OMEGA HEALTHCARE INVESTORS INC
Form 10-Q
November 07, 2014

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 September 30, 2014

or

o 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 website, 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 October 31, 2014.

Common Stock, \$.10 par value	**127,427,232**
(Class)	(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.
FORM 10-Q
September 30, 2014

TABLE OF CONTENTS

PART I – FINANCIAL INFORMATION

Item 1 - Financial Statements

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

	September 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
Real estate properties		
Land and buildings	$3,143,356	$3,099,547
Less accumulated depreciation	(794,105)	(707,410)
Real estate properties – net	2,349,251	2,392,137
Investment in direct financing leases	536,687	529,445
Mortgage notes receivable – net	647,590	241,515
	3,533,528	3,163,097
Other investments – net	51,852	53,054
	3,585,380	3,216,151
Assets held for sale	6,670	1,356
Total investments	3,592,050	3,217,507
Cash and cash equivalents	452	2,616
Restricted cash	31,821	31,759
Accounts receivable – net	162,628	147,504
Other assets	70,551	62,830
Total assets	$3,857,502	$3,462,216
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving line of credit	$3,000	$326,000
Term loan	200,000	200,000
Secured borrowings	256,403	298,531
Unsecured borrowings – net	1,841,977	1,199,887
Accrued expenses and other liabilities	149,745	137,695
Total liabilities	2,451,125	2,162,113
Stockholders' equity:		
Common stock $.10 par value authorized – 200,000 shares issued and outstanding – 127,408 shares as of September 30, 2014 and 123,530 as of December 31, 2013	12,741	12,353
Common stock – additional paid-in capital	2,131,033	1,998,169
Cumulative net earnings	1,091,008	926,649
Cumulative dividends paid	(1,828,405)	(1,637,068)
Total stockholders' equity	1,406,377	1,300,103
Total liabilities and stockholders' equity	$3,857,502	$3,462,216

See notes to consolidated financial statements.

2

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenue				
Rental income	$97,536	$93,837	$289,696	$280,015
Income from direct financing leases	14,211	-	42,441	-
Mortgage interest income	16,883	7,289	36,132	22,070
Other investment income – net	2,035	2,175	5,197	5,492
Total operating revenues	130,665	103,301	373,466	307,577
Expenses				
Depreciation and amortization	30,111	32,202	92,856	96,386
General and administrative	5,987	5,462	18,781	16,142
Acquisition costs	259	(9)	399	134
Impairment loss on real estate properties	2,102	-	3,660	-
Provisions for uncollectible mortgages, notes and accounts receivable	(15)	2,321	2,730	2,386
Total operating expenses	38,444	39,976	118,426	115,048
Income before other income and expense	92,221	63,325	255,040	192,529
Other income (expense)				
Interest income	11	3	36	20
Interest expense	(30,873)	(24,492)	(87,401)	(75,116)
Interest – amortization of deferred financing costs	(1,243)	(699)	(3,111)	(2,079)
Interest – refinancing gain (costs)	1,617	-	(3,068)	11,112
Total other expense	(30,488)	(25,188)	(93,544)	(66,063)
Income before gain (loss) on assets sold	61,733	38,137	161,496	126,466
(Loss) gain on assets sold – net	(20)	-	2,863	(1,151)
Net income available to common stockholders	$61,713	$38,137	$164,359	$125,315
Income per common share available to common shareholders:				
Basic:				
Net income	$0.48	$0.32	$1.30	$1.08
Diluted:				
Net income	$0.48	$0.32	$1.30	$1.08
Dividends declared and paid per common share	$0.51	$0.47	$1.50	$1.38
Weighted-average shares outstanding, basic	127,464	117,600	126,132	115,527
Weighted-average shares outstanding, diluted	128,428	118,462	126,895	116,335

See notes to consolidated financial statements.

