

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 June 30, 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 July 30, 2012.

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

108,675,027  
(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.  
FORM 10-Q  
June 30, 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)**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	(Unaudited)	
<b>ASSETS</b>		
Real estate properties		
Land and buildings	\$ 2,560,909	\$ 2,537,039
Less accumulated depreciation	(522,107)	(470,420)
Real estate properties – net	2,038,802	2,066,619
Mortgage notes receivable – net	243,461	238,675
	2,282,263	2,305,294
Other investments – net	46,475	52,957
	2,328,738	2,358,251
Assets held for sale – net	2,120	2,461
Total investments	2,330,858	2,360,712
Cash and cash equivalents	2,861	351
Restricted cash	36,479	34,112
Accounts receivable – net	112,842	100,664
Other assets	68,822	61,473
Total assets	<u>\$ 2,551,862</u>	<u>\$ 2,557,312</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Revolving line of credit	\$ 2,000	\$ 272,500
Secured borrowings	287,339	303,610
Unsecured borrowings – net	1,200,652	975,290
Accrued expenses and other liabilities	126,196	127,428
Total liabilities	1,616,187	1,678,828
Stockholders' equity:		
Common stock \$.10 par value 200,000 shares authorized — 107,820 shares as of June 30, 2012 and 103,410 as of December 31, 2011 issued and outstanding	10,782	10,341
Common stock – additional paid-in-capital	1,558,506	1,471,381
Cumulative net earnings	690,086	633,430
Cumulative dividends paid	(1,323,699)	(1,236,668)
Total stockholders' equity	935,675	878,484
Total liabilities and stockholders' equity	<u>\$ 2,551,862</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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
<b>Revenue</b>				
Rental income	\$ 75,228	\$ 68,487	\$ 151,203	\$ 134,824
Mortgage interest income	7,404	3,433	14,740	6,931
Other investment income – net	1,165	617	2,295	1,258
Miscellaneous	28	69	102	69
Total operating revenues	<u>83,825</u>	<u>72,606</u>	<u>168,340</u>	<u>143,082</u>
<b>Expenses</b>				
Depreciation and amortization	27,199	24,759	54,346	49,977
General and administrative	4,954	4,930	10,480	10,156
Acquisition costs	98	-	203	45
Impairment loss on real estate properties	-	-	272	24,971
Provisions for uncollectible mortgages, notes and accounts receivable	-	4,139	-	4,139
Nursing home expenses of owned and operated assets	-	225	-	455
Total operating expenses	<u>32,251</u>	<u>34,053</u>	<u>65,301</u>	<u>89,743</u>
<b>Income before other income and expense</b>	<b>51,574</b>	<b>38,553</b>	<b>103,039</b>	<b>53,339</b>
<b>Other income (expense)</b>				
Interest income	9	12	16	23
Interest expense	(24,009)	(20,072)	(46,976)	(40,072)
Interest – amortization of deferred financing costs	(668)	(703)	(1,297)	(1,397)
Interest – gain (loss) on extinguishment of debt	1,698	-	(5,410)	(16)
Total other expense	<u>(22,970)</u>	<u>(20,763)</u>	<u>(53,667)</u>	<u>(41,462)</u>
<b>Income before gain on assets sold</b>	<b>28,604</b>	<b>17,790</b>	<b>49,372</b>	<b>11,877</b>
Gain on assets sold – net	1,968	-	7,284	-
<b>Net income</b>	<b>30,572</b>	<b>17,790</b>	<b>56,656</b>	<b>11,877</b>
Preferred stock dividends	-	-	-	(1,691)
Preferred stock redemption	-	16	-	(3,456)
<b>Net income available to common stockholders</b>	<b>\$ 30,572</b>	<b>\$ 17,806</b>	<b>\$ 56,656</b>	<b>\$ 6,730</b>
<b>Income per common share available to common shareholders:</b>				
<b>Basic:</b>				
Net income	<u>\$ 0.29</u>	<u>\$ 0.17</u>	<u>\$ 0.54</u>	<u>\$ 0.07</u>
<b>Diluted:</b>				
Net income	<u>\$ 0.29</u>	<u>\$ 0.17</u>	<u>\$ 0.54</u>	<u>\$ 0.07</u>
Dividends declared and paid per common share	<u>\$ 0.42</u>	<u>\$ 0.38</u>	<u>\$ 0.83</u>	<u>\$ 0.75</u>
Weighted-average shares outstanding, basic	<u>105,717</u>	<u>101,912</u>	<u>104,736</u>	<u>100,993</u>
Weighted-average shares outstanding, diluted	<u>106,033</u>	<u>102,001</u>	<u>105,023</u>	<u>101,044</u>

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 to company directors (13 shares at \$20.29 per share)	1	(1)	—	—	—
Amortization of restricted stock	—	2,940	—	—	2,940
Dividend reinvestment plan (3,206 shares at \$21.52 per share)	320	68,656	—	—	68,976
Grant of stock as payment of directors fees (4 shares at an average of \$21.42 per share)	1	75	—	—	76
Equity Shelf Program (759 shares at \$21.27 per share, net of issuance costs)	76	15,498	—	—	15,574
Net income	—	—	56,656	—	56,656
Common dividends (\$0.83 per share)	—	—	—	(87,031)	(87,031)
Balance at June 30, 2012 (107,820 common shares)	\$ 10,782	\$ 1,558,506	\$ 690,086	\$ (1,323,699)	\$ 935,675

See notes to consolidated financial statements.

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

	Six Months Ended	
	June 30,	
	2012	2011
<b>Cash flows from operating activities</b>		
Net income	\$ 56,656	\$ 11,877
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	54,346	49,977
Impairment on real estate properties	272	24,971
Provisions for uncollectible accounts receivable	—	4,139
Amortization of deferred financing and debt extinguishment costs	6,707	1,397
Restricted stock amortization expense	2,971	2,998
Gain on assets sold – net	(7,284)	—
Amortization of acquired in-place leases - net	(2,852)	(3,232)
Other	(75)	(75)
Change in operating assets and liabilities – net of amounts assumed/acquired:		
Accounts receivable, net	370	16
Straight-line rent	(13,120)	(6,672)
Lease inducement	1,684	1,696
Effective yield receivable on mortgage notes	(1,113)	(675)
Other operating assets and liabilities	(4,138)	(9,218)
Operating assets and liabilities for owned and operated properties	—	(47)
Net cash provided by operating activities	<u>94,424</u>	<u>77,152</u>
<b>Cash flows from investing activities</b>		
Acquisition of real estate – net of liabilities assumed and escrows acquired	(26,922)	(98)
Placement of mortgage loans	(4,955)	(4,607)
Proceeds from sale of real estate investments	22,006	—
Capital improvements and funding of other investments	(14,207)	(8,118)
Proceeds from other investments	10,040	1,747
Investments in other investments	(3,558)	(2,290)
Collection of mortgage principal – net	243	37
Net cash used in investing activities	<u>(17,353)</u>	<u>(13,329)</u>
<b>Cash flows from financing activities</b>		
Proceeds from credit facility borrowings	92,000	174,000
Payments on credit facility borrowings	(362,500)	(121,000)
Receipts of other long-term borrowings	400,000	—
Payments of other long-term borrowings	(188,674)	(1,216)
Payments of financing related costs	(12,920)	(641)
Receipts from dividend reinvestment plan	68,976	40,613
Net proceeds from issuance of common stock	15,574	31,350
Payments from exercised options and restricted stock – net	—	(1,254)
Dividends paid	(87,017)	(79,044)
Redemption of preferred stock	—	(108,556)
Net cash used in financing activities	<u>(74,561)</u>	<u>(65,748)</u>
Increase (decrease) in cash and cash equivalents	2,510	(1,925)
Cash and cash equivalents at beginning of period	351	6,921
Cash and cash equivalents at end of period	<u>\$ 2,861</u>	<u>\$ 4,996</u>
Interest paid during the period, net of amounts capitalized	<u>\$ 46,323</u>	<u>\$ 38,387</u>

