OMEGA HEALTHCARE INVESTORS INC
Form 10-Q
May 09, 2011

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

FORM 10-Q

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

For the quarterly period ended March 31, 2011

or

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

For the transition period from _______________ to _______________

Commission file number 1-11316

OMEGA HEALTHCARE INVESTORS, INC.
(Exact name of Registrant as specified in its charter)

| Maryland | 38-3041398 |
|---|---|
| (State of incorporation) | (IRS Employer Identification No.) |

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

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

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

Yes x No o

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

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of May 2, 2011.

| Common Stock, $.10 par value | 101,614,459 |
|---|---|
| (Class) | (Number of shares) |

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
March 31, 2011

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PART I – FINANCIAL INFORMATION

Item 1 - Financial Statements

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

| | March 31, 2011 (Unaudited) | December 31, 2010 |
|---|---|---|
| ASSETS | | |
| Real estate properties | | |
| Land and buildings | $2,335,799 | $2,366,856 |
| Less accumulated depreciation | (395,918) | (380,995) |
| Real estate properties – net | 1,939,881 | 1,985,861 |
| Mortgage notes receivable – net | 110,323 | 108,557 |
| | 2,050,204 | 2,094,418 |
| Other investments – net | 28,348 | 28,735 |
| | 2,078,552 | 2,123,153 |
| Assets held for sale – net | 811 | 670 |
| Total investments | 2,079,363 | 2,123,823 |
| | | |
| Cash and cash equivalents | 3,381 | 6,921 |
| Restricted cash | 20,180 | 22,399 |
| Accounts receivable – net | 95,981 | 92,819 |
| Other assets | 58,698 | 57,172 |
| Operating assets for owned and operated properties | 324 | 873 |
| Total assets | $2,257,927 | $2,304,007 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Revolving line of credit | $69,000 | $— |
| Secured borrowings | 200,378 | 201,296 |
| Unsecured borrowings – net | 975,573 | 975,669 |
| Accrued expenses and other liabilities | 117,317 | 121,859 |
| Operating liabilities for owned and operated properties | 470 | 1,117 |
| Total liabilities | 1,362,738 | 1,299,941 |
| | | |
| Stockholders' equity: | | |
| Preferred stock issued and outstanding – 4,340 shares Series D with an aggregate liquidation preference of $108,488 as of December 31, 2010 | $ — | $ 108,488 |
| Common stock $.10 par value authorized – 200,000 shares issued and outstanding – 101,371 shares as of March 31, 2011 and 99,233 as of December 31, 2010 | 10,137 | 9,923 |
| Common stock – additional paid-in-capital | 1,425,186 | 1,376,131 |
| Cumulative net earnings | 574,911 | 580,824 |
| Cumulative dividends paid | (1,115,045) | (1,071,300) |
| Total stockholders' equity | 895,189 | 1,004,066 |
| Total liabilities and stockholders' equity | $2,257,927 | $2,304,007 |

See notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Revenue | | |
| Rental income | $66,337 | $47,209 |
| Mortgage interest income | 3,498 | 2,614 |
| Other investment income – net | 641 | 746 |
| Miscellaneous | - | 3,729 |
| Nursing home revenues of owned and operated assets | - | 4,380 |
| Total operating revenues | 70,476 | 58,678 |
| | | |
| Expenses | | |
| Depreciation and amortization | 25,218 | 14,687 |
| General and administrative | 5,226 | 3,710 |
| Acquisition costs | 45 | 220 |
| Impairment loss on real estate properties | 24,971 | - |
| Nursing home expenses of owned and operated assets | 230 | 4,572 |
| Total operating expenses | 55,690 | 23,189 |
| | | |
| Income before other income and expense | 14,786 | 35,489 |
| Other income (expense) | | |
| Interest income | 11 | 15 |
| Interest expense | (20,000) | (13,575) |
| Interest – amortization of deferred financing costs | (694) | (978) |
| Interest – refinancing costs | (16) | - |
| Total other expense | (20,699) | (14,538) |
| | | |
| Net (loss) income | (5,913) | 20,951 |
| Preferred stock dividends | (1,691) | (2,271) |
| Preferred stock redemption | (3,472) | - |
| Net (loss) income available to common stockholders | $(11,076) | $18,680 |
| | | |
| (Loss) income per common share available to common shareholders: | | |
| Basic: | | |
| Net (loss) income | $(0.11) | $0.21 |
| Diluted: | | |
| Net (loss) income | $(0.11) | $0.21 |
| | | |
| Dividends declared and paid per common share | $0.37 | $0.32 |
| | | |
| Weighted-average shares outstanding, basic | 100,074 | 88,840 |
| Weighted-average shares outstanding, diluted | 100,086 | 88,961 |