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

	Common Stock Par Value	Additional Paid-in Capital	Cumulative Net Earnings	Cumulative Dividends	Total
Balance at December 31, 2013 (123,530 common shares)	$12,353	$1,998,169	$926,649	$(1,637,068)	$1,300,103
Grant of restricted stock to company directors (12 shares at $35.79 per share)	1	(1)	—	—	—
Amortization of restricted stock	—	6,424	—	—	6,424
Vesting of restricted stock to company executives, net of tax withholdings (70 shares)	7	(1,589)	—	—	(1,582)
Dividend reinvestment plan (1,944 shares at $34.09 per share)	195	66,068	—	—	66,263
Grant of stock as payment of directors fees (4 shares at an average of $34.85 per share)	—	150	—	—	150
Equity Shelf Program (1,848 shares at $34.33 per share, net of issuance costs)	185	61,812	—	—	61,997
Net income	—	—	164,359	—	164,359
Common dividends ($1.50 per share)	—	—	—	(191,337)	(191,337)
Balance at September 30, 2014 (127,408 common shares)	$12,741	$2,131,033	$1,091,008	$(1,828,405)	$1,406,377

See notes to consolidated financial statements.

4

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

	Nine months Ended September 30, 2014	2013
Cash flows from operating activities		
Net income	$164,359	$125,315
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	92,856	96,386
Provision for impairment on real estate properties	3,660	—
Provision for uncollectible mortgages, notes and accounts receivable	2,730	2,386
Amortization of deferred financing and debt extinguishment costs (gain)	6,179	(9,033)
Accretion of direct financing leases	(7,242)	—
Restricted stock amortization expense	6,570	4,433
(Gain) loss on assets sold – net	(2,863)	1,151
Amortization of acquired in-place leases - net	(3,779)	(3,821)
Change in operating assets and liabilities – net of amounts assumed/acquired:		
Accounts receivable, net	(2,252)	(61)
Straight-line rent receivables	(15,919)	(20,385)
Lease inducements	2,009	2,230
Effective yield receivable on mortgage notes	(1,731)	(1,416)
Other operating assets and liabilities	15,017	2,865
Net cash provided by operating activities	259,594	200,050
Cash flows from investing activities		
Acquisition of real estate – net of liabilities assumed and escrows acquired	(47,500)	(2,400)
Deposit for proposed capital lease	—	(15,000)
Placement of mortgage loans	(528,780)	(3,227)
Proceeds from sale of real estate investments – net	4,054	2,288
Capital improvements to real estate investments	(12,684)	(23,732)
Proceeds from other investments	7,952	4,113
Investments in other investments	(6,711)	(32,195)
Collection of mortgage principal	122,705	358
Net cash used in investing activities	(460,964)	(69,795)
Cash flows from financing activities		
Proceeds from credit facility borrowings	756,000	201,000
Payments on credit facility borrowings	(1,079,000)	(259,000)
Receipts of other long-term borrowings	842,148	59,355
Payments of other long-term borrowings	(238,032)	(113,418)
Payments of financing related costs	(17,319)	(1,053)
Receipts from dividend reinvestment plan	66,263	47,821
Payments for exercised options and restricted stock – net	(1,582)	—
Net proceeds from issuance of common stock	61,997	160,159
Dividends paid	(191,269)	(159,073)
Net cash provided by (used in) financing activities	199,206	(64,209)

(Decrease) increase in cash and cash equivalents	(2,164)	66,046
Cash and cash equivalents at beginning of period	2,616	1,711
Cash and cash equivalents at end of period	$452	$67,757
Interest paid during the period, net of amounts capitalized	$76,276	$75,848

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Unaudited
September 30, 2014

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. The results of operations for the interim periods reported herein are not necessarily indicative of results to be expected for the full year. 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 and (ii) all direct and indirect wholly owned subsidiaries of Omega. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

Recent Accounting Pronouncements

Discontinued Operations

In April 2014, we adopted the Financial Accounting Standards Board's ("FASB") Accounting Standards Update No 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). ASU 2014-08 changes the criteria for determining which disposals can be presented as discontinued operations and modified related disclosure requirements. Under the new guidance, a discontinued operation is defined as: (i) a disposal of a component or group of components that is disposed of or is classified as held for sale that represents a strategic shift that has or will have a major effect on an entity's operations and financial results or (ii) an acquired business or nonprofit activity that is classified as held for sale on the date of acquisition. The standard states that a strategic shift could include a disposal of (i) a major geographical area of operations, (ii) a major line of business, (iii) a major equity method investment, or (iv) other major parts of an entity.

