

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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 1-11316

OMEGA HEALTHCARE
INVESTORS, INC.

(Exact name of Registrant as specified in its charter)

Maryland

(State of incorporation)

38-3041398
(IRS Employer
Identification No.)

200 International Circle, Suite 3500, Hunt Valley, MD 21030
(Address of principal executive offices)

(410) 427-1700
(Telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one:)

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of April 30, 2012.

Common Stock, \$.10 par value
(Class)

105,802,180
(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
March 31, 2012

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PART I – FINANCIAL INFORMATION

Item 1 – Financial Statements

**OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)**

| | March 31, 2012 | December 31, 2011 |
|---|---------------------------|------------------------------|
| | (Unaudited) | |
| ASSETS | | |
| Real estate properties | | |
| Land and buildings | \$ 2,529,617 | \$ 2,537,039 |
| Less accumulated depreciation | (494,936) | (470,420) |
| Real estate properties – net | 2,034,681 | 2,066,619 |
| Mortgage notes receivable – net | 239,901 | 238,675 |
| | <u>2,274,582</u> | <u>2,305,294</u> |
| Other investments – net | 45,966 | 52,957 |
| | <u>2,320,548</u> | <u>2,358,251</u> |
| Assets held for sale – net | 8,090 | 2,461 |
| Total investments | <u>2,328,638</u> | <u>2,360,712</u> |
| Cash and cash equivalents | 2,717 | 351 |
| Restricted cash | 34,393 | 34,112 |
| Accounts receivable – net | 106,741 | 100,664 |
| Other assets | 66,314 | 61,473 |
| Total assets | <u>\$ 2,538,803</u> | <u>\$ 2,557,312</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Revolving line of credit | \$ 27,000 | \$ 272,500 |
| Secured borrowings | 302,221 | 303,610 |
| Unsecured borrowings – net | 1,200,783 | 975,290 |
| Accrued expenses and other liabilities | 125,916 | 127,428 |
| Total liabilities | <u>1,655,920</u> | <u>1,678,828</u> |
| Stockholders' equity: | | |
| Common stock \$.10 par value 200,000 shares authorized — 104,766 shares as of March 31, 2012 and 103,410 as of December 31, 2011 issued and outstanding | 10,477 | 10,341 |
| Common stock – additional paid-in-capital | 1,492,147 | 1,471,381 |
| Cumulative net earnings | 659,514 | 633,430 |
| Cumulative dividends paid | (1,279,255) | (1,236,668) |
| Total stockholders' equity | <u>882,883</u> | <u>878,484</u> |
| Total liabilities and stockholders' equity | <u>\$ 2,538,803</u> | <u>\$ 2,557,312</u> |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited
(in thousands, except per share amounts)

| | Three Months Ended March 31, | |
|---|---------------------------------|--------------------|
| | 2012 | 2011 |
| Revenue | | |
| Rental income | \$ 75,975 | \$ 66,337 |
| Mortgage interest income | 7,336 | 3,498 |
| Other investment income – net | 1,130 | 641 |
| Miscellaneous | 74 | - |
| Total operating revenues | 84,515 | 70,476 |
| Expenses | | |
| Depreciation and amortization | 27,147 | 25,218 |
| General and administrative | 5,526 | 5,226 |
| Acquisition costs | 105 | 45 |
| Impairment loss on real estate properties | 272 | 24,971 |
| Nursing home expenses of owned and operated assets | - | 230 |
| Total operating expenses | 33,050 | 55,690 |
| Income before other income and expense | 51,465 | 14,786 |
| Other income (expense) | | |
| Interest income | 7 | 11 |
| Interest expense | (22,967) | (20,000) |
| Interest – amortization of deferred financing costs | (629) | (694) |
| Interest – refinancing costs | (7,108) | (16) |
| Total other expense | (30,697) | (20,699) |
| Income (loss) before gain on assets sold | 20,768 | (5,913) |
| Gain on assets sold – net | 5,316 | - |
| Net income (loss) | 26,084 | (5,913) |
| Preferred stock dividends | - | (1,691) |
| Preferred stock redemption | - | (3,472) |
| Net income (loss) available to common stockholders | \$ 26,084 | \$ (11,076) |
| Income (loss) per common share available to common shareholders: | | |
| Basic: | | |
| Net income (loss) | \$ 0.25 | \$ (0.11) |
| Diluted: | | |
| Net income (loss) | \$ 0.25 | \$ (0.11) |
| Dividends declared and paid per common share | \$ 0.41 | \$ 0.37 |
| Weighted-average shares outstanding, basic | 103,754 | 100,074 |
| Weighted-average shares outstanding, diluted | 104,012 | 100,086 |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
Unaudited
(in thousands, except per share amounts)

| | Common Stock Par Value | Additional Paid-in Capital | Cumulative Net Earnings | Cumulative Dividends | Total |
|---|------------------------------|-------------------------------|----------------------------|-------------------------|-------------------|
| Balance at December 31, 2011 (103,410 common shares) | \$ 10,341 | \$ 1,471,381 | \$ 633,430 | \$ (1,236,668) | \$ 878,484 |
| Issuance of common stock: | | | | | |
| Grant of restricted stock to company executives (428 shares) | 43 | (43) | — | — | — |
| Grant of restricted stock (13 shares at \$20.29 per share) | 1 | (1) | — | — | — |
| Amortization of restricted stock | — | 1,470 | — | — | 1,470 |
| Dividend reinvestment plan (665 shares at \$21.42 per share) | 66 | 14,158 | — | — | 14,224 |
| Grant of stock as payment of directors fees (2 shares at an average of \$21.49 per share) | 1 | 37 | — | — | 38 |
| Equity Shelf Program (249 shares at \$21.38 per share, net of issuance costs) | 25 | 5,145 | — | — | 5,170 |
| Net income | — | — | 26,084 | — | 26,084 |
| Common dividends (\$0.41 per share). | — | — | — | (42,587) | (42,587) |
| Balance at March 31, 2012 (104,766 common shares) | <u>\$ 10,477</u> | <u>\$ 1,492,147</u> | <u>\$ 659,514</u> | <u>\$ (1,279,255)</u> | <u>\$ 882,883</u> |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited (in thousands)

| | Three Months Ended | |
|---|--------------------|------------------|
| | March 31, | |
| | 2012 | 2011 |
| Cash flows from operating activities | | |
| Net income (loss) | \$ 26,084 | \$ (5,913) |
| Adjustment to reconcile net income (loss) to cash provided by operating activities: | | |
| Depreciation and amortization | 27,147 | 25,218 |
| Impairment on real estate properties | 272 | 24,971 |
| Amortization of deferred financing and refinancing costs | 7,737 | 694 |
| Restricted stock amortization expense | 1,485 | 1,479 |
| (Gain) loss on assets sold – net | (5,316) | — |
| Amortization of acquired in-place leases - net | (1,426) | (1,616) |
| Other | (38) | (38) |
| Change in operating assets and liabilities – net of amounts assumed/acquired: | | |
| Accounts receivable, net | 176 | (93) |
| Straight-line rent | (6,541) | (3,403) |
| Lease inducement | 842 | 755 |
| Effective yield receivable on mortgage notes | (554) | (421) |
| Other operating assets and liabilities | (324) | (2,829) |
| Operating assets and liabilities for owned and operated properties | — | (98) |
| Net cash provided by operating activities | <u>49,544</u> | <u>38,706</u> |
| Cash flows from investing activities | | |
| Acquisition of real estate – net of liabilities assumed and escrows acquired | (1,852) | — |
| Placement of mortgage loans | (1,309) | (1,749) |
| Proceeds from sale of real estate investments | 14,068 | — |
| Capital improvements and funding of other investments | (7,985) | (4,325) |
| Proceeds from other investments | 8,060 | 980 |
| Investments in other investments | (1,069) | (593) |
| Collection of mortgage principal – net | 119 | 20 |
| Net cash provided by (used in) investing activities | <u>10,032</u> | <u>(5,667)</u> |
| Cash flows from financing activities | | |
| Proceeds from credit facility borrowings | 45,000 | 117,000 |
| Payments on credit facility borrowings | (290,500) | (48,000) |
| Receipts of other long-term borrowings | 400,000 | — |
| Payments of other long-term borrowings | (176,007) | (604) |
| Payments of financing related costs | (12,517) | (534) |
| Receipts from dividend reinvestment plan | 14,224 | 17,525 |
| Net proceeds from issuance of common stock | 5,170 | 28,108 |
| Payments from exercised options and restricted stock – net | — | (1,254) |
| Dividends paid | (42,580) | (40,268) |
| Redemption of preferred stock | — | (108,552) |
| Net cash used in financing activities | <u>(57,210)</u> | <u>(36,579)</u> |
| Increase (decrease) in cash and cash equivalents | 2,366 | (3,540) |
| Cash and cash equivalents at beginning of period | 351 | 6,921 |
| Cash and cash equivalents at end of period | <u>\$ 2,717</u> | <u>\$ 3,381</u> |
| Interest paid during the period, net of amounts capitalized | <u>\$ 22,163</u> | <u>\$ 16,896</u> |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
March 31, 2012

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Overview

Omega Healthcare Investors, Inc. (“Omega” or the “Company”) has one reportable segment consisting of investments in healthcare-related real estate properties. Our core business is to provide financing and capital to the long-term healthcare industry with a particular focus on skilled nursing facilities (“SNFs”) located in the United States. Our core portfolio consists of long-term leases and mortgage agreements. All of our leases are “triple-net” leases, which require the tenants to pay all property-related expenses. Our mortgage revenue derives from fixed-rate mortgage loans, which are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor.

Basis of Presentation

The accompanying unaudited consolidated financial statements for Omega have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) regarding interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. generally accepted accounting principles (“GAAP”) for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. We have evaluated all subsequent events through the date of the filing of this Form 10-Q. These unaudited consolidated financial statements should be read in conjunction with the financial statements and the footnotes thereto included in our latest Annual Report on Form 10-K.

Our consolidated financial statements include the accounts of (i) Omega, (ii) all direct and indirect wholly owned subsidiaries of Omega, and (iii) TC Healthcare (“TC Healthcare”), an entity and interim operator created to operate the 15 facilities we assumed as a result of the bankruptcy of one of our former tenants/operators. Thirteen of these facilities were transitioned from TC Healthcare to a new tenant/operator on September 1, 2008. The two remaining facilities were transitioned to the new tenant/operator on June 1, 2010 upon approval by state regulators of the operating license transfer, and as of such date, TC Healthcare no longer operates these facilities. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

Accounts Receivable

Accounts receivable includes: contractual receivables, effective yield interest receivables, straight-line rent receivables and lease inducements, net of an estimated provision for losses related to uncollectible and disputed accounts. Contractual receivables relate to the amounts currently owed to us under the terms of our lease and loan agreements. Effective yield interest receivables relate to the difference between the interest income recognized on an effective yield basis over the term of the loan agreement and the interest currently due to us according to the contractual agreement. Straight-line receivables relate to the difference between the rental revenue recognized on a straight-line basis and the amounts currently due to us according to the contractual agreement. Lease inducements result from value provided by us to the lessee at the inception or renewal of the lease and will be amortized as a reduction of rental revenue over the non cancellable lease term. On a quarterly basis, we review the collection of our contractual payments and determine the appropriateness of our allowance for uncollectible contractual rents. In the case of a lease recognized on a straight-line basis or existence of lease inducements, we generally provide an allowance for straight-line accounts receivable or the lease inducements when certain conditions or indicators of adverse collectability are present.

A summary of our net receivables by type is as follows:

| | March 31, 2012 | December 31, 2011 |
|--------------------------------------|---------------------------|------------------------------|
| | (in thousands) | |
| Contractual receivables | \$ 4,810 | \$ 4,683 |
| Effective yield interest receivables | 1,895 | 1,341 |
| Straight-line receivables | 80,110 | 73,604 |
| Lease inducements | 21,835 | 22,677 |
| Allowance | (1,909) | (1,641) |
| Accounts receivable – net | <u>\$ 106,741</u> | <u>\$ 100,664</u> |

We continuously evaluate the payment history and financial strength of our operators and have historically established allowance reserves for straight-line rent adjustments for operators that do not meet our requirements. We consider factors such as payment history and the operator's financial condition as well as current and future anticipated operating trends when evaluating whether to establish allowance reserves.