| | | |
|---|---|---|
| Components of other comprehensive income: | | |
| Net (loss) income | $(5,913) | $20,951 |
| Unrealized gain on other investments | - | 38 |
| Total comprehensive (loss) income | $(5,913) | $20,989 |

See notes to consolidated financial statements.

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

| | Preferred Stock | Common Stock Par Value | Additional Paid-in Capital | Cumulative Net Earnings | Cumulative Dividends | Total |
|---|---|---|---|---|---|---|
| Balance at December 31, 2010 (99,233 common shares) | $108,488 | $9,923 | $1,376,131 | $580,824 | $(1,071,300) | $1,004,066 |
| Issuance of common stock: | | | | | | |
| Grant of restricted stock (13 shares at $22.00 per share) | — | 1 | (1) | — | — | — |
| Amortization of restricted stock | — | — | 1,465 | — | — | 1,465 |
| Vesting of restricted stock (grants 68 shares) | — | 7 | (1,261) | — | — | (1,254) |
| Dividend reinvestment plan (795 shares at $22.08 per share) | — | 80 | 17,445 | — | — | 17,525 |
| Grant of stock as payment of directors fees (2 shares at an average of $22.35 per share) | — | — | 37 | — | — | 37 |
| Equity Shelf Program (1,261 shares at $22.78 per share, net of issuance costs) | — | 126 | 27,982 | — | — | 28,108 |
| Preferred stock redemption | (108,488) | — | 3,388 | — | (3,472) | (108,572) |
| Net loss | — | — | — | (5,913) | — | (5,913) |
| Common dividends ($0.37 per share). | — | — | — | — | (37,068) | (37,068) |
| Preferred dividends (Series D of $0.74 per share) | — | — | — | — | (3,205) | (3,205) |
| Balance at March 31, 2011 (101,371 common shares) | $— | $10,137 | $1,425,186 | $574,911 | $(1,115,045) | $895,189 |

See notes to consolidated financial statements.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| Cash flows from operating activities | | |
| Net (loss) income | $(5,913) | $20,951 |
| Adjustment to reconcile net income to cash provided by operating activities: | | |
| Depreciation and amortization | 25,218 | 14,687 |
| Impairment loss on real estate properties | 24,971 | — |
| Amortization of deferred financing costs | 694 | 978 |
| Restricted stock amortization expense | 1,479 | 839 |
| Amortization of in-place leases | (1,616) | — |
| Amortization of straightline mortgage interest income | (421) | — |
| Other | (38) | (98) |
| Change in operating assets and liabilities – net of amounts assumed/acquired: | | |
| Accounts receivable, net | (93) | 90 |
| Straight-line rent | (3,403) | (1,946) |
| Lease inducement | 755 | (276) |
| Other operating assets and liabilities | (2,829) | 3,491 |
| Operating assets and liabilities for owned and operated properties | (98) | 81 |
| Net cash provided by operating activities | 38,706 | 38,797 |
| Cash flows from investing activities | | |
| Placement of mortgage loans | (1,749) | — |
| Proceeds from sale of real estate investments | — | 28 |
| Capital improvements and funding of other investments | (4,325) | (9,139) |
| Proceeds from other investments | 980 | 461 |
| Investments in other investments | (593) | (14,322) |
| Collection of mortgage principal – net | 20 | 30 |
| Net cash used in investing activities | (5,667) | (22,942) |
| Cash flows from financing activities | | |
| Proceeds from credit facility borrowings | 117,000 | 6,000 |
| Payments on credit facility borrowings | (48,000) | (100,100) |
| Receipts of other long-term borrowings | — | 196,556 |
| Payments of other long-term borrowings | (604) | (59,354) |
| Payment of financing related costs | (534) | (4,291) |
| Receipts from dividend reinvestment plan | 17,525 | 12,214 |
| Net proceeds from issuance of common stock | 28,108 | 36,739 |
| Payments from exercised options and restricted stock – net | (1,254) | 4 |
| Dividends paid | (40,268) | (30,599) |
| Redemption of preferred stock | (108,552) | — |
| Net cash (used in) provided by financing activities | (36,579) | 57,169 |
| | | |
| (Decrease) increase in cash and cash equivalents | (3,540) | 73,024 |
| Cash and cash equivalents at beginning of period | 6,921 | 2,170 |
| Cash and cash equivalents at end of period | $3,381 | $75,194 |
| Interest paid during the period, net of amounts capitalized | $16,896 | $7,814 |
| Non-cash investing activities | | |

