

# OMEGA HEALTHCARE INVESTORS INC

## FORM 10-K (Annual Report)

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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2000.

**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 or Other Jurisdiction  
of Incorporation or Organization)

38-3041398  
(I.R.S. Employer Identification No.)

900 Victors Way, Suite 350  
Ann Arbor, Michigan  
(Address of Principal Executive  
Offices)

48108  
(Zip Code)

Registrant's telephone number, including area code: 734-887-0200

### Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class -----	Name of Exchange on Which Registered -----
Common Stock, \$.10 Par Value	New York Stock Exchange
8.5% Convertible Debentures, Due 2001	New York Stock Exchange
9.25% Series A Preferred Stock, \$1 Par Value	New York Stock Exchange

### 8.625% Series B Preferred Stock, \$1 Par Value New York Stock Exchange

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

None

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 and 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock of the registrant held by non-affiliates was \$44,811,746 based on the \$2.30 closing price per share for such stock on the New York Stock Exchange on February 28, 2001.

As of February 28, 2001 there were 19,987,552 shares of common stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

The Registrant's definitive Proxy Statement, which will be filed with the Commission on or before April 30, 2001, is incorporated by reference in Part III of this Form 10-K.

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TABLE OF CONTENTS

PART 1

	PAGE
Item 1. Business of the Company .....	1
Overview .....	1
Summary Financial Information .....	2
Description of the Business .....	2
Executive Officers of the Company .....	7
Item 2. Properties .....	9
Item 3. Legal Proceedings .....	11
Item 4. Submission of Matters to a Vote of Security Holders .....	11

PART II

Item 5. Market for the Registrant's Common Equity and Related Shareholder Matters .....	11
Item 6. Selected Financial Data .....	12
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations .....	13
Overview .....	13
Results of Operations .....	14
Recent Developments .....	17
Liquidity and Capital Resources .....	17
Item 7A. Quantitative and Qualitative Disclosures About Market Risk .....	18
Item 8. Financial Statements and Supplementary Data .....	19
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure .....	19

PART III

Item 10. Directors and Executive Officers of the Registrant .....	19
Item 11. Executive Compensation .....	19
Item 12. Security Ownership of Certain Beneficial Owners and Management .....	19
Item 13. Certain Relationships and Related Transactions .....	19

PART IV

Item 14. Exhibits, Financial Statements, Financial Statement Schedules and Reports on Form 8-K .....	20
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## PART I

### Item 1 -- Business of the Company

#### Overview

Omega Healthcare Investors, Inc. (the "Company") was incorporated in the state of Maryland on March 31, 1992. It is a self-administered real estate investment trust ("REIT") investing in income-producing healthcare facilities, principally long-term care facilities located in the United States. The Company provides lease or mortgage financing to qualified operators of skilled nursing facilities and, to a lesser extent, assisted living and acute care facilities. Financing for investments has been historically provided by borrowings under the Company's revolving lines of credit, private placements or public offerings of debt or equity, the assumption of secured indebtedness, or a combination of these methods. The Company also finances acquisitions through the exchange of properties or the issuance of shares of its capital stock when such transactions otherwise satisfy the Company's investment criteria.

In November 1997, the Company formed Omega Worldwide, Inc. ("Worldwide"), a company which provides asset management services and management advisory services, as well as equity and debt capital to the healthcare industry, particularly residential healthcare services to the elderly. On April 2, 1998, the Company contributed substantially all of its assets in Principal Healthcare Finance Limited, ("Principal") an Isle of Jersey (United Kingdom) company, to Worldwide in exchange for approximately 8.5 million shares of Worldwide common stock and 260,000 shares of Series B preferred stock. Of the 8,500,000 shares of Worldwide common stock received by the Company, approximately 5,200,000 were distributed on April 2, 1998 to the shareholders of the Company, and 2,300,000 shares were sold by the Company on April 3, 1998. As of December 31, 2000, the carrying value of the Company's investment in Worldwide is \$5,435,000, represented by 1,163,000 shares of common stock and 260,000 shares of preferred stock. The Company also holds a \$1,615,000 investment in Principal represented by 990,000 ordinary shares of Principal and a \$1,266,000 investment in the Principal Healthcare Finance Trust, an Australian Unit Trust. ("Trust") (See Note 11 to the Company's Consolidated Financial Statements Related Party Transactions).

On July 17, 2000, the Company received gross proceeds of \$100 million from the issuance of one million shares of Series C Convertible Preferred Stock ("Series C") at \$100 per share to Explorer Holdings, L.P. Proceeds were used to pay maturing debt. The Series C shares are initially convertible into 16 million shares of common stock, par value \$.10 per share, of the Company (the "Common Stock"). Dividends on the Series C are cumulative from the date of original issue and are payable quarterly commencing on November 15, 2000. Holders of Series C are entitled to receive dividends at the greater of 10% per annum of the liquidation preference and the amount per share paid by Omega on its Common Stock based on the number of shares of Common Stock into which the shares of Series C are then convertible. (See Note 10 to the Company's Consolidated Financial Statements - Shareholders' Equity and Stock Options).

During 1998, the Company initiated a plan to dispose of certain properties judged to have limited long-term potential and re-deploy the proceeds. The Company recorded a provision for impairment of \$6.8 million in 1998 to adjust the carrying value of those assets judged to be impaired to their fair value, less cost of disposal. During the fourth quarter of 1999, management initiated a plan for additional asset sales to be completed in 2000 and recorded a provision for impairment of \$19.5 million. During 2000, the Company recorded an additional provision for impairment of \$14.4 million related to assets held for sale. (See Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations).

As a consequence of the financial difficulties encountered by a number of the Company's operators, the Company has recovered various long-term care assets pledged as collateral for the operators' obligations either in connection with a restructuring or settlement with certain operators or pursuant to foreclosure proceedings. Under normal circumstances, the Company would classify such assets as "assets held for sale" and seek to re-lease or otherwise dispose of such assets as promptly as practicable. However, a number of companies are actively marketing portfolios of similar assets and, in light of the current conditions in the long-term care industry generally, it has become more difficult both to sell such properties and for potential buyers to obtain financing to acquire such properties. As a result, during 2000, \$24.3 million of assets previously classified as held for sale were reclassified to "owned and operated assets" as the timing and strategy for sale or, alternatively, re-leasing, were revised in light of prevailing market conditions.

As of December 31, 2000, the Company's portfolio of domestic investments consisted of 264 healthcare facilities, located in 29 states and operated by 27 third-party operators. The Company's gross investments in these facilities totaled \$919 million at December 31, 2000. This portfolio is made up of 130 long-term healthcare facilities and 2 rehabilitation hospitals owned and leased to third parties, fixed rate, participating and convertible participating mortgages on 63 long-term healthcare facilities and 69 long-term healthcare

facilities that were recovered from customers and are currently operated through third-party management contracts for the Company's own account, including 12 facilities subject to third-party leasehold interests. The Company also holds miscellaneous investments and closed healthcare facilities held for sale of approximately \$57.2 million at December 31, 2000, including \$22.4 million related to two non-healthcare facilities leased by the United States Postal Service, Worldwide, Principal and Trust of \$8.3 million and \$15.6 million of notes receivable.

## Summary Financial Information

The following tables summarize the Company's Net Revenues and Real Estate Assets by asset category for December 31, 2000, 1999 and 1998, setting forth the effect of the results of operations of property recovered due to foreclosure and settlements with troubled operators that are held for sale or operated on an interim basis for the Company's own account until such time as the properties are sold or re-leased. Historical information for 1999 and 1998 is reclassified, for comparative purposes, to the presentation for 2000. (See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 2 Properties, Note 3 - Mortgage Notes Receivable and Note 18

- Segment Information to the Company's Consolidated Financial Statements).

### Net Revenues by Asset Category (In Thousands)

	Years Ended December 31,		
	2000	1999	1998
Core Assets:			
Lease Rental Income .....	\$67,308	\$76,389	\$72,072
Mortgage Interest Income .....	24,126	36,369	30,399
Total Core Asset Revenues .....	91,434	112,758	102,471
Owned and Operated Assets Net Revenue (Loss) .....	(3,416)	1,050	-
Other Asset Revenue .....	6,594	6,814	5,971
Miscellaneous Income .....	2,206	2,334	872
Total Net Revenue .....	\$96,818	\$122,956	\$109,314

### Real Estate Assets by Asset Category (In Thousands)

	As of December 31,		
	2000	1999	1998
Core Assets:			
Leased Assets .....	\$579,941	\$686,105	\$643,378
Mortgaged Assets .....	206,710	213,617	340,455
Total Core Assets .....	786,651	899,722	983,833
Owned and Operated and Held for Sale Assets .....	134,614	97,216	35,289
Other Assets .....	53,242	75,460	41,753
Total Real Estate Assets .....	\$974,507	\$1,072,398	\$1,060,875

## Description of the Business

The Company maintains a diversified portfolio of long-term healthcare facilities or mortgages on healthcare facilities located in the United States. In making investments, the Company generally seeks and intends to focus on established, creditworthy, middle-market healthcare operators that meet the Company's standards for quality and experience of management. The Company seeks to diversify its investments in terms of geographic locations, operators and facility types.

In evaluating potential investments, the Company considers such factors as:

(i) the quality and experience of management and the credit worthiness of the operator of the facility; (ii) the facility's historical, current and forecasted cash flow and its adequacy to meet operational needs, capital expenditures and lease or debt service obligations, providing a competitive return on investment to the Company; (iii) the construction quality, condition and design of the facility; (iv) the geographic area and type of facility; (v) the tax, growth, regulatory and reimbursement environment of the community in which the facility is located; (vi) the occupancy and demand for similar healthcare facilities in the same or nearby communities; and (vii) the payor mix of private, Medicare and Medicaid patients.

A fundamental investment strategy of the Company is to obtain contractual rent escalations under long-term, non-cancelable, "triple-net" leases and revenue participation through participating mortgage loans, and to obtain substantial liquidity deposits. Additional security is typically provided by covenants regarding minimum working capital and net worth, liens on accounts receivable and other operating assets, and various provisions for cross-default, cross-collateralization and corporate/personal guarantees, when appropriate.

The Company prefers to invest in equity ownership of properties. Due to regulatory, tax or other considerations, the Company sometimes pursues alternative investment structures, including convertible participating and participating mortgages, that achieve returns comparable to equity investments. The following summarizes the four primary investment structures currently used by the Company. Average annualized yields reflect existing contractual arrangements and an estimate of restructured arrangements for one of the Company's troubled operators. However, in view of the ongoing financial challenges in the long-term care industry, no assurance can be given that the operators of the Company's facilities will meet their payment obligations in full or when due. Certain operators have recently indicated to the Company that they intend to delay or reduce the payment of their contractual obligations to the Company, and therefore the annualized yields as of January 1, 2001 set forth below are not necessarily indicative of or a forecast of actual yields, which may be lower. (See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 15 to the Company's Consolidated Financial Statements - Subsequent Events).

**Purchase/Leaseback.** The Company's owned properties are generally leased under provisions of leases for terms ranging from 8 to 17 years, plus renewal options. The leases originated by the Company generally provide for minimum annual rentals which are subject to annual formula increases (i.e., based upon such factors as increases in the Consumer Price Index ("CPI") or increases in the revenues of the underlying properties), with certain fixed minimum and maximum levels. Generally, the operator holds an option to repurchase at set dates at prices based on specified formulas. The average annualized yield from leases was 11.19% at January 1, 2001.

**Convertible Participating Mortgage.** Convertible Participating Mortgages are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Interest rates are usually subject to annual increases based upon increases in the CPI or increases in revenues of the underlying long-term care facilities, with certain maximum limits. Convertible Participating Mortgages afford the Company an option to convert its mortgage into direct ownership of the property, generally at a point six to nine years from inception; they are then subject to a leaseback to the operator for the balance of the original agreed term and for the original agreed participations in revenues or CPI adjustments. This allows the Company to capture a portion of the potential appreciation in value of the real estate. The operator has the right to buy out the Company's option at prices based on specified formulas. The average annualized yield on these mortgages was approximately 12.99% at January 1, 2001.

**Participating Mortgage.** Participating Mortgages are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Interest rates are usually subject to annual increases based upon increases in the CPI or increases in revenues of the underlying long-term care facilities, with certain maximum limits. The average annualized yield on these investments was approximately 13.26% at January 1, 2001.

**Fixed-Rate Mortgage.** These Mortgages have a fixed interest rate for the mortgage term and are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. The average annualized yield on these investments was 11.20% at January 1, 2001.

The following table identifies the years of expiration of the payment obligations to the Company under existing contractual obligations as of January 1, 2001, or in the case of one of the Company's troubled operators, under an estimated restructured arrangement. This information is provided solely to

indicate the scheduled expiration of payment obligations to the Company, and is not a forecast of expected revenues. (See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 15 to the Company's Consolidated Financial Statements - Subsequent Events).

	Rent	Mortgage Interest	Total	%
	----	-----	-----	-
		(In thousands)		
2001 .....	\$ -	\$ 1,746	\$ 1,746	1.92 %
2002 .....	215	15	230	0.25
2003 .....	1,128	4,049	5,177	5.69
2004 .....	1,263	572	1,835	2.02
2005 .....	805	588	1,393	1.53
Thereafter ....	61,476	19,117	80,593	88.59
	-----	-----	-----	-----
	\$ 64,887	\$ 26,087	\$ 90,974	100.00 %
	=====	=====	=====	=====

The table set forth in Item 2 -- Properties, herein, contains information regarding the Company's real estate properties, their geographic locations, and the types of investment structures as of December 31, 2000.

**Borrowing Policies.** The Company may incur additional indebtedness and anticipates it will generally maintain a long-term debt-to-total capitalization (total capitalization is total shareholders equity plus long-term debt) ratio in the range of 40% to 50%. The Company intends to review periodically its policy with respect to its debt-to-total capitalization ratio and to modify such policy as its management deems prudent in light of prevailing market conditions. The Company's strategy generally has been to match the maturity of its indebtedness with the maturity of its investment assets, and to employ long-term, fixed-rate debt to the extent practicable in view of market conditions in existence from time to time.

The Company may use proceeds of any additional indebtedness to provide permanent financing for investments in additional healthcare facilities. The Company may obtain either secured or unsecured indebtedness, and may obtain indebtedness which may be convertible into capital stock or be accompanied by warrants to purchase capital stock. Where debt financing is present on terms deemed favorable, the Company generally may invest in properties subject to existing loans, secured by mortgages, deeds of trust or similar liens on properties.

The Company has two secured revolving lines of credit (the "credit facilities") which permit borrowings of up to \$175 million and \$75 million, respectively. These credit facilities provide working capital for the Company and temporary funds for new investments in healthcare facilities. The Company's strategy has been to periodically replace funds drawn on the credit facilities through long-term, fixed-rate borrowings, the issuance of equity-linked borrowings, or the issuance of additional shares of capital stock.

The Company also has \$50 million of available funds through July 1, 2001 pursuant to an Investment Agreement with Explorer Holdings, L.P. ("Explorer") which can be used, upon satisfaction of certain conditions, to fund growth. Following the drawing in full or expiration of this commitment, Explorer will have the option to provide up to an additional \$50 million to fund growth for an additional twelve-month period. (See Note 10 - Shareholders' Equity and Stock Options).

Industry turmoil and continuing adverse economic conditions have caused the terms on which the Company can obtain additional borrowings to become unfavorable. If the Company is in need of capital to repay indebtedness as it matures, the Company may be required to liquidate investments in properties at times which may not permit realization of the maximum recovery on such investments. This also could result in adverse tax consequences to the Company. The Company may also be required to pursue dilutive equity issuances. See Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources.

**Government Healthcare Regulation, Reimbursements and Industry Concentration Risks.** The healthcare industry is highly regulated by federal, state and local law, and is directly affected by state and local licensure, fines and loss of certification to participate in the Medicare and Medicaid programs, as well as potential criminal penalties. The Balanced Budget Act of 1997 (the "Budget Act") enacted a number of anti-fraud and abuse provisions and contains civil monetary penalties for an operator's violation of the anti-kickback laws. The Budget Act also imposes an affirmative duty on operators to ensure they do not employ or contract with persons excluded from the Medicare or other governmental programs.

It also provides a minimum ten-year period for exclusion from participation in federal healthcare programs for operators convicted of a prior healthcare offense.

Governmental investigations and enforcement of healthcare laws have increased dramatically and are expected to continue to increase. The increase in governmental investigations, the Budget Act, future healthcare legislation or other changes in administration or interpretation of governmental healthcare programs may have a material adverse effect on the liquidity, financial condition or results of operations of the Company's operators, which could also have a material adverse effect on their ability to make rent and interest payments to the Company.

Based on information provided by the operators of the Company's facilities, the following table sets forth the approximate payor mix for the most recently reported twelve-month period:

Medicaid .....	55.3 %
Medicare .....	22.5
Private .....	12.7
Other .....	9.5
	-----
Total .....	100.0 %
	=====

General liability and professional liability costs in the long-term care industry have significantly increased over the past several years, with increases in the number and average size of claims. Excluding Florida, where recent experience is materially inconsistent with most other states, the number of claims in the long-term industry has been increasing annually at a rate of approximately 8%, while the size of such claims has increased 14%. In Florida, the number of claims has been increasing annually at a rate of approximately 23%, while the size of such claims has increased 18%.<sup>1</sup> The increased magnitude and unpredictability of losses has led a number of insurance companies to exit from the long-term care industry, resulting in dramatically increased premiums and increased difficulties in obtaining coverage.

Nearly all of the Company's properties are used as healthcare facilities, therefore, the Company is directly affected by the risk associated with the healthcare industry. The Company's lessees and mortgagors, as well as the facilities owned and operated for the Company's account, derive a substantial portion of their net operating revenues from third-party payers, including the Medicare and Medicaid programs. Such programs are highly regulated and subject to frequent and substantial changes. Due to the implementation of the terms of the Budget Act, effective January 1, 1999, the majority of skilled nursing facilities shifted from payments based on reimbursable cost to a prospective payment system ("PPS") for services provided to Medicare beneficiaries. Implementation of PPS has affected each long-term care facility to a different degree depending upon the amount of revenue it derives from Medicare patients. Long-term care facilities have had to attempt to restructure their operations to operate profitably under the new Medicare PPS reimbursement policies.

In addition, private payors, including managed care payers, are increasingly demanding discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk of operating a healthcare facility. Efforts to impose greater discounts and more stringent cost controls are expected to continue. Any changes in reimbursement policies which reduce reimbursement levels could adversely affect revenues of the Company's lessees and borrowers and thereby adversely affect those lessees' and borrowers' abilities to make their monthly lease or debt payments to the Company.

The possibility that the healthcare facilities will not generate income sufficient to meet operating expenses or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in healthcare-related real estate. Income from properties and yields from investments in such properties may be affected by many factors, including changes in governmental regulation (such as zoning laws), general or local economic conditions (such as fluctuations in interest rates and employment conditions), the available local supply and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as earthquakes and floods) or similar factors.

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<sup>1</sup> Data taken from AON Florida Long Term Care General Liability and Professional Liability Actuarial Analysis, February 12, 2001.

Real estate investments are relatively illiquid and, therefore, tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions. The Company's properties are "special purpose" properties that could not be readily converted to general residential, retail or office use. Healthcare facilities that participate in Medicare and/or Medicaid programs must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Such requirements may include a duty to admit Medicare and Medicaid patients, thereby limiting the ability of the facility to increase its private pay census beyond certain limits. Medicare and Medicaid facilities are regularly inspected to determine compliance and may be excluded from the programs -- in some cases without a prior hearing -- for failure to meet program requirements. Transfers of nursing homes and other healthcare-related facilities between operators are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of the Company's properties becomes unprofitable due to competition, age of improvements or other factors such that the lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be substantially less, particularly relative to the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses.

Other changes in the healthcare industry include continuing trends toward shorter lengths of stay, increased use of outpatient services, increased federal, state and third-party regulation and oversight of healthcare company operations and business practices and increased demand for capitated healthcare services (delivery of services at a fixed price per capita basis to a defined group of covered parties). The entrance of insurance companies into managed care programs is also accelerating the introduction of managed care in new localities, and states and insurance companies continue to negotiate actively the amounts they will pay for services. Moreover, the percentage of healthcare services that are reimbursed under Medicare and Medicaid programs continues to increase as the population ages and as states expand their Medicaid programs. Continued eligibility to participate in these programs is crucial to a provider's financial strength. Finally, healthcare regulation through Certificates of Need ("CON") has tended to limit construction of new long-term care facilities in many states. Several states in which the Company has investments have repealed CON legislation, including California and Texas, opening up opportunities for additional competition for the Company's facilities. As a result of the foregoing, the revenues and margins of the operators of the Company's facilities may decrease, resulting in a reduction of the Company's rent/interest coverage from investments.

**Potential Risks from Bankruptcies.** Generally, the Company's lease arrangements with a single operator who operates more than one of the Company's facilities is designed pursuant to a single master lease (a "Master Lease" or collectively, the "Master Leases"). Although each lease or Master Lease provides that the Company may terminate the Master Lease upon the bankruptcy or insolvency of the tenant, the Bankruptcy Reform Act of 1978 ("Bankruptcy Code") provides that a trustee in a bankruptcy or reorganization proceeding under the Bankruptcy Code (or debtor-in-possession in a reorganization under the Bankruptcy Code) has the power and the option to assume or reject the unexpired lease obligations of a debtor-lessee. In the event that the unexpired lease is assumed on behalf of the debtor-lessee, all the rental obligations thereunder generally would be entitled to a priority over other unsecured claims. However, the court also has the power to modify a lease if a debtor-lessee in a reorganization were required to perform certain provisions of a lease that the court determined to be unduly burdensome. It is not possible at this time to determine whether or not a court would hold that any lease or Master Lease contains any such provisions. If a lease is rejected, the lessor has a general unsecured claim limited to any unpaid rent already due plus an amount equal to the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of such lease, not to exceed the rent obligation for three years.

Generally, with respect to the Company's mortgage loans, the imposition of an automatic stay under the Bankruptcy Code precludes the Company from exercising foreclosure or other remedies against the debtor. A mortgagee also is treated differently from a landlord in three key respects. First, the mortgage loan is not subject to assumption or rejection because it is not an executory contract or a lease. Second, the mortgagee's loan may be divided into (1) a secured loan for the portion of the mortgage debt that does not exceed the value of the property and (2) a general unsecured loan for the portion of the mortgage debt that exceeds the value of the property. A secured creditor such as the Company is entitled to the recovery of interest and costs only if and to the extent that the value of the collateral exceeds the amount owed. If the value of the collateral is less than the debt, a lender such as the Company would not receive or be entitled to any interest for the time period between the filing of the case and confirmation. If the value of the collateral does exceed the debt, interest and allowed costs may not be paid during the bankruptcy proceeding but accrue until confirmation of a plan or reorganization or some other time as the court orders. Finally, while a lease generally would either be rejected or assumed with all of its benefits and burdens intact, the terms of a mortgage, including the rate of interest and timing of principal payments, may be modified if the debtor is able to effect a "cramdown" under the Bankruptcy Code.

The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment (such as

real estate taxes and maintenance costs) are generally not reduced when circumstances cause a reduction in income from the investment. In order to protect its investments, the Company may take possession of a property or even become licensed as an operator, which might expose the Company to successorship liability to government programs or require the Company to indemnify subsequent operators to whom it might transfer the operating rights and licenses. Third party payors may also suspend payments to the Company following foreclosure until the Company receives the required licenses to operate the facilities. Should such events occur, the Company's income and cash flows from operations would be adversely affected. See Note 3 - Mortgage Notes Receivable and Note 5 - Concentration of Risk, to the Company's Consolidated Financial Statements.

**Risks Related to Owned and Operated Assets.** As a consequence of the financial difficulties encountered by a number of the Company's operators, the Company has recovered various long-term care assets, pledged as collateral for the operators' obligations, either in connection with a restructuring or settlement with certain operators or pursuant to foreclosure proceedings. Under normal circumstances, the Company would classify such assets as "assets held for sale" and seek to re-lease or otherwise dispose of such assets as promptly as practicable. However, a number of companies are actively marketing portfolios of similar assets and, in light of the current conditions in the long-term care industry generally, it has become more difficult both to sell such properties and for potential buyers to obtain financing to acquire such properties. During 2000, \$24.3 million of assets previously classified as held for sale were reclassified to "owned and operated assets" as the timing and strategy for sale or, alternatively, re-leasing, were revised in light of prevailing market conditions.

The Company is typically required to hold applicable leases and is responsible for the regulatory compliance at its owned and operated facilities. The Company's management contracts with third-party operators for such properties provide that the third-party operator is responsible for regulatory compliance, but the Company could be sanctioned for violation of regulatory requirements. In addition, the risk of third-party claims such as patient care and personal injury claims may be higher with respect to Company owned and operated properties as compared to the Company's leased and mortgaged assets.

**Competition.** The Company competes for additional healthcare facility investments with other healthcare investors, including other real estate investment trusts. The operators of the facilities compete with other regional or local nursing care facilities for the support of the medical community, including physicians and acute care hospitals, as well as the general public. Some significant competitive factors for the placing of patients in skilled and intermediate care nursing facilities include quality of care, reputation, physical appearance of the facilities, services offered, family preferences, physician services and price.

**Federal Income Tax Considerations.** At all times, the Company intends to make and manage its investments (including the sale or disposition of property or other investments) and to operate in such a manner as to be consistent with the requirements of the Internal Revenue Code of 1986, as amended (the "Code") (or regulations thereunder) to qualify as a REIT, unless, because of changes in circumstances or changes in the Code (or regulations thereunder), the Board of Directors determines that it is no longer in the best interest of the Company to qualify as a REIT. As a REIT, the Company generally will not pay federal income taxes on the portion of its income which is distributed to shareholders, although income earned from foreclosure property (the owned and operated assets), after deducting depreciation expense, is subject to corporate level taxation.

**Executive Officers of the Company.** At the date of this report, the executive officers of the Company are:

Thomas W. Erickson (50) has served as the Company's Interim President and Chief Executive Officer since October 2000. Mr. Erickson is also President and Chief Executive Officer of CareSelect Group, Inc. and ECG Ventures, Inc., an operator of physician clinics and a healthcare venture capital firm, respectively. Mr. Erickson has been a director of the Company since July 2000.

Richard M. FitzPatrick (47) joined the Company as Acting Chief Financial Officer in July 2000. Mr. FitzPatrick has been the Chief Financial Officer for The Hampstead Group since 1989 and has served as Acting Chief Financial Officer for a number of Hampstead's affiliated investments, including, in 1992, The Forum Group, Inc. (a senior housing owner/operator), and in 1995, Bristol Hotels and Resorts. Mr. FitzPatrick holds a BS in Accounting as well as an MBA from DePaul University.

F. Scott Kellman (44) joined the Company as Senior Vice President-Acquisitions in August 1993 and was appointed Executive Vice President in August 1994 and Chief Operating Officer in March 1998. Mr. Kellman holds a bachelor's degree and a J.D. from the University of Michigan.

Susan A. Kovach (41) joined the Company in December 1997 as Vice President, General Counsel and Secretary. Before she joined the Company, she was a lawyer with Dykema Gossett PLLC in Detroit, Michigan for 12 years, the last three years as a senior member of the firm.

Laurence D. Rich (41) joined the Company in January 1998 after five years as a lawyer with the firms of Dykema Gossett PLLC and Pepper, Hamilton & Scheetz. He was appointed Vice President of Acquisitions in January 1999. Mr. Rich earned a B.A. at the University of Michigan, an MBA from Emory University and J.D., magna cum laude, from the University of Detroit College of Law.

At January 31, 2001, the Company employed 27 full-time employees. The executive offices of the Company are located at 900 Victors Way, Suite 350, Ann Arbor, Michigan, 48108. Its telephone number is (734) 887-0200.