NOTE 2 – PROPERTIES AND INVESTMENTS

In the ordinary course of our business activities, we periodically evaluate investment opportunities and extend credit to customers. We also regularly engage in lease and/or loan extensions and modifications. Additionally, we actively monitor and manage our investment portfolio with the objectives of improving credit quality and increasing investment returns. In connection with our portfolio management, we may engage in various collection and foreclosure activities.

If we acquire real estate pursuant to a foreclosure or bankruptcy proceeding, the assets will initially be included on the consolidated balance sheet at the lower of cost or estimated fair value (see Note 3 – Owned and Operated Assets).

Leased Property

Our leased real estate properties, represented by 381 SNFs, 10 assisted living facilities (“ALFs”) and five specialty facilities at March 31, 2012, are leased under provisions of single or master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three methods depending on specific provisions of each lease as follows: (i) a specific annual percentage increase over the prior year's rent, generally 2.5%; (ii) an increase based on the change in pre-determined formulas from year to year (i.e., such as increases in the Consumer Price Index (“CPI”)); or (iii) specific dollar increases over prior years. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

2011 Acquisitions

Capital Funding Group, Inc.

On December 23, 2011, we purchased 17 SNFs from affiliates of Capital Funding Group, Inc. (“CFG”), a new operator to Omega, for an aggregate purchase price of \$128 million. The acquisition consisted of the assumption of \$71 million of indebtedness guaranteed by the Department of Housing and Urban Development (“HUD”) and \$57 million in cash.

The \$71 million of assumed HUD debt is comprised of 15 HUD mortgage loans with a blended interest rate of 5.70% and maturities between October 2029 and July 2044.

The 17 SNFs, representing 1,820 available beds, are located in Arkansas (12), Colorado (1), Florida (1), Michigan (2) and Wisconsin (1). The transaction involved two separate master lease agreements covering all 17 SNFs.

We allocated approximately \$129.9 million consisting of land (\$9.0 million), buildings and site improvements (\$111.5 million) and furniture and fixtures (\$9.4 million). We recorded approximately \$1.9 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We estimate amortization will be approximately \$0.1 million per year over the next five years. We have not recorded goodwill in connection with this transaction.

Persimmon Ventures, LLC and White Pine Holdings, LLC

During the fourth quarter of 2011, we completed \$86 million of combined new investments with affiliates of Persimmon Ventures, LLC and White Pine Holding, LLC ("White Pine"), both new operators to Omega. The investments involved a purchase / lease back transaction and a mortgage transaction. The combined transaction consists of 7 facilities and 938 beds.

Purchase / Lease Back Transaction

We purchased four SNFs located in Maryland (3) and West Virginia (1), totaling 586 beds for a total investment of \$61 million, including approximately \$1 million to complete renovations at one facility. The consideration consisted of \$31 million in cash and the assumption of \$30 million in HUD – guaranteed indebtedness, which bears an interest rate of 4.87% (weighted-average) and matures between March 2036 and September 2040.

Acquisition costs related to the CFG and White Pine acquisitions were approximately \$1.2 million in 2011.

Mortgage Transaction

We entered into a first mortgage loan with White Pine in the amount of \$25 million secured by a lien on three SNFs, totaling 352 beds, all located in Maryland.

The overall combined transaction totaled \$86 million, consisting of \$56 million in cash and \$30 million in assumed HUD indebtedness, with a combined initial annual yield of approximately 10%.

We allocated approximately \$62.7 million consisting of land (\$4.4 million), buildings and site improvements (\$55.0 million) and furniture and fixtures (\$3.3 million). One of the facilities acquired in connection with this transaction on December 30, 2011 is in the process of being renovated. We recorded approximately \$3.0 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We estimate amortization will be approximately \$0.2 million per year over the next five years. We have not recorded goodwill in connection with this transaction.

The facilities acquired from White Pine and affiliates of CFG in the fourth quarter of 2011 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect each of the White Pine and affiliates of CFG transactions as if they occurred on January 1, 2011. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisitions have been made. The following pro forma information is not indicative of future operations.

| | Pro Forma | |
|--|--|-------------|
| | Three Months Ended | |
| | March 31, | |
| | 2012 | 2011 |
| | (in thousands, except per share amount, unaudited) | |
| Revenues | \$ 84,515 | \$ 75,784 |
| Net income (loss) available to common stockholders | 26,084 | (9,785) |
| Earnings per share – diluted: | | |
| Net income (loss) available to common stockholders – as reported | \$ 0.25 | \$ (0.11) |
| Net income (loss) available to common stockholders – pro forma | 0.25 | (0.10) |

Connecticut Properties

In January 2011, at our request, a complaint was filed by the State of Connecticut, Commissioner of Social Services (the “State”) against the licensees/operators of four Connecticut SNFs, seeking the appointment of a receiver. The facilities were leased and operated by affiliates of FC/SCH Capital, LLC (“FC/SCH”) and were managed by Genesis Healthcare (“Genesis”), and had approximately 472 licensed beds as of March 31, 2011. The Superior Court, Judicial District of Hartford, Connecticut (the “Court”) appointed a receiver.

The receiver was responsible for (i) operating the facilities and funding all operational expenses incurred after the appointment of the receiver and (ii) for providing the Court with recommendations regarding the facilities. In March 2011, the receiver moved to close all four SNFs and we objected. At the hearing held on April 21, 2011, we stated our position that the receiver failed to comply with the statutory requirements prior to recommending the facilities’ closure. In addition, alternative operators expressed interest in operating several of the facilities. On April 27, 2011, the Court granted the receiver’s motion and ordered the facilities closed.

We timely filed our notice of appeal, taking the position that the Court’s Order was final and appealable, and erroneous. Following our notice of appeal, we negotiated a stipulation with the State and the receiver which afforded it significant concessions. Those concessions included: (a) an agreed recognition of us as a secured lienholder with a priority claim, (b) an accelerated timeframe for the (i) allocation by the receiver of collected funds between pre- and post- receivership periods, and (ii) disbursement to us of pre-receivership funds collected, and (c) an agreement by the State that it would forego its right to seek recoupment of pre-receivership funds as reimbursement for post-receivership advances. In exchange for these concessions (among others), we withdrew our appeal.

As a result of these developments, during the three months ended March 31, 2011, we recorded an impairment charge of \$24.4 million to reduce the carrying values of the Connecticut SNFs to their estimated fair values. We estimated the fair value of these facilities based on the facilities’ potential sales value assuming that the facilities would not be used as skilled nursing facilities. As of November 1, 2011, all of the residents of the four facilities have been relocated and the receiver has surrendered possession of all of the facilities to us. We are actively marketing the facilities for sale (for purposes other than the provision of skilled nursing care).

FC/SCH Facilities

During the second quarter of 2011, we entered into a master transition agreement ("2011 MTA") with one of our current lessee/operators and a third party lessee/operator to transition the facilities from the current operator to the new operator. The 2011 MTA closing is subject to receipt of healthcare regulatory approvals from several states for the operating license transfer from the current operator to the new operator. On January 1, 2012, regulatory approval was provided and the former lease was terminated and a new operator entered into a new twelve-year master lease for the facilities. As a result of the 2011 MTA, during the second quarter of 2011, we evaluated the recoverability of the straight-line rent and lease inducements associated with the current lease and recorded a \$4.1 million provision for uncollectible accounts associated with straight-line receivables and lease inducements.

Assets Sold or Held for Sale

Assets Sold

On January 13, 2012, we sold a SNF in Indiana for approximately \$3.1 million resulting in a gain of approximately \$0.3 million.

On March 23, 2012, an operator in Alaska exercised its purchase option and purchased a SNF for approximately \$11.0 million. We recognized a gain of approximately \$5.1 million in this transaction.

Held for Sale

During the first quarter of 2012, we recorded a \$0.1 million impairment charge to reduce the carrying value of a SNF in Arkansas to its estimated fair value less cost to sell and simultaneously classified the facility as held-for-sale. Also during the first quarter of 2012, we recorded a \$0.1 million impairment charge to reduce the carrying value of a held-for-sale facility that was sold during the quarter.

At March 31, 2012, we had seven SNFs and one parcel of land classified as held-for-sale with an aggregate net book value of approximately \$8.1 million.

Mortgage Notes Receivable

Our mortgage notes receivable relate to 12 fixed-rate mortgages on 32 long-term care facilities and one construction mortgage on a facility currently under construction. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in five (5) states, which are operated by six (6) independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding loans. As of March 31, 2012, none of our mortgages were in default or in foreclosure proceedings. Where appropriate, the mortgage properties are generally cross-collateralized with the master lease agreement.

Mortgage interest income is recognized as earned over the terms of the related mortgage notes, using the effective yield method. Allowances are provided against earned revenues from mortgage interest when collection of amounts due becomes questionable or when negotiations for restructurings of troubled operators lead to lower expectations regarding ultimate collection. When collection is uncertain, mortgage interest income on impaired mortgage loans is recognized as received after taking into account application of security deposits.

NOTE 3 – OWNED AND OPERATED ASSETS

In November 2007, affiliates of Haven Healthcare (“Haven”), one of our former operators/lessees/mortgagors, operated under Chapter 11 bankruptcy protection. Commencing in February 2008, the assets of the Haven facilities were marketed for sale via an auction process to be conducted through proceedings established by the bankruptcy court. The auction process failed to produce a qualified buyer. As a result, and pursuant to our rights as ordered by the bankruptcy court, Haven moved the bankruptcy court to authorize us to credit bid certain of the indebtedness that it owed to us in exchange for taking ownership of and transitioning certain of its assets to a new entity in which we have a substantial ownership interest, all of which was approved by the bankruptcy court on July 4, 2008. Effective July 7, 2008, we took ownership and/or possession of 15 facilities previously operated by Haven. TC Healthcare, a new entity and an interim operator, in which we have a substantial economic interest, began operating these facilities on our behalf through an independent contractor.

On August 6, 2008, we entered into a Master Transaction Agreement (“2008 MTA”) with affiliates of FC/SCH whereby FC/SCH agreed (subject to certain closing conditions, including the receipt of licensure) to lease 14 SNFs and one ALF facility under a master lease. These facilities were formerly leased to Haven.

Effective September 1, 2008, we completed the operational transfer of 12 SNFs and one ALF to affiliates of FC/SCH, in accordance with the terms of the 2008 MTA. These 13 facilities are located in Connecticut (5), Rhode Island (4), New Hampshire (3) and Massachusetts (1). As part of the transaction, Genesis has entered into a long-term management agreement with FC/SCH to oversee the day-to-day operations of each of these facilities. The two remaining facilities in Vermont, which were operated by TC Healthcare until May 31, 2010, were transferred to FC/SCH upon licensure from the state of Vermont. As a result of the transition of the operations to FC/SCH, we no longer operate any owned and operated facilities, effective June 1, 2010. Our consolidated financial statements include the results of operations of Vermont facilities from July 7, 2008 to May 31, 2010.

Nursing home revenues and expenses, included in our consolidated financial statements that relate to such owned and operated assets are set forth in the tables below.

| | Three Months Ended | |
|-----------------------------------|--------------------|----------|
| | March 31, | |
| | 2012 | 2011 |
| | (in thousands) | |
| Nursing home revenues | \$ — | \$ — |
| Nursing home expenses | — | 230 |
| Loss from nursing home operations | \$ — | \$ (230) |

NOTE 4 – CONCENTRATION OF RISK

As of March 31, 2012, our portfolio of real estate investments consisted of 435 healthcare facilities, located in 33 states and operated by 47 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately \$2.8 billion at March 31, 2012, with approximately 99% of our real estate investments related to long-term care facilities. This portfolio is made up of 381 SNFs, 10 ALFs, five specialty facilities, fixed rate mortgages on 32 SNFs, and seven SNFs and a parcel of land that are held-for-sale. At March 31, 2012, we also held miscellaneous investments of approximately \$46.0 million, consisting primarily of secured loans to third-party operators of our facilities.