See notes to consolidated financial statements.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Unaudited**  
**June 30, 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 in 2008 to temporarily 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 operated these facilities (see Note 3 – Owned and Operated Assets). 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 our accounts receivable to determine their collectability. The determination of collectability of these assets requires significant judgment and is affected by several factors relating to the credit quality of our operators that we regularly monitor, including (i) payment history, (ii) the age of the contractual receivables, (iii) the current economic conditions and reimbursement environment, (iv) the ability of the tenant to perform under the terms of their lease and/or contractual loan agreements and (v) the value of the underlying collateral of the agreement. If we determine collectability of any of our contractual receivables is at risk, we estimate the potential uncollectible amounts and provide an allowance. 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 and/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:

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
	(in thousands)	
Contractual receivables	\$ 5,243	\$ 4,683
Effective yield interest receivables	2,454	1,341
Straight-line receivables	86,689	73,604
Lease inducements	20,992	22,677
Allowance	(2,536)	(1,641)
Accounts receivable – net	<u>\$ 112,842</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 386 SNFs, 10 assisted living facilities ("ALFs") and five specialty facilities at June 30, 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.



## **2012 Acquisitions**

### ***Health and Hospital Corporation***

On June 29, 2012, we purchased four facilities encompassing 383 licensed beds in Indiana for approximately \$21.7 million and leased the facilities to an existing operator. We are awaiting information necessary to complete the process of allocating the fair value of the assets purchased. We believe that the final allocation will consist of land, building and furniture and equipment.

### ***Mark Ide Limited Liability Company***

On June 29, 2012, we purchased one facility encompassing 80 licensed beds in Indiana for approximately \$3.4 million and leased the facility to an existing operator. We are awaiting information necessary to complete the process of allocating the fair value of the assets purchased. We believe that the final allocation will consist of land, building and furniture and equipment.

## **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 was 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 recorded 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. On June 29, 2012, we retired four HUD mortgage notes and wrote-off the unamortized fair value adjustment associated with the mortgages. We did not record 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 recorded 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 did not record goodwill in connection with this transaction.

The facilities acquired from White Pine and affiliates of CFG in the fourth quarter of 2011 and from Health & Hospital Corporation and Mark Ide in the second quarter of 2012 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, affiliates of CFG, Health & Hospital Corporation and Mark Ide 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per share amount, unaudited)			
Revenues	\$ 84,523	\$ 78,612	\$ 169,736	\$ 155,094
Net income available to common stockholders	\$ 30,768	\$ 19,293	\$ 57,048	\$ 9,704
Earnings per share – diluted:				
Net income available to common stockholders – as reported	\$ 0.29	\$ 0.17	\$ 0.54	\$ 0.07
Net income available to common stockholders – pro forma	\$ 0.29	\$ 0.19	\$ 0.54	\$ 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 us 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 six months ended June 30, 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). See "Assets Sold or Held for Sale" below for more detail.

#### *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.
- On April 2, 2012, we sold a held-for-sale SNF in Arkansas for approximately \$1.7 million. No gain or loss was recognized in this transaction.
- On May 18, 2012, we sold a held-for-sale SNF in Alabama for \$4.5 million resulting in a gain of approximately \$0.4 million.
- On June 15, 2012, we sold a held-for-sale SNF in Connecticut for \$1.8 million resulting in a gain of approximately \$1.6 million.

### *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 June 30, 2012, we had four SNFs and one parcel of land classified as held-for-sale with an aggregate net book value of approximately \$2.1 million.

### **Mortgage Notes Receivables**

Our mortgage notes receivables relate to 12 fixed-rate mortgages on 32 long-term care facilities and two construction mortgages on two facilities 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 June 30, 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 the two 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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Nursing home revenues	\$ —	\$ —	\$ —	\$ —
Nursing home expenses	—	225	—	455
Loss from nursing home operations	\$ —	\$ (225)	\$ —	\$ (455)

#### NOTE 4 – CONCENTRATION OF RISK

As of June 30, 2012, our portfolio of real estate investments consisted of 437 healthcare facilities, located in 34 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 June 30, 2012, with approximately 99% of our real estate investments related to long-term care facilities. This portfolio is made up of 386 SNFs, 10 ALFs, five specialty facilities, fixed rate mortgages on 32 SNFs, and four SNFs that are held-for-sale. At June 30, 2012, we also held miscellaneous investments of approximately \$46.5 million, consisting primarily of secured loans to third-party operators of our facilities.

At June 30, 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 June 30, 2012.

For the three-month period ended June 30, 2012, our revenues from operations totaled \$83.8 million, of which approximately \$11.0 million was from CommuniCare (13%) and \$8.5 million was from Sun Healthcare (“Sun”) (10%). No other operator generated more than 9% of our revenues from operations for the three-month period ended June 30, 2012.

For the six-month period ended June 30, 2012, our revenues from operations totaled \$168.3 million, of which approximately \$21.9 million was from CommuniCare (13%) and \$17.0 million was from Sun Healthcare (“Sun”) (10%). No other operator generated more than 9% of our revenues from operations for the six-month period ended June 30, 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](http://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 July 17, 2012, the Board of Directors declared a common stock dividend of \$0.42 per share. The common dividends are to be paid August 15, 2012 to common stockholders of record on July 31, 2012.

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, which was 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, which 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 June 30, 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- and six- month periods ended June 30, 2012 and 2011, respectively:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Stock-based compensation expense	\$ 1,486	\$ 1,519	\$ 2,971	\$ 2,998

### 2011 and 2012 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 June 30, 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 June 30, 2012, none of these PRSUs are vested or earned.

The following table summarizes our total unrecognized compensation cost as of June 30, 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	\$ 4.8
2012 Annual PRSUs	124,244	\$ 9.61	1.2	12	0.6
Multi-year absolute TSR PRSUs	279,550	\$ 11.06	3.1	44	1.8
Multi-year relative TSR PRSUs	93,183	\$ 12.26	1.1	44	0.7
Total	<u>925,480</u>	<u>\$ 15.64</u>	<u>\$ 15.0</u>		<u>\$ 7.9</u>

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

## Director Restricted Stock Grants

As of June 30, 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 June 30, 2012, the unrecognized compensation cost associated with outstanding director restricted stock grants is approximately \$0.4 million.

## NOTE 8 – FINANCING ACTIVITIES AND BORROWING ARRANGEMENTS

### Secured and Unsecured Borrowings

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

	Maturity	Current Rate	June 30, 2012	December 31, 2011
(in thousands)				
Secured borrowings:				
HUD Berkadia mortgages <sup>(1)</sup>	2036 - 2040	6.61%	\$ 63,729	\$ 64,533
HUD Capital Funding mortgages	2040 - 2045	4.85%	131,982	133,061
HUD White Pine mortgages <sup>(1)</sup>	2036 - 2040	4.87%	32,406	32,813
HUD Affiliates of CFG mortgages <sup>(1)</sup>	2044	5.55%	59,222	73,203
Total secured borrowings			<u>287,339</u>	<u>303,610</u>
Unsecured borrowings:				
Revolving line of credit	2015	3.00%	\$ 2,000	\$ 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%	21,132	21,219
			<u>1,196,132</u>	<u>971,219</u>
Premium - net			4,520	4,071
Total unsecured borrowings			<u>1,202,652</u>	<u>1,247,790</u>
Totals – net			<u>\$ 1,489,991</u>	<u>\$ 1,551,400</u>

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

### Bank Credit Agreements

At June 30, 2012, we had \$2.0 million outstanding under our \$475 million unsecured revolving credit facility (the "2011 Credit Facility"), and no letters of credit outstanding, leaving availability of \$473.0 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, under certain conditions.