## Item 2 - Properties

At December 31, 2000, the Company's real estate investments include long-term care facilities and rehabilitation hospital investments, either in the form of purchased facilities which are leased to operators, mortgages on facilities which are operated by the mortgagors or their affiliates and facilities owned and operated for the Company's account, including facilities subject to leasehold interests. The facilities are located in 29 states and are operated by 27 unaffiliated operators. Basic information regarding investments as of December 31, 2000 is as follows:

Investment Structure/Operator	No. Of Beds/Units	No. Of Facilities	Occupancy Percentage (1)	Gross Investment (In Thousands)
<b>Purchase/Leaseback</b>				
Sun Healthcare Group, Inc. ....	5,408	50	88	\$218,985
Integrated Health Services, Inc. ....	1,573	11	82	105,400
Advocat, Inc. ....	2,976	28	77	89,604
Alterra Healthcare Corporation. ....	361 *	10	92	34,085
Alden Management Services, Inc. ....	868	4	72	31,306
TLC Healthcare, Inc. ....	974	7	76	23,140
USA Healthcare, Inc. ....	668	8	76	17,213
Washington N&R, LLC. ....	286	2	87	12,152
Peak Medical of Idaho, Inc. ....	224	2	72	10,500
HQM of Floyd County, Inc. ....	283	3	97	10,250
Safe Harbor Florida Healthcare Properties, Inc. ....	300	1	86	8,151
Liberty Assisted Living Centers, LP. ....	120	1	73	5,995
Meadowbrook Healthcare of N.C. ....	192	2	75	5,560
Eldorado Care Center, Inc. & Magnolia Manor, Inc. ....	167	2	66	5,100
Kansas & Missouri, Inc. ....	120	1	75	2,500
	-----	---	--	-----
	14,520	132	82	579,941
<b>Owned and Operated Assets - Fee</b>				
Vencor Operating, Inc. ....	1,556	15	79	51,360
Genesis Health Ventures, Inc. ....	1,160	11	89	48,356
Atrium Living Centers, Inc. ....	1,210	28	69	16,604
Pinon Management, Inc. ....	181	3	84	14,281
	-----	--	--	-----
	4,107	57	79	130,601
<b>Owned and Operated Assets - Leasehold Interest</b>				
Vencor Operating, Inc. ....	886	10	71	1,462
Pinon Management, Inc. ....	150	2	84	309
	-----	--	--	-----
	1,036	12	73	1,771
<b>Convertible Participating Mortgages</b>				
Colony of North Carolina/Sun Healthcare Group, Inc. ....	546	4	92	21,545
Senior Care Properties, Inc. ....	150	2	65	5,882
Integrated Health Services, Inc. ....	180	1	78	4,906
	---	-	--	-----
	876	7	85	32,333
<b>Participating Mortgages</b>				
Mariner Post-Acute Network ....	2,310	16	82	58,800
Integrated Health Services, Inc. ....	1,144	9	90	49,500
TLC Healthcare, Inc. ....	75	1	96	4,361
Advocat, Inc. ....	317	3	64	2,160
	-----	--	--	-----
	3,846	29	83	114,821
<b>Fixed Rate Mortgages</b>				
Essex Healthcare Corporation ....	633	6	73	16,199
Advocat, Inc. ....	423	4	74	14,805
Emerald Healthcare, Inc. ....	300	2	88	11,025
Texas Health Enterprises/HEA Mgmt. Group, Inc. ....	705	5	61	5,952
Tiffany Care Centers, Inc. ....	319	5	79	4,998
Covenant Care, Inc. ....	150	1	50	1,949
Rocky Mountain Health Care ....	100	1	57	1,873
TLC Healthcare, Inc. ....	80	1	93	1,557
Integrated Health Services, Inc. ....	164	2	84	1,198
	-----	--	--	-----
	2,874	27	72	59,556
	-----	--	--	-----
<b>Total</b> .....	<b>27,259</b>	<b>264</b>	<b>81</b>	<b>\$919,023</b>
	=====	===	==	=====

(1) Generally represents data for the twelve-month period ending September 30, 2000.

\*Represents Assisted Living Units. Occupancy percentage for these facilities excludes 216 units that are in fill-up.

The following table presents the concentration of the Company's facilities by state as of December 31, 2000:

Investment by State	Number of Facilities	Total Beds/Units (1)	Total Investment (In Thousands)	% of Total Investment
Florida .....	26	3,439	\$142,288	15.5 %
California .....	19	1,545	66,943	7.3
Illinois .....	12	1,732	66,342	7.2
Texas .....	21	2,819	65,167	7.1
Ohio .....	13	1,282	56,263	6.1
Michigan .....	13	1,863	46,240	5.0
Tennessee .....	10	1,182	43,099	4.7
Indiana .....	40	2,105	43,020	4.7
North Carolina .....	10	1,346	40,830	4.4
Arkansas .....	12	1,281	39,361	4.3
Alabama .....	12	1,421	36,276	4.0
Massachusetts .....	7	762	32,774	3.6
West Virginia .....	7	734	30,579	3.3
Kentucky .....	9	757	26,963	2.9
Connecticut .....	5	533	23,882	2.6
Washington .....	3	354	21,574	2.4
Iowa .....	10	898	20,718	2.3
Pennsylvania .....	2	413	19,900	2.2
Arizona .....	8	694	17,839	1.9
Colorado .....	6	368	17,174	1.9
Missouri .....	7	605	17,150	1.9
Georgia .....	2	304	12,000	1.3
Idaho .....	3	264	11,100	1.2
Kansas .....	2	154	5,918	0.6
New Hampshire .....	1	68	5,800	0.6
Louisiana .....	1	131	4,603	0.5
Oklahoma .....	1	32	3,178	0.3
Utah .....	1	100	1,874	0.2
Nevada .....	1	73	168	-
Total .....	264	27,259	\$919,023	100 %

(1) Beds include a total of 361 assisted living units.

### Item 3 - Legal Proceedings

On June 20, 2000, the Company and its chief executive officer, chief financial officer and chief operating officer were named as defendants in certain litigation brought by Ronald M. Dickerman, in his individual capacity, in the United States District Court for the Southern District of New York. In the complaint, Mr. Dickerman contends that the Company and the named executive officers violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Mr. Dickerman subsequently amended the complaint to assert his claims on behalf of an unnamed class of plaintiffs. On July 28, 2000, Benjamin LeBorys commenced a class action lawsuit making similar allegations against the Company and certain of its officers and directors in the United States District Court for the Southern District of New York. The cases have been consolidated, and Mr. LeBorys has been named lead plaintiff. The plaintiffs seek unspecified damages. The Company has reported the litigation to its directors and officers liability insurer. The Company believes that the litigation is without merit and is defending vigorously. The Company's Motion to Dismiss was filed with the Court on February 16, 2001.

On June 21, 2000, the Company was named as a defendant in certain litigation brought against it by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that the Company has breached and/or anticipatorily breached a commercial contract. Mr. Dickerman is a partner of Madison and is a guarantor of Madison's obligations to the Company. Madison claims damages as a result of the alleged breach of approximately \$700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of \$15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and the Company. The Company contends that Madison is in default under the contract in question. The Company believes that the litigation is meritless. The Company is defending vigorously and on December 5, 2000, filed counterclaims against Madison and the guarantors, including Mr. Dickerman, seeking repayment of approximately \$8.5 million that Madison owes the Company.

Karrington Health, Inc. brought suit against the Company alleging that the Company repudiated and ultimately breached a financing contract to provide \$95,000,000 of financing for the development of 13 assisted living facilities. Karrington seeks recovery of approximately \$20,000,000 in damages it alleges to have incurred as a result of the breach. The Company denies that it entered into a valid and binding contract with Karrington and is vigorously defending the litigation.

### Item 4 -- Submission of Matters to a Vote of Security Holders

No matters were submitted to shareholders during the fourth quarter of the year covered by this report.

## PART II

### Item 5 -- Market for Registrants' Common Equity and Related Shareholder Matters

The Company's shares of Common Stock are traded on the New York Stock Exchange under the symbol OHI. The following table sets forth, for the periods shown, the high and low closing prices as reported on the New York Stock Exchange Composite for the periods indicated and cash dividends per share:

2000				1999			
Quarter	High	Low	Dividends Per Share	Quarter	High	Low	Dividends Per Share
First	\$12.8125	\$ 5.8125	\$ 0.50	First	\$ 30.5000	\$ 21.1875	\$ 0.70
Second	7.0625	4.5156	0.00	Second	28.6875	21.3750	0.70
Third	6.6875	4.5625	0.25	Third	25.8125	19.8125	0.70
Fourth	6.2500	3.3750	0.25	Fourth	21.0000	12.5625	0.70
			----				----
			\$ 1.00				\$ 2.80
			=====				=====

The closing price on December 29, 2000 was \$3.75 per share. As of December 31, 2000, there were 20,037,995 shares of common stock outstanding with approximately 2,300 registered holders and approximately 17,700 beneficial owners.

On February 1, 2001, the Company announced the suspension of common and preferred dividends, to preserve cash to strengthen the Company's balance sheet in order to facilitate the Company's ability to obtain financing to fund debt maturing in 2002.

The Company anticipates that it will reinstate dividends on the common and preferred stock when the Company determines that it has sufficient resources or

satisfactory plans to meet its 2002 debt maturities. The Company can give no assurance as to when the dividends will be reinstated or the amount of the dividends, if and when such payments are recommenced. All accrued and unpaid dividends on the Company's outstanding shares of Series A, B and C preferred stock must be paid in full before dividends on the Common Stock can be resumed. (See Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.)

## Item 6 -- Selected Financial Data

The following selected financial data with respect to the Company should be read in conjunction with the Company's Consolidated Financial Statements which are listed herein under Item 14 and are included on pages F-1 through F-26.

	Year ended December 31,				
	2000	1999	1998	1997	1996
	-----				
	(In thousands, except per share amounts)				
Operating Data					
Revenues (1) .....	\$275,793	\$148,129	\$109,314	\$ 90,820	\$ 73,127
Net Earnings (Loss) Available to Common (before gain/loss on assets sold and provision for impairment in 2000, 1999 and 1998) .....					
	(14,784)	40,047	41,777	41,305	34,590
Net Earnings (Loss) Available to Common .....	(66,485)	10,040	68,015	41,305	34,590
Per Share Amounts:					
Net Earnings (Loss) (before gain/loss on assets sold in and provision for impairment in 2000, 1999 and 1998):					
Basic .....	\$ (0.74)	\$ 2.01	\$ 2.09	\$ 2.16	\$ 2.01
Diluted .....	(0.74)	2.01	2.08	2.16	2.01
Net Earnings (Loss) Available to Common:					
Basic .....	(3.32)	0.51	3.39	2.16	2.01
Diluted .....	(3.32)	0.51	3.39	2.16	2.01
Dividends, Common Stock (2) .....	1.00	2.80	2.68	2.58	2.48
Dividends, Series A Preferred (2) .....	2.31	2.31	2.31	1.16	
Dividends, Series B Preferred (2) .....	2.16	2.16	1.08		
Dividends, Series C Preferred (3) .....	0.25				
Weighted Average Common Shares Outstanding,					
Basic .....	20,052	19,877	20,034	19,085	17,196
Diluted .....	20,052	19,877	20,041	19,137	17,240
	-----				
	December 31,				
	2000	1999	1998	1997	1996
	-----				
Balance Sheet Data					
Gross Investments .....	\$ 974,507	\$ 1,072,398	\$1,069,646	\$839,927	\$643,261
Total Assets .....	948,451	1,038,731	1,037,207	816,108	634,836
Revolving Lines of Credit .....	185,641	166,600	123,000	58,300	6,000
Other Long-Term Borrowings .....	249,161	339,764	342,124	208,966	135,659
Subordinated Convertible Debentures ...	16,590	48,405	48,405	62,485	94,810
Shareholders' Equity .....	464,313	457,081	505,762	468,221	383,007

(1) Revenues for 2000 and 1999 include \$175,559,000 and \$26,223,000, respectively, of revenues from nursing home operations from facilities recovered from customers and managed for the Company's own account.

(2) Dividends per share are those declared and paid during such period.

(3) Dividends per share are those declared during such period, based on the number of shares of common stock issuable upon conversion of the outstanding Series C. (See Note 15 to the Company's Consolidated Financial Statements - Subsequent Events).

## Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations

"Safe Harbor" Statement Under the United States Private Securities Litigation Reform Act of 1995

Certain information contained in this report includes forward looking statements. Forward looking statements include statements regarding the Company's expectations, beliefs, intentions, plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements other than statements of historical facts. These statements may be identified, without limitation, by the use of forward looking terminology such as "may" "will" "anticipates" "expects" "believes" "intends" "should" or comparable terms or the negative thereof. All forward looking statements included herein are based on information available on the date hereof. Such statements only speak as of the date hereof and no obligation to update such forward looking statements should be assumed. Actual results may differ materially from those reflected in such forward looking statements as a result of a variety of factors, including, among other things: (i) the ability of the Company to dispose of assets held for sale on a timely basis and at appropriate prices; (ii) uncertainties relating to the operation of the Company's Owned and Operated Assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels; (iii) the general distress of the healthcare industry; (iv) continued deterioration of the operating results and financial condition of the Company's operators; (v) the ability of the Company's operators in bankruptcy to reject unexpired lease obligations, modify the terms of the Company's mortgages, and impede the ability of the Company to collect unpaid rent or interest during the pendency of a bankruptcy proceeding and retain security deposits for the debtor's obligations; (vi) the availability and cost of capital; (vii) regulatory and other changes in the healthcare sector; (viii) the ability of the Company to manage, re-lease or sell its owned and operated facilities; (ix) competition in the financing of healthcare facilities; (x) the effect of economic and market conditions and changes in interest rates; (xi) the resumption of dividends; (xii) the amount and yield of any additional investments; (xiii) changes in tax laws and regulations affecting real estate investment trusts; access to the capital markets and the cost of capital (xiv) changes in the ratings of the Company's debt securities; (xv) and the risk factors set forth under Item 1 - Business - Government Healthcare Regulation, Reimbursements and Industry Concentration Risks, Potential Risks from Bankruptcies," and Item 7A - Qualitative and Quantitative Disclosures About Market Risks.

### Overview

The long-term care industry has experienced unprecedented financial challenges in the recent past that have had an adverse impact on the Company during 2000. These challenges are due principally to the introduction in 1998 of PPS for the reimbursement of skilled nursing facilities, implementing an acuity-based reimbursement system in lieu of the cost-based reimbursement system historically used. The effect of PPS was to significantly reduce payments to nursing home operators; that reduction, in turn, has negatively affected the revenues of the Company's nursing home facilities and the ability of the Company's nursing home operators to service their capital costs to the Company.

These current challenges have forced many nursing home operators in America into financial distress. A number of the Company's large nursing home operators ultimately sought protection under Chapter 11 of the Bankruptcy Code, including: Allegheny Health Systems in 1998; Sun Healthcare Group and Frontier Group, Inc. in 1999; and Integrated Health Services, RainTree Healthcare Corp. and Mariner Post-Acute Network, Inc. in 2000. Another operator, Advocat, Inc., suspended payment of rent to the Company during the first quarter of 2000, reinstated partial payments in April 2000, and negotiated a restructuring arrangement with the Company in November 2000.

These developments negatively affected the Company's financial results and the Company's access to capital sources to fund growth as well as refinance existing indebtedness. To obtain sufficient liquidity to enable the Company to address the maturity in July 2000 and February 2001 of indebtedness totaling \$129.8 million, the Company issued \$100.0 million of Series C preferred stock to Explorer Holdings, L.P. in July, 2000. (See Note 10 to the Company's Consolidated Financial Statements - Shareholders' Equity and Stock Options). Simultaneously with the issuance of the Series C preferred, the Company also refinanced its existing credit facilities.

As a consequence of the financial difficulties encountered by a number of the Company's operators, the Company has recovered various long-term care assets pledged as collateral for the operators' obligations either in connection with a restructuring or settlement with certain operators or pursuant to foreclosure proceedings. Under normal circumstances, the Company would classify such assets as "assets held for sale" and seek to re-lease or otherwise dispose of such assets as promptly as practicable. However, a number of companies are actively marketing portfolios of similar assets and, in light of the current conditions in the long-term care industry generally, it has become more difficult both to sell such properties and for potential buyers to obtain financing to acquire

such properties. As a result, during 2000, \$24.3 million of assets previously classified as held for sale were reclassified to "owned and operated assets" as the timing and strategy for sale or, alternatively, re-leasing, were revised in light of prevailing market conditions.

As of December 31, 2000, the Company owned 69 long-term healthcare facilities that had been recovered from customers and are currently operated for the Company's own account. During 1999 and 2000, the Company experienced a significant increase in nursing home revenues attributable to the increase in owned and operated assets. In addition, in connection with the recovery of such assets, the Company often funds working capital and deferred capital expenditure needs for a transitional period until license transfers and other regulatory matters are completed and reimbursement from third-party payors recommences. Management intends to sell or re-lease such assets as promptly as possible consistent with achieving valuations that reflect management's estimate of fair realizable value of such assets. There can be no assurance, however, if or when such dispositions will be completed or whether such dispositions will be completed on terms that will enable the Company to realize the fair value of such assets.

In November 2000, Explorer agreed to defer receipt until April 2, 2001 of \$4.7 million in dividends declared in October 2000 on the Series C preferred. The Company requested this deferral in light of the maturity in February of 2001 of \$16.6 million of subordinated debentures. In February 2001, the Company suspended payment of all dividends on all classes of capital stock until such time as management has identified alternative sources of capital to address indebtedness maturing in 2002. In light of the prevailing conditions in the long-term care industry and the capital markets generally accessed by the Company, on March 30, 2001, the Company exercised its option to pay the deferred Series C dividend and associated waiver fee by issuing 48,420 additional shares of Series C to Explorer. These shares are convertible into 774,722 shares of Common Stock at \$6.25 per share. This action, together with the general suspension of dividends on all classes of the Company's capital stock, is intended to preserve cash to strengthen the Company's balance sheet in order to facilitate the Company's ability to obtain financing to fund the 2002 debt maturities. The Company currently intends to resume paying dividends at such time as the Company identifies sufficient resources or satisfactory plans to address its 2002 debt maturities. There can be no assurance, however, as to the timing of any resumption of dividends or the amount of any dividends if and when such dividends are resumed. All accrued and unpaid dividends on the Company's Series A, B and C preferred stock must be paid in full before dividends on the Company's Common Stock can be resumed. (See Liquidity and Capital Resources below and Note 15 to the Company's Consolidated Financial Statements - Subsequent Events).

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

## **Results of Operations**

Year Ended December 31, 2000 compared to Year Ended December 31, 1999

Revenues for the year ended December 31, 2000 totaled \$275.8 million, an increase of \$127.7 million over 1999 revenues. This increase is principally due to the inclusion of revenue from nursing home operations for assets owned and operated for the Company's account recovered pursuant to foreclosure and settlements with troubled operators in 2000 and revenues associated with foreclosure assets that were previously classified as Assets Held for Sale and reclassified to Owned and Operated assets during the third quarter of 2000. Excluding nursing home revenues of Owned and Operated Assets, revenues were \$96.8 million for the twelve-month period ended December 31, 2000, a decrease of \$26.1 million from the comparable prior year period.

Rental income for the year ended December 31, 2000 totaled \$67.3 million, a decrease of \$9.1 million over 1999 rental income. The decrease is due to \$8.7 million from reductions in lease revenue due to foreclosures, bankruptcies and restructurings, and \$4.9 million from reduced investments caused by 1999 and 2000 asset sales. These decreases are offset by \$2.4 million in additional revenue from 1999 investments held for a full year, \$1.3 million relating to contractual increases in rents that became effective in 2000 as defined under the related agreements and \$0.8 million from a mortgage that converted to a lease in 1999.

Mortgage interest income for the year ended December 31, 2000 totaled \$24.1 million, decreasing \$12.2 million over 1999 mortgage interest income. The decrease is due to \$7.3 million from reductions due to foreclosures, bankruptcies and restructurings, \$4.7 million from reduced investments caused by the payoffs of mortgages and \$0.8 million reduction from a mortgage that converted to a lease in 1999. These decreases are offset by \$0.5 million relating to contractual increases in interest income that became effective in 2000 as defined under the related agreements.

Nursing home revenues of owned and operated assets for the year ended December 31, 2000 totaled \$175.6 million, increasing \$149.3 million over 1999 nursing home revenues. The increase is due to the increased number of facilities classified as owned and operated assets in 2000 as a result of bankruptcies, foreclosures and restructurings.

Expenses for the year ended December 31, 2000 totaled \$335.3 million, increasing approximately \$217.4 million over expenses of \$117.9 million for 1999.

Nursing home expenses for owned and operated assets increased to \$179.0 million from \$25.2 million in 1999 due to the increase in the number of nursing homes operated for the Company's account.

Interest expense for the year ended December 31, 2000 was approximately \$42.4 million, compared with \$42.9 million for 1999. The decrease in 2000 is primarily due to lower average outstanding borrowings during the 2000 period, partially offset by higher average interest rates.

The 2000 provision for depreciation and amortization of real estate totaled \$23.3 million, decreasing \$0.9 million over 1999. The decrease primarily consists of \$2.0 million depreciation expense for properties sold or held for sale and a reduction in amortization of non-compete agreements of \$0.8 million offset by \$1.6 million additional depreciation expense from properties previously classified as mortgages and new investments placed in service in 1999 and 2000.

General and administrative expenses for 2000 totaled \$6.4 million as compared to \$5.2 million for 1999, an increase of \$1.2 million or 22.8%. The increase is due in part to the incremental administrative costs incurred in 2000 to manage the owned and operated assets, \$0.5 million of non-cash compensation expense relating to the Dividend Equivalent Rights granted to management, and increased consulting costs related to the foreclosure assets.

Legal expenses for 2000 totaled \$2.5 million as compared to \$0.4 million in 1999. The increase is largely attributable to legal costs associated with the operator bankruptcy filings and negotiations with the Company's troubled operators.

The Company recognized a \$4.7 million charge for severance payments in 2000. The charges are comprised of severance and consulting payments to the Company's former Chief Executive Officer and former Chief Financial Officer.

The Company also recognized a provision for loss on mortgages and notes receivable of \$15.3 million in 2000, adjusting the carrying value of mortgages and notes receivable to their net realizable value.

A provision for impairment of \$61.7 million is included in expenses for 2000. This provision included \$14.4 million for assets held for sale to reduce properties to fair value less cost to dispose, \$43.0 million for facilities recovered from operators and now held as owned and operated assets to fair value, \$1.9 million for other real estate assets and \$2.4 million of goodwill which, due to the diminished value of the related real estate assets, management has determined is impaired.

During 2000, the Company sold certain of its core and other assets realizing proceeds of \$34.7 million, resulting in a gain of \$10.0 million. During 1999, the Company completed asset sales yielding net proceeds of \$18.2 million, realizing losses of \$10.5 million.

Funds from operations (FFO) for the year ended December 31, 2000 on a fully diluted basis totaled \$19.2 million, a decrease of \$52.6 million as compared to the \$71.9 million for 1999 due to factors mentioned above. After adjusting for the non-recurring provision for loss on mortgages and notes receivable and severance and consulting costs, FFO for the year was \$39.3 million, a decrease of \$32.6 million from the year ended December 31, 1999. FFO is net earnings available to common shareholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments. The Company considers FFO to be one performance measure which is helpful to investors of real estate companies because, along with cash flows from operating activities, financing activities and investing activities, it provides investors and understanding of the ability of the Company to incur and service debt and to make expenditures. FFO in and of itself does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net earnings as an indication of operating performance or to net cash flow from operating activities as determined by GAAP as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

No provision for Federal income taxes has been made since the Company continues to qualify as a real estate investment trust under the provisions of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Accordingly, the Company has not been subject to Federal income taxes on amounts distributed to shareholders, as it distributed at least 95% (90% in 2001) of its real estate investment trust taxable income and has met certain other conditions.

Year Ended December 31, 1999 compared to Year Ended December 31, 1998

Revenues for the year ended December 31, 1999 totaled \$148.1 million, increasing \$38.8 million over 1998 revenues.

Rental income for the year ended December 31, 1999 totaled \$76.4 million, an increase of \$4.3 million over 1999 rental income. The 1999 revenue growth stems primarily from \$11.7 million in revenue from additional investments during 1999 and a full year of revenue from investments made in 1998, \$1.2 million relating to contractual increases in rents that became effective in 1999 as defined under the related agreements, and \$1.3 million from mortgages that converted to leases in 1999. These increases are offset by \$9.9 million from reductions in lease revenue due to foreclosure, bankruptcy and asset sales.

Mortgage interest income for the year ended December 31, 1999 totaled \$36.4 million, an increase of \$6.0 million over 1999 mortgage interest income. The 1999 revenue growth stems primarily from \$9.3 million in revenue from additional investments during 1999 and a full year of revenue from investments made in 1998, and \$0.3 million relating to contractual increases in mortgage interest that became effective in 1999 as defined under the related agreements. These increases are offset by \$2.4 million from reductions in interest revenue due to the payment of mortgages and \$1.3 million from mortgages that converted to leases in 1999.

Nursing home revenues of owned and operated assets for the year ended December 31, 1999 totaled \$26.2 million. This is due the consolidation of nursing home revenues for owned and operated assets as a result of foreclosures occurring in 1999.

Expenses for the year ended December 31, 1999 totaled \$117.9 million, increasing approximately \$51.8 million over expenses of \$66.1 million for 1998.

Nursing home expenses attributable to owned and operated assets increased \$25.2 million due to recovery of nursing homes operated for the Company's own account.

The 1999 provision for depreciation and amortization of real estate totaled \$24.2 million, increasing \$2.7 million over 1998. This increase stems from a full year provision for 1998 investments, plus a partial year provision for 1999 investments.

Interest expense for the year ended December 31, 1999 was approximately \$42.9 million, compared with \$32.4 million for 1998. The increase in 1999 is primarily due to higher average outstanding borrowings during the 1999 period, partially offset by lower average interest rates.

During 1999, the Company completed asset sales yielding net proceeds of \$18.2 million, realizing losses of \$10.5 million. In addition, management initiated a plan in the 1999 fourth quarter for additional asset sales to be completed in 2000. The additional assets identified as assets held for sale had a cost of \$33.8 million, a net carrying value of \$28.6 million and annualized revenue of approximately \$3.4 million. As a result of this review, the Company recorded a provision for impairment in 1999 of \$19.5 million to adjust the carrying value of assets held for sale to their fair value, less cost of disposal.

During 1998, the Company initiated a plan to dispose of certain properties judged to have limited long-term potential and to re-deploy the proceeds. Following a review of the portfolio, assets identified for sale in 1998 had a cost of \$95.0 million, a net carrying value of \$83.0 million, and annualized revenues of approximately \$11.4 million. In 1998, the Company recorded a provision for impairment of \$6.8 million to adjust the carrying value of those assets judged to be impaired to their fair value, less cost of disposal. During 1998, the Company completed sales of two groups of assets, yielding sales proceeds of \$42.0 million. Gains realized in 1998 from the dispositions approximated \$2.8 million.

Funds from operations (FFO) for the year ended December 31, 1999 on a fully diluted basis totaled \$71.9 million, an increase of \$2.1 million over the \$69.8 million for 1998. The 1999 increase in FFO is primarily due to new additions to investments, offset by early payment of mortgages and disposition of real estate assets.

## Recent Developments

In March 2001, the Company announced that it continues its discussions with several of its lessees to resolve payment issues, including Alterra Healthcare Corp., Lyric Healthcare, Alden Management Services Inc., and TLC Healthcare Inc. Alterra has recently issued a press release stating that it had informed certain of its lenders and landlords in March, 2001 that they will not be paying their March rents and debt service and are seeking relief as to these payments. The Company has a master lease with Alterra relating to ten assisted living facilities representing an investment of \$34.1 million which provides for annual rental payments of \$3.6 million. Alterra has not made its March rental payment to the Company, and while discussions are ongoing the Company has sent Alterra a notice of default.

Additionally, during the first quarter of 2001, pursuant to a forbearance agreement between the Company and Lyric through April 30, 2001, the Company began receiving 60% of the approximately \$860,000 of monthly rent due under the Lyric leases. Discussions are continuing with Lyric to reach a permanent restructuring agreement. The Company's total original investment in the ten nursing homes covered under the leases is \$95.4 million, and annual rent is \$10.3 million.

Affiliates of Alden Management, Inc., Chicago, IL, are delinquent in paying their lease, loan and escrow payments on the four facilities it leases from the Company. These facilities represent an initial investment by the Company of \$31.3 million, with annual rent of approximately \$3.2 million. Discussions with Alden are ongoing.

TLC Healthcare of Illinois, Inc. has made only partial payments under its master lease with the Company based on the shutdown of one of its facilities having an annual rent payment of approximately \$732,000, and has notified the Company that it may not be able to make its April payment on its other seven facilities or otherwise fund operations with annual rent and mortgage payments totaling approximately \$2.8 million. The Company has funded \$623,000 for payroll at the facilities to facilitate continued operations and is taking steps to transition the operations of the facilities to qualified operators through new lease or management structures.