| | | |
|---|---|---|
| Non-cash settlement of mortgage obligations | $— | $(12,395) |
| Non-cash acquisition of real estate properties | — | 12,395 |
| Net non-cash investing activities | $— | $— |

See notes to consolidated financial statements.

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OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
March 31, 2011

## NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

### Business Overview

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

### Basis of Presentation

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

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

### Accounts Receivable

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

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

| | March 31, 2011 | December 31, 2010 |
|---|---|---|
| | (in thousands) | |
| Contractual receivables | $7,870 | $5,354 |
| Straight-line receivables | 66,201 | 62,423 |
| Lease inducements | 28,271 | 29,026 |
| Allowance | (6,361) | (3,984) |
| Accounts receivable – net | $95,981 | $92,819 |

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

NOTE 2 – PROPERTIES AND INVESTMENTS

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

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

Leased Property

Our leased real estate properties, represented by 370 SNFs, 10 assisted living facilities ("ALFs") and five specialty facilities at March 31, 2011, are leased under provisions of single or master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three methods depending on specific provisions of each lease as follows: (i) a specific annual percentage increase over the prior year's rent, generally 2.5%; (ii) an increase based on the change in pre-determined formulas from year to year (i.e., such as increases in the Consumer Price Index ("CPI")); or (iii) specific dollar increases over prior years. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

Connecticut Properties

In January 2011, upon our request, a complaint was filed by the State of Connecticut, Commissioner of Social Services (the "State") against the licensees/operators of four Connecticut SNFs, seeking the appointment of a

receiver. The facilities were leased and operated by affiliates of Formation Capital, LLC and were managed by Genesis Healthcare, and had approximately 472 licensed beds as of March 31, 2011. The Superior Court, Judicial District of Hartford, Connecticut (the "Court") appointed a receiver.

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

The Company intends to file a timely notice of appeal, taking the position that the Court's Order is final and appealable. The Order is stayed under Connecticut law (thereby prohibiting any actions in furtherance of the Order to close) during the period in which the Company has to file its appeal (20 days) and then during the pendency of such appeal; however, the receiver and/or the State may seek an order from the Court to lift the stay.

As a result of these developments, during the three months ended March 31, 2011, the Company recorded an impairment charge of $24.4 million to reduce the carrying values of the Connecticut SNFs to their estimated fair values. We estimated the fair value of these facilities based on the facilities potential sales value assuming that the facilities would not be used as skilled nursing facilities.

Oklahoma Facility

In March 2011, we agreed to sell a property to an operator and recorded an impairment charge of approximately $0.6 million related to the pending transaction based on the sales price less costs to sell. We have classified the asset as held-for-sale-net as of March 31, 2011.

143 Facility CapitalSource Acquisitions (December 2009 and June 2010)

In November 2009, we entered into a securities purchase agreement (the "CapitalSource Purchase Agreement") with CapitalSource Inc. ("CapitalSource") and several of its affiliates, pursuant to which we agreed to purchase CapitalSource subsidiaries owning 80 long term care facilities, plus an option to purchase CapitalSource subsidiaries owning an additional 63 facilities (the "Option"), for approximately $858 million. We accounted for these acquisitions as business combinations.

The transactions closed in three phases: (i) on December 22, 2009, we purchased CapitalSource entities owning 40 facilities for approximately $271 million and an option to purchase CapitalSource entities owning 63 additional facilities for $25 million; (ii) on June 9, 2010, we completed our purchase of the 63 CapitalSource facilities pursuant to the option for an aggregate purchase price of approximately $293 million in cash, plus the $25 million purchase option deposit, representing a total purchase price of $318 million; and (iii) on June 29, 2010, we purchased CapitalSource entities owning 40 facilities for approximately $271 million and paid approximately $15 million for escrow accounts transferred to us at closing.