At March 31, 2012, we had investments with one operator that exceeded 10% of our total investment: affiliates and/or subsidiaries of CommuniCare Health Services (“CommuniCare”) (12%). The two states in which we had our highest concentration of investments were Florida (22%) and Ohio (13%) at March 31, 2012.

For the three-month period ended March 31, 2012, our revenues from operations totaled \$84.5 million, of which approximately \$10.9 million was from CommuniCare (13%) and \$8.5 million was from Sun Healthcare (“Sun”) (10%). No other operator generated more than 10% of our revenues from operations for the three-month period ended March 31, 2012.

Sun is subject to the reporting requirements of the SEC and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited interim financial information. Sun’s filings with the SEC can be found at the SEC’s website at www.sec.gov. We are providing this data for information purposes only, and we undertake no responsibility for Sun’s filings.

NOTE 5 – DIVIDENDS

Common Dividends

On April 17, 2012, the Board of Directors declared a common stock dividend of \$0.42 per share, increasing the quarterly common dividend by \$0.01 per share over the prior quarter, to be paid May 15, 2012 to common stockholders of record on April 30, 2012.

On January 13, 2012, the Board of Directors declared a common stock dividend of \$0.41 per share, increasing the quarterly common dividend by \$0.01 per share over the prior quarter, that was paid February 15, 2012 to common stockholders of record on January 31, 2012.

NOTE 6 – TAXES

So long as we qualify as a real estate investment trust (“REIT”) under the Internal Revenue Code (the “Code”), we generally will not be subject to federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. On a quarterly and annual basis, we test our compliance within the REIT taxation rules to ensure that we were in compliance with the rules.

Subject to the limitation under the REIT asset test rules, we are permitted to own up to 100% of the stock of one or more taxable REIT subsidiaries (“TRSs”). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. As of March 31, 2012, the TRS had a net operating loss carry-forward of \$1.1 million. The loss carry-forward is fully reserved with a valuation allowance as we concluded it was more-likely-than-not that the deferred tax asset would not be realized.

NOTE 7 – STOCK-BASED COMPENSATION

The following is a summary of our stock-based compensation expense for the three- month periods ended March 31, 2012 and 2011, respectively:

| | Three Months Ended March 31, | |
|----------------------------------|---------------------------------|----------|
| | 2012 | 2011 |
| | (in thousands) | |
| Stock-based compensation expense | \$ 1,485 | \$ 1,479 |

2011 Stock Awards

Effective January 2011, we granted 428,503 shares of restricted stock and 496,977 performance restricted stock units (“PRSUs”) to six employees. Effective January 2012, we granted 124,244 PRSUs to six employees.

Restricted Stock Awards

The restricted stock awards vest 100% on December 31, 2013, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. As of March 31, 2012, no shares of restricted stock have vested under these restricted stock awards.

Performance Restricted Stock Units

Effective January 1, 2011, we awarded three types of PRSUs to the six employees: (i) 124,244 annual total shareholder return (“TSR”) PRSUs for the year ended December 31, 2011 (“2011 Annual TSR PRSUs”); (ii) 279,550 multi-year absolute TSR PRSUs and (iii) 93,183 multi-year relative TSR PRSUs. On January 1, 2012, we awarded to the six employees 124,244 annual TSR PRSUs for the year ended December 31, 2012 (“2012 Annual TSR PRSUs”).

Annual TSR PRSUs

The number of shares earned under the annual TSR PRSUs depends generally on the level of achievement of TSR for the year. The annual TSR PRSUs vest on December 31 of the year, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. The 2011 Annual TSR PRSUs were forfeited because the required TSR for 2011 was not achieved.

Multi-year Absolute TSR PRSUs

The number of shares earned under the multi-year absolute TSR PRSUs depends generally on the level of achievement of TSR for the three-years ending December 31, 2013. The multi-year absolute TSR PRSUs vest 25% on the last day of each calendar quarter in 2014, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

Multi-year Relative TSR PRSUs

The number of shares earned under the multi-year relative TSR PRSUs depends generally on the level of achievement of TSR relative to other real estate investment trusts in the MSCI U.S. REIT Index for the three-years ending December 31, 2013. The multi-year relative TSR PRSUs vest 25% on the last day of each calendar quarter in 2014, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

The PRSU awards have varying degrees of performance requirements to achieve vesting, and each PRSU award represents the right to a variable number of shares of common stock and related dividend equivalents based on dividends paid to stockholders during the applicable performance period.

As of March 31, 2012, none of these PRSUs are vested or earned.

The following table summarizes our total unrecognized compensation cost as of March 31, 2012 associated with outstanding restricted stock and PRSU awards to employees:

| | Shares/ Units | Grant Date Average Fair Value Per Unit/ Share | Total Compensation Cost (in millions) | Weighted Average Period of Expense Recognition (in months) | Unrecognized Compensation Cost (in millions) |
|-------------------------------|------------------|--|--|---|---|
| Restricted stock | 428,503 | \$22.44 | \$9.6 | 36 | \$5.6 |
| 2012 Annual PRSUs | 124,244 | \$9.61 | 1.2 | 12 | 0.9 |
| Multi-year absolute TSR PRSUs | 279,550 | \$11.06 | 3.1 | 44 | 2.1 |
| Multi-year relative TSR PRSUs | 93,183 | \$12.26 | 1.1 | 44 | 0.8 |
| Total | 925,480 | \$15.64 | \$15.0 | | \$9.4 |

We used a Monte Carlo model to estimate the fair value for PRSUs granted to the employees in January 2011 and January 2012.

Director Grants

As of March 31, 2012, we had 30,999 shares of restricted stock outstanding to directors. The directors' restricted shares are scheduled to vest over the next three years. As of March 31, 2012, the unrecognized compensation cost associated with the directors is approximately \$0.5 million.

NOTE 8 – FINANCING ACTIVITIES AND BORROWING ARRANGEMENTS

Secured and Unsecured Borrowings

The following is a summary of our long-term borrowings:

| | <u>Maturity</u> | <u>Current Rate</u> | <u>March 31, 2012</u> | <u>December 31, 2011</u> |
|--|-----------------|---------------------|-----------------------|--------------------------|
| | | | (in thousands) | |
| Secured borrowings: | | | | |
| HUD Berkadia mortgages ⁽¹⁾ | 2036 - 2040 | 6.61% | \$ 64,131 | \$ 64,533 |
| HUD Capital Funding mortgages | 2040 - 2045 | 4.85% | 132,524 | 133,061 |
| HUD White Pine mortgages ⁽¹⁾ | 2036 - 2040 | 4.87% | 32,610 | 32,813 |
| HUD Affiliates of CFG mortgages ⁽¹⁾ | 2029 - 2044 | 5.70% | 72,956 | 73,203 |
| Total secured borrowings | | | <u>302,221</u> | <u>303,610</u> |
| Unsecured borrowings: | | | | |
| Revolving line of credit | 2015 | 3.00% | \$ 27,000 | \$ 272,500 |
| 2016 Notes | 2016 | 7.0% | — | 175,000 |
| 2020 Notes | 2020 | 7.5% | 200,000 | 200,000 |
| 2022 Notes | 2022 | 6.75% | 575,000 | 575,000 |
| 2024 Notes | 2024 | 5.875% | 400,000 | — |
| Subordinated debt | 2021 | 9.0% | 21,175 | 21,219 |
| | | | <u>1,196,175</u> | <u>971,219</u> |
| Premium - net | | | 4,608 | 4,071 |
| Total unsecured borrowings | | | <u>1,227,783</u> | <u>1,247,790</u> |
| Totals – net | | | <u>\$ 1,530,004</u> | <u>\$ 1,551,400</u> |

(1) Reflects the weighted average interest rate on the mortgages.

Bank Credit Agreements

At March 31, 2012, we had \$27.0 million outstanding under our \$475 million unsecured revolving credit facility (the “2011 Credit Facility”), and no letters of credit outstanding, leaving availability of \$448.0 million.

The 2011 Credit Facility matures on August 17, 2015. The 2011 Credit Facility includes an “accordion feature” that permits us to expand our borrowing capacity to \$600 million.

The 2011 Credit Facility is priced at LIBOR plus an applicable percentage (ranging from 225 basis points to 300 basis points) based on our consolidated leverage. In the event the Company achieves at least two investment grade ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings, the 2011 Credit Facility will be priced at LIBOR plus an applicable percentage ranging from 150 basis points to 210 basis points (including a facility fee). The Company’s applicable percentage above LIBOR was 275 basis points at March 31, 2012 under the 2011 Credit Facility. The 2011 Credit Facility is used for acquisitions and general corporate purposes.

The 2011 Credit Facility contains customary affirmative and negative covenants, including, without limitation, limitations on indebtedness; limitations on investments; limitations on liens; limitations on mergers and consolidations; limitations on sales of assets; limitations on transactions with affiliates; limitations on negative pledges; limitations on prepayment of debt; limitations on use of proceeds; limitations on changes in lines of business; limitations on repurchases of the Company’s capital stock if a default or event of default occurs; and maintenance of REIT status. In addition, the 2011 Credit Facility contains financial covenants including, without limitation, those relating to maximum total leverage, maximum secured leverage, maximum unsecured leverage, minimum fixed charge coverage, minimum consolidated tangible net worth, minimum unsecured debt yield, minimum unsecured interest coverage and maximum distributions. As of March 31, 2012, we were in compliance with all affirmative and negative covenants, including financial covenants.

Issuance of \$400 Million 5.875% Senior Notes due 2024

On March 19, 2012, we issued \$400 million aggregate principal amount of our 5.875% Senior Notes due 2024, or the 2024 Notes. The 2024 Notes mature on March 15, 2024 and pay interest semi-annually on March 15 and September 15 of each year, commencing on September 15, 2012.

We may redeem the 2024 Notes, in whole at any time or in part from time to time, at redemption prices of 102.938%, 101.958% and 100.979% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on March 15 of the years 2017, 2018 and 2019, respectively, and at a redemption price of 100% of the principal amount thereof on and after March 15, 2020, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until March 15, 2015 we may redeem up to 35% of the 2024 Notes with the net cash proceeds of one or more public equity offerings at a redemption price of 105.875% of the principal amount of the 2024 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

The 2024 Notes were sold at an issue price of 100% of the principal amount. We used the net proceeds of the offering to fund the tender offer and consent solicitation for the 2016 Notes (described below), to fund the redemption of the untendered 2016 Notes (described below) and to repay a portion of our indebtedness outstanding under our \$475 million senior unsecured revolving credit facility. As of March 31, 2012, our subsidiaries that are not guarantors of the 2024 Notes accounted for approximately \$522 million of our total assets.

\$175 Million 7% Senior Notes due 2016 Tender Offer and Redemption

On March 5, 2012, we commenced a tender offer to purchase for cash any and all of our outstanding \$175 million aggregate principal amount of 7% Senior Notes due 2016, or the 2016 Notes, upon the terms and subject to the conditions set forth in the Offer to Purchase and Consent Solicitation Statement dated March 5, 2012. Pursuant to the terms of the tender offer, on March 19, 2012, we purchased \$168.9 million aggregate principal amount of the 2016 Notes.

On March 27, 2012, pursuant to the terms of the indenture governing the 2016 Notes, we redeemed the remaining \$6.1 million aggregate principal amount of the 2016 Notes at a redemption price of 102.333% of their principal amount, plus accrued and unpaid interest up to the redemption date. Following redemption, the 2016 Notes, the indenture governing the 2016 Notes and the related guarantees were terminated.

The redemption resulted in approximately \$7.1 million of redemption related cost and write-offs, including \$4.5 million in payments made to bondholders for early redemption, \$2.2 million of write-offs associated with deferred costs and \$0.4 million of expenses associated with the tender and redemption.

\$140 Million Equity Shelf Program

For the three months ended March 31, 2012, approximately 0.2 million shares of our common stock were issued through our \$140 million Equity Shelf Program (the "2010 ESP") for net proceeds of approximately \$5.2 million, net of \$0.1 million of commissions.