In several instances the Company holds security deposits that can be applied in the event of lease and loan defaults, subject to applicable limitations under bankruptcy law with respect to operators seeking protection under Chapter 11 of the Bankruptcy Code.

## Liquidity and Capital Resources

At December 31, 2000 the Company had total assets of \$948.5 million, shareholders' equity of \$464.3 million, and long-term debt of \$451.4 million, representing approximately 47.6% of total capitalization. The Company has revolving credit facilities in place, providing up to \$250 million of financing, of which \$185.6 million was drawn at year-end, leaving \$64.4 million available for working capital and acquisition purposes. (See Note 15 to the Company's Consolidated Financial Statements - Subsequent Events).

On July 17, 2000, the Company replaced its \$200 million unsecured revolving credit facility with a new \$175 million secured revolving credit facility that expires on December 31, 2002. Borrowings of approximately \$129 million are outstanding at December 31, 2000. LIBOR based borrowings under this facility bear interest at a weighted-average rate of 10.00% at December 31, 2000 and 7.30% at December 31, 1999. Investments with a gross book value of approximately \$240 million are pledged as collateral for this credit facility.

On August 16, 2000, the Company replaced its \$50 million secured revolving credit facility with a new \$75 million secured revolving credit facility that expires on March 31, 2002 as to \$10 million and June 30, 2005 as to \$65 million. LIBOR based borrowings under this facility bear interest at a weighted-average rate of 9.77% at December 31, 2000 and 8.44% at December 31, 1999. Investments with a gross book value of approximately \$90 million are pledged as collateral for this credit facility.

As of December 31, 2000, the Company had an aggregate of \$312 million of outstanding debt which matures in 2002, including \$125 million of 6.95% Notes due June 2002 and \$185 million on credit facilities expiring in 2002.

The Company has \$50 million of funding available through July 1, 2001 pursuant to an Investment Agreement with Explorer Holdings, L.P. ("Explorer") which can be used, upon satisfaction of certain conditions, to fund growth. Following the drawing in full or expiration of this commitment, Explorer will have the option to provide up to an additional \$50 million to fund growth for an additional twelve-month period. (See Note 10 to the Company's Consolidated Financial Statements - Shareholders' Equity and Stock Options).

The Company has historically distributed to shareholders a large portion of the cash available from operations. The Company's historical policy has been to make distributions on Common Stock of approximately 80% of FFO. Cash dividends paid totaled \$1.00 per common share for 2000, compared with \$2.80 per common share for the year ended December 31, 1999. The dividend payout ratio, that is the ratio of per common share amounts for dividends paid to the diluted per common share amounts of funds from operations, was approximately 238% for 2000 and 84.3% for 1999. Excluding the provision for loss on mortgages and notes receivable and severance and consulting agreement costs, the dividend payout ratio for 2000 was approximately 73.0%.

In light of the maturity in February 2001 of \$16.6 million of subordinated debentures, Explorer agreed to allow the Company to defer payment until April 2, 2001 of \$4.7 million of dividends on Explorer's Series C preferred declared in October 2000. In exchange for this deferral, the Company agreed to pay Explorer a waiver fee equal to 10% per annum of the unpaid dividend amount from November 15, 2000 until the October 2000 dividend is paid.

On March 30, 2001 in consideration of prevailing conditions in the long-term care industry and the capital markets generally, the Company exercised its option under the dividend deferral agreement to pay the deferred dividend and related waiver fee by issuing 48,420 additional shares of Series C preferred which are convertible into 774,722 shares of Omega common stock at \$6.25 per share.

On February 1, 2001, the Company announced the suspension of all common and preferred dividends. This action together with the election by the Company to pay the deferred Series C dividend and related waiver in additional shares of Series C is intended to preserve cash to facilitate the Company's ability to obtain financing to fund the 2002 debt maturities. The Company anticipates that it will reinstate dividends on its common and preferred stock when the Company determines that it has sufficient resources or satisfactory plans to meet its 2002 debt maturities, but the Company can give no assurance as to when the dividends will be reinstated or the amount of the dividends if and when such payments are recommenced. Prior to recommencing the payment of dividends on the Company's Common stock, all accrued and unpaid dividends on the Company's Series A, B and C preferred stock must be paid in full. The Company has made sufficient distributions to satisfy the distribution requirements under the REIT rules to maintain its REIT status for 2000 and intends to satisfy such requirements under the REIT rules for 2001.

Management believes the Company's liquidity and various sources of available capital are adequate to finance operations, meet debt service requirements and fund future investments through the next 12 months but is taking immediate steps, including the announced suspension of dividends and the pursuit of capital sources for repayment or replacement of the 2002 debt maturities. As a result of the ongoing financial challenges facing long-term care operators, the availability of the external capital sources historically used by the Company has become extremely limited and expensive, and, therefore, no assurance can be given that the Company will be able to replace or extend the 2002 debt maturities, or that any refinancing or replacement financing would be on favorable terms to the Company. If the Company is unable to obtain refinancing or replacement financing, it may be required to liquidate investments in properties at times which may not permit realization of the maximum recovery on such investments. This could also result in adverse tax consequences to the Company (See Item 7A - Quantitative and Qualitative Disclosure About Market Risk.)

#### **Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

The Company is exposed to various market risks, including the potential loss arising from adverse changes in interest rates. The Company does not enter into derivatives or other financial instruments for trading or speculative purposes, but the Company seeks 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 market value of the Company's long-term fixed rate borrowings and mortgages are subject to interest rate risk. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of the Company's total long-term borrowings at December 31, 2000 was \$415 million. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately \$5.7 million. The estimated fair value of the Company's total mortgages portfolio at December 31, 2000 was \$231 million. A one percent increase in interest rates would result in a decrease in fair value of the mortgage portfolio by approximately \$8.0 million.

The Company is subject to risks associated with debt or preferred equity financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. If the Company were unable to refinance its 2002 debt maturities or other indebtedness on acceptable terms, it might be forced to dispose of properties on disadvantageous terms, which might result in losses to

the Company and might adversely affect the cash available for distribution to shareholders, or to pursue dilutive equity financing. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, the Company's interest expense would increase, which might affect the Company's ability to make distributions to its shareholders.

The Company utilizes interest rate swaps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. At December 31, 2000, the Company had interest rate swaps with notional amounts of \$100 million and \$32 million, based on 30-day London Interbank Offered Rates (LIBOR). Under the \$100 million agreement, the Company's LIBOR base rate cannot exceed 7.5%. This agreement expires in March, 2001. Under the \$32 million agreement, the Company receives payments when LIBOR interest rates exceed 6.35% and pays the counterparties when LIBOR rates are under 6.35%. The amounts exchanged are based on the notional amounts. The \$32 million agreement expires on December 17, 2001 but may be extended for an additional year by the counterparty. The combined fair value of the interest rate swaps at December 31, 2000 was a deficit of \$351,344.

#### **Item 8 -- Financial Statements and Supplementary Data**

The consolidated financial statements and report of independent auditors are filed as part of this report beginning on page F-1. The summary of unaudited quarterly results of operations for the years ended December 31, 2000 and 1999 is included in Note 16 to the financial statements which is incorporated herein by reference in response to Item 302 of Regulation S-K.

#### **Item 9 -- Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

### **PART III**

#### **Item 10 -- Directors and Executive Officers of the Registrant**

The information regarding directors required by this item is incorporated herein by reference to the Company's definitive proxy statement for the 2001 Annual Meeting of Shareholders, which will be filed on or before April 30, 2001 with the Securities and Exchange Commission pursuant to Regulation 14A. For information regarding Executive Officers of the Company, See Item 1 - Business - Executive Officers of the Company.

#### **Item 11 -- Executive Compensation**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement for the 2001 Annual Meeting of Shareholders, which will be filed on or before April 30, 2001 with the Securities and Exchange Commission pursuant to Regulation 14A.

#### **Item 12 -- Security Ownership of Certain Beneficial Owners and Management**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement for the 2001 Annual Meeting of Shareholders, which will be filed on or before April 30, 2001 with the Securities and Exchange Commission pursuant to Regulation 14A.

#### **Item 13 -- Certain Relationships and Related Transactions**

The information required by this item is incorporated herein by reference to the Company's definitive proxy statement for the 2001 Annual Meeting of Shareholders, which will be filed on or before April 30, 2001 with the Securities and Exchange Commission pursuant to Regulation 14A.

**PART IV**

**Item 14 -- Exhibits, Financial Statements, Financial Statement Schedules and Reports on Form 8-K**

(a)(1) Listing of Consolidated Financial Statements

Title of Document -----	Page Number -----
Report of Independent Auditors .....	F-1
Consolidated Balance Sheets as of December 31, 2000 and 1999 .....	F-2
Consolidated Statements of Operations for the years ended December 31, 2000, 1999 and 1998 .....	F-3
Consolidated Statements of Shareholders' Equity for the years ended December 31, 2000, 1999 and 1998 .....	F-4
Consolidated Statements of Cash Flows for the years ended December 31, 2000, 1999 and 1998 .....	F-5
Notes to Consolidated Financial Statements .....	F-6

(a)(2) Listing of Financial Statement Schedules. The following consolidated financial statement schedules are included herein:

**Schedule III -- Real Estate and Accumulated Depreciation**

**Schedule IV -- Mortgage Loans on Real Estate**

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable or sufficient information has been included in the notes to the financial statements and therefore have been omitted.

(a)(3) Listing of Exhibits -- See Index to Exhibits beginning on Page I-1 of this report.

(b) Reports on Form 8-K. There were no 8-K filings in the fourth quarter of 2000.

(c) Exhibits -- See Index to Exhibits beginning on Page I-1 of this report.

(d) Financial Statement Schedules -- The following consolidated financial statement schedules are included herein:

**Schedule III Real Estate and Accumulated Depreciation**

**Schedule IV Mortgage Loans on Real Estate**

## REPORT OF INDEPENDENT AUDITORS

Board of Directors  
Omega Healthcare Investors, Inc.

We have audited the accompanying consolidated balance sheets of Omega Healthcare Investors, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2000. Our audit also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omega Healthcare Investors, Inc. and subsidiaries at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

*/s/ Ernst & Young LLP*

*Chicago, Illinois  
March 16, 2001, except  
for the third and seventh  
paragraphs at Note 15, as  
to which the date is  
March 30, 2001.*

**OMEGA HEALTHCARE INVESTORS, INC.  
CONSOLIDATED BALANCE SHEETS**

(In Thousands)

	2000 ----	December 31, 1999 ----
<b>ASSETS</b>		
Real estate properties		
Land and buildings at cost .....	\$ 710,542	\$ 746,915
Less accumulated depreciation .....	(89,870)	(67,929)
Real estate properties - net .....	620,672	678,986
Mortgage notes receivable - net .....	206,710	213,617
	827,382	892,603
Other investments - net .....	53,242	75,460
	880,624	968,063
Assets held for sale - net .....	4,013	36,406
	884,637	1,004,469
Total Investments .....		
Cash and cash equivalents .....	7,172	4,105
Accounts receivable .....	10,497	9,664
Other assets .....	9,338	10,845
Operating assets for owned properties .....	36,807	9,648
	948,451	1,038,731
Total Assets .....	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Revolving lines of credit .....	\$ 185,641	\$ 166,600
6.95% Unsecured Notes due 2002 .....	125,000	125,000
6.95% Unsecured Notes due 2007 .....	100,000	100,000
Unsecured Notes due 2000 .....	-	81,381
Other long-term borrowings .....	24,161	33,383
Subordinated convertible debentures .....	16,590	48,405
Accrued expenses and other liabilities .....	18,002	14,818
Operating liabilities for owned properties .....	14,744	12,063
	484,138	581,650
Total Liabilities .....		
Shareholders' equity:		
Preferred Stock \$1.00 par value:		
Authorized - 10,000 shares		
Issued and outstanding - 2,300 shares Class A with an aggregate liquidation preference of \$57,500 .....	57,500	57,500
Issued and outstanding - 2,000 shares Class B with an aggregate liquidation preference of \$50,000 .....	50,000	50,000
Issued and outstanding - 1,000 shares Class C with an aggregate liquidation preference of \$100,000 .....	100,000	-
Common stock \$.10 par value:		
Authorized - 100,000 shares		
Issued and outstanding - 20,038 shares in 2000 and 19,877 shares in 1999 .....	2,004	1,988
Additional paid-in capital .....	438,552	447,304
Cumulative net earnings .....	182,548	232,105
Cumulative dividends paid .....	(365,654)	(331,341)
Stock option loans .....	-	(2,499)
Unamortized restricted stock awards .....	(607)	(526)
Accumulated other comprehensive income (loss) .....	(30)	2,550
	464,313	457,081
Total Shareholders' Equity .....		
Total Liabilities and Shareholders' Equity .....	\$ 948,451	\$ 1,038,731
	=====	=====

See accompanying notes.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In Thousands, Except Per Share Amounts)

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
<b>Revenues</b>			
Rental income .....	\$ 67,308	\$ 76,389	\$ 72,072
Mortgage interest income .....	24,126	36,369	30,399
Other investment income - net .....	6,594	6,814	5,971
Nursing home revenues of owned and operated assets .....	175,559	26,223	-
Miscellaneous .....	2,206	2,334	872
	-----	-----	-----
	275,793	148,129	109,314
<b>Expenses</b>			
Depreciation and amortization .....	23,265	24,211	21,542
Interest .....	42,400	42,947	32,436
General and administrative .....	6,425	5,231	4,852
Legal .....	2,467	386	155
State taxes .....	195	503	358
Severance and consulting agreement costs .....	4,665	-	-
Provision for loss on mortgages and notes receivable.....	15,257	-	-
Provision for impairment .....	61,690	19,500	6,800
Nursing home expenses of owned and operated assets .....	178,975	25,173	-
	-----	-----	-----
	335,339	117,951	66,143
	-----	-----	-----
(Loss) earnings before gain (loss) on assets sold .....	(59,546)	30,178	43,171
Gain(loss)on assets sold - net .....	9,989	(10,507)	2,798
Gain on distribution of Omega Worldwide, Inc. ....	-	-	30,240
	-----	-----	-----
Net (loss) earnings .....	(49,557)	19,671	76,209
Preferred stock dividends .....	(16,928)	(9,631)	(8,194)
	-----	-----	-----
Net (loss) earnings available to common .....	\$ (66,485)	\$ 10,040	\$ 68,015
	=====	=====	=====
<b>(Loss) earnings per common share:</b>			
Net (loss) earnings per share - basic .....	\$ (3.32)	\$ 0.51	\$ 3.39
	=====	=====	=====
Net (loss) earnings per share - diluted .....	\$ (3.32)	\$ 0.51	\$ 3.39
	=====	=====	=====
Dividends declared and paid per common share .....	\$ 1.00	\$ 2.80	\$ 2.68
	=====	=====	=====
Weighted Average Shares Outstanding, Basic .....	20,052	19,877	20,034
	=====	=====	=====
Weighted Average Shares Outstanding, Diluted .....	20,052	19,877	20,041
	=====	=====	=====
<b>Other comprehensive income (loss):</b>			
Unrealized Gain (Loss) on Omega Worldwide, Inc. ....	\$ (2,580)	\$ 1,789	\$ 761
	=====	=====	=====
Total comprehensive (loss) income .....	\$ (52,137)	\$ 21,460	\$ 76,970
	=====	=====	=====

See accompanying notes.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands, except per share amounts)

	Common Stock Par Value	Additional Paid-in Capital	Preferred Stock	Cumulative Net Earnings
	-----	-----	-----	-----
Balance at December 31, 1997 (19,475 shares) .....	\$ 1,947	\$ 439,214	\$ 57,500	\$136,225
Issuance of common stock:				
Grant of restricted stock (3 shares at an average of \$38.112 per share) and amortization of deferred stock compensation .....		42		
Dividend Reinvestment Plan (58 shares) .....	6	1,826		
Conversion of debentures, net of issue costs (522 shares) .....	52	13,810		
Stock options exercised (151 shares) .....	15	3,780		
Acquisition of real estate (8 shares) .....	1	282		
Stock option loans from directors, officers and employees .....				
Shares purchased and retired (156 shares) .....	(15)	(4,515)		
Issuance of preferred stock .....		(2,000)	50,000	
Net earnings for 1998 .....				76,209
Distribution of common shares of Omega Worldwide, Inc. ....				
Common dividends paid (\$2.68 per share) .....				
Preferred dividends paid (Series A of \$2.313 per share and Series B of \$1.078 per share) .....				
Unrealized Gain on Omega Worldwide, Inc. ....				
Balance at December 31, 1998 (20,057 shares) .....	2,006	452,439	107,500	212,434
Issuance of common stock:				
Grant of restricted stock (1 share at an average of \$29.709 per share) and amortization of deferred stock compensation .....		270		
Dividend Reinvestment Plan (113 shares) .....	11	2,370		
Acquisition of real estate (8 shares) .....	1	301		
Payments on stock option loans from directors, officers and employees .....				
Shares purchased and retired (320 shares) .....	(30)	(8,076)		
Net earnings for 1999 .....				19,671
Common dividends paid (\$2.80 per share) .....				
Preferred dividends paid (Series A of \$2.313 per share and Series B of \$2.156 per share) .....				
Unrealized Gain on Omega Worldwide, Inc. ....				
Balance at December 31, 1999 (19,877 shares) .....	1,988	447,304	107,500	232,105
Issuance of common stock:				
Grant of restricted stock (187 shares at an average of \$6.378 per share) and amortization of deferred stock compensation .....	19	1,179		
Dividend Reinvestment Plan (74 shares) .....	7	487		
Shares surrendered for stock option loan cancellation (100 shares) ...	(10)	(579)		
Issuance of preferred stock .....		(9,839)	100,000	
Net loss for 2000 .....				(49,557)
Common dividends paid (\$1.000 per share) .....				
Preferred dividends paid and/or declared (Series A of \$2.313 per share, Series B of \$2.156 per share and Series C of \$0.25 per share) .....				
Unrealized Gain on Omega Worldwide, Inc. ....				
Balance at December 31, 2000 (20,038 shares) .....	\$ 2,004	\$ 438,552	\$207,500	\$182,548

See accompanying notes.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(In thousands, except per share amounts)

	Cumulative Dividends	Unamortized Restricted Stock Awards	Stock Option Loans	Other Comprehensive Income
	-----	-----	-----	-----
Balance at December 31, 1997 (19,475 shares) .....	\$(165,824)	\$ (841)		
Issuance of common stock:				
Grant of restricted stock (3 shares at an average of \$38.112 per share) and amortization of deferred stock compensation .....		380		
Dividend Reinvestment Plan (58 shares) .....				
Conversion of debentures, net of issue costs (522 shares) .....				
Stock options exercised (151 shares) .....				
Acquisition of real estate (8 shares) .....				
Stock option loans from directors, officers and employees .....			\$(2,863)	
Shares purchased and retired (156 shares) .....				
Issuance of preferred stock .....				
Net earnings for 1998 .....				
Distribution of common shares of Omega Worldwide, Inc. ....	(39,062)			
Common dividends paid (\$2.68 per share) .....	(53,693)			
Preferred dividends paid (Series A of \$2.313 per share and Series B of \$1.078 per share) .....	(7,475)			
Unrealized Gain on Omega Worldwide, Inc. ....				\$ 761
-----	-----	-----	-----	-----
Balance at December 31, 1998 (20,057 shares) .....	(266,054)	(461)	(2,863)	761
Issuance of common stock:				
Grant of restricted stock (1 share at an average of \$29.709 per share) and amortization of deferred stock compensation .....		(65)		
Dividend Reinvestment Plan (113 shares) .....				
Acquisition of real estate (8 shares) .....				
Payments on stock option loans from directors, officers and employees .....			67	
Shares purchased and retired (320 shares) .....			297	
Net earnings for 1999 .....				
Common dividends paid (\$2.80 per share) .....	(55,655)			
Preferred dividends paid (Series A of \$2.313 per share and Series B of \$2.156 per share) .....	(9,632)			
Unrealized Gain on Omega Worldwide, Inc. ....				1,789
-----	-----	-----	-----	-----
Balance at December 31, 1999 (19,877 shares) .....	(331,341)	(526)	(2,499)	2,550
Issuance of common stock:				
Grant of restricted stock (187 shares at an average of \$6.378 per share) and amortization of deferred stock compensation .....		(81)		
Dividend Reinvestment Plan (74 shares) .....				
Shares surrendered for stock option loan cancellation (100 shares). Issuance of preferred stock .....			2,499	
Net loss for 2000 .....				
Common dividends paid (\$1.000 per share) .....	(20,015)			
Preferred dividends paid and/or declared (Series A of \$2.313 per share, Series B of \$2.156 per share and Series C of \$0.25 per share) .....	(14,298)			
Unrealized Gain on Omega Worldwide, Inc. ....				(2,580)
-----	-----	-----	-----	-----
Balance at December 31, 2000 (20,038 shares) .....	\$(365,654)	\$ (607)	\$ -	\$ (30)

See accompanying notes.

F-4

OMEGA HEALTHCARE INVESTORS, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In Thousands)

	2000	Year Ended December 31, 1999	1998
	----	----	----
	(In thousands)		
Operating activities			
Net (loss) earnings .....	\$ (49,557)	\$ 19,671	\$76,209
Adjustment to reconcile net (loss) earnings to cash provided by operating activities:			
Depreciation and amortization .....	23,265	24,211	21,543
Provision for impairment .....	61,690	19,500	6,800
Provision for loss on notes and mortgages receivable .....	15,257	-	-
(Gain)/loss on assets sold - net .....	(9,989)	10,507	(2,798)
Gain on distribution of Omega Worldwide .....	-	-	(30,240)
Other .....	3,283	3,538	2,179
Net change in accounts receivable for Owned & Operated assets - net .....	(20,442)	(9,588)	-
Net change in accounts payable for Owned & Operated assets .....	4,674	3,962	-
Net change in other Owned & Operated assets and liabilities .....	(8,709)	8,040	-
Net change in operating assets and liabilities .....	20	(5,529)	(3,980)
-----	-----	-----	-----
Net cash provided by operating activities .....	19,492	74,312	69,713
Cash flows from financing activities			
Proceeds of revolving lines of credit - net .....	19,041	43,600	64,700
Proceeds from unsecured note offering .....	-	-	125,000
Payments of long-term borrowings .....	(122,418)	(1,078)	(612)

Receipts from Dividend Reinvestment Plan .....	495	2,381	1,832
Dividends paid .....	(29,646)	(65,287)	(61,168)
Proceeds from preferred stock offering .....	100,000	-	50,000
Costs of raising capital .....	(9,839)	-	(3,290)
Purchase of Company common stock .....	-	(8,106)	(3,545)
Deferred financing costs paid .....	(5,071)	-	-
Other .....	-	(957)	356
	-----	-----	-----
Net cash (used in) provided by financing activities .....	(47,438)	(29,447)	173,273
 Cash flow from investing activities			
Acquisition of real estate .....	-	(79,844)	(157,474)
Placement of mortgage loans .....	-	(22,987)	(125,850)
Proceeds from sale of real estate investments - net .....	35,792	18,198	37,771
Net proceeds from sale of Omega Worldwide shares .....	-	-	16,938
Fundings of other investments - net .....	(6,815)	(14,714)	(17,488)
Collection of mortgage principal .....	2,036	54,749	3,748
Other .....	-	1,961	746
	-----	-----	-----
Net cash provided by (used in) investing activities .....	31,013	(42,637)	(241,609)
 Increase in cash and cash equivalents.....	3,067	2,228	1,377
Cash and cash equivalents at beginning of year .....	4,105	1,877	500
	-----	-----	-----
Cash and cash equivalents at end of year .....	\$ 7,172	\$4,105	\$ 1,877
	=====	=====	=====

See accompanying notes.

# OMEGA HEALTHCARE INVESTORS, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### NOTE 1 -- ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

#### Organization

Omega Healthcare Investors, Inc., a Maryland corporation ("the Company"), is a self-administered real estate investment trust (REIT). From the date the Company commenced operations in 1992, it has invested primarily in long-term care facilities, which include nursing homes, assisted living facilities and rehabilitation hospitals. The Company currently has investments in 264 healthcare facilities located in the United States.

#### Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries after elimination of all material intercompany accounts and transactions. Due to changes in the market conditions affecting the long-term care industry, the Company has begun to operate a portfolio of its foreclosure assets for its own account until such time as these facilities' operations are stabilized and are re-leasable or saleable at lease rates or sales prices that maximize the value of these assets to the Company. As a result, these facilities and their respective operations are presented on a consolidated basis in the Company's financial statements. Certain reclassifications have been made to the 1999 and 1998 financial statements for consistency with the presentation adopted for 2000. Such reclassifications have no effect on previously reported earnings or equity.

#### Real Estate Investments

Investments in leased real estate properties and mortgage notes are recorded at cost and original mortgage amount, respectively. The cost of the properties acquired is allocated between land and buildings based generally upon independent appraisals. Depreciation for buildings is recorded on the straight-line basis, using estimated useful lives ranging from 20 to 39 years. Leasehold interests are amortized over the initial term of the lease, with lives ranging from four to seven years.

#### Owned & Operated Assets and Assets Held for Sale

In the ordinary course of its business activities, the Company periodically evaluates investment opportunities and extends credit to customers. It also is regularly engaged in lease and loan extensions and modifications. Additionally, the Company monitors and manages its investment portfolio with the objectives of improving credit quality and increasing returns. In connection with portfolio management, it engages in various collection and foreclosure activities. When the Company acquires real estate pursuant to a foreclosure proceeding, it is designated as "owned and operated assets" and is recorded at the lower of cost or fair value. Such amounts are included in real estate properties on the Company's Consolidated Balance Sheet. Operating assets and operating liabilities for the owned and operated properties are shown separately on the face of the Company's Consolidated Balance Sheet and are detailed in Note 18 - Segment Information.

When a formal plan to sell real estate is adopted, the real estate is classified as "assets held for sale," with the net carrying amount adjusted to the lower of cost or estimated fair value, less cost of disposal. Depreciation of the facilities is excluded from operations after management has committed to a plan to sell the asset.

#### Impairment of Assets

Provisions for impairment losses related to long-lived assets are recognized when expected future cash flows are less than the carrying values of the assets. If indicators of impairment are present, the Company evaluates the carrying value of the related real estate investments in relationship to the future undiscounted cash flows of the underlying facilities and, if impaired, the Company then adjusts the net carrying value of leased properties and other long-lived assets to the lower of discounted present value of its expected future cash flows or fair value, if the sum of the expected future cash flow or sales proceeds is less than carrying value.

#### Cash Equivalents

Cash equivalents consist of highly liquid investments with a maturity date of three months or less when purchased. These investments are stated at cost, which approximates fair value.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Accounts Receivable - Owned and Operated Assets**

Accounts Receivable from Owned and Operated Assets consist primarily of amounts due from Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies and individual patients. Amounts recorded include estimated provisions for loss related to uncollectible accounts and disputed items.

**Investments in Equity Securities**

Marketable securities held as available-for-sale are stated at fair value with unrealized gains and losses for the securities reported in accumulated other comprehensive income. Realized gains and losses and declines in value judged to be other-than-temporary on securities held as available-for-sale are included in investment income. The cost of securities sold is based on the specific identification method. Interest and dividends on securities available-for-sale are included in investment income.

**Deferred Financing Costs**

Deferred financing costs are amortized on a straight-line basis over the terms of the related borrowings. Amortization of financing costs totaling \$1,930,000, \$1,342,000 and \$1,042,000 in 2000, 1999 and 1998, respectively, is classified as interest expense in the Consolidated Statements of Operations. Unamortized deferred financing costs applicable to debt which is converted to common stock are charged to paid-in capital at the date of conversion.

**Non-Compete Agreements and Goodwill**

Non-compete agreements and the excess of the purchase price over the value of tangible net assets acquired (i.e., goodwill) are amortized on a straight-line basis over periods ranging from five to ten years. Non-compete agreements, which have cost of \$4,982,000 became fully amortized and were eliminated in 1999 by a charge to accumulated amortization. Due to the diminished value of the related real estate assets, management has determined that the goodwill is entirely impaired and has written off the balance of \$2,356,000 in 2000. Accumulated amortization was \$-0- and \$3,363,000 at December 31, 2000 and 1999, respectively.

