounts of financial assets and financial liabilities in the Statement of Assets and Liabilities across transactions between the Fund and the applicable counterparty. The enforceability of the right to offset may vary by jurisdiction.

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

The Fund s derivative contracts held at June 30, 2014, if any, are not accounted for as hedging instruments under GAAP and are disclosed in the Schedule of Investments together with the related counterparty.

Swap Agreements. The Fund may enter into equity contract for difference swap transactions for the purpose of increasing the income of the Fund. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an equity contract for difference swap, a set of future cash flows is exchanged between two counterparties. One of these cash flow streams will typically be based on a reference interest rate combined with the performance of a notional value of shares of a stock. The other will be based on the performance of the shares of a stock. Depending on the general state of short term interest rates and the returns on the Fund s portfolio securities at the time an equity contract for difference swap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction.

During the six months ended June 30, 2014, the Fund held no investments in equity contract for difference swap agreements.

Futures Contracts. The Fund may engage in futures contracts for the purpose of hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Upon entering into a futures contract, the Fund is required to deposit with the broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as the initial margin. Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract, and are included in unrealized appreciation/depreciation on futures contracts. The Fund recognizes a realized gain or loss when the contract is closed.

There are several risks in connection with the use of futures contracts as a hedging instrument. The change in value of futures contracts primarily corresponds with the value of their underlying instruments, which may not correlate with the change in value of the hedged investments. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market. Open positions in futures contracts at June 30, 2014 are reflected within the Schedule of Investments.

The Fund s volume of equity futures contracts held during the six months ended June 30, 2014 had an average monthly notional amount while outstanding of approximately $17,461,928.

At June 30, 2014, the Fund s derivative liabilities (by type) are as follows:

			Gross Amounts Not Offset in the Statement of Assets and Liabilities		
	Gross Amounts of Recognized Liabilities Presented in the Statement of Assets and Liabilities	**Gross Amounts Available for Offset in the Statement of Assets and Liabilities**	**Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
Liabilities					
Futures Contracts	$1,466				$1,466

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

For the six months ended June 30, 2014, the effect of equity futures contracts can be found in the Statement of Operations under Net Realized and Unrealized Gain/(Loss) on Investments, Futures Contracts, and Foreign Currency, Net realized loss on futures contracts, and Net change in unrealized appreciation/depreciation on futures contracts.

Limitations on the Purchase and Sale of Futures Contracts, Certain Options, and Swaps. Subject to the guidelines of the Board, the Fund may engage in commodity interest transactions (generally, transactions in futures, certain options, certain currency transactions, and certain types of swaps) only for bona fide hedging or other permissible transactions in accordance with the rules and regulations of the Commodity Futures Trading Commission (CFTC). Pursuant to amendments by the CFTC to Rule 4.5 under the Commodity Exchange Act (CEA), the Adviser has filed a notice of exemption from registration as a commodity pool operator with respect to the Fund. The Fund and the Adviser are therefore not subject to registration or regulation as a commodity pool operator under the CEA. In addition, certain trading restrictions are now applicable to the Fund as of January 1, 2013. These trading restrictions permit the Fund to engage in commodity interest transactions that include (i) bona fide hedging transactions, as that term is defined and interpreted by the CFTC and its staff, without regard to the percentage of the Fund s assets committed to margin and options premiums and (ii) non-bona fide hedging transactions, provided that the Fund does not enter into such non-bona fide hedging transactions if, immediately thereafter, either (a) the sum of the amount of initial margin deposits on the Fund s existing futures positions or swaps positions and option or swaption premiums would exceed 5% of the market value of the Fund s liquidating value, after taking into account unrealized profits and unrealized losses on any such transactions, or (b) the aggregate net notional value of the Fund s commodity interest transactions would not exceed 100% of the market value of the Fund s liquidating value, after taking into account unrealized profits and unrealized losses on any such transactions. Therefore, in order to claim the Rule 4.5 exemption, the Fund is limited in its ability to invest in commodity futures, options, and certain types of swaps (including securities futures, broad based stock index futures, and financial futures contracts). As a result, in the future, the Fund will be more limited in its ability to use these instruments than in the past, and these limitations may have a negative impact on the ability of the Adviser to manage the Fund, and on the Fund s performance.

Investments in Other Investment Companies. The Fund may invest, from time to time, in shares of other investment companies (or entities that would be considered investment companies but are excluded from the definition pursuant to certain exceptions under the 1940 Act) (the Acquired Funds) in accordance with the 1940 Act and related rules. Shareholders in the Fund would bear the pro rata portion of the periodic expenses of the Acquired Funds in addition to the Fund s expenses. For the six months ended June 30, 2014, the Fund s pro rata portion of the periodic expenses charged by the Acquired Funds was less than 1 basis point.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments, and other assets and liabilities are translated into U.S. dollars at current exchange rates. Purchases and sales of investment securities, income, and expenses are translated at the exchange rate prevailing on the respective dates of such transactions. Unrealized gains and losses that result from changes in foreign exchange rates and/or changes in market prices of securities have been included in unrealized appreciation/depreciation on investments and foreign currency translations. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

date and settlement date on investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amounts actually received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial purchase trade date and subsequent sale trade date is included in realized gain/(loss) on investments.