Dividend Reinvestment and Common Stock Purchase Plan

For the three-month period ended March 31, 2012, approximately 0.7 million shares of our common stock were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$14.2 million.

NOTE 9 – FINANCIAL INSTRUMENTS

At March 31, 2012 and December 31, 2011, the carrying amounts and fair values of our financial instruments were as follows:

| | 2012 | | 2011 | |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| | (in thousands) | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ 2,717 | \$ 2,717 | \$ 351 | \$ 351 |
| Restricted cash | 34,393 | 34,393 | 34,112 | 34,112 |
| Mortgage notes receivable – net | 239,901 | 243,243 | 238,675 | 241,494 |
| Other investments – net | 45,966 | 42,481 | 52,957 | 48,903 |
| Totals | <u>\$ 322,977</u> | <u>\$ 322,834</u> | <u>\$ 326,095</u> | <u>\$ 324,860</u> |
| Liabilities: | | | | |
| Revolving line of credit | \$ 27,000 | \$ 27,000 | \$ 272,500 | \$ 272,500 |
| 7.00% Notes due 2016 – net | — | — | 174,376 | 186,398 |
| 7.50% Notes due 2020 – net | 197,288 | 224,027 | 197,202 | 216,114 |
| 6.75% Notes due 2022 – net | 582,320 | 641,811 | 582,493 | 582,684 |
| 5.875% Notes due 2024 – net | 400,000 | 395,893 | — | — |
| HUD debt | 302,221 | 372,713 | 303,610 | 321,949 |
| Subordinated debt | 21,175 | 24,897 | 21,219 | 23,198 |
| Totals | <u>\$ 1,530,004</u> | <u>\$ 1,686,341</u> | <u>\$ 1,551,400</u> | <u>\$ 1,602,843</u> |

Fair value estimates are subjective in nature and are dependent on a number of important assumptions, including estimates of future cash flows, risks, discount rates and relevant comparable market information associated with each financial instrument (see Note 2 – Summary of Significant Accounting Policies in our 2011 Annual Report on Form 10-K). The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts.

The following methods and assumptions were used in estimating fair value disclosures for financial instruments.

- Cash and cash equivalents and restricted cash: The carrying amount of cash and cash equivalents and restricted cash reported in the balance sheet approximates fair value because of the short maturity of these instruments (i.e., less than 90 days).
- Mortgage notes receivable: The fair values of the mortgage notes receivables are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings.
- Other investments: Other investments are primarily comprised of: (i) notes receivable and (ii) an investment in redeemable non-convertible preferred security of an unconsolidated business accounted for using the cost method of accounting. The fair values of notes receivable are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings. The fair value of the investment in the unconsolidated business is estimated using quoted market value and considers the terms of the underlying arrangement.

- Revolving line of credit: The fair value of our borrowings under variable rate agreements are estimated using an expected present value technique based on expected cash flows discounted using the current market rates.
- Senior notes and other long-term borrowings: The fair value of our borrowings under fixed rate agreements are estimated based on open market trading activity provided by a third party.

NOTE 10 – LITIGATION

We are subject to various legal proceedings, claims and other actions arising out of the normal course of business. While any legal proceeding or claim has an element of uncertainty, management believes that the outcome of each lawsuit, claim or legal proceeding that is pending or threatened, or all of them combined, will not have a material adverse effect on our consolidated financial position or results of operations.

NOTE 11 – EARNINGS PER SHARE

The computation of basic earnings per share (“EPS”) is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the relevant period. Diluted EPS is computed using the treasury stock method, which is net income divided by the total weighted-average number of common outstanding shares plus the effect of dilutive common equivalent shares during the respective period. Dilutive common shares reflect the assumed issuance of additional common shares pursuant to certain of our share-based compensation plans, including stock options, restricted stock and performance restricted stock units.

The following tables set forth the computation of basic and diluted earnings per share:

| | Three Months Ended | |
|--|--|--------------------|
| | March 31, | |
| | 2012 | 2011 |
| | (in thousands, except per share amounts) | |
| Numerator: | | |
| Net income (loss) | \$ 26,084 | \$ (5,913) |
| Preferred stock dividends | — | (1,691) |
| Preferred stock redemption | — | (3,472) |
| Numerator for net income available to common per share - basic and diluted | <u>\$ 26,084</u> | <u>\$ (11,076)</u> |
| Denominator: | | |
| Denominator for basic earnings per share | 103,754 | 100,074 |
| Effect of dilutive securities: | | |
| Restricted stock | 241 | — |
| Deferred stock | 17 | 12 |
| Denominator for diluted earnings per share | <u>104,012</u> | <u>100,086</u> |
| Earnings per share – basic: | | |
| Net income (loss) – basic | <u>\$ 0.25</u> | <u>\$ (0.11)</u> |
| Earnings per share – diluted: | | |
| Net income (loss) – diluted | <u>\$ 0.25</u> | <u>\$ (0.11)</u> |

NOTE 12 – CONSOLIDATING FINANCIAL STATEMENTS

As of March 31, 2012, we had outstanding (i) \$200 million 7.5% Senior Notes due 2020, (ii) \$575 million 6.75% Senior Notes due 2022 and (iii) \$400 million 5.875% Senior Notes due 2024, which we collectively refer to as the Senior Notes. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by each of our subsidiaries that guarantee other indebtedness of Omega or any of the subsidiary guarantors. Any subsidiary that we properly designate as an “unrestricted subsidiary” under the indentures governing the Senior Notes will not provide guarantees of the Senior Notes. As of and prior to March 31, 2010, the non-subsidiary guarantors were minor and insignificant. On June 29, 2010, we designated as “unrestricted subsidiaries” the 39 subsidiaries acquired from CapitalSource on such date. During the fourth quarter of 2011, we designated as “unrestricted subsidiaries” three subsidiaries acquired from White Pine and 17 of the subsidiaries acquired from affiliates of CFG. For the three months ended March 31, 2012 and 2011, the operating cash flow of the non-guarantor subsidiaries approximated net income of the non-guarantor subsidiaries, adjusted for depreciation and amortization expense. For the three-month period ended March 31, 2012 and 2011, the non-guarantor subsidiaries have not engaged in investing or financing activities other than the principal payment of \$1.0 million and \$0.6 million, respectively, for the HUD mortgages on the facilities owned by the non-guarantor subsidiaries. All of the subsidiary guarantors of our outstanding senior notes are 100 percent owned by Omega.

The following summarized condensed consolidating financial information segregates the financial information of the non-guarantor subsidiaries from the financial information of Omega Healthcare Investors, Inc. and the subsidiary guarantors under the senior notes. The results and financial position of acquired entities are included from the dates of their respective acquisitions.

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATING BALANCE SHEETS
Unaudited
(in thousands, except per share amounts)

March 31, 2012

| | Issuer & Subsidiary Guarantors | Non – Guarantor Subsidiaries | Elimination Company | Consolidated |
|---|--------------------------------------|---------------------------------|------------------------|--------------|
| Land and buildings | \$ 2,039,354 | \$ 490,263 | \$ — | \$ 2,529,617 |
| Less accumulated depreciation | (465,287) | (29,649) | — | (494,936) |
| Real estate properties – net | 1,574,067 | 460,614 | — | 2,034,681 |
| Mortgage notes receivable – net | 239,901 | — | — | 239,901 |
| | 1,813,968 | 460,614 | — | 2,274,582 |
| Other investments – net | 45,966 | — | — | 45,966 |
| | 1,859,934 | 460,614 | — | 2,320,548 |
| Assets held for sale – net | 8,090 | — | — | 8,090 |
| Total investments | 1,868,024 | 460,614 | — | 2,328,638 |
| Cash and cash equivalents | 2,717 | — | — | 2,717 |
| Restricted cash | 7,127 | 27,266 | — | 34,393 |
| Accounts receivable – net | 102,439 | 4,302 | — | 106,741 |
| Investment in affiliates | 151,041 | — | (151,041) | — |
| Other assets | 36,473 | 29,841 | — | 66,314 |
| Total assets | \$ 2,167,821 | \$ 522,023 | (151,041) | \$ 2,538,803 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Revolving line of credit | \$ 27,000 | \$ — | \$ — | \$ 27,000 |
| Secured borrowings | — | 302,221 | — | 302,221 |
| Unsecured borrowings – net | 1,179,608 | 21,175 | — | 1,200,783 |
| Accrued expenses and other liabilities | 78,330 | 47,586 | — | 125,916 |
| Intercompany payable | — | 137,878 | (137,878) | — |
| Total liabilities | 1,284,938 | 508,860 | (137,878) | 1,655,920 |
| Stockholders' equity: | | | | |
| Common stock | 10,477 | — | — | 10,477 |
| Common stock – additional paid-in-capital | 1,492,147 | — | — | 1,492,147 |
| Cumulative net earnings | 659,514 | 13,163 | (13,163) | 659,514 |
| Cumulative dividends paid | (1,279,255) | — | — | (1,279,255) |
| Total stockholders' equity | 882,883 | 13,163 | (13,163) | 882,883 |
| Total liabilities and stockholders' equity | \$ 2,167,821 | \$ 522,023 | \$ (151,041) | \$ 2,538,803 |

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATING BALANCE SHEETS
(in thousands, except per share amounts)

December 31, 2011

| | Issuer & Subsidiary Guarantors | Non – Guarantor Subsidiaries | Elimination Company | Consolidated |
|---|--------------------------------------|---------------------------------|------------------------|--------------|
| Land and buildings | \$ 2,046,776 | \$ 490,263 | \$ — | \$ 2,537,039 |
| Less accumulated depreciation | (446,530) | (23,890) | — | (470,420) |
| Real estate properties – net | 1,600,246 | 466,373 | — | 2,066,619 |
| Mortgage notes receivable – net | 238,675 | — | — | 238,675 |
| | 1,838,921 | 466,373 | — | 2,305,294 |
| Other investments – net | 52,957 | — | — | 52,957 |
| | 1,891,878 | 466,373 | — | 2,358,251 |
| Assets held for sale – net | 2,461 | — | — | 2,461 |
| Total investments | 1,894,339 | 466,373 | — | 2,360,712 |
| Cash and cash equivalents | 351 | — | — | 351 |
| Restricted cash | 6,381 | 27,731 | — | 34,112 |
| Accounts receivable – net | 97,407 | 3,257 | — | 100,664 |
| Investment in affiliates | 154,953 | — | (154,953) | — |
| Other assets | 31,980 | 29,493 | — | 61,473 |
| Total assets | \$ 2,185,411 | \$ 526,854 | (154,953) | \$ 2,557,312 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | | | |
| Revolving line of credit | \$ 272,500 | \$ — | \$ — | \$ 272,500 |
| Secured borrowings | — | 303,610 | — | 303,610 |
| Unsecured borrowings – net | 954,071 | 21,219 | — | 975,290 |
| Accrued expenses and other liabilities | 80,356 | 47,072 | — | 127,428 |
| Intercompany payable | — | 145,255 | (145,255) | — |
| Total liabilities | 1,306,927 | 517,156 | (145,255) | 1,678,828 |
| Stockholders' equity: | | | | |
| Common stock | 10,341 | — | — | 10,341 |
| Common stock – additional paid-in-capital | 1,471,381 | — | — | 1,471,381 |
| Cumulative net earnings | 633,430 | 9,698 | (9,698) | 633,430 |
| Cumulative dividends paid | (1,236,668) | — | — | (1,236,668) |
| Total stockholders' equity | 878,484 | 9,698 | (9,698) | 878,484 |
| Total liabilities and stockholders' equity | \$ 2,185,411 | \$ 526,854 | \$ (154,953) | \$ 2,557,312 |