As of December 31, 2010, we completed our purchase price allocation for all three of these transactions. The allocation included the fair value adjustment for above-market debt assumed in the transactions as well as above and below-market in-place leases assumed. During the first quarter of 2011, we amortized approximately $0.4 million of above-market adjustments related to the assumed debt and approximately $1.6 million of net below market in-place leases assumed from these transactions.

The facilities acquired from CapitalSource on June 9, 2010 and June 29, 2010 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect each of the CapitalSource transactions as if they occurred on January 1, 2010. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisition have been made. The following pro forma information is

not indicative of future operations.



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| | Pro Forma Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands, except per share amount, unaudited) | |
| Revenues | $70,476 | $75,640 |
| Net (loss) income available to common stockholders | (11,076) | 22,473 |
| Earnings per share – diluted: | | |
| Net (loss) income available to common stockholders – as reported | $(0.11) | $0.21 |
| Net (loss) income available to common stockholders – pro forma | (0.11) | 0.25 |

Held for Sale

At March 31, 2011, we had two SNFs classified as held-for-sale with an aggregate net book value of approximately $0.8 million.

Mortgage Notes Receivable

Our mortgage notes receivable relate to 13 long-term care facilities and two construction mortgages on two facilities currently under construction. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in four (4) states, which are operated by four (4) independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding loans. As of March 31, 2011, none of our mortgages were in default or in foreclosure proceedings. The mortgage properties are cross-collateralized with the master lease agreement.

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

NOTE 3 – OWNED AND OPERATED ASSETS

In November 2007, affiliates of Haven Healthcare ("Haven"), one of our former operators/lessees/mortgagors, operated under Chapter 11 bankruptcy protection. Commencing in February 2008, the assets of the Haven facilities were marketed for sale via an auction process to be conducted through proceedings established by the bankruptcy court. The auction process failed to produce a qualified buyer. As a result, and pursuant to our rights as ordered by the bankruptcy court, Haven moved the bankruptcy court to authorize us to credit bid certain of the indebtedness that it owed to us in exchange for taking ownership of and transitioning certain of its assets to a new entity in which we

have a substantial ownership interest, all of which was approved by the bankruptcy court on July 4, 2008. Effective July 7, 2008, we took ownership and/or possession of 15 facilities previously operated by Haven. TC Healthcare, a new entity and an interim operator, in which we have a substantial economic interest, began operating these facilities on our behalf through an independent contractor.

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

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Nursing home revenues | $— | $4,380 |
| | | |
| Nursing home expenses | 230 | 4,572 |
| Loss from nursing home operations | $(230) | $(192) |

NOTE 4 – CONCENTRATION OF RISK

As of March 31, 2011, our portfolio of real estate investments consisted of 400 healthcare facilities, located in 35 states and operated by 50 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $2.4 billion at March 31, 2011, with approximately 99% of our real estate investments related to long-term care facilities. This portfolio is made up of 370 SNFs, 10 ALFs, five specialty facilities, fixed rate mortgages on 13 SNFs, and two SNFs that are held-for-sale. At March 31, 2011, we also held miscellaneous investments of approximately $28.3 million, consisting primarily of secured loans to third-party operators of our facilities.

At March 31, 2011, we had two investments with operators and/or managers that exceeded 10% of our total investment: (i) CommuniCare Health Services ("CommuniCare") (13%) and (ii) Airamid Health Management, LLC through its subsidiaries and management relationships, ("Airamid") (11%). No other operator and/or manager represented more than 10% of our investments for the three month period ended March 31, 2011. The two states in which we had our highest concentration of investments were Florida (24%) and Ohio (15%) at March 31, 2011.

For the three-month period ended March 31, 2011, our revenues from operations totaled $70.5 million, of which approximately $9.6 million was from CommuniCare (14%) and $8.3 million was from Sun Healthcare (12%). No other operator generated more than 9% of our revenues from operations for the three-month period ended March 31, 2011.