**Revenue Recognition**

Rental income and mortgage interest income is recognized as earned over the terms of the related master leases and mortgage notes, respectively. Such income includes periodic increases based on pre-determined formulas as defined in the master leases and mortgage loan agreements. Reserves are taken against earned revenues from leases and mortgages when collection of amounts due become questionable or when negotiations for restructurings of troubled operators lead to lower expectations of expected ultimate collection amounts. Nursing home revenues from these owned and operated assets are recognized as services are provided.

**Federal and State Income Taxes**

As a qualified real estate investment trust, the Company will not be subject to Federal income taxes on its income, and no provisions for Federal income taxes have been made. The reported amounts of the Company's assets and liabilities as of December 31, 2000 are less than the tax basis of assets by approximately \$21 million.

**Stock Based Compensation**

The Company grants stock options to employees and directors with an exercise price equal to the fair value of the shares at the date of the grant. In accordance with the provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees, compensation expense is not recognized for these stock option grants.

Expense related to Dividend Equivalent Rights is recognized as dividends are declared, based on anticipated vesting.

**Accounting Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Risks and Uncertainties**

The Company is subject to certain risks and uncertainties affecting the healthcare industry as a result of healthcare legislation and growing regulation by federal, state and local governments. Additionally, the Company is subject to risks and uncertainties as a result of changes affecting operators of nursing home facilities due to the actions of governmental agencies and insurers to limit the growth in cost of healthcare services. (See Note 5 - Concentration of Risk).

**NOTE 2 -- PROPERTIES**

**Leased Property**

The Company's leased real estate properties, represented by 130 long-term care facilities and 2 rehabilitation hospitals at December 31, 2000, are leased under provisions of master leases with initial terms ranging from 10 to 16 years, plus renewal options. Substantially all of the master leases provide for minimum annual rentals which are subject to annual increases based upon increases in the Consumer Price Index or increases in revenues of the underlying properties, with certain maximum limits. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

A summary of the Company's investment in leased real estate properties is as follows:

	December 31,	
	2000	1999
	(In thousands)	
Buildings .....	\$ 553,183	\$ 655,588
Land .....	26,758	30,517
	579,941	686,105
Less accumulated depreciation .....	(72,190)	(67,115)
	\$ 507,751	\$ 618,990
	=====	=====

The future minimum contractual rentals for the remainder of the initial terms of the leases are as follows:

(In thousands)	
2001 .....	\$ 65,212
2002 .....	65,194
2003 .....	64,186
2004 .....	62,816
2005 .....	62,405
Thereafter .....	310,569
	\$ 630,382
	=====

**Owned and Operated Property**

The Company's owned and operated real estate properties include 69 long-term care facilities at December 31, 2000, of which 57 are owned directly by the Company and 12 are subject to third-party leases. An impairment charge of \$41.3 million was taken on these assets during the year ended December 31, 2000.

A summary of the Company's investment in the 57 owned and operated real estate properties is as follows:

	December 31,	
	2000	1999
	(In thousands)	
Buildings .....	\$ 124,452	\$ 57,637
Land .....	6,149	3,173
	130,601	60,810
Less accumulated depreciation .....	(17,680)	(814)
	\$ 112,921	\$ 59,996
	=====	=====

=====

=====

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

A summary of the Company's investment in the 12 facilities subject to third-party leases is as follows:

	December 31, 2000
Leasehold interest .....	\$ 1,771
Less accumulated amortization .....	(92)
	-----
Total .....	\$ 1,679
	=====

Future minimum operating lease payments on the 12 facilities are as follows:

2001 .....	\$ 4,318
2002 .....	4,318
2003 .....	4,318
2004 .....	3,335
2005 .....	2,221
Thereafter .....	855
	-----
	\$ 19,365
	=====

**Assets Sold or Held For Sale**

During 1998, management initiated a plan to dispose of certain properties judged to have limited long-term potential and to re-deploy the proceeds. Following a review of the portfolio, assets identified for sale in 1998 had a cost of \$95 million, a net carrying value of \$83 million, and annualized revenues of approximately \$11.4 million. In 1998, the Company recorded a provision for impairment of \$6.8 million to adjust the carrying value of certain assets to their fair value, less cost of disposal. During 1998, the Company completed sales of two groups of assets, yielding sales proceeds of \$42.0 million. Gains realized in 1998 from the dispositions approximated \$2.8 million.

During 1999, the Company completed sales yielding net proceeds of \$18.2 million, realizing losses of \$10.5 million. In addition, management initiated a plan for additional asset sales to be completed in 2000. The additional assets identified as assets held for sale had a cost of \$33.8 million, a net carrying amount of \$28.6 million and annualized revenue of approximately \$3.4 million. As a result of this review, the Company recorded a provision for impairment of \$19.5 million to adjust the carrying value of assets held for sale to their fair value, less cost of disposal.

During 2000, the Company recorded a \$14.4 million provision for impairment related to assets held for sale and reclassified \$24.3 million of assets held for sale to "owned and operated assets" as the timing and strategy for sale or, alternatively, re-leasing were revised in light of prevailing marketing conditions. During 2000, the Company realized disposition proceeds of \$1.1 million on assets held for sale. Additionally, the Company received proceeds of \$34.7 million from sales of certain of its core and other assets, resulting in a gain of \$9.9 million.

Following is a summary of the impairment reserve:

Beginning Impairment at January 1, 1998.....	\$0
Provision charged .....	6,800
Provision applied .....	-
	-----
Impairment Balance at December 31, 1998.....	6,800
Provision charged .....	19,500
Provision applied .....	(4,567)
	-----
Impairment Balance at December 31, 1999.....	21,733
Provision charged .....	14,415
Converted to Owned and Operated .....	(17,339)
Provision applied .....	(10,060)
	=====
Impairment Balance at December 31, 2000.....	\$8,749

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 3 -- MORTGAGE NOTES RECEIVABLE**

The following table summarizes the mortgage notes balances for the years ended December 31, 2000 and 1999:

	2000	1999
	----	----
	(In thousands)	
Gross mortgage notes .....	\$211,581	\$213,617
Reserve for uncollectable loans .....	(4,871)	-
	-----	-----
Net mortgage notes at December 31 .....	\$206,710	\$213,617
	=====	=====

Mortgage notes receivable relate to 63 long-term care facilities. 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 13 states, operated by 12 independent healthcare operating companies.

The Company monitors compliance with mortgages and when necessary has initiated collection, foreclosure and other proceedings with respect to certain outstanding loans.

During 2000, the Company determined that a certain mortgage was impaired and accordingly wrote down the mortgage to its net realizable value resulting in a provision for loan loss of \$4.9 million. Income recognized on the mortgage was \$745,000, \$966,000, and \$951,000 for the years ended December 31, 2000, 1999 and 1998, respectively.

The following are the three primary mortgage structures currently used by the Company:

Convertible Participating Mortgages are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Interest rates are usually subject to annual increases based upon increases in the CPI or increases in revenues of the underlying long-term care facilities, with certain maximum limits. Convertible Participating Mortgages afford the Company an option to convert its mortgage into direct ownership of the property, generally at a point six to nine years from inception; they are then subject to a leaseback to the operator for the balance of the original agreed term and for the original agreed participation in revenues or CPI adjustments. This allows the Company to capture a portion of the potential appreciation in value of the real estate. The operator has the right to buy out the Company's option at formula prices.

Participating Mortgages are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. Interest rates are usually subject to annual increases based upon increases in the CPI or increases in revenues of the underlying long-term care facilities, with certain maximum limits.

Fixed-Rate Mortgages, with a fixed interest rate for the mortgage term, are also secured by first mortgage liens on the underlying real estate and personal property of the mortgagor.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The outstanding principal amount of mortgage notes receivable, net of allowances, are as follows:

	December 31,	
	2000	1999
	----	----
	(In thousands)	
Participating mortgage note due 2007; interest at 16.00% payable monthly (excluding 1.0% deferred interest).....	\$58,800	\$58,800
Participating mortgage note due 2003; interest at 10.55% payable monthly .....	37,500	37,500
Participating mortgage note due 2008; interest at 10.08% payable monthly .....	12,000	12,000
Convertible participating mortgage note due 2001; monthly interest payments at 16.16% with principal due at maturity .....	8,932	8,932
Convertible participating mortgage note due 2016, monthly interest payments at 13.50%.....	8,114	8,127
Mortgage notes due 2015; monthly payments of \$189,004, including interest at 11.01% .....	16,199	16,656
Mortgage note due 2010; monthly payment of \$124,826, including interest at 11.50%.....	12,805	12,825
Mortgage note due 2006; monthly payment of \$107,382, including interest at 11.50%.....	11,025	11,035
Other mortgage notes .....	19,527	20,975
Other convertible participating mortgage notes .....	15,287	15,297
Other participating mortgage notes .....	6,521	11,470
Total mortgages - net .....	\$206,710	\$213,617
	=====	=====

Mortgage notes are shown net of allowances of \$4,871,000 in 2000. There were no provisions recorded prior to 2000.

On December 30, 1999, the Company provided notice as to an Event of Default and acceleration of the due date to the mortgagor of the \$58.8 million participating mortgage note. The total obligation outstanding at that time, including deferred interest, was \$63.3 million. At that date the mortgagor was current with respect to principal and interest payments due on the loan but had failed to fully comply with certain covenants and to pay certain property taxes. On January 13, 2000, the Company offset security deposits of \$2.4 million against unpaid current and deferred interest. On January 18, 2000 the mortgagor filed with the Bankruptcy Court of Wilmington, Delaware for protection under Chapter 11 of the Bankruptcy Code. While the Company's collection actions have been stayed as a result of the bankruptcy filing by the mortgagor, the Company believes the security for its loan will be adequate for collection of amounts due. During 2000, the Company recorded interest on this mortgage note at a rate equal to the results expected from negotiations with the operator, and continues to accrue interest at this reduced rate. On February 1, 2001, four facilities that were collateral for this mortgage were sold to a third-party, and the Company received a separate mortgage note in the amount of \$4.5 million, which is secured by liens on the underlying real estate. The Company reduced the amount of the participating mortgage note by \$4.5 million.

The estimated fair value of the Company's mortgage loans at December 31, 2000 is approximately \$230.6 million. Fair value is based on the estimates by management using rates currently prevailing for comparable loans.

**NOTE 4 - OTHER INVESTMENTS**

A summary of the Company's other investments is as follows:

	At December 31,	
	2000	1999
	----	----
Assets leased by United States Postal Service-net .....	\$22,416	\$22,672
Notes Receivable .....	24,550	27,548
Allowance for loss on notes receivable .....	(8,995)	(1,460)
Equity Securities of Omega Worldwide Inc. ....	5,435	8,015
Equity Securities of Principal Healthcare Finance Limited .....	1,615	1,615
Equity Securities of Principal Healthcare Finance Trust .....	1,266	1,266

Other .....	6,955	15,804
	-----	-----
Total Other Investments .....	\$53,242	\$75,460
	=====	=====

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 5 -- CONCENTRATION OF RISK**

As of December 31, 2000, 92% of the Company's real estate investments are related to long-term care facilities. The Company's facilities are located in 29 states and are operated by 27 independent healthcare operating companies.

Investing in long-term healthcare facilities involves certain risks stemming from government legislation and regulation of operators of the facilities. The Company's tenants/mortgagors depend on reimbursement legislation which will provide them adequate payments for services because a significant portion of their revenue is derived from government programs funded under Medicare and Medicaid. The Medicare program recently implemented a Prospective Payment System for skilled nursing facilities, which replaced cost-based reimbursements and significantly reduced payments for services provided. Additionally, certain State Medicaid programs have implemented similar prospective payment systems. The reduction in payments to nursing home operators pursuant to the Medicare and Medicaid payment changes has negatively affected the revenues of the Company's nursing home facilities.

Most of the Company's nursing home investments were designed exclusively to provide long-term healthcare services. These facilities are also subject to detailed and complex specifications for the physical characteristics as mandated by various governmental authorities. If the facilities cannot be operated as long-term care facilities, finding alternative uses may be difficult. The Company's triple-net leases require its tenants to comply with regulations affecting its facilities, and the Company regularly monitors compliance by tenants with healthcare facilities' regulations. Nevertheless, if tenants fail to perform their obligations, the Company may be required to do so in order to maintain the value of its investments.

Approximately 77% of the Company's real estate investments are operated by 7 public companies, including Sun Healthcare Group, Inc. (26.1%), Integrated Health Services, Inc. (17.5%), Advocat, Inc. (11.6%), Vencor Operating, Inc. (5.8%), Mariner Post-Acute Network (6.4%), Genesis Health Ventures, Inc. (5.3%) and Alterra Healthcare Corporation (formerly Alternative Living Services) (3.7%). Of the remaining 20 operators, none operate investments in facilities representing more than 3.4% of the total real estate investments.

Many of the nursing home companies operating the Company's facilities have reported significant operating losses in the last two years. The Company has initiated discussions with all operators who are experiencing financial difficulties, as well as state officials who regulate its properties. It also has initiated various other actions to protect its interest under its leases and mortgages.

**NOTE 6 - LEASE AND MORTGAGE DEPOSITS**

The Company obtains liquidity deposits and letters of credit from most operators pursuant to its leases and mortgages. These generally represent the monthly rental and mortgage interest income for periods ranging from three to six months with respect to certain of its investments. At December 31, 2000, the Company held \$7.6 million in such liquidity deposits and \$9.6 million in letters of credit. Additional security for rental and mortgage interest revenue from operators is provided by covenants regarding minimum working capital and net worth, liens on accounts receivable and other operating assets of the operators, provisions for cross default, provisions for cross-collateralization and by corporate / personal guarantees.

**NOTE 7 -- BORROWING ARRANGEMENTS**

On July 17, 2000, the Company replaced its \$200 million unsecured revolving line of credit facility with a new \$175 million secured revolving line of credit facility that expires on December 31, 2002. Borrowings bear interest at 2.5% to 3.25% over LIBOR, based on the Company's leverage ratio. Borrowings of approximately \$129 million are outstanding at December 31, 2000. LIBOR based borrowings under this facility bear interest at a weighted-average rate of 10.00% at December 31, 2000 and 7.30% at December 31, 1999. Investments with a gross book value of approximately \$240 million are pledged as collateral for this revolving line of credit facility.

On August 16, 2000, the Company replaced its \$50 million secured revolving line of credit facility with a new \$75 million secured revolving line of credit facility that expires on March 31, 2002 as to \$10 million and June 30, 2005 as to \$65 million. Borrowings under the facility bear interest at 2.5% to 3.75% over LIBOR, based on the Company's leverage ratio and collateral assigned. LIBOR based borrowings under this facility bear interest at a weighted-average rate of 9.77% at December 31, 2000 and 8.44% at December 31, 1999. Investments with a gross book value of approximately \$90 million are currently pledged as collateral for this revolving line of credit facility.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Company is required to meet certain financial covenants, including prescribed leverage and interest coverage ratios on its long-term borrowings.

The following is a summary of the Company's long-term borrowings:

	December 31,	
	2000	1999
	----	----
	(In thousands)	
Unsecured borrowings:		
6.95% Notes due June 2002 .....	\$125,000	\$125,000
6.95% Notes due August 2007 .....	100,000	100,000
Subordinated Convertible Debentures due 2001 .....	16,590	48,405
Unsecured Notes due July 2000 .....	-	81,381
Other .....	4,455	4,615
	-----	-----
	246,045	359,401
Secured borrowings:		
Revolving lines of credit .....	185,641	166,600
Industrial Development Revenue Bonds .....	8,375	8,595
Mortgage notes payable to banks .....	6,112	14,844
HUD loans .....	5,219	5,329
	-----	-----
	205,347	195,368
	-----	-----
	\$451,392	\$554,769
	=====	=====

The Subordinated Convertible Debentures ("Debentures") are convertible at any time into shares of Common Stock at a conversion price of \$26.962 per share. The Debentures are unsecured obligations of the Company and are subordinate in right and payment to the Company's senior unsecured indebtedness. The balance of the Debentures was repaid in full on February 1, 2001 principally utilizing borrowings under the Company's revolving lines of credit. (See Note 15 - Subsequent Events).

On July 15, 2000 the Company repaid the 10% and 7.4% Unsecured Notes issued in 1995. The effective interest rate for the unsecured notes was 8.8%, with interest-only payments due semi-annually through July 2000.

Real estate investments with a gross book value of approximately \$41 million are pledged as collateral for outstanding secured borrowings. Long-term secured borrowings are payable in aggregate monthly installments of approximately \$282,300, including interest at rates ranging from 7.0% to 10.0%.

Assuming none of the Company's borrowing arrangements are refinanced, converted or prepaid prior to maturity, required principal payments for each of the five years following December 31, 2000 and the aggregate due thereafter are set forth below:

2001 .....	\$ 18,882
2002 .....	263,429
2003 .....	2,026
2004 .....	2,176
2005 .....	50,036
Thereafter .....	114,843
	-----
	\$ 451,392
	=====

The estimated fair values of the Company's long-term borrowings is approximately \$415.0 million at December 31, 2000 and \$508.5 million at December 31, 1999. Fair values are based on the estimates by management using rates currently prevailing for comparable loans.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 8 -- FINANCIAL INSTRUMENTS**

At December 31, 2000 and 1999, the carrying amounts and fair values of the Company's financial instruments are as follows:

	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	-----	-----	-----	-----
<b>Assets:</b>				
Cash and cash equivalents.....	\$ 7,172	\$ 7,172	\$ 4,105	\$ 4,105
Mortgage notes receivable - net .....	206,710	230,590	213,617	230,781
Other investments .....	53,242	53,675	75,460	74,610
	-----	-----	-----	-----
Totals	\$ 267,124	\$ 291,437	293,182	309,496
	=====	=====	=====	=====
<b>Liabilities:</b>				
Revolving lines of credit .....	\$ 185,641	\$ 185,641	\$ 166,600	\$ 166,600
6.95% Notes .....	225,000	190,177	225,000	181,832
Senior Unsecured Notes .....	-	-	81,381	81,054
Subordinated Convertible Debentures .....	16,590	17,101	48,405	47,402
Other long-term borrowings .....	24,161	22,121	33,383	31,620
	-----	-----	-----	-----
Totals .....	\$ 451,392	\$ 415,040	\$ 554,769	\$ 508,508
	=====	=====	=====	=====

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 1 - Risks and Uncertainties). The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented above are not necessarily indicative of the amounts the Company would realize in a current market exchange.

The Company utilizes interest rate swaps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. At December 31, 2000, the Company had an interest rate cap with a notional amount of \$100 million and an interest rate swap with a notional amount of \$32 million, based on 30-day London Interbank Offered Rates (LIBOR). Under the \$100 million agreement, the Company's LIBOR base interest rate cannot exceed 7.5%. This agreement expires in March, 2001. Under the \$32 million agreement, the Company receives payments when LIBOR interest rates exceed 6.35% and pays the counterparties when LIBOR rates are under 6.35%. The amounts exchanged are based on the notional amounts. The \$32 million agreement expires on December 17, 2001. The combined fair value of the interest rate swaps at December 31, 2000 was a deficit of \$351,344.

In June 1998, the Financial Accounting Standards Board issued Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, which is required to be adopted in years beginning after June 15, 2000. The Company expects to adopt the new Statement effective January 1, 2001. The Statement will require the Company to recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedge item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

Based on the Company's derivative positions at December 31, 2000, the Company estimates that upon adoption it will record a loss from the cumulative effect of an accounting change of approximately \$400,000 in the consolidated statement of operations.

**NOTE 9 -- RETIREMENT ARRANGEMENTS**

The Company has a 401(k) Profit Sharing Plan covering all eligible employees. Under the Plan, employees are eligible to make contributions, and the Company, at its discretion, may match contributions and make a profit sharing contribution.

In 1993, the Company adopted the 1993 Deferred Compensation Plan, which covered all eligible employees and members of the Board of Directors. Participation by the directors in the Deferred Compensation Plan was terminated effective December 31, 1997, and accumulated benefits to the Directors under the plan were settled and paid in 1998.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

The Deferred Compensation Plan is an unfunded plan under which the Company may award units that result in participation in the dividends and future growth in the value of the Company's common stock. The total number of units permitted by the plan is 200,000, of which 90,850 units have been awarded and 20,050 are outstanding at December 31, 2000. Units awarded to eligible participants vest over a period of five years based on the participant's initial service date.

Provisions charged to operations with respect to these retirement arrangements totaled \$181,000, \$123,000 and \$346,000, in 2000, 1999, and 1998, respectively.

**NOTE 10 -- SHAREHOLDERS' EQUITY AND STOCK OPTIONS**

**Series C Preferred Stock**

On July 14, 2000, Explorer Holdings, L.P. ("Explorer"), an affiliate of Hampstead Investment Partners III, L.P. ("Hampstead"), a private equity investor, completed an investment (the "Equity Investment") of \$100.0 million in the Company in exchange for 1,000,000 shares of the Company's Series C Preferred Stock. The Company used a portion of the proceeds from the Equity Investment to repay \$81 million of maturing debt on July 17, 2000.

Shares of the Series C Preferred are convertible into Common Stock at any time by the holder at an initial conversion price of \$6.25 per share of Common Stock. The shares of Series C Preferred are entitled to receive dividends at the greater of 10% per annum or the dividend payable on shares of Common Stock, with the Series C Preferred participating on an "as converted" basis. Dividends on the Series C Preferred Stock are cumulative from the date of original issue and are payable quarterly commencing on November 15, 2000. Explorer agreed to defer until April 2, 2001, the accrued dividend of \$4,666,667 payable on November 15, 2000 with respect to the Series C Preferred Stock. (See Note 15 - Subsequent Events).

The Series C preferred will vote (on an "as converted" basis) together with the Common Stock on all matters submitted to stockholders. However, without the consent of the Company's Board of Directors, no holder of Series C preferred may vote or convert shares of Series C preferred if the effect thereof would be to cause such holder to beneficially own more than 49.9% of the Company's Voting Securities. If dividends on the Series C preferred are in arrears for four quarters, the holders of the Series C preferred, voting separately as a class (and together with the holder of Series A and Series B preferred if and when dividends on such series are in arrears for six or more quarters and special class voting rights are in effect with respect to the Series A and Series B preferred), will be entitled to elect directors who, together with the other directors designated by the holders of Series C preferred, would constitute a majority of the Company's Board of Directors.

The general terms of the Equity Investment are set forth in the Investment Agreement. In addition to setting forth the terms on which Explorer has acquired the initial \$100.0 million of Series C preferred, the Investment Agreement also contains provisions pursuant to which Explorer will make available, upon satisfaction of certain conditions up to \$50.0 million to fund growth (the "Growth Equity Commitment"). Draws under the Growth Equity Commitment will be evidenced by Common Stock issued at the then fair market value less a discount agreed to by Explorer and the Company representing the customary discount applied in rights offerings to an Issuer's existing security holders, or, if not agreed, 6%. Following the drawing in full of the Growth Equity Commitment or upon expiration of the Initial Growth Equity Commitment, Explorer will have the option to provide up to an additional \$50.0 million to fund growth for an additional twelve month period (the "Increased Growth Equity Commitment"). Draws under the Increased Growth Equity Commitment will be subject to the same conditions as applied to the Growth Equity Commitment and the Common Stock so issued will be priced in the same manner described above.

If Explorer exercises its option to fund the Increased Growth Equity Commitment, the Company will have the option to engage in a Rights Offering to all common stockholders other than Explorer and its affiliates. In the Rights Offering, stockholders will be entitled to acquire their proper share of the Common Stock issued in connection with the Growth Equity Commitment at the same price paid by Explorer. Proceeds received from the Rights Offering will be used to repurchase Common Stock issued to Explorer under the Growth Commitment.

Upon the first to occur of the drawing in full of the Increased Growth Equity Commitment or the expiration of the Increased Growth Equity Commitment, the Company again will have the option to engage in a second Rights Offering, Stockholders (other than Explorer and its affiliates) will be entitled to acquire their proportionate share of the Common Stock issued in connection with the Increased Growth Equity Commitment at the same price paid by Explorer. Proceeds received in connection with the second Rights Offering will be used to repurchase Common Stock issued to Explorer under the increased Growth Commitment.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

In connection with Explorer's Equity Investment, the Company entered into a Shareholders Agreement with Explorer dated July 14, 2000 (the "Shareholders' Agreement") pursuant to which Explorer is entitled to designate up to four members of the Company's Board of Directors depending on the percentage of total voting securities (consisting of Common Stock and Series C Preferred) acquired from time to time by Explorer pursuant to the documentation entered into by Explorer in connection with the Equity Investment. Explorer is entitled to designate at least one director of the Company's Board of Directors as long as it owns at least five percent (5%) of the total voting power of the Company and to approve one "independent director" as long as it owns at least twenty-five percent (25%) of the shares it acquired at the time it completed the Equity Investment (or Common Stock issued upon the conversion of the Series C Preferred acquired by Explorer at such time). Explorer's director designations terminate upon the tenth anniversary of the Shareholders' Agreement.

The Company has amended its Stockholders' Right Plan to exempt Explorer and any of its transferees that become parties to the standstill as Acquiring Persons under such plan. Subsequent acquisitions of voting securities by a transferee of more than 9.9% of voting securities from Explorer are limited to not more than 2% of the total amount of outstanding voting securities in any twelve-month period.

The Company has agreed to indemnify Explorer, its affiliates and the individuals that will serve as directors of the Company against any losses and expenses that may be incurred as a result of the assertion of certain claims, provided that the conduct of the indemnified parties meets certain required standards. In addition, the Company has agreed to pay Explorer an advisory fee if Explorer provides assistance to the Company in connection with evaluating growth opportunities or other financing matters. The amount of the advisory fee will be mutually determined by the Company and Explorer at the time the services are rendered based upon the nature and extent of the services provided. The Company will also reimburse Explorer for Explorer's out-of-pocket expenses, up to a maximum of \$2.5 million, incurred in connection with the Equity Investment. To date, the Company has reimbursed Explorer approximately \$964,000 of such expenses.

#### **Series A and Series B Cumulative Preferred Stock**

On April 28, 1998, the Company received gross proceeds of \$50 million from the issuance of 2 million shares of 8.625% Series B Cumulative Preferred Stock ("Series B Preferred Stock") at \$25 per share. Dividends on the Series B Preferred Stock are cumulative from the date of original issue and are payable quarterly commencing on August 15, 1998. On April 7, 1997, the Company received gross proceeds of \$57.5 million from the issuance of 2.3 million shares of 9.25% Series A Cumulative Preferred Stock ("Series A Preferred Stock") at \$25 per share. Dividends on the Series A Preferred Stock are cumulative from the date of original issue and are payable quarterly. At December 31, 2000, the aggregate liquidation preference of Series A and Series B preferred stock issued is \$107,500,000.

#### **Shareholder Rights Plan**

On May 12, 1999, the Company's Board of Directors authorized the adoption of a shareholder rights plan. The plan is designed to require a person or group seeking to gain control of the Company to offer a fair price to all the Company's shareholders. The rights plan will not interfere with any merger, acquisition or business combination that the Company's Board of Directors finds is in the best interest of the Company and its shareholders.

In connection with the adoption of the rights plan, the board declared a dividend distribution of one right for each common share outstanding on May 24, 1999. The rights will not become exercisable unless a person acquires 10% or more of the Company's common stock, or begins a tender offer that would result in the person owning 10% or more of the Company's common stock. At that time, each right would entitle each shareholder other than the person who triggered the rights plan to purchase either the Company's common stock or stock of an acquiring entity at a discount to the then market price. The plan was not adopted in response to any specific attempt to acquire control of the Company.

The Company amended its Stockholders' Right Plan to exempt Explorer and any of its transferees that become parties to the standstill as Acquiring Persons under such plan. Subsequent acquisitions of voting securities by a transferee of more than 9.9% of voting securities from Explorer are limited to not more than 2% of the total amount of outstanding voting securities in any 12 month period.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**Stock Options and Stock Purchase Assistance Plan**

In January 1998, the Company adopted a stock purchase assistance plan, whereby the Company extended credit to directors and employees to purchase the Company's stock through the exercise of stock options. During 2000, the Company terminated this borrowing program and forgave the outstanding stock option loans in exchange for the surrender of the underlying stock certificates and payment of all outstanding interest on the loans. The Company recorded a charge of \$1.9 million related to these loans, which is included in the provision for loss on mortgages and notes receivable in the Company's Consolidated Statements of Operations.