The standard expands the disclosures for discontinued operations and requires new disclosures related to individually material disposals that do not meet the definition of a discontinued operation, an entity's continuing involvement with a discontinued operation following the disposal date and retained equity method investments in a discontinued operation. The guidance is effective for annual periods beginning on or after December 15, 2014 and interim periods within that year. Early adoption is permitted, and calendar year-end companies may early adopt the guidance in the first quarter of 2014, but only for disposals (or classifications as held for sale) that have not been reported in financial statements previously issued or available for issue. We have chosen to adopt the guidance effective January 1, 2014 and determined that the adoption had no impact on our consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued a comprehensive new revenue recognition standard that will supersede nearly all existing revenue recognition guidance under GAAP. The standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. We will be required to apply the new standard in the first quarter of 2017 and are assessing whether the new standard will have a material effect on our financial position or results of operations.

Accounts Receivable

Accounts receivable includes: contractual receivables, effective yield interest receivables, straight-line rent receivables and lease inducements, net of an estimated provision for losses related to uncollectible and disputed accounts. Contractual receivables relate to the amounts currently owed to us under the terms of our lease and loan agreements. Effective yield interest receivables relate to the difference between the interest income recognized on an effective yield basis over the term of the loan agreement and the interest currently due to us according to the contractual agreement. Straight-line receivables relate to the difference between the rental revenue recognized on a straight-line basis and the amounts currently due to us according to the contractual agreement. Lease inducements result from value provided by us to the lessee at the inception or renewal of the lease and will be amortized as a reduction of rental revenue over the non cancellable lease term.

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

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

	September 30, 2014	December 31, 2013
	(in thousands)	
Contractual receivables	$ 5,132	$ 2,941
Effective yield interest receivables	5,085	5,333
Straight-line receivables	138,615	123,486
Lease inducements	14,219	16,228
Allowance	(423)	(484)
Accounts receivable – net	$ 162,628	$ 147,504

During the nine-months ended September 30, 2014, we wrote-off (i) $0.8 million of straight-line rent receivables associated with a lease amendment to an existing operator for two facilities that were transitioned to a new operator and (ii) $2.0 million of effective yield interest receivables associated with the termination of our mortgage note that was due November 2021. See Note 2 – Properties and Investments for additional information related to the early termination of the November 2021 mortgage note.

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

NOTE 2 – PROPERTIES AND INVESTMENTS

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

If we acquire real estate pursuant to a foreclosure or bankruptcy proceeding, the assets will initially be included on the consolidated balance sheet at the lower of cost or estimated fair value.

Leased Property

Our leased real estate properties, represented by 423 SNFs, 18 assisted living facilities ("ALFs") and 11 specialty facilities at September 30, 2014, 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.

$8 Million New Investment in Q3 2014

On July 1, 2014, we purchased one SNF located in Texas from an unrelated third party for approximately $8.2 million and leased it to an existing operator of Omega. The 125 bed SNF was added to the operator's existing master lease with an initial annual cash yield of 9.5%. We allocated approximately $8.2 million consisting of land ($0.4 million), building and site improvements ($7.4 million), and furniture and fixtures ($0.4 million). We have not recorded goodwill in connection with this transaction.

Transition of Two West Virginia Facilities to a New Operator in Q3 2014

On July 1, 2014, we transitioned two West Virginia SNFs that we previously leased to Diversicare Healthcare Services ("Diversicare" and formerly known as Advocat) to a new unrelated third party operator. The two facilities represent 150 operating beds. We amended our Diversicare master lease to reflect the transition of the two facilities to the new operator and for the nine-months ended September 30, 2014 recorded a $0.8 million provision for uncollectible straight-line accounts receivable. Simultaneous with the Diversicare master lease amendment, we entered into a 12-year master lease with a new third party operator.

$34.6 Million of New Investments in Q2 and Q3 2014

On June 27, 2014, we purchased two SNFs from an unrelated third party for approximately $17.3 million and leased them to an existing operator of Omega. The SNFs, located in Georgia and South Carolina with a total of 213 beds, were combined into a 12 year master lease with an initial annual cash yield of 9.5%.