Interest under the 2011 Credit Facility was originally priced at LIBOR plus an applicable percentage (ranging from 225 basis points to 300 basis points) based on our consolidated leverage. As of June 30, 2012, our applicable percentage above LIBOR was 275 basis points. The 2011 Credit Facility agreement includes an alternative pricing grid for us if we achieved investment grade ratings from at least two of the following rating agencies: (i) Standard & Poor's, (ii) Moody's, and/or (iii) Fitch Ratings. In July, Fitch Ratings initiated coverage of our bonds at an investment grade, thereby achieving investment grade rating from two of the three named rating agencies. As a result, for so long as we maintain two investment grade ratings, our borrowing cost under 2011 Credit Facility will be based on this alternative pricing grid, which reduces the borrowing cost under the 2011 Credit Facility to LIBOR plus an applicable percentage ranging from 150 basis points to 210 basis points (including a facility fee). 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 June 30, 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 June 30, 2012, our subsidiaries that are not guarantors of the 2024 Notes accounted for approximately \$520 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. 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.

### **\$245 Million Equity Shelf Program**

On June 19, 2012, we entered into separate Equity Distribution Agreements (collectively, the "2012 Agreements") to sell shares of our common stock having an aggregate gross sales price of up to \$245 million (the "2012 ESP") with each of BB&T Capital Markets, a division of Scott & Stringfellow, LLC, Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, SunTrust Robinson Humphrey, Inc. and UBS Securities LLC, each as a sales agent and/or principal (collectively, the "Managers"). Under the terms of the 2012 Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to \$245 million. Sales of the shares, if any, will be made by means of ordinary brokers' transactions on the New York Stock Exchange at market prices, or as otherwise agreed with the applicable Manager. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable 2012 Agreement.

We are not obligated to sell and the Managers are not obligated to buy or sell any shares under the 2012 Agreements. No assurance can be given that we will sell any shares under the 2012 Agreements, or, if we do, as to the price or amount of shares that we sell, or the dates when such sales will take place. As of June 30, 2012, no shares were issued under the 2012 ESP.

### **Termination of \$140 Million Equity Shelf Program**

On June 19, 2012, we terminated our \$140 million Equity Shelf Program (the "2010 ESP"). For the three months ended June 30, 2012, we issued 510,000 shares of our common stock under the 2010 ESP generating gross proceeds of approximately \$10.8 million, before \$0.2 million of commissions. For the six months ended June 30, 2012, we issued approximately 759,000 shares of our common stock under the 2010 ESP at an average price per share of \$21.27, generating gross proceeds of approximately \$16.1 million, before \$0.3 million of commissions. The proceeds of the sale of our common stock were used for working capital and for general corporate purposes, including funding the recent investments described above.

Since inception of the 2010 ESP, we have sold a total of 5.3 million shares of common stock generating total gross proceeds of \$114.9 million under the program, before \$2.3 million of commissions. As a result of the termination of the 2010 ESP no additional shares will be issued under the 2010 ESP.

### **HUD Mortgage Payoffs**

On June 29, 2012, we paid approximately \$11.8 million to retire four HUD mortgages that were assumed as part of the Capital Funding Group SNF acquisition. The retirement of the four HUD mortgages resulted in a net gain of approximately \$1.7 million. The net gain included the write-off of approximately \$1.8 million related to marking the debt to market at the time of the CFG SNF acquisition as well as a prepayment fee of approximately \$0.1 million.

### **Dividend Reinvestment and Common Stock Purchase Plan**

For the six-month period ended June 30, 2012, approximately 3.2 million shares of our common stock were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$69.0 million.

## NOTE 9 – FINANCIAL INSTRUMENTS

At June 30, 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)			
<b>Assets:</b>				
Cash and cash equivalents	\$ 2,861	\$ 2,861	\$ 351	\$ 351
Restricted cash	36,479	36,479	34,112	34,112
Mortgage notes receivable – net	243,461	246,987	238,675	241,494
Other investments – net	46,475	43,820	52,957	48,903
<b>Totals</b>	<b>\$ 329,276</b>	<b>\$ 330,147</b>	<b>\$ 326,095</b>	<b>\$ 324,860</b>
<b>Liabilities:</b>				
Revolving line of credit	\$ 2,000	\$ 2,000	\$ 272,500	\$ 272,500
7.00% Notes due 2016 – net	—	—	174,376	186,398
7.50% Notes due 2020 – net	197,374	220,024	197,202	216,114
6.75% Notes due 2022 – net	582,146	623,985	582,493	582,684
5.875% Notes due 2024 – net	400,000	404,342	—	—
HUD debt	287,339	354,852	303,610	321,949
Subordinated debt	21,132	24,548	21,219	23,198
<b>Totals</b>	<b>\$ 1,489,991</b>	<b>\$ 1,629,751</b>	<b>\$ 1,551,400</b>	<b>\$ 1,602,843</b>

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 June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands, except per share amounts)			
Numerator:				
Net income	\$ 30,572	\$ 17,790	\$ 56,656	\$ 11,877
Preferred stock dividends	—	—	—	(1,691)
Preferred stock redemption	—	16	—	(3,456)
Numerator for net income available to common per share - basic and diluted	<u>\$ 30,572</u>	<u>\$ 17,806</u>	<u>\$ 56,656</u>	<u>\$ 6,730</u>
Denominator:				
Denominator for basic earnings per share	105,717	101,912	104,736	100,993
Effect of dilutive securities:				
Restricted stock	299	77	270	39
Deferred stock	17	12	17	12
Denominator for diluted earnings per share	<u>106,033</u>	<u>102,001</u>	<u>105,023</u>	<u>101,044</u>
Earnings per share – basic:				
Net income – basic	<u>\$ 0.29</u>	<u>\$ 0.17</u>	<u>\$ 0.54</u>	<u>\$ 0.07</u>
Earnings per share – diluted:				
Net income – diluted	<u>\$ 0.29</u>	<u>\$ 0.17</u>	<u>\$ 0.54</u>	<u>\$ 0.07</u>

## NOTE 12 – CONSOLIDATING FINANCIAL STATEMENTS

As of June 30, 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. On July 17, 2012, our Board of Directors approved removing the unrestricted subsidiary designation from five of the CFG subsidiaries due to the retirement of the HUD related mortgages. As of June 30, 2012, the total assets related to these “unrestricted subsidiaries” consisted approximately \$47.9 million.

For the six months ended June 30, 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 six months ended June 30, 2012 and 2011, the non-guarantor subsidiaries have not engaged in investing or financing activities other than routine principal payments on its HUD mortgage debt and the retirement of four HUD mortgages of \$13.7 million (\$11.7 million related to the retirement of four HUD mortgages) and \$1.2 million, respectively. 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)

June 30, 2012

	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination Company	Consolidated
<b>ASSETS</b>				
Real estate properties				
Land and buildings	\$ 2,070,647	\$ 490,262	\$ —	\$ 2,560,909
Less accumulated depreciation	(486,635)	(35,472)	—	(522,107)
Real estate properties – net	1,584,012	454,790	—	2,038,802
Mortgage notes receivable – net	243,461	—	—	243,461
	1,827,473	454,790	—	2,282,263
Other investments – net	46,475	—	—	46,475
	1,873,948	454,790	—	2,328,738
Assets held for sale – net	2,120	—	—	2,120
Total investments	1,876,068	454,790	—	2,330,858
Cash and cash equivalents	2,861	—	—	2,861
Restricted cash	6,615	29,864	—	36,479
Accounts receivable – net	107,507	5,335	—	112,842
Investment in affiliates	163,183	—	(163,183)	—
Other assets	38,893	29,929	—	68,822
Total assets	\$ 2,195,127	\$ 519,918	(163,183)	\$ 2,551,862
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
Revolving line of credit	\$ 2,000	\$ —	\$ —	\$ 2,000
Secured borrowings	—	287,339	—	287,339
Unsecured borrowings – net	1,179,520	21,132	—	1,200,652
Accrued expenses and other liabilities	77,932	48,264	—	126,196
Intercompany payable	—	146,629	(146,629)	—
Total liabilities	1,259,452	503,364	(146,629)	1,616,187
Stockholders' equity:				
Common stock	10,782	—	—	10,782
Common stock – additional paid-in-capital	1,558,506	—	—	1,558,506
Cumulative net earnings	690,086	16,554	(16,554)	690,086
Cumulative dividends paid	(1,323,699)	—	—	(1,323,699)
Total stockholders' equity	935,675	16,554	(16,554)	935,675
Total liabilities and stockholders' equity	\$ 2,195,127	\$ 519,918	\$ (163,183)	\$ 2,551,862