Foreign Securities. The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the inability to repatriate funds, less complete financial information about companies, and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than securities of comparable U.S. issuers.

Foreign Taxes. The Fund may be subject to foreign taxes on income, gains on investments, or currency repatriation, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable, based upon its current interpretation of tax rules and regulations that exist in the markets in which it invests.

Restricted Securities. The Fund may invest up to 10% of its net assets in securities for which the markets are restricted. Restricted securities include securities whose disposition is subject to substantial legal or contractual restrictions. The sale of restricted securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Securities freely saleable among qualified institutional investors under special rules adopted by the SEC may be treated as liquid if they satisfy liquidity standards established by the Board. The continued liquidity of such securities is not as well assured as that of publicly traded securities, and accordingly the Board will monitor their liquidity. For the restricted securities the Fund held as of June 30, 2014, refer to the Schedule of Investments.

Securities Transactions and Investment Income. Securities transactions are accounted for on the trade date with realized gain/(loss) on investments determined by using the identified cost method. Interest income (including amortization of premium and accretion of discount) is recorded on the accrual basis. Premiums and discounts on debt securities are amortized using the effective yield to maturity method. Dividend income is recorded on the ex-dividend date, except for certain dividends from foreign securities that are recorded as soon after the ex-dividend date as the Fund becomes aware of such dividends.

Custodian Fee Credits and Interest Expense. When cash balances are maintained in the custody account, the Fund receives credits which are used to offset custodian fees. The gross expenses paid under the custody arrangement are included in custodian fees in the Statement of Operations with the corresponding expense offset, if any, shown as Custodian fee credits. When cash balances are overdrawn, the Fund is charged an overdraft fee equal to 110% of the 90 day Treasury Bill rate on outstanding balances. This amount, if any, would be included in the Statement of Operations.

Distributions to Shareholders. Distributions to common shareholders are recorded on the ex-dividend date. Distributions to shareholders are based on income and capital gains as determined in accordance with federal income tax regulations, which may differ from income and capital gains as determined under GAAP. These differences are primarily due to differing treatments of income and gains on various investment securities and

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

foreign currency transactions held by the Fund, timing differences, and differing characterizations of distributions made by the Fund. Distributions from net investment income for federal income tax purposes include net realized gains on foreign currency transactions. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, adjustments are made to the appropriate capital accounts in the period when the differences arise. These reclassifications have no impact on the NAV of the Fund.

Under the Fund s current common share distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long term capital gains. The Fund s current distribution policy may restrict the Fund s ability to pass through to shareholders all of its net realized long term capital gains as a Capital Gain Dividend and may cause such gains to be treated as ordinary income. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. The Board will continue to monitor the Fund s distribution level, taking into consideration the Fund s NAV and the financial market environment. The Fund s distribution policy is subject to modification by the Board at any time.

Distributions to shareholders of the Fund s Series C Auction Rate Cumulative Preferred Stock, 5.875% Series D Cumulative Preferred Stock, Series E Auction Rate Cumulative Preferred Stock, Series G Cumulative Preferred Stock, and 5.00% Series H Cumulative Preferred Stock (Preferred Stock) are recorded on a daily basis and are determined as described in Note 5.

The tax character of distributions paid during the year ended December 31, 2013 was as follows:

	Common	Preferred
Distributions paid from:		
Ordinary income.	$ 21,142,024	$ 2,306,290
Net long term capital gains	95,940,599	10,465,739
Total distributions paid	$ 117,082,623	$ 12,772,029

Provision for Income Taxes. The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). It is the policy of the Fund to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its net investment company taxable income and net capital gains. Therefore, no provision for federal income taxes is required.

As of December 31, 2013, the components of accumulated earnings/losses on a tax basis were as follows:

Net unrealized appreciation on investments, futures contracts, and foreign currency translations	$ 820,059,398
Other temporary differences*	1,432,214
Total.	$ 821,491,612

* Other temporary differences were primarily due to mark-to-market adjustments on futures contracts.

Under the Regulated Investment Company Modernization Act of 2010, the Fund is permitted to carry forward for an unlimited period capital losses incurred. As a result of the rule, post enactment capital losses that are carried forward will retain their character as either short term or long term capital losses.