Under the terms of the 2000 Stock Incentive Plan, the Company reserved 3,500,000 shares of common stock for grants to be issued during a period of up to 10 years. Options are exercisable at the market price at the date of grant, expire five years after date of grant for over 10% owners and 10 years from the date of grant for less than 10% owners. Directors' shares vest over three years while other grants vest over five years. Directors, officers and employees are eligible to participate in the Plan. Options for 1,346,953 shares have been granted to 22 eligible participants. Additionally, 275,052 shares of restricted stock have been granted under the provisions of the Plan. The market value of the restricted shares on the date of the award was recorded as unearned compensation-restricted stock, with the unamortized balance shown as a separate component of shareholders' equity. Unearned compensation is amortized to expense generally over the vesting period, with charges to operations of \$535,000, \$635,000, and \$612,000 in 2000, 1999, and 1998, respectively.

During 2000, 1,005,000 Dividend Equivalent Rights were granted to eligible employees. A Dividend Equivalent Right entitles the participant to receive payments from the Company in an amount determined by reference to any cash dividends paid on a specified number of shares of stock to the Company stockholders of record during the period such rights are effective. The Company recorded \$502,500 of expense related to the Dividend Equivalent Rights in 2000.

At December 31, 2000, options currently exercisable (49,562) have a weighted average exercise price of \$25.677, with exercise prices ranging from \$24.45 to \$37.20. There are 1,877,995 shares available for future grants as of December 31, 2000.

The following is a summary of activity under the plan. Exercise prices and all other option data for grants prior to April 2, 1998 have been adjusted based on a formula reflecting the per share value of the distribution of Omega Worldwide, Inc.

	Number of Shares -----	Stock Options ----- Exercise Price -----	Weighted Average Price -----
Outstanding at December 31, 1997 .....	710,726	\$19.866-\$34.795	\$29.265
Granted during 1998 .....	84,000	28.938- 37.205	35.342
Exercised .....	(151,200)	19.866- 30.210	23.605
Canceled .....	(67,599)	24.215- 35.500	33.462
	-----	-----	-----
Outstanding at December 31, 1998 .....	575,927	19.866- 37.205	31.144
Granted during 1999 .....	101,500	15.250- 30.188	27.483
Canceled .....	(312,164)	28.938- 36.676	33.099
	-----	-----	-----
Outstanding at December 31, 1999 .....	365,263	15.250- 37.205	28.542
Granted during 2000 .....	1,109,500	5.688- 7.750	6.268
Canceled .....	(307,699)	6.125- 37.205	28.885
	-----	-----	-----
Outstanding at December 31, 2000 .....	1,167,064	\$ 5.688- 37.205	\$ 7.276
	=====	=====	=====

During 1999, the Company offered holders of options the opportunity to accelerate the expiration date of options in consideration of a cash payment. Twenty-two employees who were holders of options for 431,830 shares accepted the offer and were paid a total of \$38,000. Options for 157,000 shares granted in 1999 and canceled in 1999 under this arrangement are excluded from the above table for 1999 and from the calculation for the weighted average fair value of options granted in 1999.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

In 1995, the Financial Accounting Standards Board issued the Statement of Financial Accounting Standards (SFAS) No. 123, "Accounting for Stock-Based Compensation." This standard prescribes a fair value-based method of accounting for employee stock options or similar equity instruments and requires certain pro forma disclosures. For purposes of the pro forma disclosures required under Statement 123, the estimated fair value of the options is amortized to expense over the option's vesting period. Based on the Company's option activity, net earnings would have increased in 2000 and 1999 by approximately \$1,064,000 and \$618,000, respectively and decreased in 1998 by approximately \$2.2 million. Net earnings per basic and diluted common share on a pro forma basis would have increased in 2000 and 1999 by approximately \$.06 and \$.03, respectively, and decreased in 1998 by \$.11 under APB 25. The estimated weighted average fair value of options granted in 2000, 1999, and 1998 was \$407,000, \$168,000 and \$220,000, respectively. In determining the estimated fair value of the Company's stock options as of the date of grant, a Black-Scholes option pricing model was used with the following weighted-average assumptions: risk-free interest rates of 5.2% in 2000, 6.5% in 1999 and 6% in 1998; a dividend yield of 10% in 2000 and 1999 and 6.75% in 1998; volatility factors of the expected market price of the Company's common stock based on 30.0% volatility in 2000, 22.7% in 1999 and 15.0% in 1998; and a weighted-average expected life of the options of eight years for each of the three years.

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

**NOTE 11 -- RELATED PARTY TRANSACTIONS**

The Company has agreed to pay Explorer an advisory fee if Explorer provides assistance to the Company in connection with the evaluating growth opportunities or other financing matters. The amount of the advisory fee will be mutually determined by the Company and Explorer, based upon the nature and the extent of the services provided and the results achieved. The Company will also reimburse Explorer for Explorer's out-of-pocket expenses, up to a maximum of \$2.5 million, incurred in connection with the Equity Investment. To date, the Company has reimbursed Explorer for approximately \$964,000 of such expenses.

Explorer agreed to defer until April 2, 2001, the accrued dividend of \$4,666,667 payable on November 15, 2000 with respect to the Series C preferred stock. In exchange for this deferral, the Company agreed to pay Explorer a waiver fee equal to 10% per annum of the unpaid dividend from November 15, 2000 until the October dividend is paid. (See note 15 - Subsequent Events)

In 1995, the Company sponsored the organization of Principal Healthcare Finance Limited ("Principal"), an Isle of Jersey company, whose purpose is to invest in nursing homes and long-term care facilities in the United Kingdom. Prior to the April 2, 1998 contribution to Omega Worldwide, Inc. ("Worldwide") as explained below, the Company had invested \$30.7 million in Principal, of which \$23.8 million was represented by a (pound)15 million subordinated note due December 31, 2000, and \$6.9 million was represented by an equity investment. The Company had also provided investment advisory and management services to Principal and had advanced temporary loans to Principal from time to time.

In November 1997, the Company formed Worldwide, a company which provides asset management services and management advisory services, as well as equity and debt capital to the healthcare industry, particularly residential healthcare services to the elderly. On April 2, 1998, the Company contributed substantially all of its Principal assets to Worldwide in exchange for approximately 8.5 million shares of Worldwide common stock and 260,000 shares of Series B preferred stock. Of the 8,500,000 shares of Worldwide received by the Company, approximately 5,200,000 were distributed on April 2, 1998 to the Company's shareholders on the basis of one Worldwide share for every 3.77 common shares of the Company held by shareholders of the Company on the record date of February 1, 1998. Of the remaining 3,300,000 shares of Worldwide received by the Company, 2,300,000 shares were sold by the Company on April 3, 1998 for net proceeds of approximately \$16,250,000 in a secondary offering pursuant to a registration statement of Worldwide. The market value of the distribution to shareholders approximated \$39 million or \$1.99 per share. The Company recorded a non-recurring gain of \$30.2 million on the distribution and secondary offerings of Worldwide common shares during 1998. In April 1999, in conjunction with a similar acquisition by Worldwide, the Company acquired an interest in Principal Healthcare Finance Trust ("the Trust"), an Australian Unit Trust, which owns 44 nursing home facilities and 483 assisted living units in Australia and New Zealand.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

As of December 31, 2000, the Company holds 1,163,000 shares of Worldwide common stock and 260,000 shares of its preferred stock. The carrying value of the Company's investment in Worldwide is \$5,435,000, including the market value of its common stock and its cost basis in its preferred stock. The Company also holds a \$1,615,000 investment in Principal, represented by 990,000 ordinary shares of Principal, and a \$1,266,000 investment in the Trust.

The Company has guaranteed repayment of Worldwide borrowings pursuant to a revolving credit facility in exchange for an initial 1% fee and an annual facility fee of 25 basis points. At December 31, 2000 borrowings of \$2,850,000 were outstanding under Worldwide's revolving credit facility. Worldwide's credit agreement calls for scheduled payments to be made until fully repaid in June 2001. Under this agreement, no further borrowings may be made by Worldwide under its revolving credit facility. The Company is required to provide collateral in the amount of \$8.8 million related to the guarantee of Worldwide's obligations. Upon repayment by Worldwide of the remaining outstanding balance under its revolving credit facility, the subject collateral will be released in connection with the termination of the Company's guarantee.

Additionally, the Company had a Services Agreement with Worldwide that provided for the allocation of indirect costs incurred by the Company to Worldwide. The allocation of indirect costs has been based on the relationship of assets under the Company's management to the combined total of those assets and assets under Worldwide's management. Upon expiration of this agreement on June 30, 2000, the Company entered into a new agreement requiring quarterly payments from Worldwide of \$37,500 for the use of offices and certain administrative and financial services provided by the Company. Upon the reduction of the Company's accounting staff, the Service Agreement was renegotiated again on November 1, requiring quarterly payments from Worldwide of \$32,500. Costs allocated to Worldwide for 2000 and 1999 were \$404,000 and \$754,000, respectively.

**NOTE 12 -- DIVIDENDS**

In order to qualify as a real estate investment trust, the Company must, among other requirements, distribute at least 95% of its real estate investment trust taxable income to its shareholders. Per share distributions by the Company were characterized in the following manner for income tax purposes:

Common	2000	1999	1998
-----	-----	-----	-----
Ordinary income .....	\$ -	\$ 2.100	\$ 2.275
Return of capital .....	1.000	0.700	0.191
Long-term capital gain	-	-	0.214
	-----	-----	-----
Total dividends paid .....	\$ 1.000	\$ 2.800	\$ 2.680
	=====	=====	=====
 Common Non-Cash			
-----			
Return of capital .....	\$ -	\$ -	\$ 0.461
Long-term capital gain .....	-	-	1.529
	-----	-----	-----
Total non-cash distribution .....	\$ -	\$ -	\$ 1.990
	=====	=====	=====
 Series A Preferred			
-----			
Ordinary income .....	\$ 2.313	\$ 2.313	\$ 2.313
	=====	=====	=====
 Series B Preferred			
-----			
Ordinary income .....	\$ 2.156	\$ 2.156	\$ 1.078
	=====	=====	=====

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 13 - SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Following are details of changes in operating assets and liabilities (excluding the effects of non-cash expenses), and other non-cash transactions:

	For the year ended December 31,		
	2000	1999	1998
	----	----	----
	(In thousands)		
Increase (decrease) in cash from changes in operating assets and liabilities:			
Operating assets, including \$517 and \$2,896 transferred to held for sale in 1999 and 1998, respectively .....	\$ 1,306	\$ (568)	\$ (8,183)
Accrued interest .....	(3,751)	589	(70)
Other liabilities .....	2,465	(5,550)	4,273
	-----	-----	-----
	\$ 20	\$ (5,529)	\$ (3,980)
	=====	=====	=====
Other non-cash investing and financing transactions:			
Acquisition of real estate:			
Value of real estate acquired .....	\$ -	\$ 302	\$ 283
Common stock issued .....	-	(302)	(283)
Common stock issued for conversion of debentures .....	-	-	13,862
Interest paid during the period .....	44,221	41,015	31,464

**NOTE 14 - LITIGATION**

The Company is 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 its consolidated financial position or results of operations.

On June 20, 2000, the Company and its chief executive officer, chief financial officer and chief operating officer were named as defendants in certain litigation brought by Ronald M. Dickerman, in his individual capacity, in the United States District Court for the Southern District of New York. In the complaint, Mr. Dickerman contends that the Company and the named executive officers violated Section 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Mr. Dickerman subsequently amended the complaint to assert his claims on behalf of an unnamed class of plaintiffs. On July 28, 2000, Benjamin LeBorys commenced a class action lawsuit making similar allegations against the Company and certain of its officers and directors in the United States District Court for the Southern District of New York. The cases have been consolidated, and Mr. LeBorys has been named lead plaintiff. The plaintiffs seek unspecified damages. The Company has reported the litigation to its directors and officers liability insurer. The Company believes that the litigation is without merit and is defending vigorously. The Company's Motion to Dismiss was filed with the Court on February 16, 2001.

On June 21, 2000, the Company was named as a defendant in certain litigation brought against it by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that the Company has breached and/or anticipatorily breached a commercial contract. Mr. Dickerman is a partner of Madison and is a guarantor of Madison's obligations to the Company. Madison claims damages as a result of the alleged breach of approximately \$700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of \$15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Omega and the Company. The Company contends that Madison is in default under the contract in question. The Company believes that the litigation is meritless. The Company is defending vigorously and on December 5, 2000, filed counterclaims against Madison and the guarantors, including Mr. Dickerman, seeking repayment of approximately \$8.5 million that Madison owes the Company.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

Karrington Health, Inc. brought suit against the Company alleging that the Company repudiated and ultimately breached a financing contract to provide \$95,000,000 of financing for the development of 13 assisted living facilities. Karrington seeks recovery of approximately \$20,000,000 in damages it alleges to have incurred as a result of the breach. The Company denies that it entered into a valid and binding contract with Karrington and is vigorously defending the litigation.

**NOTE 15 -- SUBSEQUENT EVENTS**

On February 1, 2001, the Company repaid the outstanding balance of its 8.5% Subordinated Convertible Debentures due February 1, 2001 from cash and revolving credit line availability.

On February 1, 2001, the Company also announced suspension of payments of common and preferred dividends to strengthen the Company's Balance Sheet while it pursues alternatives for extending or repaying its 2002 debt maturities. The Company can give no assurance as to when the dividends will be reinstated or the amount of the dividends, if and when such payments are recommenced. All accrued and unpaid dividends on the Company's outstanding shares of Series A, B and C Preferred Stock must be paid in full before dividends on the Common Stock can be resumed.

On March 30, 2001, the Company exercised its option to pay the accrued \$4,666,667 Series C dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 Series C preferred shares to Explorer, which are convertible into 774,722 shares of the Company's common stock at \$6.25 per share. (See "Note 11 - Related Party Transactions" for information regarding the dividend deferral).

In March 2001, the Company announced that it continues its discussions with several of its lessees to resolve payment issues, including Alterra Healthcare Corp., Lyric Healthcare, Alden Management Services Inc., and TLC Healthcare Inc. Alterra has recently issued a press release stating that it had informed certain of its lenders and landlords in March, 2001 that they will not be paying their March rents and debt service and are seeking relief as to these payments. The Company has a master lease with Alterra relating to ten assisted living facilities representing an investment of \$34.1 million which provides for annual rental payments of \$3.6 million. Alterra has not made its March rental payment to the Company, and while discussions are ongoing the Company has sent Alterra a notice of default.

Additionally, during the first quarter of 2001, pursuant to a forbearance agreement between the Company and Lyric through April 30, 2001, the Company began receiving 60% of the approximately \$860,000 of monthly rent due under the Lyric leases. Discussions are continuing with Lyric to reach a permanent restructuring agreement. The Company's total original investment in the ten nursing homes covered under the leases is \$95.4 million, and annual rent is \$10.3 million.

Affiliates of Alden Management, Inc., Chicago, IL, are delinquent in paying their lease, loan and escrow payments on the four facilities it leases from the Company. These facilities represent an initial investment by the Company of \$31.3 million, with annual rent of approximately \$3.2 million. Discussions with Alden are ongoing.

TLC Healthcare of Illinois, Inc. has made only partial payments under its master lease with the Company based on the shutdown of one of its facilities having an annual rent payment of approximately \$732,000, and has notified the Company that it may not be able to make its April payment on its other seven facilities or otherwise fund operations with annual rent and mortgage payments totaling approximately \$2.8 million. The Company has funded \$623,000 for payroll at the facilities to facilitate continued operations and is taking steps to transition the operations of the facilities to qualified operators through new lease or management structures.

In several instances the Company holds security deposits that can be applied in the event of lease and loan defaults, subject to applicable limitations under bankruptcy law with respect to operators seeking protection under Chapter 11 of the Bankruptcy Code.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 16 -- SUMMARY OF QUARTERLY RESULTS (UNAUDITED)**

The following summarizes quarterly results of operations for the years ended December 31, 2000 and 1999.

	March 31	June 30	September 30	December 31
	-----	-----	-----	-----
	(In thousands, except per share)			
<b>2000</b>				
Revenues .....	\$ 57,214	\$ 70,448	\$ 74,010	\$ 74,121
(Loss) earnings before gain (loss) on assets sold .....	3,018	4,637	(64,984)	(2,217)
Net (loss) earnings available to common .....	610	12,680	(70,797)	(8,978)
(Loss) earnings before gain (loss) on assets sold per share:				
Basic (loss) earnings before gain (loss) on asset dispositions ....	\$ 0.15	\$ 0.23	\$ (3.24)	\$ (0.11)
Diluted (loss) earnings before gain (loss) on asset dispositions ..	0.15	0.23	(3.24)	(0.11)
Net (Loss) Earnings Available to Common per share:				
Basic net (loss) earnings .....	\$ 0.03	\$ 0.63	\$ (3.53)	\$ (0.45)
Diluted net (loss) earnings .....	0.03	0.63	(3.53)	(0.45)
Cash dividends paid on common stock .....	0.50	-	0.25	0.25
<b>1999</b>				
Revenues .....	\$ 30,177	\$ 30,914	\$ 40,971	\$ 46,067
(Loss) earnings before gain (loss) on assets sold .....	12,825	13,010	12,355	(8,012)
Net (loss) earnings available to common .....	10,417	10,602	9,947	(20,926)
(Loss) earnings before gain (loss) on assets sold per share:				
Basic (loss) earnings before gain (loss) on asset dispositions ....	\$ 0.64	\$ 0.66	\$ 0.62	\$ (0.40)
Diluted (loss) earnings before gain (loss) on asset dispositions ..	0.64	0.65	0.62	(0.40)
Net (Loss) Earnings Available to Common per share:				
Basic net (loss) earnings .....	\$ 0.52	\$ 0.53	\$ 0.50	\$ (1.05)
Diluted net (loss) earnings .....	0.52	0.53	0.50	(1.05)
Cash dividends paid on common stock .....	0.70	0.70	0.70	0.70

Note: During the three-month periods ended March 31, 2000, September 30, 2000 and December 31, 2000, the Company recognized a provision for impairment of assets of \$4,500, \$49,849 and \$7,341 respectively. Additionally, during the three-month period ended June 30, 2000, the Company recognized a gain of \$10,451 related to assets sold during the period. During the three-month period ended December 31, 1999, the Company recognized a loss of \$30,000 related to assets sold during the period and a provision for impairment of assets held for sale (See Note 2 - Properties).

**NOTE 17 - CONSULTING AND SEVERANCE AGREEMENTS**

On July 18, 2000, the Company entered into a Consulting and Severance Agreement with Essel W. Bailey, Jr. (The "Bailey Severance Agreement"), pursuant to which Mr. Bailey resigned as an officer of the Company. Mr. Bailey's resignation and the Bailey Severance Agreement became effective on July 14, 2000.

Pursuant to the Bailey Severance Agreement, Mr. Bailey received payment of his regular salary through the effective date of his resignation and a lump-sum severance payment equal to \$1,555,000. The Bailey Severance Agreement provides that Mr. Bailey is fully vested in his deferred compensation plan and in 59,708 shares of his restricted stock. Pursuant to the Bailey Severance Agreement, Mr. Bailey will provide consulting services to the Company for twelve months following his resignation. In exchange for consulting services and his agreement not to compete with the Company or solicit its customers or employees, Mr. Bailey will receive compensation equal to \$147,500 per month for twelve months.

The costs incurred related to the Bailey Severance Agreement, along with costs incurred in connection with a similar agreement with the Company's former Chief Financial Officer, total approximately \$4.7 million and have been included in the Company's Consolidated Statements of Operations in 2000.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 18 - SEGMENT INFORMATION**

The following tables set forth the reconciliation of operating results and total assets for the Company's reportable segments for the years ended December 31, 2000, 1999 and 1998.

For the year ended December 31, 2000 (In Thousands)

	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
Operating Revenues .....	\$ 91,434	\$ 175,559	\$ -	\$ 266,993
Operating Expenses .....	-	(178,975)	-	(178,975)
Net operating income .....	91,434	(3,416)	-	88,018
Adjustments to arrive at net income:				
Other revenues .....	-	-	8,800	8,800
Interest expense .....	-	-	(42,400)	(42,400)
Depreciation and amortization .....	(17,978)	(3,797)	(1,490)	(23,265)
General and administrative .....	-	-	(6,425)	(6,425)
Legal .....	-	-	(2,467)	(2,467)
State Taxes .....	-	-	(195)	(195)
Severance and consulting agreement costs .....	-	-	(4,665)	(4,665)
Provision for uncollectable mortgages and notes receivable .....	(4,871)	-	(10,386)	(15,257)
	(22,849)	(3,797)	(59,228)	(85,874)
Income before gain on assets sold and impairment charges .....	68,585	(7,213)	(59,228)	2,144
Provision for impairment .....	(1,939)	(57,395)	(2,356)	(61,690)
Gain on assets sold - net .....	9,989	-	-	9,989
Preferred dividends .....	-	-	(16,928)	(16,928)
Net loss available to common .....	\$ 76,635	\$ (64,608)	\$ (78,512)	\$ (66,485)
Total Assets .....	\$ 724,338	\$ 159,105	\$ 65,008	\$ 948,451

For the year ended December 31, 1999 (In Thousands)

	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
Operating Revenues .....	\$ 112,758	\$ 26,223	\$ -	\$ 138,981
Operating Expenses .....	-	(25,173)	-	(25,173)
Net operating income .....	112,758	1,050	-	113,808
Adjustments to arrive at net income:				
Other revenues .....	-	-	9,148	9,148
Interest expense .....	-	-	(42,947)	(42,947)
Depreciation and amortization .....	(21,204)	(814)	(2,193)	(24,211)
General and administrative .....	-	-	(5,231)	(5,231)
Legal .....	-	-	(386)	(386)
State Taxes .....	-	-	(503)	(503)
Severance and consulting agreement costs .....	-	-	-	-
Provision for uncollectable mortgages and notes receivable .....	-	-	-	-
	(21,204)	(814)	(42,112)	(64,130)
Income before gain on assets sold and impairment charges .....	91,554	236	(42,112)	49,678
Provision for impairment .....	-	(19,500)	-	(19,500)
Loss on assets sold - net .....	-	(10,507)	-	(10,507)
Preferred dividends .....	-	-	(9,631)	(9,631)
Net loss available to common .....	\$ 91,554	\$ (29,771)	\$ (51,743)	\$ 10,040
Total Assets .....	\$ 841,558	\$ 106,050	\$ 91,123	\$ 1,038,731

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

For the year ended December 31, 1998 (In Thousands)

	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
Operating Revenues .....	\$ 102,471	\$ -	\$ -	\$ 102,471
Operating Expenses .....	-	-	-	-
Net operating income .....	102,471	-	-	102,471
Adjustments to arrive at net income:				
Other revenues .....	-	-	6,843	6,843
Interest expense .....	-	-	(32,436)	(32,436)
Depreciation and amortization .....	(19,838)	-	(1,704)	(21,542)
General and administrative .....	-	-	(4,852)	(4,852)
Legal .....	-	-	(155)	(155)
State Taxes .....	-	-	(358)	(358)
Severance and consulting agreement costs .....	-	-	-	-
Provision for uncollectable mortgages and notes receivable .....	-	-	-	-
	(19,838)	-	(32,662)	(52,500)
Income before gain on assets sold and impairment charges .....	82,633	-	(32,662)	49,971
Provision for impairment .....	-	(6,800)	-	(6,800)
Gain on assets sold - net .....	2,798	-	-	2,798
Gain on distribution of Omega Worldwide, Inc .....	-	-	30,240	30,240
Preferred dividends .....	-	-	(8,194)	(8,194)
Net loss available to common .....	\$ 85,431	\$ (6,800)	\$ (10,616)	\$ 68,015
Total Assets .....	\$ 936,414	\$ 35,289	\$ 65,504	\$ 1,037,207

The revenues, expenses, assets and liabilities in the Company's consolidated financial statements which related to owned and operated assets are as follows:

(In Thousands)

	Year Ended December 31,	
	2000	1999
Revenues (1)		
Medicaid .....	\$ 108,082	\$ 16,636
Medicare .....	31,459	4,861
Private & Other .....	36,018	4,726
Total Revenues .....	175,559	26,223
Expenses		
Administration .....	34,264	4,925
Property & Related .....	11,701	1,675
Patient Care Expenses .....	120,444	17,393
Total Expenses .....	166,409	23,993
Contribution Margin .....	9,150	2,230
Management Fees .....	8,778	1,180
Rent .....	3,788	-
EBITDA (2) .....	\$ (3,416)	\$ 1,050

(1) Nursing home revenues from these owned and operated assets are recognized as services are provided.

(2) EBITDA represents earnings before interest, income taxes, depreciation and amortization. It is considered by the Company to be a meaningful measure of performance of its Owned and Operated Assets. EBITDA in and of itself does not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered an alternative to net earnings as an indication of operating performance or to net cash flow from operating activities as determined by GAAP as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

(In Thousands)

	December 31,	
	2000	1999
	----	----
ASSETS		
Cash .....	\$ 5,364	\$ -
Accounts Receivable - Net .....	30,030	9,588
Other Current Assets .....	5,098	60
	-----	-----
Total Current Assets .....	40,492	9,648
Investment in leasehold .....	1,679	-
Land and Buildings .....	130,601	60,810
Less Accumulated Depreciation .....	(17,680)	(814)
	-----	-----
Land and Buildings - Net .....	112,921	59,996
	-----	-----
<b>TOTAL ASSETS .....</b>	<b>\$ 155,092</b>	<b>\$ 69,644</b>
	=====	=====
LIABILITIES		
Accounts Payable .....	\$ 8,636	\$ 3,962
Other Current Liabilities .....	6,108	8,101
	-----	-----
Total Current Liabilities .....	14,744	12,063
	-----	-----
<b>TOTAL LIABILITIES .....</b>	<b>\$ 14,744</b>	<b>\$ 12,063</b>
	=====	=====

Accounts receivable for owned and operated assets is net of an allowance for doubtful accounts of approximately \$7 million in 2000 and \$0.2 million in 1999.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**

**NOTE 19 - EARNINGS PER SHARE**

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

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
	(In thousands, except per share amounts)		
Numerator:			
(Loss) earnings before gain (loss) on assets sold .....	\$ (59,546)	\$ 30,178	\$ 43,171
Preferred stock dividends .....	(16,928)	(9,631)	(8,194)
	-----	-----	-----
Numerator for (loss) earnings available to common before			
gain (loss) on assets sold - basic and diluted .....	(76,474)	20,547	34,977
Gain (loss) on assets sold - net .....	9,989	(10,507)	2,798
Gain on distribution of Omega Worldwide, Inc. ....	-	-	30,240
	-----	-----	-----
Numerator for net loss (earnings) per share - basic and diluted ...	(66,485)	10,040	68,015
	=====	=====	=====
Denominator:			
Denominator for net loss (earnings) per share - basic .....	20,052	19,877	20,034
Effect of dilutive securities:			
Stock option incremental shares .....	-	-	7
	-----	-----	-----
Denominator for net loss (earnings) per share - diluted .....	20,052	19,877	20,041
	=====	=====	=====

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Net (loss) earnings per share - basic:			
(Loss) earnings before gain (loss) on assets sold .....	\$ (3.82)	\$ 1.04	\$ 1.74
(Loss) gain on assets sold - net .....	0.50	(0.53)	1.65
	-----	-----	-----
Net (loss) earnings per share - basic .....	\$ (3.32)	\$ 0.51	\$ 3.39
	=====	=====	=====
Net (loss) earnings per share - diluted:			
(Loss) earnings before gain (loss) on assets sold .....	\$ (3.82)	\$ 1.04	\$ 1.74
(Loss) gain on assets sold - net .....	0.50	(0.53)	1.65
	-----	-----	-----
Net (loss) earnings per share - diluted .....	\$ (3.32)	\$ 0.51	\$ 3.39
	=====	=====	=====

The effect of converting the Series C Preferred Stock for the year 2000 and the effects of converting the 1996 convertible debentures have been excluded as all such effects are antidilutive.

**SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION**  
**OMEGA HEALTHCARE INVESTORS, INC.**  
December 31, 2000

Description (1)	Encumbrances	Initial Cost to Company		Cost Capitalized Subsequent to Acquisition	Gross Amount at Which Carried at Close of Period	Date of Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statements is Computed
		Buildings and Land Improvements	Improvements					
<b>Sun Healthcare Group, Inc.:</b>								
1964-1995								
Alabama (LTC)		\$23,584,957			\$23,584,957	\$2,549,186	March 31, 1997	33 years
California (LTC, RH) (4)(5)		65,912,924			65,912,924	5,913,927	October 8, 1997	33 years
Florida (LTC)		10,796,688			10,796,688	1,166,963	March 31, 1997	33 years
Florida (LTC)		10,700,000			10,700,000	1,182,106	February 28, 1997	33 years
Idaho (LTC)		600,000			600,000	66,286	February 28, 1997	33 years
Illinois (LTC)		4,900,000			4,900,000	673,130	August 30, 1996	30 years
Illinois (LTC)		3,942,726			3,942,726	426,151	March 31, 1997	33 years
Indiana (LTC)		3,000,000			3,000,000	412,120	August 30, 1996	30 years
Louisiana (LTC)		4,602,574			4,602,574	497,470	March 31, 1997	33 years
Massachusetts (LTC)		8,300,000			8,300,000	916,961	February 28, 1997	33 years
North Carolina (LTC) (4)		19,970,418			19,970,418	3,936,793	June 4, 1994	39 years
North Carolina (LTC) (5)		2,739,021			2,739,021	250,496	October 8, 1997	33 years
Ohio (LTC) (4)(5)		11,884,567			11,884,567	1,070,766	October 8, 1997	33 years
Tennessee (LTC) (2)		7,942,374			7,942,374	1,569,783	September 30, 1994	30 years
Texas (LTC)		9,415,056			9,415,056	1,017,629	March 31, 1997	33 years
Washington (LTC) (4)		5,900,000			5,900,000	650,949	March 31, 1997	33 years
West Virginia (LTC) (4)(5)		24,793,444			24,793,444	2,196,026	October 8, 1997	33 years
		218,984,749			218,984,749	24,496,742		
<b>Integrated Health Services, Inc.:</b>								
1979-1993								
Florida (LTC) (5)		10,000,000			10,000,000	792,958	January 13, 1998	33 years
Florida (LTC)		29,000,000			29,000,000	2,361,040	March 31, 1998	33 years
Illinois (LTC) (5)		14,700,000			14,700,000	1,221,821	January 13, 1998	33 years
New Hampshire (LTC) (5)		5,800,000			5,800,000	495,564	January 13, 1998	33 years
Ohio (LTC) (5)		16,000,000			16,000,000	1,268,733	March 31, 1998	33 years
Pennsylvania (LTC) (5)		14,400,000			14,400,000	1,230,365	January 13, 1998	33 years
Pennsylvania (LTC)		5,500,000			5,500,000	436,127	March 31, 1998	33 years
Washington (LTC)		10,000,000			10,000,000	2,118,746	September 1, 1996	20 years
		105,400,000			105,400,000	9,925,354		
<b>Advocat, Inc.:</b>								
1972-1994								
Alabama (LTC) (4)		11,638,797	707,998		12,346,795	3,015,242	August 14, 1992	31.5 years
Arkansas (LTC) (4)		37,887,832	1,473,599		39,361,431	9,842,102	August 14, 1992	31.5 years
Kentucky (LTC) (4)		14,897,402	1,816,000		16,713,402	2,798,615	July 1, 1994	33 years
Ohio (LTC) (4)		5,854,186			5,854,186	970,874	July 1, 1994	33 years
Tennessee (LTC) (2)		9,542,121			9,542,121	2,449,079	August 14, 1992	31.5 years
West Virginia (LTC) (4)		5,283,525	502,338		5,785,863	975,555	July 1, 1994	33 years
		85,103,863	4,499,935		89,603,798	20,051,467		
<b>Vencor Operating, Inc.:</b>								
1980-1994								
Arizona (LTC)		24,029,032	44,924	(6,603,745)	17,470,211	1,327,091	December 31, 1998	33 years
Indiana (LTC)		8,383,671	100,914	(1,820,624)	6,663,961	1,997,691	December 23, 1992	31.5 years
Texas (LTC)		27,141,483	84,323		27,225,806	3,165,920	December 1, 1993	39 years
		59,554,186	230,161	(8,424,369)	51,359,978	6,490,702		
<b>Genesis Health Ventures, Inc.:</b>								
Connecticut (LTC)		28,483,164	185,670	(4,787,084)	23,881,750	1,143,510	July 14, 1999	33 years
Massachusetts (LTC)		34,559,901	421,567	(10,506,822)	24,474,646	1,373,516	July 14, 1999	33 years
		63,043,065	607,237	(15,293,906)	48,356,396	2,517,026		
<b>Alterra Healthcare Corporation:</b>								
Colorado (AL)		2,583,440			2,583,440	115,241	June 14, 1999	33 years
Indiana (AL)		11,641,805			11,641,805	519,313	June 14, 1999	33 years
Kansas (AL)		3,418,670			3,418,670	152,499	June 14, 1999	33 years
Ohio (AL)		3,520,747			3,520,747	157,052	June 14, 1999	33 years
Oklahoma (AL)		3,177,993			3,177,993	141,763	June 14, 1999	33 years
Tennessee (AL)		4,068,652			4,068,652	181,493	June 14, 1999	33 years
Washington (AL)		5,673,693			5,673,693	253,090	June 14, 1999	33 years
		34,085,000			34,085,000	1,520,451		
<b>Alden Management Services, Inc.:</b>								
1978								
Illinois (LTC)		31,000,000	305,756		31,305,756	6,378,152	September 30, 1994	30 years
<b>Atrium Living Centers, Inc.:</b>								
Indiana (LTC)		25,693,563	47,216	(12,846,628)	12,894,151	5,621,697	September 30, 1994	25 years
Indiana (LTC)		6,456,391	26,464	(2,773,242)	3,709,613	2,233,127	November 1, 1992	31.5 years
		32,149,954	73,680	(15,619,870)	16,603,764	7,854,824		

Description (1)	Encumbrances	Initial Cost to Company		Gross Amount at Which Carried at Close of Period		Date of Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statements is Computed
		Buildings and Land Improvements	Cost Capitalized Subsequent to Acquisition	Buildings and Land Improvements	Total			
TLC Healthcare, Inc.:								
Illinois (LTC)	(5)	1,274,703		1,274,703	72,217	1972-1996	January 7, 1999	33 years
Illinois (LTC)	(5)	5,118,775		5,118,775	228,336		June 1, 1999	33 years
Ohio (LTC)	(5)	2,804,347		2,804,347	154,298		January 7, 1999	33 years
Texas (LTC)	(5)	4,942,000		4,942,000	220,451		June 30, 1999	33 years
Texas (LTC)	(5)	6,557,143		6,557,143	627,086		September 5, 1997	33 years
Texas (LTC)	(5)	2,442,858		2,442,858	198,479		March 4, 1998	33 years
		23,139,826		23,139,826	1,500,867			
USA Healthcare, Inc.:								
Iowa(LTC)		14,344,797	168,000	14,512,797	1,267,902	1974-1997	October 7, 1997	33 years
Iowa(LTC)		2,700,000		2,700,000	370,908		August 30, 1996	30 years
		17,044,797	168,000	17,212,797	1,638,810			
Pinon Management, Inc.:								
Colorado (LTC)		14,170,968	109,931	14,280,899	817,633		December 31, 1998	33 years
Washington N & R, LLC.:								
Missouri (LTC)	(5)	12,152,174		12,152,174	690,758		January 7, 1999	33 years
Peak Medical of Idaho, Inc.:								
Idaho (LTC)	(5)	10,500,000		10,500,000	544,512		March 26, 1999	33 years
HQM of Floyd County, Inc.:								
Kentucky (LTC)	(5)	10,250,000		10,250,000	358,673		June 30, 1997	33 years
Safe Harbor Florida Health Care Properties, Inc.:								
Florida (LTC)		8,150,000	866	8,150,866	1,384,872	1984	September 13, 1993	39 years
Meadowbrook Healthcare of North Carolina:								
North Carolina (AL)	(3)	7,500,000	(1,939,476)	5,560,524	1,444,027		September 30, 1994	31.5 years
Liberty Assisted Living Center:								
Florida (AL)		5,994,730	760	5,995,490	1,464,958		September 30, 1994	27 years
Eldorado Care Center, Inc. & Magnolia Manor, Inc.:								
Illinois (LTC)		5,100,000		5,100,000	276,157	1995-1998	February 1, 1999	33 years
Kansas & Missouri, Inc.:								
Kansas (LTC)		2,500,000		2,500,000	513,922		September 30, 1994	30 years
		\$745,823,312	\$5,996,326	(\$41,277,621)	\$710,542,017	\$89,869,907		

- (1) All of the real estate included in this schedule are being used in either the operation of long-term care facilities (LTC), assisted living facilities (AL), or rehabilitation hospitals (RH) located in the states indicated.
- (2) Certain of the real estate indicated are security for Industrial Development Revenue bonds totaling \$8,375,000 at December 31, 2000.
- (3) Certain of the real estate indicated are security for HUD loans totaling \$5,218,497 at December 31, 2000.
- (4) Certain of the real estate indicated are security for the Provident line of credit borrowings totaling \$56,641,232 at December 31, 2000.
- (5) Certain of the real estate indicated are security for the Fleet line of credit borrowings totaling \$129,000,000 at December 31, 2000.

(6)	Year Ended December 31,		
	1998	1999	2000
Balance at beginning of period	\$561,054,194	\$ 643,378,340	\$746,914,941
Additions during period:			
Acquisitions	157,474,363	79,676,000	-
Conversion from mortgage	-	79,431,597	-
Impairment(a)	-	-	(37,456,499)
Improvements	-	168,000	1,302,828
Disposals/other	(75,150,217)	(55,738,996)	(219,253)
Balance at close of period	\$643,378,340	\$ 746,914,941	\$710,542,017

(a) The variance in impairment in the table shown above relates to assets previously classified as held for sale which were reclassified to owned and operated assets during 2000.

(7)

	1998	1999	2000
	----	----	----
Balance at beginning of period .....	\$ 48,147,275	\$ 56,385,853	\$67,929,407
Additions during period:			
Provisions for depreciation .....	19,749,781	21,119,252	21,683,180
Dispositions/other .....	(11,511,203)	(9,575,698)	257,320
	-----	-----	-----
Balance at close of period .....	\$ 56,385,853	\$ 67,929,407	\$89,869,907
	=====	=====	=====

**SCHEDULE IV MORTGAGE LOANS ON REAL ESTATE**  
**OMEGA HEALTHCARE INVESTORS, INC.**  
December 31, 2000

Description (1)	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages(2) (3)	Principal Amount of Loans Subject to Delinquent Interest
Michigan (13 LTC facilities)	17.00%	August 13, 2007	Interest payable at 16.00% payable monthly	None	\$58,800,000	\$58,800,000	\$58,800,000(4)
North Carolina (3 LTC facilities)			Deferred interest at 1% accrues monthly and is payable at maturity of the note				
Florida (4 LTC facilities)	11.50%	February 28, 2010	Interest plus \$2,200 of principal payable monthly	None	12,891,500	12,804,956	
Florida (2 LTC facilities)	11.50%	June 4, 2006	Interest payable monthly	None	11,090,000	11,024,884	
Texas (6 LTC facilities)	9.00% to 10.00%	various	Interest plus \$57,000 of principal payable monthly	None	8,106,487	5,951,566	
Tennessee (2 LTC facilities)	16.16%	April 29, 2001	Interest payable monthly	None	8,932,000	8,932,000	
Tennessee (2 LTC facilities)	11.56% to 13.50%	August 1, 2016	Interest payable monthly	None	12,650,000	12,613,539	
Ohio (6 LTC facilities)	11.01%	January 1, 2015	Interest plus \$42,500 of principal payable monthly	None	18,238,752	16,198,689	
Georgia (2 LTC facilities)	10.08%	March 13, 2008	Interest payable monthly	None	12,000,000	12,000,000	
Florida (5 LTC facilities) Texas (2 LTC facilities)	10.55%	December 3, 2003	Interest payable monthly	None	37,500,000	37,500,000	
Other Mortgage Notes: Various	9.00% to 14.14%	2002 to 2012	Interest payable monthly Quarterly amortization of \$50,000 commencing in the year 2002	None	37,503,181 \$217,711,920	30,883,936 \$206,709,570	\$5,882,009(5)

- (1) The mortgage loans included in this schedule represent first mortgages on facilities used in the delivery of long-term healthcare, such facilities are located in the states indicated.  
(2) The aggregate cost for federal income tax purposes is equal to the carrying amount.

(3)	Year Ended December 31,		
	1998	1999	2000
Balance at beginning of period	\$ 218,353,007	\$ 340,455,332	\$ 213,616,645
Additions during period - Placements	125,850,000	22,986,500	-
Deductions during period - Collection of principal	(3,747,675)	(54,748,620)	(2,035,825)
Allowance for loss on mortgage loans	-	-	(4,871,250)
Conversion to purchase leaseback/other changes	-	(95,076,567)	-
Balance at close of period	\$ 340,455,332	\$ 213,616,645	\$ 206,709,570

(4) On January 18, 2000, the mortgagor filed for protection under Chapter 11 of the Bankruptcy Code. On February 1 2001, four facilities that were collateral for this mortgage were taken back in exchange for a reduction in principal of \$4.5 million.

(5) A mortgagor with a mortgage on two facilities in Florida declared bankruptcy on July 8, 1999. The bankruptcy court has ordered that all amounts owed to the Company (including default rate interest, late charges, attorney's fees and court costs), bear interest at an annual rate of 10% and that the mortgagor make monthly payments of \$40,000 on a timely basis. As of December 31, 2000, the mortgagor had complied with the court order.

INDEX TO EXHIBITS

Exhibit Number	Description	Sequentially Numbered Pages
3.1	Articles of Incorporation, as amended (Incorporated	

- by reference to the Registrant's Form 10-Q for the quarterly period ended March 31, 1995)
- 3.2 Articles of Amendment to the Company's Articles of Incorporation, as amended (Incorporated by reference to the Company's Form 10-Q for the quarterly period ended September 30, 1999)
- 3.3 Amended and Restated Bylaws, as amended April 20, 1999 (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K dated April 20, 1999)
- 4.1 Indenture dated December 27, 1993 (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated December 29, 1993)
- 4.2 First Supplemental Indenture dated January 23, 1996 (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated January 19, 1996)
- 4.3 Form of Convertible Debenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)
- 4.4 Form of Indenture (Incorporated by reference to Exhibit 4.2 to the Company's Form S-3 dated February 3, 1997)
- 4.5 Form of Articles Supplementary for Series A Preferred Stock (Incorporated by reference to Exhibit 4.1 of the Company's Form 10-Q for the quarterly period ended March 31, 1997)
- 4.6 Articles Supplementary for Series B Preferred Stock (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated April 27, 1998)
- 4.7 Form of Supplemental Indenture No. 1 dated as of June 1, 1998 relating to the 6.95% Notes due 2002 (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated June 9, 1998)
- 4.8 Rights Agreement, dated as of May 12, 1999, between Omega Healthcare Investors, Inc. and First Chicago Trust Company, as Rights Agent, including Exhibit A thereto (Form of Articles Supplementary relating to the Series A Junior Participating Preferred Stock) and Exhibit B thereto (Form of Rights Certificate) (Incorporated by reference to Exhibit 4 to the Company's Form 8-K dated April 20, 1999)
- 4.9 Amendment No. 1, dated May 11, 2000 to Rights Agreement, dated as of May 12, 1999, between Omega Healthcare Investors, Inc. and First Chicago Trust Company, as Rights Agent (Incorporated by reference to Exhibit 4.1 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
- 4.10 Articles Supplementary for Series C Convertible Preferred Stock (Incorporated by reference to Exhibit 4.1 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
- 4.11 Stockholders Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 4.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
- 4.12 Registration Rights Agreement between Explorer Holdings, L.P. and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 4.3 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
- 10.1 1993 Deferred Compensation Plan, effective March 2, 1993 (Incorporated by reference to Exhibit 10.16 to the Company's Form 10-K for the year ended December 31, 1992)\*\*
- 10.2 Form of Note Exchange Agreement -- 10% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)
- 10.3 Form of Note Exchange Agreement -- 7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 1995)
- 10.4 Form of Note Exchange Agreement -- 7.4% Senior Notes due July 15, 2000 (Incorporated by reference to Exhibit 10.25 to the Company's Form 10-K for the year ended December 31, 1995)
- 10.5 First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty

- between Delta Investors I, LLC and Sun Healthcare Group, Inc. and Delta Investors II, LLC and Sun Healthcare Group, Inc. (Incorporated by reference to Exhibits 99.1 and 99.2 to the Company's Form 8-K dated April 30, 1998)
- 10.6 Agreement of Sale and Purchase dated May 12, 2000, by and between Omega Healthcare Investors, Inc. and Tenet Healthsystem Philadelphia, Inc. (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
- 10.7 Amended and Restated Investment Agreement, by and among Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit A of the Company's Proxy Statement dated June 16, 2000)

I-1

- 10.8 Indemnification Agreement between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. (Incorporated by reference to Exhibit 10.12 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
- 10.9 Amended and Restated Advisory Agreement between Omega Healthcare Investors, Inc. and The Hampstead Group, L.L.C., dated October 4, 2000 (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
- 10.10 Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks, dated June 15, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
- 10.11 Amendment No. 1 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks\*
- 10.12 Amendment No. 2 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks\*
- 10.13 Amendment No. 3 to Loan Agreement by and among Omega Healthcare Investors, Inc. and certain of its subsidiaries, the banks signatory hereto and Fleet Bank, N.A., as agent for such banks\*
- 10.14 2000 Stock Incentive Plan (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)\*\*
- 10.15 Amendment to 2000 Stock Incentive Plan (Incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)\*\*
- 10.16 Consulting and Severance Agreement with Essel W. Bailey, Jr. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)\*\*
- 10.17 Compensation Agreement with F. Scott Kellman (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)\*\*
- 10.18 Compensation Agreement with Susan Kovach (Incorporated by reference to Exhibit 10.9 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)\*\*
- 10.19 Compensation Agreement with Laurence Rich (Incorporated by reference to Exhibit 10.10 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)\*\*
- 10.20 Form of Directors and Officers Indemnification Agreement (Incorporated by reference to Exhibit 10.11 to the Company's Form 10-Q for the quarterly period ended June 30, 2000)
- 10.21 Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank, Agent and Various Lenders Described Herein, dated August 16, 2000 (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
- 10.22 Amendment No. 1 to Loan Agreement by and among

	Omega Healthcare Investors , Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank , Agent and Various Lenders Described Herein*
10.23	Amendment No. 2 to Loan Agreement by and among Omega Healthcare Investors, Inc., Sterling Acquisition Corp. and Delta Investors I, LLC, The Provident Bank , Agent and Various Lenders Described Herein*
10.24	Settlement and Restructuring Agreement by and among Omega Healthcare Investors, Inc. and Sterling Acquisition Corp, and Advocat, Inc., Diversicare Leasing Corp., Sterling Health Care Management Inc., Diversicare Management Services Co. and Advocat Finance, Inc. dated October 1, 2000 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
10.25	Consolidated Amended and Restated Master Lease by and among Sterling Acquisition Corp. and Diversicare Leasing Corporation, effective October 1, 2000 and dated November 8, 2000 (Incorporated by reference to Exhibit 10.4 to the Company's Form 10-Q for the quarterly period ended September 30, 2000)
10.26	Letter Agreement between Omega Healthcare Investors, Inc. and Explorer Holdings, L.P. regarding deferral of dividends and waiver of certain provisions of Articles Supplementary pertaining to Series C Preferred Stock (Incorporated by reference to Exhibit 10.5 to the Company's Form 10-Q/A for the quarterly period ended September 30, 2000)
10.27	Management Services Agreement by and among Omega Healthcare Investors, Inc., Erickson Capital Group, Inc. and Thomas Erickson dated October 1, 2000.**
10.28	Agreement of Sale and Purchase between Omega Healthcare Investors, Inc. and Tenet Healthsystem Philadelphia , Inc. dated May 12, 2000 (Incorporated by reference to Exhibit 10.3 to the Company's Form 10-Q for the quarterly period ended March 31, 2000)
11	Statement re: computation of per share earnings*
12	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends*
21	Subsidiaries of the Registrant*
23	Consent of Ernst & Young LLP*

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\* Exhibits which are filed herewith on the indicated sequentially numbered page.

\*\*Management contract or compensatory plan, contract or arrangement.

## SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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.

By: /s/ Richard M. FitzPatrick  
-----  
Richard M. FitzPatrick  
Acting Chief Financial Officer

Dated: April 2, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities on the date indicated.

<i>Signatures</i> -----	<i>Title</i> -----	<i>Date</i> ----
<i>PRINCIPAL EXECUTIVE OFFICER</i>		
<i>/s/ THOMAS W. ERICKSON.</i> ----- Thomas W. Erickson	<i>Interim Chief Executive Officer and Director</i>	<i>April 2, 2001</i>
<i>PRINCIPAL FINANCIAL OFFICER and PRINCIPAL ACCOUNTING OFFICER</i>		
<i>/s/ RICHARD M. FITZPATRICK</i> ----- Richard M. FitzPatrick	<i>Acting Chief Financial Officer and Chief Accounting Officer</i>	<i>April 2, 2001</i>

## DIRECTORS

<i>/s/ DANIEL A. DECKER</i> ----- Daniel A. Decker	<i>Chairman of the Board</i>	<i>April 2, 2001</i>
<i>/s/ THOMAS F. FRANKE</i> ----- Thomas F. Franke	<i>Director</i>	<i>April 2, 2001</i>
<i>/s/ HAROLD J. KLOOSTERMAN</i> ----- Harold J. Kloosterman	<i>Director</i>	<i>April 2, 2001</i>
<i>/s/ BERNARD J. KORMAN</i> ----- Bernard J. Korman	<i>Director</i>	<i>April 2, 2001</i>
<i>/s/ EDWARD LOWENTHAL</i> ----- Edward Lowenthal	<i>Director</i>	<i>April 2, 2001</i>
<i>/s/ CHRISTOPHER W. MAHOWALD</i> ----- Christopher W. Mahowald	<i>Director</i>	<i>April 2, 2001</i>
<i>/s/ DONALD J. MCNAMARA</i> ----- Donald J. McNamara	<i>Director</i>	<i>April 2, 2001</i>
<i>/s/ STEPHEN D. PLAVIN</i> ----- Stephen D. Plavin	<i>Director</i>	<i>April 2, 2001</i>

## AMENDMENT NO. 1 TO LOAN AGREEMENT

AMENDMENT NO. 1 TO LOAN AGREEMENT (this "First Amendment"), made and executed this 15th day of August, 2000, by and among: OMEGA HEALTHCARE INVESTORS, INC. and certain of its subsidiaries (individually, a "Borrower" and collectively, the "Borrowers"), The Banks that have executed the signature pages hereto (individually, a "Bank" and collectively, the "Banks"); and FLEET BANK, N.A., a national banking association, as Agent for the Banks (in such capacity, together with its successors in such capacity, the "Agent").

### PRELIMINARY STATEMENTS

(A) The Borrowers have entered into a certain Loan Agreement dated June 15, 2000 (hereinafter referred to as the "Loan Agreement") with the Agent and the Banks; and

(B) The Borrowers have requested that the Banks and the Agent amend certain provisions of the Loan Agreement, and the Banks and the Agent are willing to do so, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the agreements and provisions contained herein, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Certain Amendments to the Loan Agreement. The Loan Agreement is hereby amended as follows:

2.1. The following definitions are added to Article 1 in their appropriate alphabetic locations:

(a) "'New Provident Loan Agreement': that certain Loan Agreement dated on or about August 11, 2000 among Omega, certain of its Subsidiaries, the lenders party thereto and The Provident Bank, as Agent for such lenders, as the same may hereafter be amended from time to time during the term of this Agreement."

(b) "'1999 Provident Loan Agreement': that certain Loan Agreement dated March 31, 1999 between Omega and The Provident Bank, as the same has been amended from time to time through the date of the 1999 Provident Loan Agreement."

(c) "'Provident/Sterling Note': that certain Promissory Note dated July 1, 2000 executed by Sterling Acquisitions Corp. in favor of The Provident Bank."

2.2. Subsection 2.6(e) (Payment of Loans; Voluntary Changes in Commitment; Mandatory Repayments) of the Loan Agreement is hereby amended by deleting the period at the end of such subsection and inserting the following

", except that the Borrower may use the proceeds of the loans to be made by The Provident Bank and the other lenders party thereto under the New Provident Loan Agreement (i) in order to repay in full all of the Indebtedness outstanding under (A) the 1999 Loan Agreement and (B) the Provident/Sterling Note, and (ii) as otherwise permitted pursuant to the New Provident Loan Agreement."

2.3. Subsection 7.1(f) (Indebtedness) of the Loan Agreement is hereby deleted in its entirety and the following is substituted therefor:

"(f) Indebtedness, the terms of which shall not require any principal payments thereon prior to the Revolving Credit Commitment Termination Date, other than the Indebtedness constituting the Revolving Loan B under and as defined in the New Provident Loan Agreement, as in effect on the date hereof."

2.4. Subsection 7.5(b)(i) (Redemptions; Distributions) of the Loan Agreement is hereby deleted in its entirety and the following is substituted therefor:

"(i) Omega may declare and make dividend payments or other distributions payable solely (A) in its common stock; and (B) in kind to Explorer Holdings, L.P. in respect of the Series C Convertible Preferred Stock of Omega as contemplated under the Investment Agreement;"

2.5. Section 7.12 (Use of Cash) of the Loan Agreement is hereby amended by deleting the portion of such Section beginning with subsection (c)(ii) thereof through the end of such Section and substituting the following therefor:

"(ii) any loan or loans made by The Provident Bank pursuant to the New Provident Loan Agreement, and (d) for uses that are otherwise specifically permitted by this Agreement."

3. Representations and Warranties. In order to induce the Banks and the Agent to enter into this First Amendment, each of the Loan Parties hereby represents and warrants to the Banks and the Agent, as to itself with respect to the Loan Documents to which it is a party, that:

3.1 No Default. After giving effect to this First Amendment, no Default or Event of Default shall have occurred or be continuing.

3.2 Existing Representations and Warranties. As of the date hereof and after giving effect to this First Amendment, each and every one of the representations and warranties set forth in the Loan Documents are true, accurate and complete in all respects and with the same effect as though made on the date hereof, and each is hereby incorporated herein in full by reference as if restated herein in its entirety, except for changes in the ordinary course of business which are not prohibited by the Loan Agreement (as amended hereby) and which do not, either singly or in the aggregate, have a Material Adverse Effect.

3.3 Authority; Enforceability. (i) The execution, delivery and performance by each Loan Party of this First Amendment are within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of each Loan Party, (ii) this First Amendment is the legal, valid and binding obligation of each Loan Party, enforceable against each Loan Party in accordance with its terms, and (iii) this First Amendment and the execution, delivery and performance by each Loan Party thereof does not: (A) contravene the terms of any Loan Party's organization documents, (B) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which any Loan Party is a party or any order, injunction, writ or decree to which any Loan Party or its property is subject, or (C) violate any requirement of law.

4. Reference to and Effect Upon the Loan Agreement.

4.1 Effect. Except as specifically set forth herein, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

4.2 No Waiver; References. The execution, delivery and effectiveness of this First Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Bank under the Loan Agreement, nor constitute a waiver of any provision of the Loan Agreement, except as specifically set forth herein. Upon the effectiveness of this First Amendment, each reference in:

(i) the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement as amended hereby;

(ii) the other Loan Documents to the "Loan Agreement" shall mean and be a reference to the Loan Agreement as amended hereby; and

(iii) the Loan Documents to the "Loan Documents" shall be deemed to include this First Amendment.

5. Miscellaneous.

5.1 Expenses. The Loan Parties agree to pay the Agent upon demand for all reasonable expenses, including reasonable attorneys' fees and expenses of the Agent, incurred by the Agent in connection with the preparation, negotiation and execution of this First Amendment.

5.2. Law. THIS FIRST AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK.

5.3 Successors. This First Amendment shall be binding upon the Loan Parties, the Banks and the Agent and their respective successors and assigns, and shall inure to the benefit of the Loan Parties, the Banks and the Agent and the successors and assigns of the Banks and the Agent.