8

In the third quarter of 2014, we purchased a third SNF in South Carolina with 132 beds that was added to the master lease. The combined purchase price, including the third SNF was $34.6 million. We allocated approximately $34.6 million consisting of land ($0.9 million), building and site improvements ($32.1 million), and furniture and fixtures ($1.6 million). We have not recorded goodwill in connection with this transaction.

$4.7 Million of New Investment in Q1 2014

On January 30, 2014, we acquired an ALF in Arizona from an unrelated third party for approximately $4.7 million. The operations of the 90 bed facility were transitioned to an existing operator of Omega. We allocated approximately $4.7 million consisting of land ($0.4 million), building and site improvements ($3.9 million), and furniture and fixtures ($0.4 million). We have not recorded goodwill in connection with this transaction.

Pro Forma Acquisition Results

The facilities acquired in 2014 and 2013 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect the impact of the transactions as if they occurred on January 1, 2013. For a list of the 2013 transactions, refer to Note 3 – Properties in our 2013 Form 10-K. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisitions have been made. The following pro forma information is not indicative of future operations.

	Pro Forma			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts, unaudited)			
Revenues	$130,823	$105,358	$376,015	$313,748
Net income available to common stockholders	$61,788	$38,949	$165,373	$127,751
Earnings per share – diluted:				
Net income available to common stockholders – as reported	$0.48	$0.32	$1.30	$1.08
Net income available to common stockholders – pro forma	$0.48	$0.33	$1.30	$1.10

Assets Sold or Assets Held for Sale

Assets Sold and Closures

During the three-month period ended September 30, 2014, we sold a closed held-for-sale SNF in Indiana for approximately $0.1 million, resulting in a $20 thousand loss. We closed one SNF in Texas, and recorded a $2.1 million impairment charge to reduce the carrying value of the facility to its estimated fair value. We also reclassified one SNF in Vermont with a carrying value of approximately $6.0 million to assets held-for-sale and recorded a $23 thousand impairment charge to reduce the carrying value of the facility to its estimated fair value.

In the second quarter of 2014, we sold a parcel of undeveloped land in Texas to a third party for approximately $0.3 million. We also closed a 75 bed developmental disability facility in Indiana and recorded a $1.6 million impairment charge to reduce the carrying value of the facility to its estimated fair value based upon estimated future cash flows less cost to sell (Level 3).

In the first quarter of 2014, we sold one SNF in Louisiana for approximately $1.0 million, resulting in a $0.8 million gain. We also sold two closed held-for-sale SNFs for total cash proceeds of $2.6 million, generating a $2.1 million gain.

Assets Held for Sale

At September 30, 2014, we had one SNF and one parcel of land classified as held-for-sale with an aggregate net book value of approximately $6.7 million.

Mortgage Notes Receivables

Our mortgage notes receivables relate to 13 fixed-rate mortgages on 53 SNFs and two ALFs. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in five states, which are operated by five 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 September 30, 2014, none of our mortgages were in default or in foreclosure proceedings. Where appropriate, the mortgaged properties are generally cross-collateralized with the master lease agreement with the same operator.

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

$415 Million of New Investment in Q2 2014

On June 30, 2014, we entered into an agreement to refinance/consolidate $117 million in existing mortgages on 17 facilities into one mortgage and simultaneously provide mortgage financing for an additional 14 facilities. The new $415 million mortgage is secured by 31 facilities totaling 3,430 licensed beds all located in the state of Michigan. The new loan bears an initial annual cash interest rate of 9.0% and increases by 0.225% per year (e.g., beginning in year 2 the interest rate will be 9.225%, in year 3 the rate will be 9.45%, etc.).