**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
<b>ASSETS</b>				
Real estate properties				
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
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
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 June 30, 2012				Six Months Ended June 30, 2012			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination	Consolidated	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination	Consolidated
<b>Revenue</b>								
Rental income	\$ 61,874	\$ 13,354	\$ -	\$ 75,228	\$ 124,496	\$ 26,707	\$ -	\$ 151,203
Mortgage interest income	7,404	-	-	7,404	14,740	-	-	14,740
Other investment income – net	1,165	-	-	1,165	2,295	-	-	2,295
Miscellaneous	28	-	-	28	102	-	-	102
<b>Total operating revenues</b>	<b>70,471</b>	<b>13,354</b>	<b>-</b>	<b>83,825</b>	<b>141,633</b>	<b>26,707</b>	<b>-</b>	<b>168,340</b>
<b>Expenses</b>								
Depreciation and amortization	21,375	5,824	-	27,199	42,764	11,582	-	54,346
General and administrative	4,837	117	-	4,954	10,243	237	-	10,480
Acquisition costs	98	-	-	98	203	-	-	203
Impairment loss on real estate properties	-	-	-	-	272	-	-	272
<b>Total operating expenses</b>	<b>26,310</b>	<b>5,941</b>	<b>-</b>	<b>32,251</b>	<b>53,482</b>	<b>11,819</b>	<b>-</b>	<b>65,301</b>
<b>Income before other income and expense</b>	<b>44,161</b>	<b>7,413</b>	<b>-</b>	<b>51,574</b>	<b>88,151</b>	<b>14,888</b>	<b>-</b>	<b>103,039</b>
<b>Other income (expense):</b>								
Interest income	-	9	-	9	-	16	-	16
Interest expense	(19,978)	(4,031)	-	(24,009)	(38,928)	(8,048)	-	(46,976)
Interest – amortization of deferred financing costs	(668)	-	-	(668)	(1,297)	-	-	(1,297)
Interest – gain (loss) on extinguishment of debt	1,698	-	-	1,698	(5,410)	-	-	(5,410)
Equity in earnings	3,391	-	(3,391)	-	6,856	-	(6,856)	-
<b>Total other expense</b>	<b>(15,557)</b>	<b>(4,022)</b>	<b>(3,391)</b>	<b>(22,970)</b>	<b>(38,779)</b>	<b>(8,032)</b>	<b>(6,856)</b>	<b>(53,667)</b>
<b>Income before gain on assets sold</b>	<b>28,604</b>	<b>3,391</b>	<b>(3,391)</b>	<b>28,604</b>	<b>49,372</b>	<b>6,856</b>	<b>(6,856)</b>	<b>49,372</b>
Gain on assets sold – net	1,968	-	-	1,968	7,284	-	-	7,284
<b>Net income available to common stockholders</b>	<b>\$ 30,572</b>	<b>\$ 3,391</b>	<b>\$ (3,391)</b>	<b>\$ 30,572</b>	<b>\$ 56,656</b>	<b>\$ 6,856</b>	<b>\$ (6,856)</b>	<b>\$ 56,656</b>



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

	Three Months Ended June 30, 2011				Six Months Ended June 30, 2011			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination	Consolidated	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination	Consolidated
<b>Revenue</b>								
Rental income	\$ 60,113	\$ 8,374	\$ -	\$ 68,487	\$ 117,956	\$ 16,868	\$ -	\$ 134,824
Mortgage interest income	3,433	-	-	3,433	6,931	-	-	6,931
Other investment income – net	617	-	-	617	1,258	-	-	1,258
Miscellaneous	69	-	-	69	69	-	-	69
<b>Total operating revenues</b>	<b>64,232</b>	<b>8,374</b>	<b>-</b>	<b>72,606</b>	<b>126,214</b>	<b>16,868</b>	<b>-</b>	<b>143,082</b>
<b>Expenses</b>								
Depreciation and amortization	20,888	3,871	-	24,759	42,421	7,556	-	49,977
General and administrative	4,852	78	-	4,930	9,995	161	-	10,156
Acquisition costs	-	-	-	-	45	-	-	45
Impairment loss on real estate properties	-	-	-	-	24,971	-	-	24,971
Provisions for uncollectible accounts receivable	4,139	-	-	4,139	4,139	-	-	4,139
Nursing home expenses of owned and operated assets	225	-	-	225	455	-	-	455
<b>Total operating expenses</b>	<b>30,104</b>	<b>3,949</b>	<b>-</b>	<b>34,053</b>	<b>82,026</b>	<b>7,717</b>	<b>-</b>	<b>89,743</b>
<b>Income before other income and expense</b>	<b>34,128</b>	<b>4,425</b>	<b>-</b>	<b>38,553</b>	<b>44,188</b>	<b>9,151</b>	<b>-</b>	<b>53,339</b>
<b>Other income (expense):</b>								
Interest income	5	7	-	12	9	14	-	23
Interest expense	(17,340)	(2,732)	-	(20,072)	(34,548)	(5,524)	-	(40,072)
Interest – amortization of deferred financing costs	(703)	-	-	(703)	(1,397)	-	-	(1,397)
Interest – gain (loss) on extinguishment of debt	-	-	-	-	(16)	-	-	(16)
Equity in earnings	1,700	-	(1,700)	-	3,641	-	(3,641)	-
<b>Total other expense</b>	<b>(16,338)</b>	<b>(2,725)</b>	<b>(1,700)</b>	<b>(20,763)</b>	<b>(32,311)</b>	<b>(5,510)</b>	<b>(3,641)</b>	<b>(41,462)</b>
<b>Net income</b>	<b>17,790</b>	<b>1,700</b>	<b>(1,700)</b>	<b>17,790</b>	<b>11,877</b>	<b>3,641</b>	<b>(3,641)</b>	<b>11,877</b>
Preferred stock dividends	-	-	-	-	(1,691)	-	-	(1,691)
Preferred stock redemption	16	-	-	16	(3,456)	-	-	(3,456)
<b>Net income available to common</b>	<b>\$ 17,806</b>	<b>\$ 1,700</b>	<b>\$ (1,700)</b>	<b>\$ 17,806</b>	<b>\$ 6,730</b>	<b>\$ 3,641</b>	<b>\$ (3,641)</b>	<b>\$ 6,730</b>

## 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, in Part II, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2012 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 June 30, 2012, consisted of 437 healthcare facilities (including four facilities classified as held for sale), located in 34 states and operated by 47 third-party operators. Our gross investment in these facilities totaled approximately \$2.8 billion at June 30, 2012, with 99% of our real estate investments related to long-term healthcare facilities. This portfolio is made up of (i) 386 SNFs, (ii) 10 assisted living facilities (“ALFs”), (iii) five specialty facilities, (iv) fixed rate mortgages on 32 SNFs and (v) four SNFs that are held for sale. At June 30, 2012, we also held other investments of approximately \$46.5 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 in 2008 to temporarily 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, challenged the constitutionality of certain provisions of the Healthcare Reform Law, including the requirement that each individual carry health insurance. On June 28, 2012, the U.S. Supreme Court upheld all of the Healthcare Reform Law except for the requirement that states expand Medicaid beginning in 2014. However, various Congressional leaders have indicated a desire to revisit some or all of the Healthcare Reform Law and the U.S. House of Representatives voted to repeal the Healthcare Reform Law following the Supreme Court's decision. While the U.S. Senate voted against repealing the entire Healthcare Reform Law prior to the Supreme Court's decision, 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. Despite the Supreme Court striking down the requirement that states expand their Medicaid programs, states still have the option to expand, which could result in increased Medicaid enrollment. 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.