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

The following summarizes the tax cost of investments and the related net unrealized appreciation at June 30, 2014:

	Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
Investments	$ 849,640,996	$ 915,525,930	$ (26,829,352)	$ 888,696,578

The Fund is required to evaluate tax positions taken or expected to be taken in the course of preparing the Fund s tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Income tax and related interest and penalties would be recognized by the Fund as tax expense in the Statement of Operations if the tax positions were deemed not to meet the more-likely-than-not threshold. For the six months ended June 30, 2014, the Fund did not incur any income tax, interest, or penalties. As of June 30, 2014, the Adviser has reviewed all open tax years and concluded that there was no impact to the Fund s net assets or results of operations. The Fund s federal and state tax returns for the prior three fiscal years remain open, subject to examination. On an ongoing basis, the Adviser will monitor the Fund s tax positions to determine if adjustments to this conclusion are necessary.

3. Agreements and Transactions with Affiliates. The Fund has entered into an investment advisory agreement (the Advisory Agreement) with the Adviser which provides that the Fund will pay the Adviser a fee, computed weekly and paid monthly, equal on an annual basis to 1.00% of the value of the Fund s average weekly net assets including the liquidation value of preferred stock. In accordance with the Advisory Agreement, the Adviser provides a continuous investment program for the Fund s portfolio and oversees the administration of all aspects of the Fund s business and affairs.

The Adviser has agreed to reduce the management fee on the incremental assets attributable to the Series C, Series D, and Series E Preferred Stock (C, D, and E Preferred Stock) if the total return of the NAV of the common shares of the Fund, including distributions and advisory fee subject to reduction, does not exceed the stated dividend rate or corresponding swap rate of the C, D, and E Preferred Stock for the year. The Fund s total return on the NAV of the common shares is monitored on a monthly basis to assess whether the total return on the NAV of the common shares exceeds the stated dividend rate of the C, D, and E Preferred Stock for the period. For the six months ended June 30, 2014, the Fund s total return on the NAV of the common shares exceeded the dividend rate of the outstanding C and E Preferred Stock, but not on the outstanding D Preferred Stock. Thus, advisory fees were accrued on the liquidation value of the C and E Preferred Stock, and advisory fees on the liquidation value of the D Preferred Stock were reduced by $293,054.

During the six months ended June 30, 2014, the Fund paid brokerage commissions on security trades of $19,977 to G.research, Inc., an affiliate of the Adviser.

The cost of calculating the Fund s NAV per share is a Fund expense pursuant to the Advisory Agreement between the Fund and the Adviser. During the six months ended June 30, 2014, the Fund paid or accrued $22,500 to the Adviser in connection with the cost of computing the Fund s NAV.

As per the approval of the Board, the Fund compensates officers of the Fund, who are employed by the Fund and are not employed by the Adviser (although the officers may receive incentive based variable compensation from affiliates of the Adviser). For the six months ended June 30, 2014, the Fund paid or accrued $79,113 in payroll expenses in the Statement of Operations.

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

There was a reduction in the advisory fee paid to the Adviser relating to certain portfolio holdings, i.e., unsupervised assets, of the Fund with respect to which the Adviser transferred dispositive and voting control to the Fund s Proxy Voting Committee. During the six months ended June 30, 2014, the Fund s Proxy Voting Committee exercised control and discretion over all rights to vote or consent with respect to such securities, and the Adviser reduced its fee with respect to such securities by $696.

The Fund pays each Director who is not considered an affiliated person an annual retainer of $15,000 plus $2,000 for each Board meeting attended. Each Director is reimbursed by the Fund for any out of pocket expenses incurred in attending meetings. All Board committee members receive $1,000 per meeting attended. The Audit Committee Chairman receives an annual fee of $3,000, the Proxy Voting Committee Chairman receives an annual fee of $1,500, and the Nominating Committee Chairman and the Lead Director each receive an annual fee of $2,000. A Director may receive a single meeting fee, allocated among the participating funds, for participation in certain meetings held on behalf of multiple funds. Directors who are directors or employees of the Adviser or an affiliated company receive no compensation or expense reimbursement from the Fund.

4. Portfolio Securities. Purchases and sales of securities during the six months ended June 30, 2014, other than short term securities and U.S. Government obligations, aggregated $35,330,501 and $48,567,489, respectively.

5. Capital. The Fund s Articles of Incorporation, as amended, permit the Fund to issue 246,000,000 shares of common stock (par value $0.001) and authorizes the Board to increase its authorized shares from time to time. The Board has authorized the repurchase of its shares on the open market when the shares are trading on the NYSE at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the NAV of the shares. During the six months ended June 30, 2014 and the year ended December 31, 2013, the Fund did not repurchase any shares of its common stock in the open market.

Transactions in common shares were as follows:

	Six Months Ended June 30, 2014 (Unaudited)		Year Ended December 31, 2013	
	Shares	**Amount**	**Shares**	**Amount**
Net increase from common shares issued upon reinvestment of distributions	1,235,151	$ 9,042,602	2,888,148	$ 18,998,599

A shelf registration authorizing the offering of an additional $500 million of common or preferred shares was declared effective by the SEC on May 22, 2013.