One of the existing mortgages that was refinanced/consolidated into the new $415 million mortgage included annual interest rate escalators and required the mortgagee to pay a prepayment penalty in the event the mortgage was retired early which resulted in us recording an effective yield interest receivable. In connection with the refinancing/consolidating transaction which was entered into at market terms, the old mortgage was considered to be retired early since the modifications made to the terms of the mortgage were more than minor. As of the date of the refinancing/consolidation transaction, the effective yield interest receivable was approximately $2.0 million. We forgave the prepayment penalty associated with the retired mortgage and recorded a $2.0 million provision to write-off the effective yield interest receivable related to the retired mortgage.

$113 Million of New Investment in Q1 2014

On January 17, 2014, we entered into a $112.5 million first mortgage loan with an existing operator of Omega. The loan is secured by 7 SNFs and 2 ALFs totaling 798 operating beds located in Pennsylvania (7) and Ohio (2). The loan is cross-defaulted and cross-collateralized with our existing master lease with the operator. The loan bears an initial annual cash interest rate of 9.5% and matures in January 2024.

NOTE 3 – DIRECT FINANCING LEASES

The components of investment in direct financing leases consist of the following:

	September 30, 2014	December 31, 2013
	(in thousands)	
Minimum lease payments receivable	$ 4,255,817	$ 4,291,067
Estimated residual values	—	—
Less unearned income	(3,719,130)	(3,761,622)
Investment in direct financing leases	$ 536,687	$ 529,445
Properties subject to direct financing leases	56	56

On November 27, 2013, we closed on an aggregate $529 million purchase/leaseback transaction in connection with the acquisition of Ark Holding Company, Inc. (“Ark Holding”) by 4 West Holdings Inc. At closing, we acquired 55 SNFs and 1 ALF operated by Ark Holding and leased the facilities back to Ark Holding, now known as New Ark Investment Inc. (“New Ark”), pursuant to four 50-year master leases, with rental payments yielding 10.6% per annum over the term of the leases. The purchase/leaseback transaction is being accounted for as a direct financing lease.

The lease agreements allow the tenant the right to purchase the facilities for a bargain purchase price plus closing costs at the end of term. In addition, commencing in the 41st year of each lease, the tenant will have the right to prepay the remainder of its obligations thereunder for an amount equal to the sum of the unamortized portion of the original aggregate $529 million investment plus the net present value of the remaining payments under the lease, and closing costs. In the event the tenant exercises either of these options, we have the right to purchase the properties for fair market value at the time.

The 56 facilities represent 5,623 licensed beds located in 12 states, predominantly in the southeastern United States. The 56 facilities are separated by region and divided amongst four cross-defaulted master leases. The four regions include the Southeast (39 facilities), the Northwest (7 facilities), Texas (9 facilities) and Indiana (1 facility). As of September 30, 2014, the following minimum rents are due under our direct financing leases for the next five years (in thousands):

Year 1	Year 2	Year 3	Year 4	Year 5
$47,000	$47,000	$47,319	$48,370	$49,580

NOTE 4 – OTHER INVESTMENTS

A summary of our other investments is as follows:

	September 30, 2014	December 31, 2013
	(in thousands)	
Other investment note due 2015	$ 2,168	$ 2,318
Other investment notes due 2021 - 2023	14,926	13,427
Other investment note due 2014	-	62
$31.5 million other investment note due 2017	24,500	23,750
$2.5 million other investment note due 2015	1,640	546
$6.0 million other investment note due 2013	5,439	5,439
$1.3 million other investment note due 2017	1,300	1,300
$1.5 million other investment note due 2014	1,456	1,456
Notes receivable, gross(1)	51,429	48,298
Allowance for loss on notes receivable	(1,977)	(1,977)
Notes receivable, net	49,452	46,321
Other	2,400	2,400
Marketable securities	-	4,333
Total other investments	$ 51,852	$ 53,054

(1) The majority of these notes bear interest at approximately 10% annually.

Redemption of Diversicare Preferred Stock

On August 20, 2014, Diversicare redeemed the shares of its Series C non-convertible, redeemable preferred stock held by Omega, which had a liquidation preference of approximately $4.9 million and a dividend rate of 7% per annum. We received approximately $5.0 million in net proceeds from the redemption of our Diversicare preferred shares. The preferred shares were originally issued to Omega in 2006 in connection with the restructuring of preferred stock and master lease agreements between Diversicare and Omega. We recorded a gain of $0.6 million in other investment income.