On a quarterly basis, we review our accounts receivable as well as our straight-line rents receivable and lease inducement assets to determine their collectability. The determination of collectability of these assets requires significant judgment and is affected by several factors relating to the credit quality of our operators that we regularly monitor, including (i) payment history, (ii) the age of the contractual receivables, (iii) the current economic conditions and reimbursement environment, (iv) the ability of the tenant to perform under the terms of their lease and/or contractual loan agreements and (v) the value of the underlying collateral of the agreement. If we determine collectability of any of our contractual receivables is at risk, we estimate the potential uncollectible amounts and provide an allowance. 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 and/or the lease inducements when certain conditions or indicators of adverse collectability are present.

### **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 June 30, 2012 and 2011**

#### *Operating Revenues*

Our operating revenues for the three months ended June 30, 2012, totaled \$83.8 million, an increase of \$11.2 million over the same period in 2011. The \$11.2 million increase was primarily the result of additional rental income due to (i) new acquisitions in the fourth quarter of 2011, (ii) additional mortgage interest income primarily due to (a) the \$92.0 million mortgage loan that we entered into with Ciena in November 2011 and (b) the \$25.0 million mortgage loan that we entered into with White Pine in October 2011, (iii) lease amendments and extensions with existing operators and (iv) and additional other investment income primarily due to the December 2011 \$28.0 million note with Signature.

#### *Operating Expenses*

Operating expenses for the three months ended June 30, 2012, totaled \$32.3 million, a decrease of approximately \$1.8 million over the same period in 2011. The decrease was primarily due to (i) a decrease of \$4.1 million provision for uncollectible accounts associated with FC/SCH Capital, LLC's ("FC/SCH") straight-line receivables and lease inducements and (ii) a decrease of \$0.2 million related to expense related to our owned and operated assets, offset by an increase of \$2.4 million of depreciation and amortization due to fourth quarter 2011 acquisitions of affiliates of CFG and White Pine.

#### *Other Income (Expense)*

For the three months ended June 30, 2012, total other expenses were \$23.0 million, an increase of approximately \$2.2 million over the same period in 2011. The increase in interest expense of approximately \$3.9 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, offset by a \$1.7 million write-off of the fair market value adjustment related to the four HUD loans that were paid off during the second quarter of 2012.

### **Six Months Ended June 30, 2012 and 2011**

#### *Operating Revenues*

Our operating revenues for the six months ended June 30, 2012, totaled \$168.3 million, an increase of \$25.3 million over the same period in 2011. The \$25.3 million increase was primarily the result of additional rental income due to (i) new acquisitions in the fourth quarter of 2011; (ii) lease amendments and extensions, (iii) the transition of FC/SCH facilities to the new operator, (iv) additional mortgage interest income primarily due to (a) the \$92.0 million mortgage loan that we entered into with Ciena in November 2011 and (b) new \$25.0 million mortgage loan that we entered into with White Pine in October 2011 and (v) additional other investment income primarily due to the December 2011 \$28.0 million note with Signature.

#### *Operating Expenses*

Operating expenses for the six months ended June 30, 2012, totaled \$65.3 million, a decrease of approximately \$24.4 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); (ii) a decrease of \$4.1 million provision for uncollectible accounts associated with FC/SCH's straight-line receivables and lease inducements and (iii) a decrease of \$0.5 million related to expense related to our owned and operated assets, offset by an increase of \$4.4 million of depreciation and amortization due to the fourth quarter 2011 acquisition of affiliates of CFG and White Pine.



### *Other Income (Expense)*

For the six months ended June 30, 2012, total other expenses were \$53.7 million, an increase of approximately \$12.2 million over the same period in 2011. The increase in interest expense of approximately \$6.9 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 \$7.1 million in interest refinancing cost including prepayment penalties of approximately \$4.5 million, write-off of deferred costs of \$2.2 million and \$0.4 million of expenses associated with the tender offer and redemption of our outstanding \$175 million 7% 2016 Notes. This was partially offset by a \$1.7 million write-off of the fair market value adjustments related to the four HUD loans that were paid off early during the second quarter of 2012.

### **Funds From Operations**

Our funds from operations available to common stockholders ("FFO"), for the three months ended June 30, 2012, was \$55.8 million, compared to \$42.6 million, for the same period in 2011. Our funds from operations available to common stockholders ("FFO"), for the six months ended June 30, 2012, was \$104.0 million, compared to \$81.7 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- and six- months ended June 30, 2012 and 2011:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in thousands)			
Net income available to common stockholders	\$ 30,572	\$ 17,806	\$ 56,656	\$ 6,730
Deduct gain from real estate dispositions	(1,968)	—	(7,284)	—
Sub-total	28,604	17,806	49,372	6,730
Elimination of non-cash items included in net income:				
Depreciation and amortization	27,199	24,759	54,346	49,977
Add back impairments on real estate properties	—	—	272	24,971
Funds from operations available to common stockholders	<u>\$ 55,803</u>	<u>\$ 42,565</u>	<u>\$ 103,990</u>	<u>\$ 81,678</u>

## Portfolio and Recent Developments

### 2012 Acquisitions

#### *Health and Hospital Corporation*

On June 29, 2012, we purchased four facilities encompassing 383 licensed beds in Indiana for approximately \$21.7 million and leased the facilities to an existing operator. We are awaiting information necessary to complete the process of allocating the fair value of the assets purchased. We believe that the final allocation will consist of land, building and furniture and equipment.

#### *Mark Ide Limited Liability Company*

On June 29, 2012, we purchased one facility encompassing 80 licensed beds in Indiana for approximately \$3.4 million and leased the facility to an existing operator. We are awaiting information necessary to complete the process of allocating the fair value of the assets purchased. We believe that the final allocation will consist of land, building and furniture and equipment.

### 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 was 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 recorded 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. On June 29, 2012, we retired four mortgage notes and wrote-off the unamortized fair value adjustment associated with the mortgages. We did not record 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, 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 recorded 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 did not record 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.
- On April 2, 2012, we sold a held-for-sale SNF in Arkansas for approximately \$1.7 million. No gain or loss was recognized in this transaction.

- On May 18, 2012, we sold a held-for-sale SNF in Alabama for \$4.5 million resulting in a gain of approximately \$0.4 million.
- On June 15, 2012, we sold a held-for-sale SNF in Connecticut for \$1.8 million resulting in a gain of approximately \$1.6 million.

#### *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 June 30, 2012, we had four SNFs and one parcel of land classified as held-for-sale with an aggregate net book value of approximately \$2.1 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 us 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 six months ended June 30, 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). See "Assets Sold or Held for Sale" above for more detail.

#### *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 June 30, 2012, we had total assets of \$2.6 billion, stockholders' equity of \$0.9 billion and debt of \$1.5 billion, representing approximately 61.4% of total capitalization.