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATING STATEMENTS OF OPERATIONS
Unaudited
(in thousands, except per share amounts)

| | Three Months Ended March 31, 2012 | | | |
|---|--------------------------------------|------------------------------------|-------------------|------------------|
| | Issuer & Subsidiary Guarantors | Non – Guarantor Subsidiaries | Elimination | Consolidated |
| Revenue | | | | |
| Rental income | \$ 62,622 | \$ 13,353 | \$ - | \$ 75,975 |
| Mortgage interest income | 7,336 | - | - | 7,336 |
| Other investment income – net | 1,130 | - | - | 1,130 |
| Miscellaneous | 74 | - | - | 74 |
| Total operating revenues | 71,162 | 13,353 | - | 84,515 |
| Expenses | | | | |
| Depreciation and amortization | 21,389 | 5,758 | - | 27,147 |
| General and administrative | 5,406 | 120 | - | 5,526 |
| Acquisition costs | 105 | - | - | 105 |
| Impairment loss on real estate properties | 272 | - | - | 272 |
| Total operating expenses | 27,172 | 5,878 | - | 33,050 |
| Income before other income and expense | 43,990 | 7,475 | - | 51,465 |
| Other income (expense): | | | | |
| Interest income | - | 7 | - | 7 |
| Interest expense | (18,950) | (4,017) | - | (22,967) |
| Interest – amortization of deferred financing costs | (629) | - | - | (629) |
| Interest – refinancing costs | (7,108) | - | - | (7,108) |
| Equity in earnings | 3,465 | - | (3,465) | - |
| Total other expense | (23,222) | (4,010) | (3,465) | (30,697) |
| Income before gain on assets sold | 20,768 | 3,465 | (3,465) | 20,768 |
| Gain on assets sold – net | 5,316 | - | - | 5,316 |
| Net income available to common stockholders | \$ 26,084 | \$ 3,465 | \$ (3,465) | \$ 26,084 |

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATING STATEMENTS OF INCOME
Unaudited
(in thousands, except per share amounts)

| | Three Months Ended March 31, 2011 | | | |
|---|--------------------------------------|------------------------------------|-------------------|--------------------|
| | Issuer & Subsidiary Guarantors | Non – Guarantor Subsidiaries | Elimination | Consolidated |
| Revenue | | | | |
| Rental income | \$ 57,843 | \$ 8,494 | \$ - | \$ 66,337 |
| Mortgage interest income | 3,498 | - | - | 3,498 |
| Other investment income – net | 641 | - | - | 641 |
| Total operating revenues | 61,982 | 8,494 | - | 70,476 |
| Expenses | | | | |
| Depreciation and amortization | 21,533 | 3,685 | - | 25,218 |
| General and administrative | 5,143 | 83 | - | 5,226 |
| Acquisition costs | 45 | - | - | 45 |
| Impairment loss on real estate properties | 24,971 | - | - | 24,971 |
| Nursing home expenses of owned and operated assets | 230 | - | - | 230 |
| Total operating expenses | 51,922 | 3,768 | - | 55,690 |
| Income before other income and expense | 10,060 | 4,726 | - | 14,786 |
| Other income (expense): | | | | |
| Interest income | 4 | 7 | - | 11 |
| Interest expense | (17,208) | (2,792) | - | (20,000) |
| Interest – amortization of deferred financing costs | (694) | - | - | (694) |
| Interest – refinancing costs | (16) | - | - | (16) |
| Equity in earnings | 1,941 | - | (1,941) | - |
| Total other expense | (15,973) | (2,785) | (1,941) | (20,699) |
| Net (loss) income | (5,913) | 1,941 | (1,941) | (5,913) |
| Preferred stock dividends | (1,691) | - | - | (1,691) |
| Preferred stock redemption | (3,472) | - | - | (3,472) |
| Net (loss) income available to common stockholders | \$ (11,076) | \$ 1,941 | \$ (1,941) | \$ (11,076) |

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements, Reimbursement Issues and Other Factors Affecting Future Results

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this document, including statements regarding potential future changes in reimbursement. This document contains forward-looking statements within the meaning of the federal securities laws. These statements relate to our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, performance and underlying assumptions and other statements other than statements of historical facts. In some cases, you can identify forward-looking statements by the use of forward-looking terminology including, but not limited to, terms such as “may,” “will,” “anticipates,” “expects,” “believes,” “intends,” “should” or comparable terms or the negative thereof. These statements are based on information available on the date of this filing and only speak as to the date hereof and no obligation to update such forward-looking statements should be assumed. Our actual results may differ materially from those reflected in the forward-looking statements contained herein as a result of a variety of factors, including, among other things:

- (i) those items discussed under “Risk Factors” in Item 1A to our annual report on Form 10-K for the year ended December 31, 2011, and in Part II, Item 1A of this report;
- (ii) uncertainties relating to the business operations of the operators of our assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels;
- (iii) the ability of any operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages and impede our ability to collect unpaid rent or interest during the process of a bankruptcy proceeding and retain security deposits for the debtors’ obligations;
- (iv) our ability to sell closed or foreclosed assets on a timely basis and on terms that allow us to realize the carrying value of these assets;
- (v) our ability to negotiate appropriate modifications to the terms of our credit facilities;
- (vi) our ability to manage, re-lease or sell any owned and operated facilities;
- (vii) the availability and cost of capital;
- (viii) changes in our credit ratings and the ratings of our debt securities;
- (ix) competition in the financing of healthcare facilities;
- (x) regulatory and other changes in the healthcare sector;
- (xi) the effect of economic and market conditions generally and, particularly, in the healthcare industry;
- (xii) changes in the financial position of our operators;
- (xiii) changes in interest rates;
- (xiv) the amount and yield of any additional investments;
- (xv) changes in tax laws and regulations affecting real estate investment trusts; and
- (xvi) our ability to maintain our status as a real estate investment trust.

Overview

We have one reportable segment consisting of investments in healthcare related real estate properties. Our core business is to provide financing and capital to the long-term healthcare industry with a particular focus on skilled nursing facilities (“SNFs”) located in the United States. Our core portfolio consists of long-term leases and mortgage agreements. All of our leases are “triple-net” leases, which require the tenants to pay all property-related expenses. Our mortgage revenue derives from fixed-rate mortgage loans, which are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor.

Our portfolio of investments at March 31, 2012, consisted of 435 healthcare facilities (including seven facilities and one parcel of land as held for sale), located in 33 states and operated by 47 third-party operators. Our gross investment in these facilities totaled approximately \$2.8 billion at March 31, 2012, with 99% of our real estate investments related to long-term healthcare facilities. This portfolio is made up of (i) 381 SNFs, (ii) 10 assisted living facilities (“ALFs”), (iii) five specialty facilities, (iv) fixed rate mortgages on 32 SNFs and (v) seven SNFs and (vi) one parcel of land that are held for sale. At March 31, 2012, we also held other investments of approximately \$46.0 million, consisting primarily of secured loans to third-party operators of our facilities.

Our consolidated financial statements include the accounts of (i) Omega, (ii) all direct and indirect wholly owned subsidiaries of Omega and (iii) TC Healthcare, an entity and interim operator created to operate the 15 facilities we assumed as a result of the bankruptcy of one of our former tenants/operators. We consolidate the financial results of TC Healthcare into our financial statements based on the applicable consolidation accounting literature. We include the operating results, assets and liabilities of these facilities for the period of time that TC Healthcare was responsible for the operations of the facilities. Thirteen of these facilities were transitioned from TC Healthcare to a new tenant/operator on September 1, 2008. The two remaining facilities were transitioned to the new tenant/operator on June 1, 2010 upon approval by state regulators of the operating license transfer. The operating revenues and expenses and related operating assets and liabilities of the two facilities are shown on a gross basis in our Consolidated Statements of Operations and Consolidated Balance Sheets, respectively. TC Healthcare is responsible for the collection of the accounts receivable earned and the liabilities incurred prior to the date of the transition to the new tenant/operator. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

Taxation

We have elected to be taxed as a Real Estate Investment Trust ("REIT"), under Sections 856 through 860 of the Internal Revenue Code (the "Code"), beginning with our taxable year ended December 31, 1992. We believe that we have been organized and operated in such a manner as to qualify for taxation as a REIT. We intend to continue to operate in a manner that will maintain our qualification as a REIT, but no assurance can be given that we have operated or will be able to continue to operate in a manner so as to qualify or remain qualified as a REIT. Under the Code, we generally are not subject to federal income tax on taxable income distributed to stockholders if certain distribution, income, asset and stockholder tests are met, including a requirement that we must generally distribute at least 90% of our annual taxable income, excluding any net capital gain, to stockholders. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. For further information, see "Taxation" in Item 1 of our annual report on Form 10-K for the year ended December 31, 2011.

Government Regulation and Reimbursement

The following is a description of certain of the laws and regulations and reimbursement policies and programs affecting our business and the businesses conducted by our operators. The following description should be read in conjunction with the risk factors described under "Item 1A – Risk Factors."

Healthcare Reform. The Patient Protection and Affordable Care Act and accompanying Healthcare and Education Affordability and Reconciliation Act of 2010 (the "Healthcare Reform Law") were signed into law in March 2010. This legislation represents the most comprehensive change to healthcare benefits since the inception of the Medicare program in 1965 and will affect reimbursement for governmental programs, private insurance and employee welfare benefit plans in various ways. Some changes under the Healthcare Reform Law have already occurred, such as changes to pre-existing condition requirements and coverage of dependents. Other changes, including taxes on so-called "Cadillac" health plans, will be implemented over time. There has already been significant rule making and regulation promulgation under the Healthcare Reform Law, and we expect significant additional rules and regulations.

The attorneys general for several states, as well as other individuals and organizations, have challenged the constitutionality of certain provisions of the Healthcare Reform Law, including the requirement that each individual carry health insurance. A number of the lawsuits have been ruled on by federal appeals courts, but those rulings were not consistent. Several parties have appealed to the U.S. Supreme Court. The Supreme Court heard oral arguments in these cases in March 2012, but we cannot predict when or how it will rule. Further, various Congressional leaders have indicated a desire to revisit some or all of the Healthcare Reform Law. While the U.S. Senate voted against repealing the entire Healthcare Reform Law, a number of bills and budget proposals seek to repeal, change or defund certain provisions of the law. For example, the 2011 budget eliminated two programs funded under the Healthcare Reform Law: the Consumer Operated and Oriented Plan (CO-OP) and the Free Choice Voucher programs. Further, a number of states have passed legislation intended to block various requirements of the Healthcare Reform Law. Because of these challenges, we cannot predict whether any or all of the legislation will be implemented as enacted, overturned, repealed or modified.

Given the multitude of factors involved in the Healthcare Reform Law and the substantial requirements for regulation thereunder, we cannot predict the impact of the Healthcare Reform Law on our operators or their ability to meet their obligations to us. The Healthcare Reform Law could result in decreases in payments to our operators or otherwise adversely affect the financial condition of our operators, thereby negatively impacting our financial condition. We cannot predict whether our operators will have the ability to modify certain aspects of their operations to lessen the impact of any increased costs or other adverse effects resulting from changes in governmental programs, private insurance and/or employee welfare benefit plans. The impact of the Healthcare Reform Law on each of our operators will vary depending on payor mix, resident conditions and a variety of other factors. In addition to the provisions relating to reimbursement, other provisions of the Healthcare Reform Law may impact our operators as employers (e.g., requirements related to providing health insurance for employees), which could negatively impact the financial condition of our operators. We anticipate that many of the provisions in the Healthcare Reform Law may be subject to further clarification and modification during the rule making process.

The Healthcare Reform Law requires SNFs to implement, by March 2013, a compliance and ethics program that is effective in preventing and detecting criminal, civil and administrative violations and in promoting quality of care. SNFs will be required to implement a quality assurance and performance improvement program within one year following promulgation of guidance by the Centers for Medicare and Medicaid Services (the "CMS"). SNFs will be required to provide additional information for the CMS Nursing Home Compare website regarding staffing as well as summary information regarding the number of criminal violations by a facility or its employees committed within the facility, and specification of those that were crimes of abuse, neglect, criminal sexual abuse or other violations or crimes resulting in serious bodily injury, and, in addition, the number of civil monetary penalties imposed on the facility, its employees, contractors and other agents, to further the ability of consumers to compare nursing homes.