The Fund s Articles of Incorporation, as amended, authorize the issuance of up to 18,000,000 shares of $0.001 par value Preferred Stock. The Preferred Stock is senior to the common stock and results in the financial leveraging of the common stock. Such leveraging tends to magnify both the risks and opportunities to common shareholders. Dividends on shares of the Preferred Stock are cumulative. The Fund is required by the 1940 Act and by the Articles Supplementary to meet certain asset coverage tests with respect to the Preferred Stock. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Series C, Series D, Series E, Series G, and Series H Preferred Stock at redemption prices of $25,000, $25, $25,000, $25, and $25, respectively, per share plus an amount equal to the accumulated and unpaid dividends whether or not declared on such shares in order to meet these requirements. Additionally,

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

failure to meet the foregoing asset coverage requirements could restrict the Fund s ability to pay dividends to common shareholders and could lead to sales of portfolio securities at inopportune times. The income received on the Fund s assets may vary in a manner unrelated to the fixed and variable rates, which could have either a beneficial or detrimental impact on net investment income and gains available to common shareholders.

For Series C and Series E Preferred Stocks, the dividend rates, as set by the auction process that is generally held every seven days, are expected to vary with short term interest rates. Since February 2008, the number of shares of Series C and Series E Preferred Stock subject to bid orders by potential holders has been less than the number of shares of Series C and Series E Preferred Stock subject to sell orders. Holders that have submitted sell orders have not been able to sell any or all of the Series C and Series E Preferred Stock for which they have submitted sell orders. Therefore the weekly auctions have failed, and the dividend rate has been the maximum rate. For Series C and Series E Preferred Stock, the maximum auction rate is 175% of the AA Financial Composite Commercial Paper Rate. Existing Series C and Series E shareholders may submit an order to hold, bid, or sell such shares on each auction date, or trade their shares in the secondary market.

The Fund may redeem at anytime, in whole or in part, the Series C, Series D, and Series E Preferred Stock at their respective redemption prices. In addition, the Board has authorized the repurchase of Series D Preferred Stock in the open market at prices less than the $25 liquidation value per share. During the six months ended June 30, 2014 and the year ended December 31, 2013, the Fund did not repurchase or redeem any shares of Series C, Series D, and Series E Preferred Stock.

Commencing July 31, 2017 and September 27, 2017, and anytimes thereafter, the Fund at its option, may redeem the Series G and Series H Preferred Stock, respectively, in whole or in part at the redemption price. In addition, the Board has authorized the repurchase of the Series G and Series H Preferred Stock in the open market at prices less than the $25 liquidation value per share. During the six months ended June 30, 2014, the Fund repurchased 500 shares and 3,300 shares of the Series G and Series H Preferred Stock, respectively.

The following table summarizes Cumulative Preferred Stock information:

Series	Issue Date	Issued/ Authorized	Number of Shares Outstanding at 06/30/2014	Net Proceeds	2014 Dividend Rate Range	Dividend Rate at 06/30/2014	Accrued Dividends at 06/30/2014
C Auction Rate	June 27, 2002	5,200	2,880	$ 128,246,557	0.07% to 0.14%	0.123%	$ 1,476
D 5.875%	October 7, 2003	3,000,000	2,363,860	$ 72,375,842	Fixed Rate	5.875%	$ 48,221
E Auction Rate	October 7, 2003	2,000	1,120	$ 49,350,009	0.07% to 0.123%	0.123%	$ 383
G 5.000%	August 1, 2012	2,816,524	2,814,424	$ 69,812,243	Fixed Rate	5.000%	$ 48,862
H 5.000%	September 28, 2012	4,200,000	4,186,973	$ 101,167,500	Fixed Rate	5.000%	$ 72,691

The holders of Preferred Stock generally are entitled to one vote per share held on each matter submitted to a vote of shareholders of the Fund and will vote together with holders of common stock as a single class. The holders of Preferred Stock voting together as a single class also have the right currently to elect two Directors and under certain circumstances are entitled to elect a majority of the Board of Directors. In addition, the affirmative vote of a majority of the votes entitled to be cast by holders of all outstanding shares of the preferred stock, voting as a single class, will be required to approve any plan of reorganization adversely affecting the preferred stock, and the approval of two-thirds of each class, voting separately, of the Fund s outstanding voting stock must approve the conversion of the Fund from a closed-end to an open-end investment company. The approval of a majority (as defined in the 1940 Act) of the outstanding preferred stock and a majority (as defined in the

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

1940 Act) of the Fund s outstanding voting securities are required to approve certain other actions, including changes in the Fund s investment objectives or fundamental investment policies.

6. Indemnifications. The Fund enters into contracts that contain a variety of indemnifications. The Fund s maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts. Management has reviewed the Fund s existing contracts and expects the risk of loss to be remote.