The following table shows the amounts due in connection with the contractual obligations described below as of June 30, 2012.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Debt <sup>(1)</sup>	\$ 1,462,884	\$ 4,011	\$ 8,693	\$ 11,673	\$ 1,438,507
Interest payments on long-term debt	1,086,042	93,173	185,936	184,844	622,089
Operating lease obligations <sup>(2)</sup>	2,248	308	641	677	622
Total	\$ 2,551,174	\$ 97,492	\$ 195,270	\$ 197,194	\$ 2,061,218

(1) The \$1.5 billion of debt outstanding includes \$2.0 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, \$125 million of HUD Debt at a 4.85% annual interest rate and maturing between January 2040 and January 2045, \$59 million of HUD debt at a 5.55% weighted average annual interest rate maturing in 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 June 30, 2012, we had \$2.0 million outstanding under our \$475 million unsecured revolving credit facility (the "2011 Credit Facility"), and no letters of credit outstanding, leaving availability of \$473.0 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, under certain conditions.

Interest under the 2011 Credit Facility was originally priced at LIBOR plus an applicable percentage (ranging from 225 basis points to 300 basis points) based on our consolidated leverage. As of June 30, 2012, our applicable percentage above LIBOR was 275 basis points. The 2011 Credit Facility agreement includes an alternative pricing grid for us if we achieve investment grade ratings from at least two of the following rating agencies: (i) Standard & Poor's, (ii) Moody's, and/or (iii) Fitch Ratings. In July, Fitch Ratings initiated coverage of our bonds at an investment grade, thereby achieving investment grade rating from two of the three named rating agencies. As a result, for so long as we maintain two investment grade ratings, our borrowing under the 2011 Credit Facility will be based on this alternative pricing grid, which reduces the borrowing cost under the 2011 Credit Facility to LIBOR plus an applicable percentage ranging from 150 basis points to 210 basis points (including a facility fee). 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 June 30, 2012, we were in compliance with all affirmative and negative covenants, including financial covenants.

#### **\$245 Million Equity Shelf Program**

On June 19, 2012, we entered into separate Equity Distribution Agreements (collectively, the "2012 Agreements") to sell shares of our common stock having an aggregate gross sales price of up to \$245 million (the "2012 ESP") with each of BB&T Capital Markets, a division of Scott & Stringfellow, LLC, Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, SunTrust Robinson Humphrey, Inc. and UBS Securities LLC, each as a sales agent and/or principal (collectively, the "Managers"). Under the terms of the 2012 Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to \$245 million. Sales of the shares, if any, will be made by means of ordinary brokers' transactions on the New York Stock Exchange at market prices, or as otherwise agreed with the applicable Manager. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable 2012 Agreement.

We are not obligated to sell and the Managers are not obligated to buy or sell any shares under the 2012 Agreements. No assurance can be given that we will sell any shares under the 2012 Agreements, or, if we do, as to the price or amount of shares that we sell, or the dates when such sales will take place. As of June 30, 2012, no shares were issued under the 2012 ESP.

#### **Termination of \$140 Million Equity Shelf Program**

On June 19, 2012, we terminated our \$140 million Equity Shelf Program (the "2010 ESP"). For the three months ended June 30, 2012, we issued 510,000 shares of our common stock under the 2010 ESP generating gross proceeds of approximately \$10.8 million, before \$0.2 million of commissions. For the six months ended June 30, 2012, we issued approximately 759,000 shares of our common stock under the 2010 ESP at an average price per share of \$21.27, generating gross proceeds of approximately \$16.1 million, before \$0.3 million of commissions. The proceeds of the sale of our common stock were used for working capital and for general corporate purposes, including funding the recent investments described above.

Since inception of the 2010 ESP, we have sold a total of 5.3 million shares of common stock generating total gross proceeds of \$114.9 million under the program, before \$2.3 million of commissions. As a result of the termination of the 2010 ESP, no additional shares will be issued under the 2010 ESP.

#### **HUD Mortgage Payoffs**

On June 29, 2012, we paid approximately \$11.8 million to retire four HUD mortgages that were assumed as part of the Capital Funding Group SNF acquisition. The retirement of the four HUD mortgages resulted in a net gain of approximately \$1.7 million. The net gain included the write-off of approximately \$1.8 million related to marking the debt to market at the time of CFG SNF acquisition as well as a prepayment fee of approximately \$0.1 million.

### **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 2011 Credit Facility. As of June 30, 2012, our subsidiaries that are not guarantors of the 2024 Notes accounted for approximately \$520 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. 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 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.

### **Dividend Reinvestment and Common Stock Purchase Plan**

For the six-month period ended June 30, 2012, approximately 3.2 million shares of our common stock were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$69.0 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- and six- months ended June 30, 2012, we paid total dividends of \$44.4 million and \$87.0 million, respectively.

On July 17, 2012, the Board of Directors declared a common stock dividend of \$0.42 per share. The common dividends are to be paid August 15, 2012 to common stockholders of record on July 31, 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 \$2.9 million as of June 30, 2012, an increase of \$2.5 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 \$94.4 million for the six months ended June 30, 2012, as compared to \$77.2 million for the same period in 2011, an increase of \$17.3 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 outflow of \$17.4 million for the six months ended June 30, 2012, as compared to an outflow of \$13.3 million for the same period in 2011. The \$4.0 million increase in cash outflow from investing activities relates primarily to (i) a \$1.9 million purchase of land in the first quarter of 2012 and a \$25.1 million purchase of five SNFs in the second quarter of 2012 and (ii) an additional \$6.1 million investment in capital improvement projects compared to the same period in 2011. Offsetting these increases were: (i) \$22.0 million in proceeds from the sale of real estate in 2012 and (ii) an increase in net proceeds of \$7.0 million from other investments – net compared to the same period in 2011.

*Financing Activities* – Net cash flow from financing activities was an outflow of \$74.6 million for the six months ended June 30, 2012 as compared to an outflow of \$65.7 million for the same period in 2011. The \$8.8 million increase in cash outflow from financing activities was primarily a result of: (i) a net payment of \$270.5 million on the 2011 Credit Facility for the first six months of 2012 compared to \$53.0 million of net proceeds for the same period in 2011; (ii) \$188.7 million in payments including (a) \$175.0 million tender offer and redemption payments for our outstanding \$175 million 2016 Notes, (b) \$11.7 million early retirement of four HUD mortgages and (c) \$2.0 million in routine HUD debt principal payments for the first six months of 2012 as compared to \$1.2 million for the same period in 2011; (iii) payment of \$12.9 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, (b) the issuance of our \$400 million 5.875% Senior Notes due 2024 and (c) a prepayment penalty related to the early retirement of four HUD mortgages; and (iv) an increase in dividend payments of \$8.0 million during the first six months of 2012 due to an increase in number of shares outstanding and an increase of \$0.08 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) an increase in net proceeds of \$28.4 million from our dividend reinvestment plan in the first six months of 2012 compared to the same period in 2011; (iii) a decrease in net proceeds of \$15.8 million from our common stock issued through our Equity Shelf Program during the first six months 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 June 30, 2012, the total amount of debt outstanding on the 2011 Credit Facility was \$2.0 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 June 30, 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 June 30, 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 Part I, 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, as supplemented in Part II, Item 1A to our Quarterly Report on Form 10-Q for the three months ended March 31, 2012. We have not experienced any material changes from the risk factors previously described therein.

### **Item 5 – Other Information**

On July 20, 2012, the Board of Directors amended the Company's Corporate Governance Guidelines to establish a director retirement policy. Effective July 20, 2012, it is the policy of the Board that after reaching 75 years of age, directors shall not stand for re-election and thereafter shall retire from the Board upon the completion of the term of office to which they were elected. On the recommendation of the Nominating and Corporate Governance Committee, the Board may waive this requirement as to any director if it deems such waiver to be in the best interests of the Company.