Reimbursement. A significant portion of our operators' revenue is derived from governmentally-funded reimbursement programs, primarily Medicare and Medicaid. The federal government and many state governments are currently focusing on reducing expenditures under Medicare and Medicaid programs, resulting in significant cost-cutting at both the federal and state levels. These cost-cutting measures, together with the implementation of changes in reimbursement rates under the Healthcare Reform Law, could result in a significant reduction of reimbursement rates to our operators under both the Medicare and Medicaid programs. We currently believe that our operator coverage ratios are adequate and that our operators can absorb moderate reimbursement rate reductions and still meet their obligations to us. However, significant limits on the scopes of services reimbursed and on reimbursement rates could have a material adverse effect on our operators' results of operations and financial condition, which could adversely affect our operators' ability to meet their obligations to us.

In August 2011, the Budget Control Act of 2011 was enacted into law to increase the federal debt ceiling. The law provided for spending cuts of nearly \$1 trillion over the next 10 years, including proposed cuts to Medicare providers. The law further created a Congressional committee that was given a deadline of November 23, 2011 to develop recommendations for further reducing the federal deficit by another \$1.2 trillion over 10 years. The committee was unable to agree on a plan by the November deadline, and as a result, automatic spending cuts, including a likely 2% cut to Medicare providers, will become effective beginning in 2013. Medicaid is exempted from the automatic cuts.

Medicaid. State budgetary concerns coupled with the implementation of rules under the Healthcare Reform Law, may result in significant changes in healthcare spending at the state level.

Many states are currently focusing on the reduction of expenditures under their state Medicaid programs, which may result in a reduction in reimbursement rates for our operators. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. In addition, Medicaid enrollment may significantly increase in the near future, as the Healthcare Reform Law allows states to increase the number of people who are eligible for Medicaid beginning in 2010 and simplifies enrollment in this program. Since our operators' profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement and an increase in the number of Medicaid patients could adversely affect our operators' results of operations and financial conditions, which in turn could negatively impact us.

Medicare. In 2009, the CMS finalized a revised case-mix classification system, the RUG-IV, and planned implementation for fiscal year 2010. However, the Healthcare Reform Law delayed implementation of RUG-IV to October 1, 2011. The Medicare and Medicaid Extenders Act of 2010 repealed the delay in implementation under the Healthcare Reform Law and provided that RUG-IV would be implemented immediately and applied retroactively to October 1, 2010. According to the CMS, this change in case-mix classification methodology resulted in a significant increase in Medicare expenditures for fiscal year 2011. In response to this increase, on July 29, 2011, the CMS announced the final rule for SNF funding for fiscal year 2012. The final rule includes a recalibration of the case-mix indexes that form the RUG-IV and will result in a reduction of aggregate Medicare reimbursement to SNFs of \$4.47 billion or 12.6%. However, the reduction is partially offset by an update that reflects a 2.7% increase in the prices of a "market basket" of goods and services reduced by a 1.0% multi-factor productivity adjustment mandated by the Healthcare Reform Law. The combination of the recalibration and the update will yield a net reduction of aggregate Medicare reimbursement to SNFs of \$3.87 billion or 11.1%. We believe that the implementation of RUG-IV in 2010 had a positive effect on the cash flow and rent coverage ratios of our operators. This funding cut will reduce operator coverage ratios; however, we currently believe that our operator coverage ratios are adequate and that our operators can absorb the fiscal year 2012 reimbursement rate reductions and still meet their obligations to us.

The Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA") became law on July 15, 2008, and made a variety of changes to Medicare, some of which affected SNFs. For instance, MIPPA extended the therapy cap exceptions process through December 31, 2009. A number of other laws have further extended the therapy cap exceptions process, with the current expiration set to occur on December 31, 2012. The therapy caps limit the physical therapy, speech-language therapy and occupational therapy services that a Medicare beneficiary can receive during a calendar year. These caps do not apply to therapy services covered under Medicare Part A for SNFs, although the caps apply in most other instances involving patients in SNFs or long-term care facilities who receive therapy services covered under Medicare Part B. Congress implemented a temporary therapy cap exceptions process, which permits medically necessary therapy services to exceed the payment limits. Expiration of the therapy cap exceptions process in the future could have a material adverse effect on our operators' financial condition and operations, which could adversely impact their ability to meet their obligations to us.

The President's proposed budget for federal fiscal year 2013 includes a number of proposals that could have an impact on Medicare rates if they are ultimately implemented as proposed. Among other things, the proposed budget includes a realignment of payments with costs through adjustments to payment rate updates for skilled nursing facilities by 1.1 percentage points beginning in 2014 through 2021. The proposal would reduce bad debt payments to skilled nursing facilities to 25% over 3 years. The proposed budget would also reduce payments by up to 3% for skilled nursing facilities with high rates of care-sensitive, preventable hospital readmissions, beginning in 2016.

Quality of Care Initiatives. The CMS has implemented a number of initiatives focused on the quality of care provided by nursing homes that could affect our operators. For instance, in December 2008, the CMS released quality ratings for all of the nursing homes that participate in Medicare or Medicaid. Facility rankings, ranging from five stars (“much above average”) to one star (“much below average”) are updated on a monthly basis. In March 2012, the Government Accountability Office released a report that recommended that the CMS use strategic planning in its efforts to evaluate and improve the rating system. While CMS agreed with the GAO’s recommendations, we cannot predict what changes, if any, it will make to the rating system. It is possible that this or any other ranking system could lead to future reimbursement policies that reward or penalize facilities on the basis of the reported quality of care parameters.

Office of the Inspector General Activities. The Office of Inspector General’s (“OIG”) Work Plan for fiscal year 2012, which describes projects that the OIG plans to address during the fiscal year, includes a number of projects related to nursing homes. While we cannot predict the results of the OIG’s activities, the projects could result in further scrutiny and/or oversight of nursing homes.

Fraud and Abuse. There are various federal and state civil and criminal laws and regulations governing a wide array of healthcare provider referrals, relationships and arrangements, including laws and regulations prohibiting fraud by healthcare providers. Many of these complex laws raise issues that have not been clearly interpreted by the relevant governmental authorities and courts. In addition, federal and state governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers.

The federal anti-kickback statute is a criminal statute that prohibits the knowing and willful offer, payment, solicitation or receipt of any remuneration in return for, to induce or to arrange for the referral of individuals for any item or service payable by a federal or state healthcare program. There is also a civil analogue. States also have enacted similar statutes covering Medicaid payments, and some states have broader statutes. Some enforcement efforts have targeted relationships between SNFs and ancillary providers, relationships between SNFs and referral sources for SNFs and relationships between SNFs and facilities for which the SNFs serve as referral sources. The federal self-referral law, commonly known as the “Stark Law,” is a civil statute that prohibits a physician from making referrals to an entity for “designated health services” if the physician has a financial relationship with the entity. Some of the services provided in SNFs are classified as designated health services. There are also criminal provisions that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, as well as failing to refund overpayments or improper payments. Violation of the anti-kickback statute or Stark Law may form the basis for a federal False Claims Act violation. In addition, the federal False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government’s recovery. Because of these incentives, these so-called “whistleblower” suits have become more frequent. The violation of any of these laws or regulations by an operator may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid and all other federal and state healthcare programs.

Privacy. Our operators are subject to various federal, state and local laws and regulations designed to protect the confidentiality and security of patient health information, including the federal Health Insurance Portability and Accountability Act of 1996 and the corresponding regulations promulgated thereunder (“HIPAA”). HIPAA was amended by the Health Information Technology For Economic and Clinical Health (“HITECH”) Act, which was part of the American Recovery and Reinvestment Act of 2009, known as the Stimulus Bill. The HITECH Act increases penalties for HIPAA violations, imposes stricter requirements on healthcare providers, expands the scope of enforcement and, in most cases, requires notification if there is a breach of unsecured individual protected health information, including notification to the affected individual(s), the Secretary of the Department of Human Services and, in some cases, the media. Various states have similar laws and regulations that govern the maintenance and safeguarding of patient records, charts and other information generated in connection with the provision of professional medical services. These laws and regulations require our operators to expend the requisite resources to secure protected health information, including the funding of costs associated with technology upgrades. Operators found in violation of HIPAA or any other privacy law or regulation may face large penalties. In addition, compliance with an operator’s notification requirements in the event of a breach of unsecured protected health information could cause reputational harm to an operator’s business.

Licensing and Certification. Our operators and facilities are subject to various federal, state and local licensing and certification laws and regulations, including laws and regulations under Medicare and Medicaid requiring operators of SNFs and ALFs to comply with extensive standards governing operations. Governmental agencies administering these laws and regulations regularly inspect our operators' facilities and investigate complaints. Our operators and their managers receive notices of observed violations and deficiencies from time to time, and sanctions have been imposed from time to time on facilities operated by them.

Other Laws and Regulations. Additional federal, state and local laws and regulations affect how our operators conduct their operations, including laws and regulations protecting consumers against deceptive practices and otherwise generally affecting our operators' management of their property and equipment and the conduct of their operations (including laws and regulations involving fire, health and safety; quality of services, including care and food service; residents' rights, including abuse and neglect laws; and the health standards set by the federal Occupational Safety and Health Administration).

Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), and a summary of our significant accounting policies is included in Note 2 – Summary of Significant Accounting Policies to our Annual Report on Form 10-K for the year ended December 31, 2011. Our preparation of the financial statements requires us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and accompanying footnotes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such difference may be material to the consolidated financial statements. We have described our most critical accounting policies in our 2011 Annual Report on Form 10-K in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Results of Operations

The following is our discussion of the consolidated results of operations, financial position and liquidity and capital resources, which should be read in conjunction with our unaudited consolidated financial statements and accompanying notes.

Three Months Ended March 31, 2012 and 2011

Operating Revenues

Our operating revenues for the three months ended March 31, 2012, totaled \$84.5 million, an increase of \$14.0 million over the same period in 2011. The \$14.0 million increase was primarily the result of additional rental income of \$9.6 million due to (i) new acquisitions in the 4th quarter of 2011; (ii) lease amendments and extensions and (iii) the transition of FC/SCH Capital, LLC ("FC/SCH") facilities to the new operator. Additional mortgage income of approximately \$3.8 million was primarily due to (i) the new \$92.0 million mortgage loan that we entered into with Ciena in November 2011 and (ii) the new \$25.0 million mortgage loan that we entered into with White Pine in October 2011.

Operating Expenses

Operating expenses for the three months ended March 31, 2012, totaled \$33.1 million, a decrease of approximately \$22.6 million over the same period in 2011. The decrease was primarily due to (i) a decrease of \$24.7 million associated with the provision for real estate impairment (of which approximately \$24.4 million related to the first quarter 2011 write-down of the Connecticut properties to their estimated fair value as non SNF facilities) and (ii) a decrease of \$0.2 million related to expense related to our owned and operated assets, offset by an increase of \$1.9 million of depreciation and amortization due to the affiliates of CFG and White Pine acquisitions in the fourth quarter of 2011.

Other Income (Expense)

For the three months ended March 31, 2012, total other expenses were \$30.7 million, an increase of approximately \$10.0 million over the same period in 2011. The increase in interest expense of approximately \$3.0 million was primarily due to an increase in borrowings outstanding, including debt assumed or incurred to finance the affiliates of CFG and White Pine acquisitions during the fourth quarter of 2011. During the first quarter of 2012, we incurred prepayment penalties of approximately \$4.5 million and wrote-off deferred costs of \$2.2 million and incurred expenses of approximately \$0.4 million associated with the tender offer and redemption of our outstanding \$175 million 7% 2016 Notes.

Funds From Operations

Our funds from operations available to common stockholders ("FFO"), for the three months ended March 31, 2012, was \$48.2 million, compared to \$39.1 million, for the same period in 2011.

We calculate and report FFO in accordance with the definition and interpretive guidelines issued by the National Association of Real Estate Investment Trusts ("NAREIT"), and, consequently, FFO is defined as net income available to common stockholders, adjusted for the effects of asset dispositions and certain non-cash items, primarily depreciation and amortization and impairment on real estate assets. We believe that FFO is an important supplemental measure of our operating performance. Because the historical cost accounting convention used for real estate assets requires depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time, while real estate values instead have historically risen or fallen with market conditions. The term FFO was designed by the real estate industry to address this issue. FFO herein is not necessarily comparable to FFO of other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us.