7. Other Matters. On April 24, 2008, the Adviser entered into a settlement with the SEC to resolve an inquiry regarding prior frequent trading in shares of the GAMCO Global Growth Fund (the Global Growth Fund) by one investor who was banned from the Global Growth Fund in August 2002. Under the terms of the settlement, the Adviser, without admitting or denying the SEC s findings and allegations, paid $16 million (which included a $5 million civil monetary penalty). On the same day, the SEC filed a civil action in the U.S. District Court for the Southern District of New York (the Court) against the Executive Vice President and Chief Operating Officer (the Officer) of the Adviser, alleging violations of certain federal securities laws arising from the same matter. On May 2, 2014, the SEC filed with the Court a stipulation of voluntary dismissal of the civil action against the Officer, and on June 19, 2014, the Court approved the stipulation and entered an order of dismissal of the action against the Officer. The settlement by the Adviser and the disposition of the action against the Officer did not have a material adverse impact on the Adviser or its ability to fulfill its obligations under the Advisory Agreement.

8. Subsequent Events. Management has evaluated the impact on the Fund of all subsequent events occurring through the date the financial statements were issued and has determined that there were no subsequent events requiring recognition or disclosure in the financial statements.

Shareholder Meeting May 12, 2014 Final Results

The Fund s Annual Meeting of Shareholders was held on May 12, 2014 at the Greenwich Library in Greenwich, Connecticut. At that meeting, common and preferred shareholders, voting together as a single class, elected Frank J. Fahrenkopf, Jr. and Salvatore J. Zizza as Directors of the Fund. A total of 146,956,378 votes and 147,083,902 votes were cast in favor of these Directors, and a total of 4,491,225 votes and 4,363,701 votes were withheld for these Directors, respectively. In addition, preferred shareholders, voting as a separate class, elected Anthony J. Colavita as a Director of the Fund. A total of 7,863,888 votes were cast in favor of this Director and a total of 498,044 votes were withheld for this Director.

Mario J. Gabelli, CFA, James P. Conn, Arthur V. Ferrara, William F. Heitmann, and Anthony R. Pustorino continue to serve in their capacities as Directors of the Fund.

We thank you for your participation and appreciate your continued support.

Certifications

The Fund s Chief Executive Officer has certified to the New York Stock Exchange (NYSE) that, as of June 11, 2014, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund reports to the SEC on Form N-CSR which contains certifications by the Fund s principal executive officer and principal financial officer that relate to the Fund s disclosure in such reports and that are required by Rule 30a-2(a) under the 1940 Act.

The Gabelli Equity Trust Inc.

Board Consideration and Re-Approval of Investment Advisory Agreements (Unaudited)

Section 15(c) of the Investment Company Act of 1940, as amended (the 1940 Act), contemplates that the Board of Directors (the Board) of The Gabelli Equity Trust Inc. (the Fund), including a majority of the Directors who have no direct or indirect interest in the investment advisory agreement and are not interested persons of the Fund, as defined in the 1940 Act (the Independent Board Members), are required to annually review and re-approve the terms of the Fund s existing investment advisory agreement and approve any newly proposed terms therein. In this regard, the Board reviewed and re-approved, during the most recent six month period covered by this report, the Investment Advisory Agreement (the Advisory Agreement) with Gabelli Funds, LLC (the Adviser) for the Fund.

More specifically, at a meeting held on May 13, 2014, the Board, including the Independent Board Members, considered the factors and reached the conclusions described below relating to the selection of the Adviser and the re-approval of the Advisory Agreement.

Nature, Extent, and Quality of Services.

The Independent Board Members considered the nature, quality, and extent of administrative and shareholder services performed by the Adviser, including portfolio management, supervision of Fund operations and compliance and regulatory filings and disclosures to shareholders, general oversight of other service providers, review of Fund legal issues, assisting the Independent Board Members in their capacity as directors, and other services. The Independent Board Members concluded that the services are extensive in nature and that the Adviser consistently delivered a high level of service.

Investment Performance of the Fund and Adviser.

The Independent Board Members considered short term and long term investment performance for the Fund over various periods of time as compared with relevant equity indices and the performance of other core, growth, and value equity closed-end funds included in the Lipper peer group. The Independent Board Members noted that the Fund s total return performance was above the peer average and peer median for the one, three, five, and ten year periods ended March 31, 2014. The Independent Board Members concluded that the Adviser was delivering satisfactory performance results consistent with the investment strategies being pursued by the Fund.

Costs of Services and Profits Realized by the Adviser.

(a) Costs of Services to Fund: Fees and Expenses. The Independent Board Members considered the Fund s management fee rate and expense ratio relative to industry averages for the Fund s Lipper peer group category and the advisory fees charged by the Adviser and its affiliates to other fund and non-fund clients. The Independent Board Members noted that the mix of services under the Advisory Agreement is much more extensive than those under the advisory agreements for non-fund clients. The Independent Board Members noted that the other non-management expenses paid by the Fund are below the average and median for its peer group, but that the total expenses were above the average and median for peer funds and that management and gross advisory fees were at the high end of the peer group range. They took note of the fact that the use of leverage impacts comparative expenses to peer funds, not all of which utilize leverage. The Independent Board Members were aware that the Adviser waives its fee on the incremental liquidation value of the Fund s Series C, Series D, and Series E preferred stock if the total return on net asset value of the common stock does not exceed the stated dividend rate or net swap expense for the Series C, Series D, and Series E preferred stock, as applicable, for the year after consideration of the reinvestment of distributions and the management fees attributable to the incremental liquidation value of the Series C, Series D, and Series E preferred stock, and that the comparative total expense ratio and other expense information reflected these waivers, if applicable. The Independent

The Gabelli Equity Trust Inc.