$31.5 Million Other Investment Note due 2017

In February 2014, we amended our five year 10.0% term loan agreement with an existing operator allowing for an additional draw of $3.5 million at a 10.5% interest rate. The loan matures in January 2017.

NOTE 5 – CONCENTRATION OF RISK

As of September 30, 2014, our portfolio of real estate investments consisted of 564 healthcare facilities, located in 38 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 $4.3 billion at September 30, 2014, with approximately 99% of our real estate investments related to long-term care facilities. Our portfolio is made up of 477 SNFs, 19 ALFs, 11 specialty facilities, fixed rate mortgages on 53 SNFs and two ALFs, and two SNFs that are closed/held-for-sale. At September 30, 2014, we also held miscellaneous investments of approximately $51.9 million, consisting primarily of secured loans to third-party operators of our facilities.

At September 30, 2014, we had investments with one operator and/or manager that exceeded 10% of our total investments: New Ark (13%). The three states in which we had our highest concentration of investments were Florida (14%), Michigan (11%) and Ohio (9%) at September 30, 2014.

For the three-month period ended September 30, 2014, our revenues from operations totaled $130.7 million, of which approximately $15.0 million were from New Ark (12%) and $13.8 million were from Genesis HealthCare (“Genesis”) (11%). No other operator generated more than 10% of our revenues from operations for the three-month period ended September 30, 2014.

For the nine-month period ended September 30, 2014, our revenues from operations totaled $373.5 million, of which approximately $43.3 million were from New Ark (12%) and $41.4 million were from Genesis (11%). No other operator generated more than 10% of our revenues from operations for the nine-month period ended September 30, 2014.

NOTE 6 – DIVIDENDS

On October 16, 2014, the Board of Directors declared a common stock dividend of $0.52 per share, increasing the quarterly common dividend by $0.01 per share over the previous quarter. The common dividends are to be paid November 17, 2014 to common stockholders of record on October 31, 2014.

On July 15, 2014, the Board of Directors declared a common stock dividend of $0.51 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid August 15, 2014 to common stockholders of record on July 31, 2014.

On April 18, 2014, the Board of Directors declared a common stock dividend of $0.50 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid May 15, 2014 to common stockholders of record on April 30, 2014.

On January 15, 2014, the Board of Directors declared a common stock dividend of $0.49 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid February 17, 2014 to common stockholders of record on January 31, 2014.

NOTE 7 – 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 pays federal, state and local income tax on its net income at the applicable corporate rates. As of September 30, 2014, the TRS had a net operating loss carry-forward of approximately $1.0 million. The loss carry-forward is fully reserved with a valuation allowance as of September 30, 2014.

NOTE 8 – STOCK-BASED COMPENSATION

The following is a summary of our stock-based compensation expense for the three- and nine-month periods ended September 30, 2014 and 2013, respectively:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands)			
Stock-based compensation expense	$ 2,022	$ 1,509	$ 6,570	$ 4,433

Restricted Stock and Restricted Stock Units

Restricted stock and restricted stock units (“RSUs”) are subject to forfeiture if the holder’s service to us terminates prior to vesting, subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. Prior to vesting, ownership of the shares/units cannot be transferred. The restricted stock has the same dividend and voting rights as our common stock. RSUs accrue dividend equivalents but have no voting rights. Restricted stock and RSUs are valued at the price of our common stock on the date of grant. We expense the cost of these awards ratably over their vesting period.

On December 31, 2013, we granted 213,741 RSUs to six employees. The RSUs vest ratably over the three year period ending December 31, 2016, 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.

On January 1, 2014, we granted 122,137 RSUs to six employees. The RSUs vest on December 31, 2016, 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.

Performance Restricted Stock Units

Performance restricted stock units (“PRSUs”) are subject to forfeiture if the performance requirements are not achieved or if the holder’s service to us terminates prior to vesting, subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. The PRSUs awarded in January 2011, January 2013, December 2013 and January 2014 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 based on performance and related dividend equivalents based on dividends paid to stockholders during the applicable performance period. The vesting requirements are based on either the (i) total shareholders return (“TSR”) of Omega or (ii) Omega’s TSR relative to other real estate investment trusts in the MSCI U.S. REIT Index. We expense the cost of these awards ratably over their service period.