FFO is a non-GAAP financial measure. We use FFO as one of several criteria to measure operating performance of our business. We further believe that by excluding the effect of depreciation, amortization, impairment on real estate assets and gains or losses from sales of real estate, all of which are based on historical costs and which may be of limited relevance in evaluating current performance, FFO can facilitate comparisons of operating performance between periods and between other REITs. We offer this measure to assist the users of our financial statements in evaluating our financial performance under GAAP, and FFO should not be considered a measure of liquidity, an alternative to net income or an indicator of any other performance measure determined in accordance with GAAP. Investors and potential investors in our securities should not rely on this measure as a substitute for any GAAP measure, including net income.

The following table presents our FFO results for the three months ended March 31, 2012 and 2011:

| | Three Months Ended | |
|--|---------------------------|------------------|
| | March 31, | |
| | 2012 | 2011 |
| | (in thousands) | |
| Net income (loss) available to common stockholders | \$ 26,084 | \$ (11,076) |
| Deduct gain from real estate dispositions | (5,316) | — |
| Sub-total | 20,768 | (11,076) |
| Elimination of non-cash items included in net income: | | |
| Depreciation and amortization | 27,147 | 25,218 |
| Add back impairments on real estate properties | 272 | 24,971 |
| Funds from operations available to common stockholders | <u>\$ 48,187</u> | <u>\$ 39,113</u> |

Portfolio and Recent Developments

2011 Acquisitions

Capital Funding Group, Inc.

On December 23, 2011, we purchased 17 SNFs from affiliates of CFG, a new operator to Omega, for an aggregate purchase price of \$128 million. The acquisition consisted of the assumption of \$71 million of indebtedness guaranteed by the Department of Housing and Urban Development (“HUD”) and \$57 million in cash.

The \$71 million of assumed HUD debt is comprised of 15 HUD mortgage loans with a blended interest rate of 5.70% and maturities between October 2029 and July 2044.

The 17 SNFs, representing 1,820 available beds, are located in Arkansas (12), Colorado (1), Florida (1), Michigan (2) and Wisconsin (1). The transaction involved two separate master lease agreements covering all 17 SNFs.

We allocated approximately \$129.9 million consisting of land (\$9.0 million), buildings and site improvements (\$111.5 million) and furniture and fixtures (\$9.4 million). We recorded approximately \$1.9 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We estimate amortization will be approximately \$0.1 million per year over the next five years. We have not recorded goodwill in connection with this transaction.

Persimmon Ventures, LLC and White Pine Holdings, LLC

During the fourth quarter of 2011, we completed \$86 million of combined new investments with affiliates of Persimmon Ventures, LLC and White Pine Holdings, LLC (“White Pine”), both new operators to Omega. The investments involved a purchase / lease back transaction and a mortgage transaction. The combined transaction consists of 7 facilities and 938 beds.

Purchase / Lease Back Transaction

We purchased four SNFs located in Maryland (3) and West Virginia (1), totaling 586 beds for a total investment of \$61 million, including approximately \$1 million to complete renovations at one facility. The consideration consisted of \$31 million in cash and the assumption of \$30 million in HUD – guaranteed indebtedness, which bears an interest rate of 4.87% (weighted-average) and matures between March 2036 and September 2040.

Acquisition costs related to the CFG and White Pine acquisitions were approximately \$1.2 million in 2011.

Mortgage Transaction

We entered into a first mortgage loan with White Pine in the amount of \$25 million secured by a lien on three SNFs, totaling 352 beds, all located in Maryland.

The overall combined transaction totaled \$86 million, consisting of \$56 million in cash and \$30 million in assumed HUD indebtedness, with a combined initial annual yield of approximately 10%.

We allocated approximately \$62.7 million consisting of land (\$4.4 million), buildings and site improvements (\$55.0 million) and furniture and fixtures (\$3.3 million). One of the facilities acquired in connection with this transaction on December 30, 2011 is in the process of being renovated. We recorded approximately \$3.0 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. We estimate amortization will be approximately \$0.2 million per year over the next five years. We have not recorded goodwill in connection with this transaction.

Assets Sold or Held for Sale

Assets Sold

On January 13, 2012, we sold a SNF in Indiana for approximately \$3.1 million resulting in a gain of approximately \$0.3 million.

On March 23, 2012, an operator in Alaska exercised its purchase option and purchased a SNF for approximately \$11.0 million. We recognized a gain of approximately \$5.1 million in this transaction.

Held for Sale

During the first quarter of 2012, we recorded a \$0.1 million impairment charge to reduce the carrying value of a SNF in Arkansas to its estimated fair value less cost to sell and simultaneously classified the facility as held-for-sale. Also during the first quarter of 2012, we recorded a \$0.1 million impairment charge to reduce the carrying value of a held-for-sale facility that was sold during the quarter.

At March 31, 2012, we had seven SNFs and one parcel of land classified as held-for-sale with an aggregate net book value of approximately \$8.1 million.

Connecticut Properties

In January 2011, upon our request, a complaint was filed by the State of Connecticut, Commissioner of Social Services (the "State") against the licensees/operators of four Connecticut SNFs, seeking the appointment of a receiver. The Superior Court, Judicial District of Hartford, Connecticut (the "Court") appointed a receiver.

The receiver was responsible for (i) operating the facilities and funding all operational expenses incurred after the appointment of the receiver and (ii) for providing the Court with recommendations regarding the facilities. In March 2011, the receiver moved to close all four SNFs and we objected. At the hearing held on April 21, 2011, we stated our position that the receiver failed to comply with the statutory requirements prior to recommending the facilities' closure. In addition, alternative operators expressed interest in operating several of the facilities. On April 27, 2011, the Court granted the receiver's motion and ordered the facilities closed.

We timely filed our notice of appeal, taking the position that the Court's Order was final and appealable, and erroneous. Following our notice of appeal, we negotiated a stipulation with the State and the receiver which afforded it significant concessions. Those concessions included: (a) an agreed recognition of us as a secured lienholder with a priority claim, (b) an accelerated timeframe for the (i) allocation by the receiver of collected funds between pre- and post-receivership periods, and (ii) disbursement to us of pre-receivership funds collected, and (c) an agreement by the State that it would forego its right to seek recoupment of pre-receivership funds as reimbursement for post-receivership advances. In exchange for these concessions (among others), we withdrew our appeal.

As a result of these developments, during the three months ended March 31, 2011, we recorded an impairment charge of \$24.4 million to reduce the carrying values of the Connecticut SNFs to their estimated fair values. We estimated the fair value of these facilities based on the facilities' potential sales value assuming that the facilities would not be used as skilled nursing facilities. As of November 1, 2011, all of the residents of the four facilities have been relocated, and the receiver has surrendered possession of all of the facilities to us. We are actively marketing the facilities for sale (for purposes other than the provision of skilled nursing care).

FC/SCH Facilities

During the second quarter of 2011, we entered into a master transition agreement ("2011 MTA") with one of our current lessee/operators and a third party lessee/operator to transition the facilities from the current operator to the new operator. The 2011 MTA closing is subject to receipt of healthcare regulatory approvals from several states for the operating license transfer from the current operator to the new operator. On January 1, 2012, regulatory approval was provided and the former lease was terminated and a new operator entered into a new twelve-year master lease for the facilities. As a result of the 2011 MTA, during the second quarter of 2011, we evaluated the recoverability of the straight-line rent and lease inducements associated with the current lease and recorded a \$4.1 million provision for uncollectible accounts associated with straight-line receivables and lease inducements.

Liquidity and Capital Resources

At March 31, 2012, we had total assets of \$2.5 billion, stockholders' equity of \$0.9 billion and debt of \$1.5 billion, representing approximately 63.4% of total capitalization.

The following table shows the amounts due in connection with the contractual obligations described below as of March 31, 2012.

| | Payments due by period | | | | |
|--|-------------------------------|-----------------------------|-------------------|-------------------|------------------------------|
| | Total | Less than 1 year | 1-3 years | 3-5 years | More than 5 years |
| | (in thousands) | | | | |
| Debt ⁽¹⁾ | \$ 1,500,551 | \$ 4,270 | \$ 9,266 | \$ 37,327 | \$ 1,449,688 |
| Interest payments on long-term debt | 1,121,434 | 94,726 | 188,987 | 186,609 | 651,112 |
| Operating lease obligations ⁽²⁾ | 2,325 | 306 | 637 | 672 | 710 |
| Total | \$ 2,624,310 | \$ 99,302 | \$ 198,890 | \$ 224,608 | \$ 2,101,510 |

- (1) The \$1.5 billion of debt outstanding includes \$27.0 million in borrowings under the 2011 Credit Facility (described below) due in August 2015, \$200 million aggregate principal amount of 7.5% Senior Notes due February 2020, \$575 million aggregate principal amount of 6.75% Senior Notes due October 2022, \$400 million aggregate principal amount of 5.875% Senior Notes due March 2024, \$20 million of 9.0% subordinated debt maturing in December 2021, \$52 million of HUD debt at a 6.61% weighted average annual interest rate maturing between January 2036 and May 2040, \$126 million of HUD Debt at a 4.85% annual interest rate and maturing between January 2040 and January 2045, \$71 million of HUD debt at a 5.70% weighted average annual interest rate maturing between October 2029 and July 2044 and \$30 million of HUD debt at a 4.87% weighted average annual interest rate maturing between March 2036 and September 2040.
- (2) Relates primarily to the lease at the corporate headquarters.

Financing Activities and Borrowing Arrangements

Bank Credit Agreements

At March 31, 2012, we had \$27.0 million outstanding under our \$475 million unsecured revolving credit facility (the "2011 Credit Facility"), and no letters of credit outstanding, leaving availability of \$448.0 million.

The 2011 Credit Facility matures in four years, on August 17, 2015. The 2011 Credit Facility includes an "accordion feature" that permits us to expand our borrowing capacity to \$600 million.

The 2011 Credit Facility is priced at LIBOR plus an applicable percentage (ranging from 225 basis points to 300 basis points) based on our consolidated leverage. In the event the Company achieves at least two investment grade ratings from Standard & Poor's, Moody's and/or Fitch Ratings, the 2011 Credit Facility will be priced at LIBOR plus an applicable percentage ranging from 150 basis points to 210 basis points (including a facility fee). The Company's applicable percentage above LIBOR was 275 basis points at March 31, 2012 under the 2011 Credit Facility. The 2011 Credit Facility is used for acquisitions and general corporate purposes.

The 2011 Credit Facility contains customary affirmative and negative covenants, including, without limitation, limitations on indebtedness; limitations on investments; limitations on liens; limitations on mergers and consolidations; limitations on sales of assets; limitations on transactions with affiliates; limitations on negative pledges; limitations on prepayment of debt; limitations on use of proceeds; limitations on changes in lines of business; limitations on repurchases of the Company's capital stock if a default or event of default occurs; and maintenance of REIT status. In addition, the 2011 Credit Facility contains financial covenants including, without limitation, those relating to maximum total leverage, maximum secured leverage, maximum unsecured leverage, minimum fixed charge coverage, minimum consolidated tangible net worth, minimum unsecured debt yield, minimum unsecured interest coverage and maximum distributions. As of March 31, 2012, we were in compliance with all affirmative and negative covenants, including financial covenants.

Issuance of \$400 Million 5.875% Senior Notes due 2024

On March 19, 2012, we issued \$400 million aggregate principal amount of our 5.875% Senior Notes due 2024, or the 2024 Notes. The 2024 Notes mature on March 15, 2024 and pay interest semi-annually on March 15 and September 15 of each year, commencing on September 15, 2012.