Board Consideration and Re-Approval of Investment Advisory Agreements (Unaudited) (Continued)

Board Members concluded that the fee is acceptable based upon the qualifications, experience, reputation, and performance of the Adviser.

(b) Profitability and Costs of Services to Adviser. The Independent Board Members considered the Adviser s overall profitability and costs, and pro forma estimates of the Adviser s profitability and costs attributable to the Fund as part of the Gabelli/GAMCO funds complex and assuming the Fund constituted the Adviser s only investment company under its management. The Independent Board Members also considered whether the amount of profit is a fair entrepreneurial profit for the management of the Fund and noted that the Adviser has substantially increased its resources devoted to Fund matters in response to regulatory requirements and new or enhanced Fund policies and procedures. The Independent Board Members concluded that the absolute fee was reasonable despite the absence of breakpoints, particularly in light of the above average performance over time.

Extent of Economies of Scale as Fund Grows.

The Independent Board Members considered whether there have been economies of scale with respect to the management of the Fund and whether the Fund has appropriately benefited from any economies of scale. The Independent Board Members noted that economies of scale may develop for certain funds as their assets increase and their fund level expenses decline as a percentage of assets, but that fund level economies of scale may not necessarily result in Adviser level economies of scale.

Whether Fee Levels Reflect Economies of Scale.

The Independent Board Members also considered whether the management fee rate is reasonable in relation to the asset size of the Fund and any economies of scale that may exist, and concluded that the Fund s current fee schedule (without breakpoints) was considered reasonable. Nonetheless, the Independent Board Members determined that Mr. Conn would reach out to the Adviser to discuss breakpoints for the Fund.

Other Relevant Considerations.

(a) Adviser Personnel and Methods. The Independent Board Members considered the size, education, and experience of the Adviser s staff, the Adviser s fundamental research capabilities, and the Adviser s approach to recruiting, training, and retaining portfolio managers and other research and management personnel, and concluded that, in each of these areas, the Adviser was structured in such a way to support the high level of services being provided to the Fund.

(b) Other Benefits to the Adviser. The Independent Board Members also considered the character and amount of other incidental benefits received by the Adviser and its affiliates from its association with the Fund. The Independent Board Members considered the brokerage commissions paid to an affiliate of the Adviser. The Independent Board Members concluded that potential fall-out benefits that the Adviser and its affiliates may receive, such as affiliated brokerage commissions, greater name recognition, or increased ability to obtain research services, appear to be reasonable, and may in some cases benefit the Fund.

Conclusions.

In considering the Advisory Agreement, the Independent Board Members did not identify any factor as all important or all controlling, and instead considered these factors collectively in light of the Fund s surrounding circumstances. Based on this review, it was the judgment of the Independent Board Members that shareholders had received satisfactory absolute and relative performance over time consistent with the investment strategies being pursued by the Fund at reasonable fees and, therefore, re-approval of the Agreement was in the best interests of the

The Gabelli Equity Trust Inc.

Board Consideration and Re-Approval of Investment Advisory Agreements (Unaudited) (Continued)

Fund and its shareholders. As a part of its decision making process, the Independent Board Members noted that the Adviser has managed the Fund since its inception, and the Independent Board Members believe that a long term relationship with a capable, conscientious adviser is in the best interests of the Fund. The Independent Board Members considered, generally, that shareholders invested in the Fund knowing that the Adviser managed the Fund and knowing its investment management fee schedule. As such, the Independent Board Members considered, in particular, whether the Adviser managed the Fund in accordance with its investment objectives and policies as disclosed to shareholders. The Independent Board Members concluded that the Fund was managed by the Adviser consistent with its investment objectives and policies.