Prior to vesting and distribution of shares, ownership of the PRSUs cannot be transferred. The dividends on the PRSUs accumulate and if vested are paid when the shares are distributed to the employee.

PRSUs (for Performance Periods 2011 through 2013)

In January 2011, we awarded PRSUs to six employees, including: (i) 279,550 multi-year absolute TSR PRSUs and (ii) 93,183 multi-year relative TSR PRSUs. On January 1, 2013, we awarded to the six employees 124,244 annual TSR PRSUs for the year ended December 31, 2013 ("2013 Annual TSR PRSUs").

2013 Annual TSR PRSUs

The TSR goal for the 2013 Annual TSR PRSUs was achieved at the high level and 124,244 shares vested and were distributed to the employees in January 2014.

Multi-year TSR PRSUs (for the 2011- 2013 Performance Period)

The number of shares earned under the multi-year TSR PRSUs depended generally on the level of achievement of TSR for the three years ending December 31, 2013. In January 2014, the board of directors reviewed the performance and determined the performance targets were met at the high level. 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 (for the 2011- 2013 Performance Period)

The number of shares earned under the multi-year relative TSR PRSUs depended generally on the level of achievement of TSR relative to other real estate investment trusts in the MSCI U.S. REIT Index for the three-years ending December 31, 2013. In January 2014, the board of directors reviewed the performance and determined the performance targets were met at the high level. 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.

PRSUs (for 2013- 2016 Performance Periods)

In December 2013, we awarded six types of PRSUs to six employees: (i) 77,371 PRSUs that vest based on TSR for the one year period starting December 31, 2013 and ending December 31, 2014 (“2014 Transition TSR PRSUs”), (ii) 77,369 PRSUs that vest based on the TSR for the two year period starting December 31, 2013 and ending December 31, 2015 (“2015 Transition TSR PRSUs”), (iii) 115,785 PRSUs that vest based on TSR for the three year period starting December 31, 2013 and ending December 31, 2016 (“2016 Transition TSR PRSUs”), (iv) 77,371 PRSUs that vest based on relative TSR for the one year period starting December 31, 2013 and ending December 31, 2014 (“2014 Transition Relative TSR PRSUs”), (v) 77,368 Transition PRSUs that vest based on relative TSR for the two year period starting December 31, 2013 and ending December 31, 2015 (“2015 Transition Relative TSR PRSUs”), and (vi) 115,781 PRSUs that vest based on relative TSR for the three year period starting December 31, 2013 and ending December 31, 2016 (“2016 Transition Relative TSR PRSUs”).

2014 Transition TSR PRSUs

The number of shares earned under the 2014 Transition TSR PRSUs depends generally on the level of achievement of Omega’s TSR for the period beginning December 31, 2013 and ending December 31, 2014. The 2014 Transition TSR PRSUs vest on December 31, 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.

2015 Transition TSR PRSUs

The number of shares earned under the 2015 Transition TSR PRSUs depends generally on the level of achievement of Omega’s TSR for the period beginning December 31, 2013 and ending December 31, 2015. The 2015 Transition TSR PRSUs vest on December 31, 2015, 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.

2016 Transition TSR PRSUs

The number of shares earned under the 2016 Transition TSR PRSUs depends generally on the level of achievement of Omega's TSR for the period beginning December 31, 2013 and ending December 31, 2016. The 2016 Transition TSR PRSUs vest on December 31, 2016, 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.

2014 Transition Relative TSR PRSUs

The number of shares earned under the 2014 Transition Relative TSR PRSUs depends generally on the level of achievement of TSR relative to the MSCI U.S. REIT Index for the period beginning December 31, 2013 and ending December 31, 2014. The 2014 Transition Relative TSR PRSUs vest on December 31, 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.

2015 Transition Relative TSR PRSUs

The number of shares earned under the 2015 Transition Relative TSR PRSUs depends generally on the level of achievement of TSR relative to MSCI U.S. REIT Index for the period beginning December 31, 2013 and ending December 31, 2015. The 2015 Transition Relative TSR PRSUs vest on December 31, 2015, 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.