We may redeem the 2024 Notes, in whole at any time or in part from time to time, at redemption prices of 102.938%, 101.958% and 100.979% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on March 15 of the years 2017, 2018 and 2019, respectively, and at a redemption price of 100% of the principal amount thereof on and after March 15, 2020, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until March 15, 2015 we may redeem up to 35% of the 2024 Notes with the net cash proceeds of one or more public equity offerings at a redemption price of 105.875% of the principal amount of the 2024 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

The 2024 Notes were sold at an issue price of 100% of the principal amount. We used the net proceeds of the offering to fund the tender offer and consent solicitation for the 2016 Notes (described below), to fund the redemption of the untendered 2016 Notes (described below) and to repay a portion of our indebtedness outstanding under our \$475 million senior unsecured revolving credit facility. As of March 31, 2012, our subsidiaries that are not guarantors of the 2024 Notes accounted for approximately \$522 million of our total assets.

\$175 Million 7% Senior Notes due 2016 Tender Offer and Redemption

On March 5, 2012, we commenced a tender offer to purchase for cash any and all of our outstanding \$175 million aggregate principal amount of 7% Senior Notes due 2016, or the 2016 Notes, upon the terms and subject to the conditions set forth in the Offer to Purchase and Consent Solicitation Statement dated March 5, 2012. Pursuant to the terms of the tender offer, on March 19, 2012, we purchased \$168.9 million aggregate principal amount of the 2016 Notes.

On March 27, 2012, pursuant to the terms of the indenture governing the 2016 Notes, we redeemed the remaining \$6.1 million aggregate principal amount of the 2016 Notes at a redemption price of 102.333% of their principal amount, plus accrued and unpaid interest up to the redemption date. Following redemption, the 2016 Notes, the indenture governing the 2016 Notes and the related guarantees were terminated.

The redemption resulted in approximately \$7.1 million expenses, including \$4.5 million in payments made to bondholders for early redemption, \$2.2 million of write offs associated with deferred costs and \$0.4 million of expenses associated with the tender and redemption.

\$140 Million Equity Shelf Program

For the three months ended March 31, 2012, approximately 0.2 million shares of our common stock were issued through our \$140 million Equity Shelf Program (the "2010 ESP") for net proceeds of \$5.2 million, net of \$0.1 million of commissions.

Dividend Reinvestment and Common Stock Purchase Plan

For the three-month period ended March 31, 2012, approximately 0.7 million shares of our common stock were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$14.2 million.

Dividends

In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (A) the sum of (i) 90% of our "REIT taxable income" (computed without regard to the dividends paid deduction and our net capital gain), and (ii) 90% of the net income (after tax), if any, from foreclosure property, minus (B) the sum of certain items of non-cash income. In addition, if we dispose of any built-in gain asset during a recognition period, we will be required to distribute at least 90% of the built-in gain (after tax), if any, recognized on the disposition of such asset. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for such year and paid on or before the first regular dividend payment after such declaration. In addition, such distributions are required to be made pro rata, with no preference to any share of stock as compared with other shares of the same class, and with no preference to one class of stock as compared with another class except to the extent that such class is entitled to such a preference. To the extent that we do not distribute all of our net capital gain or do distribute at least 90%, but less than 100% of our "REIT taxable income" as adjusted, we will be subject to tax thereon at regular ordinary and capital gain corporate tax rates.

In addition, our 2011 Credit Facility has certain financial covenants that limit the distribution of dividends paid during a fiscal quarter to no more than 95% of our aggregate cumulative FFO as defined in the credit agreement, unless a greater distribution is required to maintain REIT status. Solely for purposes of the credit agreement, FFO is defined as net income (or loss) plus depreciation and amortization, adjusted to exclude gains or losses resulting from: (i) restructuring our debt; (ii) sales of property; (iii) sales or redemptions of preferred stock; (iv) revenue or expenses related to owned and operated assets; (v) cash litigation charges up to \$10.0 million over the term of the credit agreement; (vi) non-cash charges associated with the write-down of accounts due to straight-line rent; (vii) other non-cash charges for accounts and notes receivable up to \$20.0 million over the term of the credit agreement; (viii) certain non-cash compensation related expenses; (ix) non-cash real property impairment charges; (x) non-cash charges associated with the sale or settlement of derivative instruments; and (xi) charges related to acquisition deal-related costs.

For the three months ended March 31, 2012, we paid total dividends of \$42.6 million.

On April 17, 2012, the Board of Directors declared a common stock dividend of \$0.42 per share, increasing the quarterly common dividend by \$0.01 per share over the prior quarter, to be paid May 15, 2012 to common stockholders of record on April 30, 2012.

Liquidity

We believe our liquidity and various sources of available capital, including cash from operations, our existing availability under our 2011 Credit Facility and expected proceeds from mortgage payoffs are adequate to finance operations, meet recurring debt service requirements and fund future investments through the next twelve months.

We regularly review our liquidity needs, the adequacy of cash flow from operations, and other expected liquidity sources to meet these needs. We believe our principal short-term liquidity needs are to fund:

- normal recurring expenses;
- debt service payments;
- common stock dividends; and
- growth through acquisitions of additional properties.

The primary source of liquidity is our cash flows from operations. Operating cash flows have historically been determined by: (i) the number of facilities we lease or have mortgages on; (ii) rental and mortgage rates; (iii) our debt service obligations; and (iv) general and administrative expenses. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. Changes in the capital markets environment may impact the availability of cost-effective capital and affect our plans for acquisition and disposition activity.

Cash and cash equivalents totaled \$2.7 million as of March 31, 2012, an increase of \$2.4 million as compared to the balance at December 31, 2011. The following is a discussion of changes in cash and cash equivalents due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows.

Operating Activities – Net cash flow from operating activities generated \$49.5 million for the three months ended March 31, 2012, as compared to \$38.7 million for the same period in 2011, an increase of \$10.8 million. The increase is primarily due to the rental revenue from the 2011 White Pine and affiliates of CFG acquisitions and the placement of additional mortgages, offset by additional interest associated with financing the acquisitions and new mortgages.

Investing Activities – Net cash flow from investing activities was an inflow of \$10.0 million for the three months ended March 31, 2012, as compared to an outflow of \$5.7 million for the same period in 2011. The \$15.7 million change in investing activities relates primarily to (i) net proceeds of \$14.1 million from the sale of real estate; (ii) an increase in net proceeds of \$6.6 million from other investments – net during the first quarter of 2012 compared to the same period in 2011. Offsetting these increases were: (i) the purchase of land for \$1.9 million and (ii) additional investment in capital improvement projects of \$3.7 million compared to the same period in 2011.

Financing Activities – Net cash flow from financing activities was an outflow of \$57.2 million for the three months ended March 31, 2012 as compared to an outflow of \$36.6 million for the same period in 2011. The increase in cash outflow from financing activities was primarily a result of: (i) a net payments of \$245.5 million on the 2011 Credit Facility during the first quarter of 2012 compared to \$69.0 million of net proceeds for the same period in 2011; (ii) \$175.0 million tender offer and redemption payments for our outstanding \$175 million 2016 Notes and \$1.0 million in routine HUD debt principal payments; (iii) payment of \$12.5 million related to deferred financing costs and refinancing costs primarily associated with (a) the tender offer and redemption of our outstanding \$175 million 2016 Notes and (b) the issuance of our \$400 million 5.875% Senior Notes due 2024; and (iv) an increase in dividend payments of \$2.3 million during the first quarter of 2012 due to an increase in number of shares outstanding and an increase of \$0.04 per share in the dividends. Offsetting these increases were: (i) net proceeds of \$400 million from our 5.875% Senior Notes due 2024 issued in March 2012; (ii) a decrease in net proceeds of \$22.9 million from our common stock issued through our Equity Shelf Program during the first quarter of 2012 compared to the same period in 2011; (iii) a decrease in net proceeds of \$3.3 million from our dividend reinvestment plan in the first quarter of 2012 compared to the same period in 2011 and (iv) the impact of the \$108.6 million preferred stock redemption in the first quarter of 2011.

Item 3 – Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We do not enter into derivatives or other financial instruments for trading or speculative purposes, but we seek to mitigate the effects of fluctuations in interest rates by matching the term of new investments with new long-term fixed rate borrowing to the extent possible.

The interest rate charged on our 2011 Credit Facility can vary based on the interest rate option we choose to utilize. The interest rates per annum applicable to the 2011 Credit Facility are the reserve adjusted LIBOR Rate (the “Eurodollar Rate” or “Eurodollar”), plus the applicable margin (as defined below) or, at our option, the base rate, which will be the highest of (i) the rate of interest publicly announced by the administrative agent as its prime rate in effect, (ii) the federal funds effective rate from time to time plus 0.50% and (iii) the Eurodollar Rate determined on such day for a Eurodollar Loan with an interest period of one month plus 1.0%, in each case, plus the applicable margin (as defined below). The applicable margin with respect to the 2011 Credit Facility is determined in accordance with a performance grid based on our consolidated leverage ratio. The applicable margin may range from 3.0% to 2.25% in the case of Eurodollar advances, and from 2.0% to 1.25% in the case of base rate advances. Letter of credit fees may range from 3.0% to 2.25% per annum, based on the same performance grid. As of March 31, 2012, the total amount of debt outstanding on the 2011 Credit Facility was \$27.0 million, which is subject to interest rate fluctuations.

For additional information, refer to Item 7A as presented in our annual report on Form 10-K for the year ended December 31, 2011.

Item 4 – Controls and Procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

In connection with the preparation of this Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2012. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of March 31, 2012.

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the period covered by this report identified in connection with the evaluation of our disclosure controls and procedures described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

See Note 10 – Litigation to the Consolidated Financial Statements in Item 1 hereto, which is hereby incorporated by reference in response to this item.

Item 1A – Risk Factors

We filed our Annual Report on Form 10-K for the year ended December 31, 2011, with the Securities and Exchange Commission on February 27, 2012, which sets forth our risk factors in Item 1A therein. We have not experienced any material changes from the risk factors previously described therein.

Item 6 – Exhibits

| Exhibit No. | |
|-------------|--|
| 4.1 | Eighth Supplemental Indenture, dated as of March 19, 2012, by and among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto and U.S. Bank National Association, as trustee. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K, filed on March 19, 2012). |
| 4.2 | Indenture, dated as of March 19, 2012, by and among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto and U.S. Bank National Association, as trustee, related to the 5.875% Senior Notes due 2024, including the Form of 5.875% Senior Notes and Form of Subsidiary Guarantee related thereto. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K, filed on March 19, 2012). |
| 4.3 | Registration Rights Agreement, dated March 19, 2012, by and among Omega Healthcare Investors, Inc., the guarantors named therein, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, for itself and on behalf of the Initial Purchasers. (Incorporated by reference to the Company's Current Report on Form 8-K, filed on March 19, 2012). |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer. |
| 31.2 | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer. |
| 32.1 | Section 1350 Certification of the Chief Executive Officer. |
| 32.2 | Section 1350 Certification of the Chief Financial Officer. |
| 101.INS | XBRL Instance Document.* |
| 101.SCH | XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.* |

*In accordance with Rule 406T of Regulation S-T, this XBRL-related information shall be deemed to be "furnished" and not "filed."

SIGNATURES

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

OMEGA HEALTHCARE INVESTORS, INC.
Registrant

Date: May 8, 2012

By: /S/ C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

Date: May 8, 2012

By: /S/ ROBERT O. STEPHENSON
Robert O. Stephenson
Chief Financial Officer

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER**Certification**

I, C. Taylor Pickett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Omega Healthcare Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2012

/S/ C. TAYLOR PICKETT

C. Taylor Pickett

Chief Executive Officer

RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER**Certifications**

I, Robert O. Stephenson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Omega Healthcare Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 8, 2012

/S/ ROBERT O. STEPHENSON

Robert O. Stephenson
Chief Financial Officer

**SECTION 1350 CERTIFICATION
OF THE CHIEF EXECUTIVE OFFICER**

I, C. Taylor Pickett, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2012 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2012

/S/ C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

**SECTION 1350 CERTIFICATION
OF THE CHIEF FINANCIAL OFFICER**

I, Robert O. Stephenson, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the three months ended March 31, 2012 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 8, 2012

/S/ ROBERT O. STEPHENSON

Robert O. Stephenson
Chief Financial Officer