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

## NOTE 5 – DIVIDENDS

### Common Dividends

On April 14, 2011, the Board of Directors declared a common stock dividend of $0.38 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, to be paid May 16, 2011 to common stockholders of record on April 29, 2011.

On January 14, 2011, the Board of Directors declared a common stock dividend of $0.37 per share that was paid February 15, 2011 to common stockholders of record on January 31, 2011.

### Series D Preferred Dividends

On January 14, 2011, the Board of Directors declared regular quarterly dividends of approximately $0.52344 per preferred share on the Series D Preferred Stock that were paid February 15, 2011 to preferred stockholders of record on January 31, 2011.

### Redemption of Series D Preferred Stock

On March 7, 2011, pursuant to authorization from our Board of Directors, we redeemed all of the outstanding shares of our 8.375% Series D Cumulative Redeemable Preferred Stock at a redemption price of $25 per share plus $0.21519 per share in accrued and unpaid dividends up to and including the redemption date, for an aggregate redemption price of $25.21519 per share. Dividends on the shares of Series D Preferred Stock ceased to accrue on and after the redemption date, after which the Series D Preferred Stock ceased to be outstanding.

We borrowed approximately $103 million under our $320 million revolving senior secured credit facility to fund the redemption price. In connection with the redemption of the Series D Preferred Stock, we wrote-off $3.4 million of preferred stock issuance costs that reduced first quarter 2011 net income attributable to common stockholders by approximately $0.03 per common share.

## NOTE 6 – TAXES

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

Subject to the limitation under the REIT asset test rules, we are permitted to own up to 100% of the stock of one or more taxable REIT subsidiaries ("TRSs"). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The TRS had a net operating loss carry-forward as of March 31, 2011 of $1.1 million. The loss carry-forward is fully reserved with a valuation allowance as we concluded it was more-likely-than-not that the deferred tax asset would not be realized.

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NOTE 7 – STOCK-BASED COMPENSATION

The following is a summary of our stock-based compensation expense for the three-month periods ended March 31, 2011 and 2010, respectively:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands) | |
| Stock-based compensation expense | $1,479 | $839 |

2011 Stock Awards

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

Restricted Stock Awards

The restricted stock awards vest 100% on December 31, 2013, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. As of March 31, 2011, no shares of restricted stock have vested under these restricted stock awards.

Performance Restricted Stock Units

We awarded three types of PRSUs to the six employees: (i) 124,244 annual total shareholder return ("TSR") PRSUs, (ii) 279,550 multi-year TSR PRSUs and (iii) 93,183 multi-year relative TSR PRSUs.

Annual TSR PRSUs

The number of shares earned under the annual PRSUs depends generally on the level of achievement of TSR for the year-ended December 31, 2011. The annual PRSUs vest on December 31, 2011, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

Multi-year TSR PRSUs

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

Multi-year Relative TSR PRSUs

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

terminations of employment or a change in control of the Company.

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

As of March 31, 2011, none of these PRSUs are vested or earned.

The following table summarizes our total unrecognized compensation cost as of March 31, 2011 associated with outstanding restricted stock and PRSU awards to employees:

| | Shares/ Units | Grant Date Average Fair Value Per Unit/ Share | Total Compensation Cost (in millions) | Weighted Average Period of Expense Recognition (in months) | Unrecognized Compensation Cost (in millions) |
|---|---|---|---|---|---|
| Restricted stock | 428,503 | $22.44 | $ 9.6 | 36 | $ 8.8 |
| 2011 Annual PRSUs | 124,244 | $11.04 | 1.4 | 12 | 1.0 |
| Multi-year TSR PRSUs | 279,550 | $11.06 | 3.1 | 48 | 2.9 |
| Multi-year relative TSR PRSUs | 93,183 | $12.26 | 1.1 | 48 | 1.1 |
| Total | 925,480 | $16.45 | $ 15.2 | | $ 13.8 |

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

Director Grants

As of March 31, 2011, we had 29,799 shares of restricted stock outstanding to directors. The directors' restricted shares are scheduled to vest over the next three years. As of March 31, 2011, the unrecognized compensation cost associated with the directors is approximately $0.4 million.