5.4 Execution in Counterparts. This First Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

**OMEGA HEALTHCARE  
INVESTORS, INC.  
DELTA INVESTORS I, LLC  
DELTA INVESTORS II, LLC  
JEFFERSON CLARK, INC.  
NRS VENTURES, L.L.C.  
OHI (CLEMMONS), INC.  
OHI (FLORIDA), INC.  
OHI (GREENSBORO), INC.  
OHI (ILLINOIS), INC.  
OHI (IOWA), INC.  
OHI (KANSAS), INC.  
OHI OF TEXAS, INC.  
OMEGA (KANSAS), INC.  
OS LEASING COMPANY  
STERLING ACQUISITION CORP.  
STERLING ACQUISITION CORP. II**

By /s/ SUSAN A. KOVACH  
-----

*Susan A. Kovach, as an executive officer of all of the aforementioned entities, has executed this Loan Agreement and intending that all entities above named are bound and are to be bound by the one signature as if she had executed this Loan Agreement separately for each of the above named entities.*

Signature Page to First Amendment to Loan Agreement among Omega Healthcare Investors, Inc., and certain of its Subsidiaries, the Banks party thereto, and Fleet Bank, N.A. as Agent

FLEET BANK, N.A., as Agent and as a Bank

By: /s/ CHRISTIAN J. COVELLO  
-----  
Name: Christian J. Covello  
-----  
Title: Vice President  
-----

**DRESDNER BANK AG, NEW YORK BRANCH  
and GRAND CAYMAN BRANCH**

By: /s/ DEBRA RITZLER  
-----  
Name: Debra Ritzler  
-----  
Title: Assistant Vice President  
-----

By: /s/ CHARLES M. O'SHEA  
-----  
Name: Charles M. O'Shea  
-----  
Title: Vice President  
-----

**HARRIS TRUST AND SAVINGS BANK**

By: /s/ MICHAEL J. JOHNSON  
-----  
Name: Michael J. Johnson  
-----  
Title: Vice President  
-----

BANK ONE, MICHIGAN

By: /s/ MARCIA F. VENTURA  
-----  
Name: Marcia F. Fentura  
-----  
Title: First Vice President  
-----

**FOOTHILL INCOME TRUST, L.P.  
By FIT-GP, LLC**

By: /s/ M. E. STEARNS  
-----  
Name: M. E. Stearns  
-----  
Title: Managing Member  
-----

Signature Page to First Amendment to Loan Agreement among Omega Healthcare Investors, Inc., and certain of its Subsidiaries, the Banks party thereto, and Fleet Bank, N.A. as Agent

**MICHIGAN NATIONAL BANK**

By: /s/ DRAGA PALINCAS  
-----  
Name: Draga Palincas  
-----  
Title: Vice President  
-----

**LASALLE BANK NATIONAL ASSOCIATION**

By: /s/ JOSEPH N. LAZEWSKI  
-----  
Name: Joseph N. Lazewski  
-----  
Title: Loan Officer  
-----

**BHF (USA) CAPITAL CORPORATION**

By: /s/ RICHARD CAMERON  
-----  
Name: Richard Cameron  
-----  
Title: Vice President  
-----

By: /s/ HANS J. SCHOLZ  
-----  
Name: Hans J. Scholz  
-----  
Title: Vice President  
-----

**KBC N.V.**

By: /s/ ROBERT SNAUFFER  
-----  
Name: Robert Snauffer  
-----  
Title: First Vice President  
-----

By: /s/ KATHERINE S. MCCARTHY  
-----  
Name: Katherine S. McCarthy  
-----  
Title: Vice President  
-----

## AMENDMENT NO. 2 TO LOAN AGREEMENT

AMENDMENT NO. 2 TO LOAN AGREEMENT (this "Second Amendment"), made and executed this 20th day of November, 2000, by and among:

OMEGA HEALTHCARE INVESTORS, INC. and certain of its subsidiaries (individually, a "Borrower" and collectively, the "Borrowers"),

The Banks that have executed the signature pages hereto (individually, a "Bank" and collectively, the "Banks"); and

FLEET NATIONAL BANK (successor by merger to Fleet Bank, N.A.), a national banking association, as Agent for the Banks (in such capacity, together with its successors in such capacity, the "Agent").

### PRELIMINARY STATEMENTS

(A) The Borrowers have entered into a certain Loan Agreement dated June 15, 2000 (as amended by Amendment No. 1 to Loan Agreement dated August 15, 2000, hereinafter referred to as the "Loan Agreement") with the Agent and the Banks; and

(B) The Borrowers have requested that the Banks and the Agent amend certain provisions of the Loan Agreement, and the Banks and the Agent are willing to do so, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the agreements and provisions contained herein, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Certain Amendments to the Loan Agreement. The Loan Agreement is hereby amended as follows:

2.1. The definition of "Funded Indebtedness" contained in Article 1 is hereby deleted in its entirety and the following is substituted therefor:

"Funded Indebtedness": as of any date of determination, all Indebtedness for borrowed money (which in any event does not include accounts payable and accrued liabilities) of Omega on a consolidated basis including, in any event, the Credit Loans"

2.2. Section 6.9 (Financial Covenants) of the Loan Agreement is amended by adding the following sentence to the end of such Section:

"For purposes of computing the financial covenants contained in Section 6.9, there shall be excluded from the calculation of "EBITDA" and "Adjusted EBITDA" a one time charge of \$4,664,861, incurred by Omega during the third quarter of 2000, in connection with severance and consulting costs arising from the consummation of certain transactions contemplated by the Investment Agreement."

3. Representations and Warranties. In order to induce the Banks and the Agent to enter into this Second Amendment, each of the Loan Parties hereby represents and warrants to the Banks and the Agent, as to itself with respect to the Loan Documents to which it is a party, that:

3.1 No Default. After giving effect to this Second Amendment, no Default or Event of Default shall have occurred or be continuing.

3.2 Existing Representations and Warranties. As of the date hereof and after giving effect to this Second Amendment, each and every one of the representations and warranties set forth in the Loan Documents are true, accurate and complete in all respects and with the same effect as though made on the date hereof, and each is hereby incorporated herein in full by reference as if restated herein in its entirety, except for changes in the ordinary course of business which are not prohibited by the Loan Agreement (as amended hereby) and which do not, either singly or in the aggregate, have a Material Adverse Effect.

3.3 Authority; Enforceability. (i) The execution, delivery and performance by each Loan Party of this Second Amendment are within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of each Loan Party, (ii) this Second Amendment is the legal, valid and binding obligation of each Loan Party, enforceable against each Loan Party in accordance with its terms, and (iii) this Second Amendment and the execution, delivery and performance by each Loan Party thereof does not: (A) contravene the terms of any Loan Party's organization documents, (B) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which any Loan Party is a party or any order, injunction, writ or decree to which any Loan Party or its property is subject, or (C) violate any requirement of law.

4. Reference to and Effect Upon the Loan Agreement.

4.1 Effect. Except as specifically set forth herein, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

4.2 No Waiver; References. The execution, delivery and effectiveness of this Second Amendment shall not operate as a waiver of any right,

power or remedy of the Agent or any Bank under the Loan Agreement, nor constitute a waiver of any provision of the Loan Agreement, except as specifically set forth herein. Upon the effectiveness of this Second Amendment, each reference in:

- (i) the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement as amended hereby;
- (ii) the other Loan Documents to the "Loan Agreement" shall mean and be a reference to the Loan Agreement as amended hereby; and
- (iii) the Loan Documents to the "Loan Documents" shall be deemed to include this Second Amendment.

## 5. Miscellaneous.

5.1 Expenses. The Loan Parties agree to pay the Agent upon demand for all reasonable expenses, including reasonable attorneys' fees and expenses of the Agent, incurred by the Agent in connection with the preparation, negotiation and execution of this Second Amendment.

5.2. Law. THIS SECOND AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK.

5.3 Fee. In the event that the Required Banks execute and deliver this Second Amendment, the Borrowers shall pay to the Agent for the benefit of each Bank that executes and delivers this Second Amendment no later than 12:00 noon on Monday, November 20, 2000 (the "Second Amendment Fee Date"), a non-refundable amendment fee equal to the product of (a) 0.05% (i.e., 5 basis points) multiplied by (b) the Revolving Credit Commitment of such Lender, as of the Second Amendment Fee Date.

5.4 Successors. This Second Amendment shall be binding upon the Loan Parties, the Banks and the Agent and their respective successors and assigns, and shall inure to the benefit of the Loan Parties, the Banks and the Agent and the successors and assigns of the Banks and the Agent.

5.5 Execution in Counterparts. This Second Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Second Amendment to be executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

**OMEGA HEALTHCARE  
INVESTORS, INC.  
DELTA INVESTORS I, LLC  
DELTA INVESTORS II, LLC  
JEFFERSON CLARK, INC.  
NRS VENTURES, L.L.C.  
OHI (CLEMMONS), INC.  
OHI (FLORIDA), INC.  
OHI (GREENSBORO), INC.  
OHI (ILLINOIS), INC.  
OHI (IOWA), INC.  
OHI (KANSAS), INC.  
OHI OF TEXAS, INC.  
OMEGA (KANSAS), INC.  
OS LEASING COMPANY  
STERLING ACQUISITION CORP.  
STERLING ACQUISITION CORP. II**

By /s/ SUSAN A. KOVACH

-----  
*Susan A. Kovach, as an executive officer of all of the  
aforementioned entities, has executed this Loan Agreement and intending that all  
entities above named are bound and are to be bound by the one signature as if  
[s]he had executed this Loan Agreement separately for each of the above named  
entities.*

Signature Page to Second Amendment to Loan Agreement among Omega Healthcare Investors, Inc., and certain of its Subsidiaries, the Banks party thereto, and Fleet National Bank, as Agent

**FLEET NATIONAL BANK, as Agent  
and as a Bank**

By: /s/ CHRISTIAN J. COVELLO  
-----  
Name: Christian J. Covello  
-----  
Title: Vice President  
-----

**DRESDNER BANK AG, NEW YORK BRANCH  
and GRAND CAYMAN BRANCH**

By: /s/ DEBRA RITZLER  
-----  
Name: Debra Ritzler  
-----  
Title: Assistant Vice President  
-----

By: /s/ CHARLES M. O'SHEA  
-----  
Name: Charles M. O'Shea  
-----  
Title: Vice President  
-----

**HARRIS TRUST AND SAVINGS BANK**

By: /s/ EDWARD P. MCGUIRE  
-----  
Name: Edward P. McGuire  
-----  
Title: Vice President  
-----

**BANK ONE, MICHIGAN**

By: /s/ KIRK W. ANDERSON  
-----  
Name: Kirk W. Anderson  
-----  
Title: Senior Vice President  
-----

**FOOTHILL INCOME TRUST, L.P.  
By FIT-GP, LLC**

By: /s/ M. E. STEARS  
-----  
Name: M. E. Stearns  
-----  
Title: Managing Member  
-----

**LASALLE BANK NATIONAL ASSOCIATION**

By: /s/ JOSEPH N. LAZEWSKI  
-----  
Name: Joseph N. Lazewski  
-----  
Title: Loan Officer  
-----

**KBC N.V.**

By: /s/ KATHERINE S. MCCARTHY  
-----  
Name: Katherine S. McCarthy  
-----  
Title: Vice President  
-----

By: /s/ ROBERT SNAUFFER  
-----  
Name: Robert Snauffer  
-----  
Title: First Vice President  
-----

Signature Page to Second Amendment to Loan Agreement among Omega Healthcare Investors, Inc., and certain of its Subsidiaries, the Banks party thereto, and Fleet National Bank, as Agent

## AMENDMENT NO. 3 TO LOAN AGREEMENT

AMENDMENT NO. 3 TO LOAN AGREEMENT (this "Third Amendment"), made and executed this 30th day of January, 2001, by and among:

OMEGA HEALTHCARE INVESTORS, INC. and certain of its subsidiaries (individually, a "Borrower" and collectively, the "Borrowers"),

The Banks that have executed the signature pages hereto (individually, a "Bank" and collectively, the "Banks"); and

FLEET NATIONAL BANK, a national banking association, as Agent for the Banks (in such capacity, together with its successors in such capacity, the "Agent").

### PRELIMINARY STATEMENTS

(A) The Borrowers have entered into a certain Loan Agreement dated June 15, 2000 (as amended by (i) Amendment No. 1 to Loan Agreement dated August 15, 2000, and (ii) Amendment No. 2 to Loan Agreement dated November 30, 2000, hereinafter referred to as the "Loan Agreement") with the Agent and the Banks; and

(B) The Borrowers have requested that the Banks and the Agent amend a certain provision of the Loan Agreement, and the Banks and the Agent are willing to do so, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the agreements and provisions contained herein, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.
2. Certain Amendment to the Loan Agreement. Subsection 6.9(f) of the Loan Agreement is hereby deleted in its entirety and the following is substituted therefor:

"(f) Have or maintain as at the last day of each fiscal quarter of Omega set forth below, a Leverage Ratio of not greater than the respective ratio set forth opposite each such date:

Date ----	Maximum Leverage Ratio -----
December 31, 2000	5.50:1.00
March 31, 2001	5.50:1.00
June 30, 2001	5.50:1.00
September 30, 2001	5.25:1.00
December 31, 2001	5.25:1.00
March 31, 2002	5.00:1.00
June 30, 2002	5.00:1.00
September 30, 2002 and the last day of each fiscal quarter thereafter	4.75:1.00"

3. Representations and Warranties. In order to induce the Banks and the Agent to enter into this Third Amendment, each of the Loan Parties hereby represents and warrants to the Banks and the Agent, as to itself with respect to the Loan Documents to which it is a party, that:

3.1 No Default. After giving effect to this Third Amendment, no Default or Event of Default shall have occurred or be continuing.

3.2 Existing Representations and Warranties. As of the date hereof and after giving effect to this Third Amendment, each and every one of the representations and warranties set forth in the Loan Documents are true, accurate and complete in all respects and with the same effect as though made on the date hereof, and each is hereby incorporated herein in full by reference as if restated herein in its entirety, except for changes in the ordinary course of business which are not prohibited by the Loan Agreement (as amended hereby) and which do not, either singly or in the aggregate, have a Material Adverse Effect.

3.3 Authority; Enforceability. (i) The execution, delivery and performance by each Loan Party of this Third Amendment are within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of each Loan Party, (ii) this Third Amendment is the legal, valid and binding obligation of each Loan Party, enforceable against each Loan Party in accordance with its terms, and (iii) this Third Amendment and the execution, delivery and performance by each Loan Party thereof does not: (A) contravene the terms of any Loan Party's organization documents, (B) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which any Loan Party is a party or any order, injunction, writ or decree to which any Loan Party or its property is subject, or (C) violate any requirement of law.

4. Reference to and Effect Upon the Loan Agreement.

4.1 Effect. Except as specifically set forth herein, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

4.2 No Waiver; References. The execution, delivery and effectiveness of this Third Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Bank under the Loan Agreement, nor constitute a waiver of any provision of the Loan Agreement, except as specifically set forth herein. Upon the effectiveness of this Third Amendment, each reference in:

(i) the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement as amended hereby;

(ii) the other Loan Documents to the "Loan Agreement" shall mean and be a reference to the Loan Agreement as amended hereby; and

(iii) the Loan Documents to the "Loan Documents" shall be deemed to include this Third Amendment.

## 5. Miscellaneous.

5.1 Expenses. The Loan Parties agree to pay the Agent upon demand for all reasonable expenses, including reasonable attorneys' fees and expenses of the Agent, incurred by the Agent in connection with the preparation, negotiation and execution of this Third Amendment.

5.2 Law. THIS THIRD AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF NEW YORK.

5.3 Fee. In the event that the Required Banks execute and deliver this Third Amendment, the Borrowers shall pay to the Agent for the benefit of each Bank that executes and delivers this Third Amendment no later than 1:00 p.m. on Tuesday, January 30, 2001 (the "Third Amendment Fee Date"), a non-refundable amendment fee equal to the product of (a) 0.03% (i.e., 3 basis points) multiplied by (b) the Revolving Credit Commitment of such Lender, as of the Third Amendment Fee Date.

5.4 Successors. This Third Amendment shall be binding upon the Loan Parties, the Banks and the Agent and their respective successors and assigns, and shall inure to the benefit of the Loan Parties, the Banks and the Agent and the successors and assigns of the Banks and the Agent.

5.5 Execution in Counterparts. This Third Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

**OMEGA HEALTHCARE  
INVESTORS, INC.  
DELTA INVESTORS I, LLC  
DELTA INVESTORS II, LLC  
JEFFERSON CLARK, INC.  
NRS VENTURES, L.L.C.  
OHI (CLEMMONS), INC.  
OHI (FLORIDA), INC.  
OHI (GREENSBORO), INC.  
OHI (ILLINOIS), INC.  
OHI (IOWA), INC.  
OHI (KANSAS), INC.  
OHI OF TEXAS, INC.  
OMEGA (KANSAS), INC.  
OS LEASING COMPANY  
STERLING ACQUISITION CORP.  
STERLING ACQUISITION CORP. II**

By /s/ SUSAN A. KOVACH

-----  
*Susan A. Kovach, as an executive officer of all of the  
aforementioned entities, has executed this Third Amendment to Loan Agreement and  
intending that all entities above named are bound and are to be bound by the one  
signature as if [s]he had executed this Third Amendment to Loan Agreement  
separately for each of the above named entities.*

Signature Page to Third Amendment to Loan Agreement among Omega Healthcare Investors, Inc., and certain of its Subsidiaries, the Banks party thereto, and Fleet National Bank, as Agent

**FLEET NATIONAL BANK, as Agent  
and as a Bank**

By: /s/ CHRISTIAN J. COVELLO  
-----  
Name: Christian J. Covello  
-----  
Title: Vice President  
-----

**DRESDNER BANK AG, NEW YORK BRANCH  
and GRAND CAYMAN BRANCH**

By: /s/ DEBRA RITZLER  
-----  
Name: Debra Ritzler  
-----  
Title: Assistant Vice President  
-----

By: /s/ CHARLES M. O'SHEA  
-----  
Name: Charles M. O'Shea  
-----  
Title: Vice President  
-----

**HARRIS TRUST AND SAVINGS BANK**

By: /s/ EDWARD P. MCGUIRE  
-----  
Name: Edward P. McGuire  
-----  
Title: Vice President  
-----

**BANK ONE, MICHIGAN**

By: /s/ MARCIA F. VENTURA  
-----  
Name: Marcia F. Ventura  
-----  
Title: First Vice President  
-----

**FOOTHILL INCOME TRUST, L.P.  
By FIT-GP, LLC**

By: /s/ M. E. STEARNS  
-----  
Name: M. E. Stearns  
-----  
Title: Managing Member  
-----

Signature Page to Third Amendment to Loan Agreement among Omega Healthcare Investors, Inc., and certain of its Subsidiaries, the Banks party thereto, and Fleet National Bank, as Agent

**MICHIGAN NATIONAL BANK**

By: /s/ L. J. CASSELMAN  
-----  
Name: L. J. Casselman  
-----  
Title: Senior Asset Structuring  
-----  
Manager  
-----

LASALLE BANK NATIONAL ASSOCIATION

By: /s/ FRANCES P. DEAN  
-----  
Name: Frances P. Dean  
-----  
Title: First Vice President  
-----

**BHF (USA) CAPITAL CORPORATION**

By: /s/ THOMAS J. SCIFO  
-----  
Name: Thomas J. Scifo  
-----  
Title: Vice President  
-----

By: /s/ THOMAS DECRATH  
-----  
Name: Thomas Decrath  
-----  
Title: Associate  
-----

**KBC N.V.**

By: /s/ KATHERINE S. MCCARTHY  
-----  
Name: Katherine S. McCarthy  
-----  
Title: Vice President  
-----

By: /s/ ROBERT SNAUFFER  
-----  
Name: Robert Snauffer  
-----  
Title: First Vice President  
-----

Signature Page to Third Amendment to Loan Agreement among Omega Healthcare Investors, Inc., and certain of its Subsidiaries, the Banks party thereto, and Fleet National Bank, as Agent

## AMENDMENT NO. 1 TO LOAN AGREEMENT

AMENDMENT NO. 1 TO LOAN AGREEMENT (this "First Amendment"), made and executed this 20th day of November, 2000, by and among:

OMEGA HEALTHCARE INVESTORS, INC. and certain of its subsidiaries (individually, a "Borrower" and collectively, the "Borrowers"),

The lenders that have executed the signature pages hereto (individually, a "Lender" and collectively, the "Lenders"); and

THE PROVIDENT BANK, an Ohio banking corporation, as Agent for the Lenders (in such capacity, together with its successors in such capacity, the "Agent").

### PRELIMINARY STATEMENTS

(A) The Borrowers have entered into a certain Loan Agreement dated August 11, 2000 (hereinafter referred to as the "Loan Agreement") with the Agent and the Lenders; and

(B) The Borrowers have requested that the Lenders and the Agent amend certain provisions of the Loan Agreement, and the Lenders and the Agent are willing to do so, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the agreements and provisions contained herein, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Certain Amendments to the Loan Agreement. The Loan Agreement is hereby amended as follows:

2.1 The definition of "Funded Indebtedness" contained in Article 1, Section 1.2, is hereby deleted in its entirety and the following is substituted therefor:

""Funded Indebtedness" means as of any date of determination, all Indebtedness for borrowed money (which in any event does not include accounts payable and accrued liabilities) of Omega on a consolidated basis including, in any event, the Loans."

2.2 Section 7.9 (Financial Covenants) of the Loan Agreement is amended by adding the following sentence as a new paragraph (e) in and to such Section:

" (e) For purposes of computing the financial covenants contained in Section 7.9, there shall be excluded from the calculation of "EBITDA" and "Adjusted EBITDA" a one time charge of \$4,664,861, incurred by Omega during the third quarter of 2000, in connection with severance and consulting costs arising from the consummation of certain transactions contemplated by the Investment Agreement."

3. Representations and Warranties. In order to induce the Lenders and the Agent to enter into this First Amendment, each of the Borrowers hereby represents and warrants to the Lenders and the Agent, as to itself with respect to the Loan Documents to which it is a party, that:

3.1 No Default. After giving effect to this First Amendment, no Default or Event of Default shall have occurred or be continuing.

3.2 Existing Representations and Warranties. As of the date hereof and after giving effect to this First Amendment, each and every one of the representations and warranties set forth in the Loan Documents are true, accurate and complete in all respects and with the same effect as though made on the date hereof, and each is hereby incorporated herein in full by reference as if restated herein in its entirety, except for changes in the ordinary course of business which are not prohibited by the Loan Agreement (as amended hereby) and which do not, either singly or in the aggregate, have a Material Adverse Effect.

3.3 Authority; Enforceability. (i) The execution, delivery and performance by each Borrower of this First Amendment are within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of each Borrower, (ii) this First Amendment is the legal, valid and binding obligation of each Borrower, enforceable against each Borrower in accordance with its terms, and (iii) this First Amendment and the execution, delivery and performance by each Borrower hereof does not: (A) contravene the terms of any Borrower's organization documents, (B) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which any Borrower is a party or any order, injunction, writ or decree to which any Borrower or its property is subject, or (C) violate any requirement of law.

4. Reference to and Effect Upon the Loan Agreement.

4.1 Effect. Except as specifically set forth herein, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

4.2 No Waiver; References. The execution, delivery and effectiveness of this First Amendment shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Loan Agreement, nor constitute a waiver of any provision of the Loan Agreement, except as specifically set forth herein. Upon the effectiveness of this First Amendment, each reference in:

(i) the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement as amended hereby;

(ii) the other Loan Documents to the "Loan Agreement" shall mean and be a reference to the Loan Agreement as amended hereby; and

(iii) the Loan Documents to the "Loan Documents" shall be deemed to include this First Amendment.

## 5. Miscellaneous.

5.1 Expenses. The Borrowers agree to pay the Agent upon demand for all reasonable expenses, including reasonable attorneys' fees and expenses of the Agent, incurred by the Agent in connection with the preparation, negotiation and execution of this First Amendment.

5.2 Law. THIS SECOND AMENDMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF OHIO.

5.3 Fee. In the event that the Lenders execute and deliver this First Amendment, the Borrowers shall pay to the Agent for the benefit of each Lender that executes and delivers this First Amendment a non-refundable amendment fee equal to the product of (a) 0.05% (i.e., 5 basis points) multiplied by (b) the Revolving Loan A Commitment or Revolving Loan B Commitment of such Lender as of Monday, November 20, 2000.

5.4 Successors. This First Amendment shall be binding upon the Borrowers, the Lenders and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrowers, the Lenders and the Agent and the successors and assigns of the Lenders and the Agent.

5.5 Execution in Counterparts. This First Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

[Signatures on following page.]

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

**THE PROVIDENT BANK, as Lender and Agent**

By: /s/ STEVEN J. BLOEMER  
-----  
Its: Vice President  
-----  
Printed: Steven J. Bloemer  
-----

**ONE VALLEY BANK**

By: /s/ TIMOTHY PAXTON  
-----  
Its: Senior Vice President  
-----

**GREAT AMERICAN INSURANCE COMPANY**

By: /s/ RONALD C. HAYES  
-----  
Its: Assistant Vice President  
-----

**GREAT AMERICAN LIFE INSURANCE COMPANY**

By: /s/ MARK F. MUETHING  
-----  
Its: Executive Vice President  
-----

**OMEGA HEALTHCARE INVESTORS, INC.  
STERLING ACQUISITION CORP.  
DELTA INVESTORS I, LLC**

By: /s/ SUSAN A. KOVACH  
-----  
Its: Vice President, General Counsel  
-----  
and Secretary  
-----

Susan A. Kovach, as an executive officer of all of the aforementioned entities, has executed this First Amendment and intending that all of the entities above named are bound and are to be bound by the one signature as if (s)he had executed this First Amendment separately for each of the above named entities.

## AMENDMENT NO. 2 TO LOAN AGREEMENT

AMENDMENT NO. 2 TO LOAN AGREEMENT (this "Amendment No. 2"), made and entered into effective the 31st day of December, 2000, by and among:

OMEGA HEALTHCARE INVESTORS, INC. and certain of its subsidiaries (individually, a "Borrower" and collectively, the "Borrowers"),

The lenders that have executed the signature pages hereto (individually, a "Lender" and collectively, the "Lenders"); and

THE PROVIDENT BANK, an Ohio banking corporation, as Agent for the Lenders (in such capacity, together with its successors in such capacity, the "Agent").

### PRELIMINARY STATEMENTS

(A) The Borrowers have entered into a certain Loan Agreement dated August 11, 2000, as amended by that certain Amendment No. 1 to Loan Agreement dated November 30, 2000 (hereinafter referred to, as amended, as the "Loan Agreement") with the Agent and the Lenders; and

(B) The Borrowers have requested that the Lenders and the Agent amend certain provisions of the Loan Agreement, and the Lenders and the Agent are willing to do so, all on the terms and conditions hereinafter set forth;

NOW, THEREFORE, in consideration of the agreements and provisions contained herein, the parties hereto hereby agree as follows:

1. Definitions. Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

2. Certain Amendments to the Loan Agreement. The Loan Agreement is hereby amended as follows:

2.1 The definition of "LIBOR Margin" contained in Article 1, Section 1.2, is hereby deleted in its entirety and the following is substituted therefor:

"LIBOR Margin" means one of the following percentages, depending on the Leverage Ratio, as determined by Agent as of the Computation Date for the immediately preceding fiscal quarter:

Leverage Ratio	LIBOR Margin
Greater than or equal to 5.0:1	3.75%
Greater than or equal to 4.5:1, but less than 5.0:1	3.50%
Greater than or equal to 4.0:1, but less than 4.5:1	3.25%
Less than 4.0:1	3.00%

2.2 The definition of "Prime Margin" contained in Article 1, Section 1.2, is hereby deleted in its entirety and the following is substituted therefor:

"Prime Margin" means one of the following percentages, depending on the Leverage Ratio, as determined by Agent as of the Computation Date for the immediately preceding fiscal quarter:

Leverage Ratio	Prime Margin
Greater than or equal to 5.0:1	2.75%
Greater than or equal to 4.5:1, but less than 5.0:1	2.50%
Greater than or equal to 4.0:1, but less than 4.5:1	2.25%
Less than 4.0:1	2.00%

2.3 Section 7.9 (Financial Covenants) of the Loan Agreement is amended by deleting subparagraph (a)(v) thereof in its entirety and substituting the following provision therefor:

"A Leverage Ratio of (A) not greater than 5.50:1.00 on and from December 31, 2000 through and including September 29, 2001; (B) not greater than 5.25:1.00 on and from September 30, 2001 and through and including March 30, 2002; (C) not greater than 5.00:1.00 on and from March 31, 2002 to and through September 29, 2002; and (D) not greater than 4.75:1.00 on September 30, 2002 and thereafter."