AUTOMATIC DIVIDEND REINVESTMENT

AND VOLUNTARY CASH PURCHASE PLANS

Enrollment in the Plan

It is the policy of The Gabelli Equity Trust Inc. (the Fund) to automatically reinvest dividends payable to common shareholders. As a registered shareholder, you automatically become a participant in the Fund s Automatic Dividend Reinvestment Plan (the Plan). The Plan authorizes the Fund to credit shares of common stock to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to net asset value. All distributions to shareholders whose shares are registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their stock certificates to Computershare Trust Company, N.A. (Computershare) to be held in their dividend reinvestment account. Registered shareholders wishing to receive their distribution in cash must submit this request in writing to:

The Gabelli Equity Trust Inc.

c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170

Shareholders requesting this cash election must include the shareholder s name and address as they appear on the share certificate. Shareholders with additional questions regarding the Plan or requesting a copy of the terms of the Plan may contact Computershare at (800) 336-6983.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of street name and re-registered in your own name. Once registered in your own name, your dividends will be automatically reinvested. Certain brokers participate in the Plan. Shareholders holding shares in street name at participating institutions will have dividends automatically reinvested. Shareholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of shares of common stock distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund s common stock is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividends or capital gains distribution, participants are issued shares of common stock valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the Fund s common stock. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange (NYSE) trading day, the next trading day. If the net asset value of the common stock at the time of valuation exceeds the market price of the common stock, participants will receive shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Computershare will buy common stock in the open market, or on the NYSE or elsewhere, for the participants accounts, except that Computershare will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common stock exceeds the then current net asset value.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.

Voluntary Cash Purchase Plan

The Voluntary Cash Purchase Plan is yet another vehicle for our shareholders to increase their investment in the Fund. In order to participate in the Voluntary Cash Purchase Plan, shareholders must have their shares registered in their own name.

Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to Computershare for investments in the Fund s shares at the then current market price. Shareholders may send an amount from $250 to $10,000. Computershare will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. Computershare will charge each shareholder who participates $0.75, plus a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to Computershare, P.O. Box 43010, Providence, RI 02940 3010 such that Computershare receives such payments approximately 10 days before the 1st and 15th of the month. Funds not received at least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by Computershare at least 48 hours before such payment is to be invested.

Shareholders wishing to liquidate shares held at Computershare must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address, and account number. The cost to liquidate shares is $2.50 per transaction as well as the brokerage commission incurred. Brokerage charges are expected to be less than the usual brokerage charge for such transactions.

For more information regarding the Dividend Reinvestment Plan and Voluntary Cash Purchase Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days written notice to participants in the Plan.

THE GABELLI EQUITY TRUST INC.

One Corporate Center

Rye, NY 10580-1422

Portfolio Management Team Biographies

Mario J. Gabelli, CFA, is Chairman and Chief Executive Officer of GAMCO Investors, Inc. that he founded in 1977 and Chief Investment Officer Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc. Mr. Gabelli is a summa cum laude graduate of Fordham University and holds an MBA degree from Columbia Business School and Honorary Doctorates from Fordham University and Roger Williams University.

Christopher J. Marangi joined Gabelli in 2003 as a research analyst. He currently serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Marangi graduated magna cum laude and Phi Beta Kappa with a BA in Political Economy from Williams College and holds an MBA with honors from Columbia Business School.

Kevin V. Dreyer joined Gabelli in 2005 as a research analyst covering companies within the consumer sector. He currently serves as a portfolio manager of Gabelli Funds, LLC and manages several funds within the Gabelli/GAMCO Funds Complex. Mr. Dreyer received a BSE from the University of Pennsylvania and an MBA from Columbia Business School.

We have separated the portfolio managers commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio managers commentary is unrestricted. The financial statements and investment portfolio are mailed separately from the commentary. Both the commentary and the financial statements, including the portfolio of investments, will be available on our website at www.gabelli.com.

The Net Asset Value per share appears in the Publicly Traded Funds column, under the heading General Equity Funds, in Monday s The Wall Street Journal. It is also listed in Barron s Mutual Funds/Closed End Funds section under the heading General Equity Funds.

The Net Asset Value per share may be obtained each day by calling (914) 921-5070 or visiting www.gabelli.com.

The NASDAQ symbol for the Net Asset Value is XGABX.

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may, from time to time, purchase its common shares in the open market when the Fund s shares are trading at a discount of 10% or more from the net asset value of the shares. The Fund may also, from time to time, purchase its preferred shares in the open market when the preferred shares are trading at a discount to the liquidation value.

THE GABELLI EQUITY TRUST INC.

One Corporate Center

Rye, NY 10580-1422

t 800-GABELLI (800-422-3554)
f 914-921-5118
e info@gabelli.com
GABELLI.COM

DIRECTORS

Mario J. Gabelli, CFA

Chairman & Chief Executive Officer,

GAMCO Investors, Inc.

Anthony J. Colavita

President,

Anthony J. Colavita, P.C.

James P. Conn

Former Managing Director &

Chief Investment Officer,

Financial Security Assurance

Holdings Ltd.

Frank J. Fahrenkopf, Jr.

Former President &

Chief Executive Officer,

American Gaming Association

OFFICERS

Bruce N. Alpert

President

Andrea R. Mango

Secretary & Vice President

Agnes Mullady

Treasurer

Richard J. Walz

Chief Compliance Officer

Carter W. Austin

Vice President

Molly A.F. Marion

Vice President & Ombudsman

Arthur V. Ferrara

Former Chairman &

Chief Executive Officer,

Guardian Life Insurance

Company of America

William F. Heitmann

Former Senior Vice President

of Finance,

Verizon Communications, Inc.