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NOTE 8 – FINANCING ACTIVITIES AND BORROWING ARRANGEMENTS

Secured and Unsecured Borrowings

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

| | Maturity | Current Rate | March 31 2011 | December 31, 2010 |
|---|---|---|---|---|
| | | | (in thousands) | |
| Secured borrowings: | | | | |
| Revolving lines of credit | 2014 | 4.34% | $ 69,000 | $ — |
| | | | | |
| HUD Berkadia mortgages (1) | 2036 - 2040 | 6.61% | 65,731 | 66,128 |
| HUD Capital Funding mortgages | 2040 - 2045 | 4.85% | 134,647 | 135,168 |
| Total secured borrowings | | | 200,378 | 201,296 |
| | | | | |
| Unsecured borrowings: | | | | |
| 2016 Notes | 2016 | 7.0% | $ 175,000 | $ 175,000 |
| 2020 Notes | 2020 | 7.5% | 200,000 | 200,000 |
| 2022 Notes | 2022 | 6.75% | 575,000 | 575,000 |
| Subordinated debt | 2021 | 9.0% | 21,356 | 21,403 |
| | | | 971,356 | 971,403 |
| Premium | | | 4,217 | 4,266 |
| Total unsecured borrowings | | | 975,573 | 975,669 |
| Totals – net | | | $ 1,244,951 | $ 1,176,965 |

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

Bank Credit Agreements

At March 31, 2011, we had $69.0 million outstanding under our $320 million revolving senior secured credit facility (the “2010 Credit Facility”), and no letters of credit outstanding, leaving availability of $251.0 million.

The 2010 Credit Facility is priced at LIBOR plus an applicable percentage (ranging from 325 basis points to 425 basis points) based on the consolidated leverage and is not subject to a LIBOR floor. Our applicable percentage above LIBOR was 375 basis points as of March 31, 2011.

$140 Million Equity Shelf Program

During the three months ended March 31, 2011, 1.3 million shares of our common stock were issued through our $140 million Equity Shelf Program (the “2010 ESP”) for net proceeds of approximately $28.1 million, net of $0.6 million of commissions.

NOTE 9 - FINANCIAL INSTRUMENTS

At March 31, 2011 and December 31, 2010, the carrying amounts and fair values of our financial instruments were as follows:

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| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets: | (in thousands) | | | |
| Cash and cash equivalents | $3,381 | $3,381 | $6,921 | $6,921 |
| Restricted cash | 20,180 | 20,180 | 22,399 | 22,399 |
| Mortgage notes receivable – net | 110,323 | 111,568 | 108,557 | 109,610 |
| Other investments – net | 28,348 | 26,525 | 28,735 | 25,317 |
| Totals | $162,232 | $161,654 | $166,612 | $164,247 |
| Liabilities: | | | | |
| Revolving lines of credit | $69,000 | $69,000 | $— | $— |
| 7.00% Notes due 2016 – net | 174,259 | 186,985 | 174,221 | 187,079 |
| 7.50% Notes due 2020 – net | 196,944 | 218,027 | 196,857 | 212,837 |
| 6.75% Notes due 2022 – net | 583,014 | 610,573 | 583,188 | 576,019 |
| HUD debt (1) | 200,378 | 213,692 | 201,296 | 214,643 |
| Subordinated debt (1) | 21,356 | 24,090 | 21,403 | 23,248 |
| Totals | $1,244,951 | $1,322,367 | $1,176,965 | $1,213,826 |

(1) The carrying value of debt includes a fair value adjustment to reflect value of the debt assumed as part of the June 29, 2010 acquisition of the HUD portfolio.

Fair value estimates are subjective in nature and are dependent on a number of important assumptions, including estimates of future cash flows, risks, discount rates and relevant comparable market information associated with each financial instrument (see Note 2 – Summary of Significant Accounting Policies in our 2010 Annual Report on Form 10-K). The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts.

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

- Cash and cash equivalents and restricted cash: The carrying amount of cash and cash equivalents and restricted cash reported in the balance sheet approximates fair value because of the short maturity of these instruments (i.e., less than 90 days).

- Mortgage notes receivable: The fair values of the mortgage notes receivables are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings.

    - Other investments: Other investments are primarily comprised of: (i) notes receivable and (ii) an investment in redeemable non-convertible preferred security of an unconsolidated business accounted for using the cost method of accounting. The fair values of notes receivable are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings. The fair value of the investment in the unconsolidated business is estimated using quoted market value and considers the terms of the underlying arrangement.