On July 20, 2012 the Compensation Committee recommended, and the Board of Directors approved, changes to our standard compensation for directors effective as of January 1, 2012. Effective as of January 1, 2012, our non-employee directors are entitled to receive (i) an annual cash retainer of \$37,500 payable in quarterly installments of \$9,375; (ii) a quarterly grant of shares of common stock equal to the number of shares determined by dividing the sum of \$12,500 by the fair market value of the common stock on the date of each quarterly grant, currently set at February 15, May 15, August 15 and November 15; and (iii) an annual grant of 3,000 shares of restricted stock, with an additional 500 restricted shares granted to the Chairman of the Board annually. In addition, the Chairman of the Board receives an additional annual cash payment of \$39,500, the Chairman of the Audit Committee receives an additional annual cash payment \$17,500, the Chairman of the Compensation Committee receives an additional annual cash payment of \$12,000 and all other committee chairmen additional receive annual cash payments of \$10,000 per committee chaired.

We also pay each non-employee director a fee of \$1,500 per meeting for attendance at each regularly scheduled or special meeting of the Board of Directors or committee of the Board of Directors, whether in person or telephonic. Non-employee director restricted stock vests in three annual installments over the three years following the date of the grant subject to the director's continuing service on each vesting date, and vests 100% in the case of the director's death, disability, mandatory retirement in accordance with the Company's mandatory retirement policy for directors, or change in control of the Company. The annual restricted stock grants to non-employee directors were made in January of each year through 2012, and will be made as of the date of the annual meeting commencing in 2013. Employee directors receive no compensation for service as directors.

Item 6 – Exhibits

Exhibit No.	
1.1	Form of Equity Distribution Agreement, dated June 19, 2012, entered into by and between Omega Healthcare Investors, Inc. and each of BB&T Capital Markets, a division of Scott & Stringfellow, LLC, Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, SunTrust Robinson Humphrey, Inc. and UBS Securities LLC. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K, filed on June 20, 2012).
10.1	Form of Director Restricted Stock Award Agreement for Director Restricted Stock as of 2012.+*
10.2	Form of Amendment to Director Restricted Stock Award for Outstanding Restricted Stock Award Agreements.+*
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.**

\* Exhibits that are filed herewith.

+ Management contract or compensatory plan, contract or arrangement.

\*\*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: August 7, 2012

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

Date: August 7, 2012

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

**DIRECTOR'S  
RESTRICTED STOCK AWARD  
PURSUANT TO THE OMEGA HEALTHCARE INVESTORS, INC.  
2004 STOCK INCENTIVE PLAN**

THIS AWARD is made as of the Grant Date, by Omega Healthcare Investors, Inc. (the "Company") to \_\_\_\_\_ (the "Recipient").

Upon and subject to the Terms and Conditions attached hereto and incorporated herein by reference as part of this Award, the Company hereby awards as of the Grant Date to the Recipient the Restricted Shares (the "Restricted Stock Grant").

- A. Grant Date: \_\_\_\_\_, 201\_.
- B. Plan: (under which Restricted Stock Grant is granted): Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan.
- C. Restricted Shares: \_\_\_\_\_ shares of the Company's common stock ("Common Stock"), subject to adjustment as provided in the attached Terms and Conditions.
- D. Vesting Schedule: The Restricted Shares shall vest according to the Vesting Schedule attached hereto as Exhibit 1 (the "Vesting Schedule"). The Restricted Shares which have become vested pursuant to the Vesting Schedule are herein referred to as the "Vested Restricted Shares."

IN WITNESS WHEREOF, the Company has executed this Award as of the Grant Date set forth above.

OMEGA HEALTHCARE INVESTORS, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

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**TERMS AND CONDITIONS TO THE  
RESTRICTED STOCK AGREEMENT  
PURSUANT TO THE OMEGA HEALTHCARE INVESTORS, INC.  
2004 STOCK INCENTIVE PLAN**

1 . Restricted Shares. The Company shall cause the Restricted Shares to be issued in book-entry form in the name of the Recipient with appropriate notations and stop-transfer instructions reflecting the applicable restrictions in this Agreement. When any portion of the Restricted Shares become Vested Restricted Shares, the Company shall cause the notations regarding the restrictions and stop-transfer instructions as to such portion to be removed. In the event that the Recipient forfeits any of the Restricted Shares, those shares shall automatically be transferred to the Company, without any action by the Recipient, and if the number of Vested Restricted Shares includes a fraction of a share, the Company shall cancel the fractional share, and the Company may pay the Recipient the amount determined by the Company to be the estimated fair market value therefor. In the event of a transaction pursuant to Section 6, the Recipient agrees that any shares of Common Stock or other securities or property issued as a result of any of the foregoing shall be subject to all of the provisions of this Award as if initially granted thereunder.

2 . Rights of a Shareholder. During the period before the Restricted Shares vest and as long as they are not forfeited, the Recipient shall be entitled to all rights applicable to shares of Common Stock not so restricted, except as otherwise provided in the Award, including the right to receive dividends paid on Common Stock notwithstanding that all or some of the Restricted Shares may not be Vested Restricted Shares.

3 . Withholding. This Section shall not apply if the Recipient is not and has not been an employee of the Company or an Affiliate. To the extent required by law, the Company shall have the right to require the Recipient to remit to the Company an amount sufficient to satisfy any federal, state and local withholding tax requirement, if any, upon the earlier of the vesting of the Restricted Shares or the effective date of an election pursuant to Section 83(b) of the Internal Revenue Code with respect to such Restricted Shares. The Recipient must pay the withholding tax (i) in cash; (ii) by certified check; or (iii) by tendering shares of Common Stock which have been owned by the Recipient prior to the date of exercise having a Fair Market Value equal to the withholding obligation.

4 . Restrictions on Transfer of Restricted Shares. Except for the transfer of any Restricted Shares by bequest or inheritance, the Recipient shall not have the right to make or permit to exist any transfer or hypothecation, whether outright or as security, with or without consideration, voluntary or involuntary, of all or any part of any right, title or interest in or to any unvested Restricted Shares. Any such disposition not made in accordance with this Award shall be deemed null and void. Any permitted transferee under this Section shall be bound by the terms of this Award.

5. Additional Restrictions on Transfer.

If for any reason the Restricted Share shall be represented in certificated form prior to becoming Vested Restricted Shares, the certificates evidencing the Restricted Shares shall bear a notation required under applicable securities laws or otherwise determined by the Company to be appropriate, such as:

TRANSFER IS RESTRICTED

THE SECURITIES EVIDENCED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND FORFEITURE PROVISIONS WHICH ALSO APPLY TO THE TRANSFEREE AS SET FORTH IN A RESTRICTED STOCK AGREEMENT DATED \_\_\_\_\_, 201\_, A COPY OF WHICH IS AVAILABLE FROM THE COMPANY. THE SECURITIES EVIDENCED BY THIS CERTIFICATE MAY NOT BE SOLD, TRANSFERRED, ASSIGNED, OR HYPOTHECATED UNLESS (1) THERE IS AN EFFECTIVE REGISTRATION UNDER SUCH ACT COVERING SUCH SECURITIES, (2) THE TRANSFER IS MADE IN COMPLIANCE WITH RULE 144 PROMULGATED UNDER SUCH ACT, OR (3) THE ISSUER RECEIVES AN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY, STATING THAT SUCH SALE, TRANSFER, ASSIGNMENT OR HYPOTHECATION IS EXEMPT FROM THE REGISTRATION REQUIREMENTS OF SUCH ACT.

6. Change in Capitalization.

(a) The number and kind of unvested Restricted Shares shall be proportionately adjusted for nonreciprocal transactions between the Company and the holders of Common Stock that cause the per share value of the Restricted Shares to change, such as a stock dividend, stock split, spinoff, or rights offering (each an "Equity Restructuring"). No fractional shares shall be issued in making such adjustment.

(b) In the event of a merger, consolidation, extraordinary dividend, sale of substantially all of the Company's assets or other material change in the capital structure of the Company, or a tender offer for shares of Common Stock, or other reorganization of the Company, in each case that does not result in an Equity Restructuring or a Change in Control, the Compensation Committee shall take such action to make such adjustments with respect to the unvested Restricted Shares, in its sole discretion, determines in good faith is necessary or appropriate, including, without limitation, adjusting the number and class of securities subject to the unvested portion of the Award, substituting cash, other securities, or other property to replace the unvested portion of the Award, or removing of restrictions on unvested Restricted Shares.