Anthony R. Pustorino

Certified Public Accountant,

Professor Emeritus,

Pace University

Salvatore J. Zizza

Chairman,

Zizza & Associates Corp.

David I. Schachter

Vice President

INVESTMENT ADVISER

Gabelli Funds, LLC

One Corporate Center

Rye, New York 10580-1422

CUSTODIAN

The Bank of New York Mellon

COUNSEL

Willkie Farr & Gallagher LLP

TRANSFER AGENT AND

REGISTRAR

Computershare Trust Company, N.A.

Item 2. Code of Ethics.

Not applicable.

Item 3. Audit Committee Financial Expert.

Not applicable.

Item 4. Principal Accountant Fees and Services.

Not applicable.

Item 5. Audit Committee of Listed registrants.

Not applicable.

Item 6. Investments.

(a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

There has been no change, as of the date of this filing, in any of the portfolio managers identified in response to paragraph (a)(1) of this Item in the registrant s most recently filed annual report on Form N-CSR.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

REGISTRANT PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased	(b) Average Price Paid per Share (or Unit)	(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs
Month #1 01/01/14 through 01/31/14	Common N/A	Common N/A	Common N/A	Common 190,604,128
	Preferred Series D N/A	Preferred Series D N/A	Preferred Series D N/A	Preferred Series D 2,363,860
	Preferred Series G N/A	Preferred Series G N/A	Preferred Series G N/A	Preferred Series G 2,814,924
	Preferred Series H N/A	Preferred Series H N/A	Preferred Series H N/A	Preferred Series H 4,190,273
Month #2 02/01/14 through 02/28/14	Common N/A	Common N/A	Common N/A	Common 190,604,128
	Preferred Series D N/A	Preferred Series D N/A	Preferred Series D N/A	Preferred Series D 2,363,860
	Preferred Series G 500	Preferred Series G $22.30	Preferred Series G 500	Preferred Series G 2,814,424
		Preferred Series H $22.65	Preferred Series H 3,300	Preferred Series H 4,186,973

	Preferred Series H	3,300						
Month #3 03/01/14 through 03/31/14	Common	N/A	Common	N/A	Common	N/A	Common	191,218,620
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G	2,814,424
	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H	4,186,973
Month #4 4/01/14 through 4/30/14	Common	N/A	Common	N/A	Common	N/A	Common	191,218,620
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G	2,814,424
	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H	4,186,973
Month #5 5/01/14 through 5/31/14	Common	N/A	Common	N/A	Common	N/A	Common	191,218,620
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860

	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G 2,814,424
	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H 4,186,973
Month 6/01/14 through 6/30/14	Common	N/A	Common	N/A	Common	N/A	Common 191,839,279
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D 2,363,860
	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G	N/A	Preferred Series G 2,814,424
	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H	N/A	Preferred Series H 4,186,973
Total	Common	N/A	Common	N/A	Common	N/A	N/A
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	
	Preferred Series G	500	Preferred Series G	$22.30	Preferred Series G	500	
	Preferred Series H	3,300	Preferred Series H	$22.65	Preferred Series H 3,300		

Footnote columns (c) and (d) of the table, by disclosing the following information in the aggregate for all plans or programs publicly announced:

a. The date each plan or program was announced The notice of the potential repurchase of common and preferred shares occurs quarterly in the Fund s quarterly report in accordance with Section 23(c) of the Investment

Company Act of 1940, as amended.

b. The dollar amount (or share or unit amount) approved Any or all common shares outstanding may be repurchased when the Fund s common shares are trading at a discount of 10% or more from the net asset value of the shares.

Any or all preferred shares outstanding may be repurchased when the Fund s preferred shares are trading at a discount to the liquidation value of $25.00.

c. The expiration date (if any) of each plan or program The Fund s repurchase plans are ongoing.

d. Each plan or program that has expired during the period covered by the table The Fund s repurchase plans are ongoing.

e. Each plan or program the registrant has determined to terminate prior to expiration, or under which the registrant does not intend to make further purchases. The Fund s repurchase plans are ongoing.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant s Board of Directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17 CFR 240.14a-101)), or this Item.

Item 11. Controls and Procedures.

(a) The registrant s principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act) (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

(b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d)) that occurred during the registrant s second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits.

(a)(1) Not applicable.

(a)(2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.

(a)(3) Not applicable.

(b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(Registrant) The Gabelli Equity Trust Inc.

By (Signature and Title)* /s/ Bruce N. Alpert
Bruce N. Alpert, Principal Executive Officer

Date 9/4/2014

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ Bruce N. Alpert
Bruce N. Alpert, Principal Executive Officer

Date 9/4/2014

By (Signature and Title)* /s/ Agnes Mullady
Agnes Mullady, Principal Financial Officer and Treasurer

Date 9/4/2014

* Print the name and title of each signing officer under his or her signature.