- Revolving lines of credit: The fair value of our borrowings under variable rate agreements are estimated using an expected present value technique based on expected cash flows discounted using the current market rates.

- Senior notes and other long-term borrowings: The fair value of our borrowings under fixed rate agreements are estimated based on open market trading activity provided by a third party.

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NOTE 10 – LITIGATION

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

On January 7, 2010, LCT SE Texas Holdings, L.L.C., an affiliate of Mariner Health Care and the lessee of four facilities located in the Houston area, filed a petition in the District Court of Harris County, Texas (No. 2010-01120) against four landlord entities, the member interests of which we purchased as part of the December 2009 acquisition from CapitalSource. On April 19, 2011, the Court dismissed with prejudice Plaintiff's claims against the Defendants, all pursuant to a joint motion to dismiss filed by the parties.

NOTE 11 – EARNINGS PER SHARE

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2011 | 2010 |
| | (in thousands, except per share amounts) | |
| Numerator: | | |
| Net (loss) income | $(5,913) | $20,951 |
| Preferred stock dividends | (1,691) | (2,271) |
| Preferred stock redemption | (3,472) | — |
| Numerator for net income available to common per share - basic and diluted | $(11,076) | $18,680 |
| | | |
| Denominator: | | |
| Denominator for basic earnings per share | 100,074 | 88,840 |
| Effect of dilutive securities: | | |
| Restricted stock | — | 109 |
| Stock option incremental shares | — | 10 |
| Deferred stock | 12 | 2 |
| Denominator for diluted earnings per share | 100,086 | 88,961 |
| | | |
| Earnings per share – basic: | | |
| Net (loss) income – basic | $(0.11) | $0.21 |

| | | |
|---|---|---|
| Earnings per share – diluted: | | |
| Net (loss) income – diluted | $(0.11) | $0.21 |

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NOTE 12 – CONSOLIDATING FINANCIAL STATEMENTS

As of March 31, 2011, we had outstanding (i) $175 million 7.00% Senior Notes due 2016, (ii) $200 million 7.50% Senior Notes due 2020 and (iii) $575 million 6.75% Senior Notes due 2022, which we collectively refer to as the Senior Notes. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by each of our subsidiaries that guarantee other indebtedness of Omega or any of the subsidiary guarantors. Any subsidiary that we properly designate as an "unrestricted subsidiary" under the indentures governing the Senior Notes will not provide guarantees of the Senior Notes. As of and prior to March 31, 2010, the non-subsidiary guarantors were minor and insignificant. On June 29, 2010, we designated as "unrestricted subsidiaries" the 39 subsidiaries acquired from CapitalSource on such date (see Note 2). For the three months ended March 31, 2011, the operating cash flow of the non-guarantor subsidiaries approximated net income of the non-guarantor subsidiaries, adjusted for depreciation and amortization expense. For the three-month periods ended March 31, 2011, the non-guarantor subsidiaries have not engaged in investing or financing activities other than the principal payment of $0.6 million for the HUD mortgages on the facilities owned by the non-guarantor subsidiaries. All of the subsidiary guarantors of our outstanding senior notes are 100 percent owned by Omega.

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

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

| | March 31, 2011 | | | |
|---|---|---|---|---|
| | Issuer & Subsidiary Guarantors | Non – Guarantor Subsidiaries | Elimination Company | Consolidated |
| | | | | |
| Land and buildings | $2,022,453 | $ 313,346 | $— | $ 2,335,799 |
| Less accumulated depreciation | (384,164 ) | (11,754 ) | — | (395,918 ) |
| Real estate properties – net | 1,638,289 | 301,592 | — | 1,939,881 |
| Mortgage notes receivable – net | 110,323 | — | — | 110,323 |
| | 1,748,612 | 301,592 | — | 2,050,204 |
| Other investments – net | 28,348 | — | — | 28,348 |
| | 1,776,960 | 301,592 | — | 2,078,552 |
| Assets held for sale – net | 811 | — | — | 811 |
| Total investments | 1,777,771 | 301,592 | — | 2,079,363 |
| | | | | |
| Cash and cash equivalents | 3,381 | — | — | 3,381 |
| Restricted cash | 7,691 | 12,489 | | |