3. Representations and Warranties. In order to induce the Lenders and the Agent to enter into this Amendment No. 2, each of the Borrowers

hereby represents and warrants to the Lenders and the Agent, as to itself with respect to the Loan Documents to which it is a party, that:

3.1 No Default. After giving effect to this Amendment No. 2, no Default or Event of Default shall have occurred or be continuing.

3.2 Existing Representations and Warranties. As of the date hereof and after giving effect to this Amendment No. 2, each and every one of the representations and warranties set forth in the Loan Documents are true, accurate and complete in all respects and with the same effect as though made on the date hereof, and each is hereby incorporated herein in full by reference as if restated herein in its entirety, except for changes in the ordinary course of business which are not prohibited by the Loan Agreement (as amended hereby) and which do not, either singly or in the aggregate, have a Material Adverse Effect.

3.3 Authority; Enforceability. (i) The execution, delivery and performance by each Borrower of this Amendment No. 2 are within its organizational powers and have been duly authorized by all necessary action (corporate or otherwise) on the part of each Borrower, (ii) this Amendment No. 2 is the legal, valid and binding obligation of each Borrower, enforceable against each Borrower in accordance with its terms, and (iii) this Amendment No. 2 and the execution, delivery and performance by each Borrower hereof does not: (A) contravene the terms of any Borrower's organization documents, (B) conflict with or result in any breach or contravention of, or the creation of any Lien under, any document evidencing any contractual obligation to which any Borrower is a party or any order, injunction, writ or decree to which any Borrower or its property is subject, or (C) violate any requirement of law.

#### 4. Reference to and Effect Upon the Loan Agreement.

4.1 Effect. Except as specifically set forth herein, the Loan Agreement and the other Loan Documents shall remain in full force and effect in accordance with their terms and are hereby ratified and confirmed.

4.2 No Waiver; References. The execution, delivery and effectiveness of this Amendment No. 2 shall not operate as a waiver of any right, power or remedy of the Agent or any Lender under the Loan Agreement, nor constitute a waiver of any provision of the Loan Agreement, except as specifically set forth herein. Upon the effectiveness of this Amendment No. 2, each reference in:

(i) the Loan Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of similar import shall mean and be a reference to the Loan Agreement as amended hereby;

(ii) the other Loan Documents to the "Loan Agreement" shall mean and be a reference to the Loan Agreement as amended hereby; and

(iii) the Loan Documents to the "Loan Documents" shall be deemed to include this Amendment No. 2.

5. Additional Optional Changes. Within ninety (90) days following the execution hereof, the Borrowers may choose to further modify their credit relationship with the Agent and the Lenders by adding sufficient Facilities as Real Property Collateral such that, following such additions, (i) Aggregate EBITDAR shall be not less than \$24,450,000.00 and (ii) the ratio of aggregate rental payments made with respect to all Facilities serving as Real Property Collateral to the sum of all interest payable on the Obligations shall, on a four fiscal quarter basis, be not less than 2.00-to-1.00. Such addition of Facilities as Real Property Collateral shall be made in accordance with the requirements set forth in Section 3.5 of the Loan Agreement, and must be completed before the expiration of said ninety (90) day period. In the event that the Borrowers choose to make such modification in the credit relationship, and comply with the requirements of Section 3.5 of the Loan Agreement and herein, the "LIBOR Margin" and the "Prime Margin" shall be modified as follows:

"LIBOR Margin" means one of the following percentages, depending on the Leverage Ratio, as determined by Agent as of the Computation Date for the immediately preceding fiscal quarter:

Leverage Ratio	LIBOR Margin
Greater than or equal to 5.25:1, but less than 5.5:1	3.50%
Greater than or equal to 5.0:1, but less than 5.25:1	3.25%
Greater than or equal to 4.5:1, but less than 5.0:1	3.00%
Greater than or equal to 4.0:1, but less than 4.5:1	2.75%
Less than 4.0:1	2.50%

"Prime Margin" means one of the following percentages, depending on the Leverage Ratio, as determined by Agent as of the Computation Date for the immediately preceding fiscal quarter:

Leverage Ratio	Prime Margin
Greater than or equal to 5.25:1, but less than 5.5:1	2.50%
Greater than or equal to 5.0:1, but less than	2.25%

5.25:1		
Greater than or equal to 4.5:1, but less than 5.0:1		2.00%
Greater than or equal to 4.0:1, but less than 4.5:1		1.75%
Less than 4.0:1		1.50%

Any modification of the credit relationship between the Borrowers and the Agent and the Lenders shall be formalized by a written amendment to the Loan Agreement (containing such provisions as the Agent shall deem appropriate) at the time such modification is made. If the Borrowers do not elect to modify the credit relationship as set forth herein, or fail to comply with the requirements of Section 3.5 of the Loan Agreement and those set forth herein, then the provisions of this Amendment shall continue in full force and effect.

6. Miscellaneous.

6.1 Expenses. The Borrowers agree to pay the Agent upon demand for all reasonable expenses, including reasonable attorneys' fees and expenses of the Agent, incurred by the Agent in connection with the preparation, negotiation and execution of this Amendment No. 2.

6.2 Law. THIS AMENDMENT NO. 2 SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE INTERNAL LAWS OF THE STATE OF OHIO.

6.3 Successors. This Amendment No. 2 shall be binding upon the Borrowers, the Lenders and the Agent and their respective successors and assigns, and shall inure to the benefit of the Borrowers, the Lenders and the Agent and the successors and assigns of the Lenders and the Agent.

6.4 Execution in Counterparts. This Amendment No. 2 may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment No. 2 to be executed and delivered by their respective officers thereunto duly authorized effective as of the date first written above.

**LENDERS AND AGENT:**

**THE PROVIDENT BANK, as Lender and Agent**

By: /s/ STEVEN J. BLOEMER  
-----  
Its: Vice President  
-----

**ONE VALLEY BANK**

By: /s/ TIMOTHY PAXTON  
-----  
Its: Senior Vice President  
-----

**GREAT AMERICAN INSURANCE COMPANY**

By: /s/ RONALD C. HAYES  
-----  
Its: Assistant Vice President  
-----

**GREAT AMERICAN LIFE INSURANCE COMPANY**

By: /s/ MARK F. MUETHING  
-----  
Its: Executive Vice President  
-----

[Signatures continued on following page.]

**BORROWERS:**

**OMEGA HEALTHCARE INVESTORS, INC.  
STERLING ACQUISITION CORP.  
DELTA INVESTORS I, LLC**

*By: /s/ SUSAN A. KOVACH*

-----  
*Its: Vice President General Counsel*

-----  
*and Secretary*

-----  
*Susan A. Kovach, as an executive officer of all of the aforementioned Borrower, has executed this Amendment No. 2 and intending that all of the Borrowers above named are bound and are to be bound by the one signature as if (s)he had executed this Amendment No. 2 separately for each of the above named Borrowers.*

## MANAGEMENT SERVICES AGREEMENT

THIS AGREEMENT (the "Agreement") is made effective as of the 1st day of October, 2000 (the "Effective Date"), between Omega Healthcare Investors, Inc. a Maryland corporation (the "Company"), and ECG Ventures, Inc. (the "Contractor") and Thomas W. Erickson ("Erickson").

### INTRODUCTION

The Company and the Contractor desire to enter into an agreement pursuant to which the Contractor will provide the services of Erickson to the Company.

NOW, THEREFORE, the parties agree as follows:

#### 1. Definitions

(a) "Affiliate" means any person, firm, corporation, partnership, association or entity that, directly or indirectly or through one or more intermediaries, controls, is controlled by or is under common control with the Company.

(b) "Cause" the occurrence of any of the following events:

(i) willful refusal by Erickson or the Contractor to follow a lawful direction of the Board of Directors of the Company, provided the direction is not materially inconsistent with the duties or responsibilities of the Contractor or of Erickson's position as interim Chief Executive Officer of the Company, which refusal continues after the Board of Directors has again given the direction;

(ii) willful misconduct or reckless disregard of Erickson's or the Contractor's duties or of the interest or property of the Company;

(iii) intentional disclosure by Erickson or the Contractor to an unauthorized person of Confidential Information or Trade Secrets, which causes material harm to the Company;

(iv) any act by Erickson or the Contractor of fraud, material misappropriation, significant dishonesty, or act involving moral turpitude;

(v) conviction by Erickson or the Contractor of a felony; or

(vi) a material breach of this Agreement by Erickson or the Contractor shall occur, and Erickson and the Contractor fail to cure the breach within ten (10) days following the Company giving prompt written notice of the breach specifying in detail the facts and circumstances constituting the breach.

(c) "Confidential Information" means data and information relating to the business of the Company or an Affiliate (which does not rise to the status of a Trade Secret) which is or has been disclosed to the Contractor or Erickson or of which the Contractor or Erickson became aware as a consequence of or through their relationship to the Company or an Affiliate and which has value to the Company or an Affiliate and is not generally known to its competitors. Confidential Information shall not include any data or information that has been voluntarily disclosed to the public by the Company or an Affiliate (except where such public disclosure has been made by the Contractor or Erickson without authorization) or that has been independently developed and disclosed by others, or that otherwise enters the public domain through lawful means.

(d) "Disability" means the inability of Erickson to perform the material duties of his position as interim Chief Executive Officer hereunder due to a physical, mental, or emotional impairment, for a ninety (90) consecutive day period or for aggregate of one hundred eighty (180) days during any three hundred sixty-five (365) day period.

(e) "Good Reason" means the occurrence of all of the following:

(i) the Company materially breaches this Agreement;

(ii) the Contractor gives written notice to the Company of the facts and circumstances constituting the breach within ten (10) days following the occurrence of the breach;

(iii) the Company fails to remedy the breach within ten (10) days following the Contractor's written notice of the breach; and

(iv) the Contractor and Erickson terminate the engagement and this Agreement within ten (10) days following the Company's failure to remedy the breach.

(f) "Trade Secrets" means information including, but not limited to, technical or nontechnical data, formulas, patterns, compilations, programs,

devices, methods, techniques, drawings, processes, financial data, financial plans, product plans or lists of actual or potential customers or suppliers which (i) derives economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

## 2. Terms and Conditions of Engagement.

(a) Engagement. The Contractor shall make available to the Company the services of Erickson as interim Chief Executive Officer of the Company, and Erickson shall perform such services. Erickson shall be the interim Chief Executive Officer of the Company as of the Effective Date, and Erickson hereby accepts such position, subject to the terms and conditions hereof. Notwithstanding any other provision hereof, in the event the Company appoints another person as Chief Executive Officer during the Term, and removes Erickson as interim Chief Executive Officer, the Board of Directors of the Company may cause Erickson to perform other management or management advisory duties to the Company which the Board of Directors may reasonably request for the remainder of the Term (defined in Section 4 hereof).

(b) Contractor Relationship. The Contractor is an independent contractor to the Company, and Erickson is the employee of the Contractor and not the employee of the Company. This is also a personal services contract for the services of Erickson. The Contractor cannot satisfy the terms and conditions of this Agreement by making anyone else available to perform Erickson's services. The Company will report all payments to be made hereunder on Forms 1099 as payments to the Contractor for independent contracting services, and will not report any payments on Form W-2 to Erickson. Erickson shall not be treated for any purposes as an employee of the Company and shall not be entitled to participate in any employee benefits plans or programs of the Company. Erickson shall report to the Board of Directors of the Company and shall have such authority and responsibilities and perform such duties as are consistent with his executive capacities hereunder as shall reasonably be assigned to him from time to time by the Board of Directors of the Company. Such duties may include (i) managing the existing business of the Company, including directing the Company's efforts to optimize the value of its existing portfolio, and (ii) assisting the Company's efforts to recruit a chief executive officer. Erickson shall devote substantially approximately 60% of his business time and efforts to the performance of duties for the Company and its Affiliates and use his best efforts in such endeavors. Erickson may perform some of his duties from a remote location, but will perform services not less than three days per week on average at the Company's office in Ann Arbor, Michigan.

## 3. Compensation.

(a) Cash Compensation. The Company shall pay to the Contractor \$41,667 per month for Erickson's services hereunder. The Company shall pay the monthly cash compensation in substantially equal installments semi-monthly after the services are performed.

(b) Stock Option. The Company hereby grants the Contractor a nonqualified stock option to purchase 35,000 shares of common stock of the Company pursuant to the agreement attached hereto as an Exhibit.

(c) Dividend Equivalent Rights. The Company hereby grants the Contractor dividend equivalent rights with respect to 35,000 shares of common stock of the Company pursuant to the agreement attached hereto as an Exhibit.

(d) Expenses. The Contractor shall be entitled to be reimbursed in accordance with the policies of the Company, as adopted and amended from time to time, for all reasonable and necessary expenses incurred by the Contractor or Erickson in connection with the performance of Erickson's duties of employment hereunder; provided, however, the Contractor shall, as a condition of such reimbursement, submit verification of the nature and amount of such expenses in accordance with the reasonable reimbursement policies from time to time adopted by the Company. Such expense reimbursement to the Contractor:

(i) will include, without limitation, Erickson's reasonable business travel expenses between Dallas, Texas and Ann Arbor, Michigan incurred in connection with the performance of his duties hereunder, including airfare, lodging, and meals while he is performing services hereunder in Ann Arbor;

(ii) will include, without limitation, an agreed upon portion of the cost of monthly group health care premiums for the Term (defined below) that Erickson is required to pay to CareSelect on behalf of Erickson and his dependents; and

(iii) but will not include other expenses that the Contractor may incur as a result of its relationship to Erickson, such as the costs of employee benefits that the Contractor may provide to Erickson.

## 4. Term, Termination and Termination Payments.

(a) Term. Unless sooner terminated pursuant to Section 4(b) hereof or extended by written agreement of the parties, the term of this Agreement shall commence as of October 1, 2000 and will end March 31, 2001 (the "Term").

(b) Termination. This Agreement and the engagement of the Contractor and Erickson by the Company hereunder may only be terminated: (i) by expiration of the term set forth in Section 4(a) hereof; (ii) by mutual agreement of the parties; (iii) by the Company without Cause; (iv) by Erickson and the Contractor for Good Reason; (v) by the Company, the Contractor or Erickson due to the Disability of Erickson; or (vi) by the Company for Cause or (vii) by Erickson and the Contractor, for any reason in their sole discretion, upon sixty (60) days prior written notice to the Company. This Agreement shall also terminate immediately upon the death of Erickson. Notice of termination by any party shall be given

prior to termination in writing and shall specify the basis for termination and the effective date of termination. Notice of termination for Cause by the Company shall specify the basis for termination for Cause. Except as provided in Section 4(c) and except as provided under the terms of the stock option and dividend equivalent rights agreements referred to in Sections 3(b) and 3(c), the Contractor shall not be entitled to any payments on benefits after termination of this Agreement, except for cash compensation pursuant to Section 3(a) accrued up to the date of termination and expenses required to be reimbursed pursuant to Section 3(d) hereof.

(c) Termination by the Company without Cause or by Erickson or Contractor for Good Reason. In the event the engagement of the Contractor and Erickson is terminated by the Company without Cause or by Erickson and the Contractor for Good Reason, the Company will continue to pay the Contractor the remainder of the cash compensation pursuant to Section 3(a) hereof for the remainder of the Term (determined without regard to the Company's premature termination thereof) on the same schedule as if Erickson had continued to perform services for such period and the stock option and dividend equivalent rights described in Sections 3(b) and 3(c) shall vest and remain exercisable pursuant to the terms of the agreements, which are attached as Exhibits hereto.

(d) Survival. The covenants of the Contractor and Erickson in Section 5 hereof shall survive the termination of this Agreement and shall not be extinguished thereby.

## 5. Ownership and Protection of Proprietary Information.

(a) Confidentiality. All Confidential Information and Trade Secrets and all physical embodiments thereof received or developed by the Contractor or Erickson while engaged by the Company are confidential to and are and will remain the sole and exclusive property of the Company. Except to the extent necessary to perform the duties assigned by the Company hereunder, the Contractor and Erickson will hold such Confidential Information and Trade Secrets in trust and strictest confidence, and will not use, reproduce, distribute, disclose or otherwise disseminate the Confidential Information and Trade Secrets or any physical embodiments thereof and may in no event take any action causing or fail to take the action necessary in order to prevent, any Confidential Information and Trade Secrets disclosed to or developed by the Contractor or Erickson to lose its character or cease to qualify as Confidential Information or Trade Secrets.

(b) Return of Company Property. Upon request by the Company, and in any event upon termination of this Agreement for any reason, as a prior condition to receiving any final compensation hereunder (including any payments pursuant to Section 4 hereof), the Contractor and Erickson will promptly deliver to the Company all property belonging to the Company, including, without limitation, all Confidential Information and Trade Secrets (and all embodiments thereof) then in the Contractor or Erickson's custody, control or possession.

(c) Survival. The covenants of confidentiality set forth herein will apply on and after the date hereof to any Confidential Information and Trade Secrets disclosed by the Company or developed by the Contractor or Erickson prior to or after the date hereof. The covenants restricting the use of Confidential Information will continue and be maintained by the Contractor and Erickson for a period of two years following the termination of this Agreement. The covenants restricting the use of Trade Secrets will continue and be maintained by the Contractor and Erickson following termination of this Agreement for so long as permitted by the Michigan law.

## 6. Contracts or Other Agreements with Former Employer or Business.

The Contractor and Erickson hereby represent and warrant that neither of them is subject to any employment or consulting agreement or similar document, except as previously disclosed and delivered to the Company, with a former employer or with any business as to which the Contractor's or Erickson's engagement by the Company and provision of services in the capacity contemplated would be a breach. For that reason, the Contractor and Erickson hereby represent and warrant that they are not subject to any agreement which prohibits the Contractor or Erickson during a period of time which extends through the Term from any of the following: (i) providing services for the Company in the capacity contemplated by this Agreement; (ii) competing with, or in any way participating in a business which includes the Company's business; (iii) soliciting personnel of such former employer or other business to leave such former employer's employment or to leave such other business; or (iv) soliciting customers of such former employer or other business on behalf of another business.

## 7. Remedies and Enforceability.

The Contractor and Erickson agree that the covenants and agreements contained in Section 5 hereof are of the essence of this Agreement; that each of such covenants is reasonable and necessary to protect and preserve the interests and properties of the Company; that irreparable loss and damage will be suffered by the Company should the Contractor or Erickson breach any of such covenants and agreements; that each of such covenants and agreements is separate, distinct and severable not only from the other of such covenants and agreements but also from the other and remaining provisions of this Agreement; that the unenforceability of any such covenant or agreement shall not affect the validity or enforceability of any other such covenant or agreements or any other provision or provisions of this Agreement; and that, in addition to other remedies available to it, the Company shall be entitled to seek specific performance of this Agreement and to seek both temporary and permanent injunctions to prevent a breach or contemplated breach by the Contractor or Erickson of any of such covenants or agreements.

## 8. Notice.

All notices, requests, demands and other communications required hereunder shall be in writing and shall be deemed to have been duly given if delivered or if mailed, by United States certified or registered mail, prepaid to the party to which the same is directed at the following addresses

(or at such other addresses as shall be given in writing by the parties to one another):

If to the Company: Omega Healthcare Investors, Inc.  
900 Victors Way  
Suite 350  
Ann Arbor, MI 48108  
Attn: General Counsel

If to the Contractor or Erickson: Thomas Erickson  
ECG Ventures, Inc.  
3106 Greenbrier Drive  
Dallas, TX 75225

Notices delivered in person shall be effective on the date of delivery. Notices delivered by mail as aforesaid shall be effective upon the third calendar day subsequent to the postmark date hereof.

## 9. Miscellaneous.

(a) Indemnification and Director and Officer Liability Insurance. The Company shall indemnify Erickson and the Contractor for Erickson's actions as interim Chief Executive Officer (and as a member of the Board of Directors with respect to such period as he may be a member), to the maximum extent permitted by the laws of the State of incorporation of the Company, the Company's articles of incorporation and by-laws. At all times during the term of this Agreement, the Company will cover Erickson, and name him as an insured to the extent necessary as a condition of coverage, under any director and officer liability policy it may maintain, in his capacity as the interim Chief Executive Officer (and as a member of the Board of Directors with respect to such period as he may be a member).

(b) Assignment. The rights and obligations of the Company under this Agreement shall inure to the benefit of the Company's successors and assigns. This Agreement may be assigned by the Company to any legal successor to the Company's business or to an entity which purchases all or substantially all of the assets of the Company, but not otherwise without the prior written consent of Contractor or Erickson. In the event the Company assigns this Agreement as permitted by this Agreement and the Contractor and Erickson remain engaged by the assignee, the "Company" as defined herein will refer to the assignee and the Contractor and Erickson will not be deemed to have terminated the engagement hereunder until the Contractor and Erickson terminate the engagement from the assignee. Neither the Contractor nor Erickson may assign this Agreement.

(c) Waiver. The waiver by the Company of any breach of this Agreement by any party shall not be effective unless in writing, and no such waiver shall constitute the waiver of the same or another breach on a subsequent occasion.

(d) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of Michigan. The parties agree that any appropriate state or federal court located in Ann Arbor, Michigan shall have jurisdiction of any case or controversy arising under or in connection with this Agreement and shall be a proper forum in which to adjudicate such case or controversy. The parties consent to the jurisdiction of such courts.

(e) Entire Agreement. This Agreement embodies the entire agreement of the parties hereto relating to the subject matter hereof and supersedes all oral agreements, and to the extent inconsistent with the terms hereof, all other written agreements.

(f) Amendment. This Agreement may not be modified, amended, supplemented or terminated except by a written instrument executed by the parties hereto.

(g) Severability. Each of the covenants and agreements hereinabove contained shall be deemed separate, severable and independent covenants, and in the event that any covenant shall be declared invalid by any court of competent jurisdiction, such invalidity shall not in any manner affect or impair the validity or enforceability of any other part or provision of such covenant or of any other covenant contained herein.

(h) Captions and Section Headings. Except as set forth in Section 1 hereof, captions and section headings used herein are for convenience only and are not a part of this Agreement and shall not be used in construing it.

IN WITNESS WHEREOF, the Company, the Contractor and Erickson have each executed and delivered this Agreement as of the date first shown above.

**COMPANY:**

**OMEGA HEALTHCARE INVESTORS, INC.**

By: /s/ SUSAN A. KOVACH  
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**CONTRACTOR:**

**ECG VENTURES, INC.**

By: /s/ THOMAS W. ERICKSON

-----  
*Thomas Erickson*

**ERICKSON:**

/s/ THOMAS W. ERICKSON

-----  
*Thomas W. Erickson*

**EXHIBIT 11**

STATEMENT RE: COMPUTATION OF PER-SHARE EARNINGS

	Year Ended December 31,		
	2000	1999	1998
	-----	-----	-----
Net (loss) earnings available to common before gains or losses on asset Dispositions .....	\$ (76,474)	\$ 20,547	\$ 34,977
	=====	=====	=====
Net (loss) earnings available to Common .....	\$ (66,485)	\$ 10,040	\$ 68,015
	=====	=====	=====
Average shares outstanding .....	20,052	19,877	20,034
Basic per-share amounts:			
Net (loss) earnings .....	\$ (3.32)	\$ 0.51	\$ 3.39
	=====	=====	=====
Net (loss) earnings before gains or losses on asset dispositions ....	\$ (3.81)	\$ 1.03	\$ 1.75
	=====	=====	=====
Average shares outstanding .....	20,052	19,877	20,034
Stock option incremental shares .....	0	0	7
	-----	-----	-----
Average shares outstanding, diluted .....	20,052	19,877	20,041
	=====	=====	=====
Diluted per-share amounts:			
Net (loss) earnings .....	\$ (3.32)	\$ 0.51	\$ 3.39
	=====	=====	=====
Net (loss) earnings before asset dispositions .....	\$ (3.81)	\$ 1.03	\$ 1.75
	=====	=====	=====
Diluted assuming conversion of debt:			
Net earnings before gains or losses on asset dispositions .....	\$ (76,474)	\$ 20,547	\$ 34,977
Add Series C preferred dividends .....	7,297	0	0
Add interest expense associated with Convertible Debentures .....	3,456	4,381	4,714
	-----	-----	-----
Total .....	\$ (65,721)	\$ 24,928	\$ 39,691
	=====	=====	=====
Average shares outstanding .....	20,052	19,877	20,034
Assumed conversion of Series C Preferred Stock .....	7,320	0	0
Assumed conversion of debentures .....	1,309	1,794	1,899
Stock option incremental shares .....	0	0	7
	-----	-----	-----
Total .....	28,681	21,671	21,940
	=====	=====	=====
Per-share amount (antidilutive) .....	\$ (2.29)	\$ 1.15	\$ 1.81
	=====	=====	=====

**EXHIBIT 12**  
**RATIO OF EARNINGS TO COMBINED FIXED CHARGES**  
**AND PREFERRED STOCK DIVIDENDS (1)**

The ratio of earnings to combined fixed charges and preferred stock dividends are as follows:

	Year Ended December 31,				
	2000 (2)	1999	1998	1997	1996
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (1) .....	(0.29)X	1.39X	1.86X	2.48X	2.66X

-----

(1) For purposes of calculating the ratio of earnings to combined fixed charges and preferred stock dividends, net earnings (before gain/loss on assets sold) has been added to fixed charges, and that sum has been divided by such fixed charges. Fixed charges consist of interest expense and amortization of deferred financing costs, and for each of the four years ended December 31, 1997, 1998, 1999 and 2000, cumulative preferred stock dividends are included starting as of the dates of issuance of the Series A Cumulative Preferred Stock, Series B Cumulative Preferred Stock and Series C Cumulative Preferred Stock.

(2) The deficit in 2000 represents approximately \$135.8 million. Earnings for 2000 include charges of \$61.7 million provision for impairment, \$15.3 million provision for loss on mortgages and notes receivable, and \$4.7 million of severance and consulting expense for former Company managers. Earnings for 1999 and 1998 include impairment charges of \$19.5 million and \$6.8 million, respectively.

**EXHIBIT 21**

**LIST OF SUBSIDIARIES**

**OMEGA HEALTHCARE INVESTORS, INC.**

Names -----	Jurisdiction of Incorporation -----
Bayside Street, Inc. ....	Maryland
Bayside Street II, Inc. ....	Maryland
Delta Investors I, LLC. ....	Maryland
Delta Investors II, LLC. ....	Maryland
Jefferson Clark, Inc. ....	Maryland
NRS Ventures, LLC. ....	Kentucky
OHI (Clemmons), Inc. ....	North Carolina
OHI (Connecticut), Inc. ....	Connecticut
OHI (Florida), Inc. ....	Florida
OHI (Greensboro), Inc. ....	North Carolina
OHI (Illinois), Inc. ....	Illinois
OHI (Indiana), Inc. ....	Indiana
OHI (Iowa), Inc. ....	Iowa
OHI (Kansas), Inc. ....	Kansas
OHI of Kentucky, Inc. ....	Maryland
OHI of Texas, Inc. ....	Maryland
OHIMA, Inc. ....	Massachusetts
Omega (Kansas), Inc. ....	Kansas
Omega TRS I, Inc. ....	Maryland
OS Leasing. ....	Kentucky
Sterling Acquisition Corp. ....	Kentucky
Sterling Acquisition Corp.II ....	Kentucky

## Exhibit 23

### Consent of Independent Auditors

We consent to the incorporation by reference in (1) Registration Statement No. 33-308415 on Form S-3 related to the Dividend Reinvestment and Common Stock Purchase Plan, (2) Shelf Registration Statement No. 33-32119 on Form S-4, (3) Registration Statement No. 333-69807 related to the 1993 Amended and Restated Stock Option and Restricted Stock Plan, and (4) Shelf Registration Statement No. 333-69675 on Form S-3, of our report dated March 16, 2001, except for the third and seventh paragraphs of Note 15 as to which the date is March 30, 2001 with respect to the consolidated financial statements and schedules of Omega Healthcare Investors, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2000.

*/s/ Ernst & Young LLP*

*Chicago, Illinois  
March 16, 2001, except  
for the third and seventh  
paragraphs of Note 15 as to  
which the date is March 30, 2001*