(c) All determinations and adjustments made by the Compensation Committee pursuant to this Section will be final and binding on the Recipient. Any action taken by the Compensation Committee need not treat all recipients of awards under the Plan equally.



(d) The existence of the Plan and the Restricted Stock Grant shall not affect the right or power of the Company to make or authorize any adjustment, reclassification, reorganization or other change in its capital or business structure, any merger or consolidation of the Company, any issue of debt or equity securities having preferences or priorities as to the Common Stock or the rights thereof, the dissolution or liquidation of the Company, any sale or transfer of all or part of its business or assets, or any other corporate act or proceeding.

7 . Governing Laws. This Award shall be construed, administered and enforced according to the laws of the State of Maryland; provided, however, no Restricted Shares shall be issued except, in the reasonable judgment of the Compensation Committee, in compliance with exemptions under applicable state securities laws of the state in which Recipient resides, and/or any other applicable securities laws.

8 . Successors. This Award shall be binding upon and inure to the benefit of the heirs, legal representatives, successors, and permitted assigns of the parties.

9 . Notice. Except as otherwise specified herein, all notices and other communications under this Award shall be in writing and shall be deemed to have been given if personally delivered or if sent by registered or certified United States mail, return receipt requested, postage prepaid, addressed to the proposed recipient at the last known address of the recipient. Any party may designate any other address to which notices shall be sent by giving notice of the address to the other parties in the same manner as provided herein.

10 . Severability. In the event that any one or more of the provisions or portion thereof contained in this Award shall for any reason be held to be invalid, illegal, or unenforceable in any respect, the same shall not invalidate or otherwise affect any other provisions of this Award, and this Award shall be construed as if the invalid, illegal or unenforceable provision or portion thereof had never been contained herein.

11 . Entire Agreement. Subject to the terms and conditions of the Plan, this Award expresses the entire understanding and agreement of the parties with respect to the subject matter.

12 . Headings and Capitalized Terms. Paragraph headings used herein are for convenience of reference only and shall not be considered in construing this Award. Capitalized terms used, but not defined, in this Award shall be given the meaning ascribed to them in the Plan.

13 . Specific Performance. In the event of any actual or threatened default in, or breach of, any of the terms, conditions and provisions of this Award, the party or parties who are thereby aggrieved shall have the right to specific performance and injunction in addition to any and all other rights and remedies at law or in equity, and all such rights and remedies shall be cumulative.

14 . No Right to Continued Retention. Neither the establishment of the Plan nor the award of Restricted Shares hereunder shall be construed as giving Recipient the right to continued service with the Company or an Affiliate.

**Exhibit 1 to Restricted Stock Agreement**  
**Vesting Schedule**

The Restricted Shares shall become vested as follows:

<u>Percentage of Vested Restricted Shares</u>	<u>Vesting Date</u>
33-1/3%	First Anniversary of Grant Date
66-2/3%	Second Anniversary of Grant Date
100%	Third Anniversary of Grant Date

For purposes of the above schedule, the Restricted Shares shall become vested as indicated in the above schedule on each Vesting Date if the Recipient remains at all times a director, employee, or consultant of the Company or an Affiliate from the Grant Date to such Vesting Date. Restricted Shares which are not vested shall become fully vested (1) at the date the Recipient mandatorily retires as a director of the Company, (2) at the date that the Recipient ceases to be a director, employee, or consultant of the Company due to death or Disability, or (3) upon a Change in Control that occurs while the Recipient remains a director, employee, or consultant of the Company or an Affiliate. The Recipient will be deemed to have mandatorily retired as a director of the Company only if (i) the Recipient reaches the mandatory retirement date under the Company's mandatory retirement policy for directors, unless the Board waives the application of the mandatory retirement policy to the Recipient, and (ii) the Recipient ceases to be a director of the Company on such mandatory retirement date. Notwithstanding the foregoing, Restricted Shares which are not vested at the time that the Recipient ceases to be a director, employee, or consultant of the Company or an Affiliate for any reason other than mandatory retirement as a director, death or Disability shall be forfeited to the Company.

For purposes of the above schedule, "Change in Control" means any one of the following events which occurs following the Grant Date:

- (a) the acquisition, directly or indirectly, by any "person" or "persons" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended), other than the Company or any employee benefit plan of the Company or an Affiliate, or any corporation pursuant to a reorganization, merger or consolidation, of equity securities of the Company, resulting in such person or persons holding equity securities of the Company that in the aggregate represent thirty percent (30%) or more of the combined ordinary voting power of the Company's then outstanding equity securities;
- (b) individuals who as of the date hereof, constitute the Board of Directors (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board of Directors; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board of Directors;

(c) a reorganization, merger or consolidation, with respect to which persons who were the holders of equity securities of the Company immediately prior to such reorganization, merger or consolidation do not, immediately thereafter, own equity securities of the surviving entity representing more than fifty percent (50%) of the combined ordinary voting power of the then outstanding voting securities of the surviving entity; or

(d) a sale, or one or more sales occurring in a twelve-month period, of all or substantially all of the assets of the Company to any third party.

Notwithstanding the foregoing, no Change in Control shall be deemed to have occurred for purposes of this Award by reason of any actions or events in which the Recipient participates in a capacity other than in his capacity as an officer, employee, or director of the Company or an Affiliate.

**AMENDMENT TO RESTRICTED STOCK AWARD  
OR DEFERRED RESTRICTED STOCK AGREEMENT  
PURSUANT TO  
THE OMEGA HEALTHCARE INVESTORS, INC. 2004 STOCK INCENTIVE PLAN**

This Amendment (this "Amendment") is made by Omega Healthcare Investors, Inc. (the "Company") effective July 20, 2012 (the "Effective Date").

INTRODUCTION

\_\_\_\_\_ (the "Recipient") is a director of the Company and has outstanding restricted stock awards subject to vesting under Restricted Stock Award agreements dated January 2010, January 2011 and January 2012 pursuant to the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan or deferred restricted stock awards subject to vesting under a Deferred Restricted Stock Agreement relating to stock units granted January 2010, January 2011, and January 2012 pursuant to the Omega Healthcare Investors, Inc. Deferred Stock Plan and the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan (the "Agreements"). As of the Effective Date, the Company has adopted a mandatory retirement policy for directors and in connection therewith the Company has determined that each director's unvested restricted stock grants and unvested stock unit grants will become vested upon the mandatory retirement of the director. The Company desires to amend the Agreements to reflect this determination.

NOW, THEREFORE, Exhibit 1, the Vesting Schedule, to each Agreement is amended as follows:

"Notwithstanding any other provision hereof, Restricted Shares or Stock Units which are not vested shall become fully vested at the date the Recipient mandatorily retires as a director of the Company. The Recipient will be deemed to have mandatorily retired as a director of the Company only if (i) the Recipient reaches the mandatory retirement date under the Company's mandatory retirement policy for directors, unless the Board waives the application of the mandatory retirement policy to the Recipient, and (ii) the Recipient ceases to be a director of the Company on such mandatory retirement date."

Capitalized terms that are not defined in this Amendment shall have the meaning specified in the Agreements.

Except as specifically amended hereby, the Agreements shall remain in full force and effect as prior to this Amendment.

IN WITNESS WHEREOF, the Company has executed this Amendment as of the Effective Date.

OMEGA HEALTHCARE INVESTORS, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

**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: August 7, 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: August 7, 2012

/S/ ROBERT O.  
STEPHENSON  
\_\_\_\_\_  
Robert O. Stephenson  
Chief Financial 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 June 30, 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: August 7, 2012

/S/ ROBERT O.  
STEPHENSON

Robert O. Stephenson  
Chief Financial Officer