2016 Transition Relative TSR PRSUs

The number of shares earned under the 2016 Transition Relative TSR PRSUs depends generally on the level of achievement of TSR relative to MSCI U.S. REIT Index for the period beginning December 31, 2013 and ending December 31, 2016. The 2016 Transition Relative TSR PRSUs vest on December 31, 2016, 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.

PRSUs (for 2014- 2016 Performance Periods)

In January 2014, we awarded two types of PRSUs to six employees: (i) 154,584 PRSUs that vest based on TSR for the three year period starting January 1, 2014 and ending December 31, 2016 ("2016 TSR PRSUs"), and (ii) 154,584 PRSUs that vest based on relative TSR for the three year period starting January 1, 2014 and ending December 31, 2016 ("2016 Relative TSR PRSUs").

2016 TSR PRSUs

The number of shares earned under the 2016 TSR PRSUs depends generally on the level of achievement of Omega's TSR for the period beginning January 1, 2014 and ending December 31, 2016. The 2016 TSR PRSUs vest quarterly in 2017 in equal increments, 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.

2016 Relative TSR PRSUs

The number of shares earned under the 2016 Relative TSR PRSUs depends generally on the level of achievement of Omega's TSR relative to MSCI U.S. REIT Index for the period beginning January 1, 2014 and ending December 31, 2016. The 2016 Relative TSR PRSUs vest quarterly in 2017 in equal increments, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company.

The following table summarizes our total unrecognized compensation cost as of September 30, 2014 associated with outstanding restricted stock, restricted stock units and PRSU awards to employees:

	Grant Year	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)
Multi-year TSR PRSUs	2011	279,550	$11.06	$ 3.1	44	$ -
Multi-year Relative TSR PRSUs	2011	93,183	12.26	1.1	44	-
Restricted stock units	2013	213,741	29.80	6.4	36	4.8
2014 Transition TSR PRSUs	2013	77,371	8.27	0.6	12	0.2
2015 Transition TSR PRSUs	2013	77,369	7.48	0.6	24	0.4
2016 Transition TSR PRSUs	2013	115,785	8.67	1.0	36	0.8
2014 Transition Relative TSR PRSUs	2013	77,371	11.68	0.9	12	0.2
2015 Transition Relative TSR PRSUs	2013	77,368	13.06	1.0	24	0.6
2016 Transition Relative TSR PRSUs	2013	115,781	14.25	1.7	36	1.2
Restricted stock units	2014	122,137	29.80	3.6	36	2.7
2016 TSR PRSUs	2014	154,584	8.67	1.4	48	1.1
2016 Relative TSR PRSUs	2014	154,584	14.25	2.2	48	1.8
Total		1,558,824	$15.12	$ 23.6		$ 13.8

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

Director Restricted Stock Grants

As of September 30, 2014, we had 45,303 shares of restricted stock outstanding to directors. The directors' restricted shares are scheduled to vest over the next three years. As of September 30, 2014, the unrecognized compensation cost associated with outstanding director restricted stock grants is approximately $0.7 million.

NOTE 9 – FINANCING ACTIVITIES AND BORROWING ARRANGEMENTS

Secured and Unsecured Borrowings

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

	Maturity	Current Rate	September 30, 2014	December 31, 2013
			(in thousands)	
Secured borrowings:				
HUD mortgages assumed June 2010 (1)	2040 - 2045	4.85 %	$126,907	$128,641
HUD mortgages assumed October 2011 (1)	2036 - 2040	4.87 %	30,492	31,145
HUD mortgages assumed December 2011(1)	2044	3.06 %	57,714	58,592
HUD mortgages assumed December 2012(1)	2040 - 2045	4.64 %	41,290	80,153
Total secured borrowings			256,403	298,531
Unsecured borrowings:				
Revolving line of credit	2018	1.65 %	3,000	326,000
Term loan	2019	1.65 %	200,000	200,000
			203,000	526,000
2020 notes	2020	7.50 %	200,000	200,000
2022 notes	2022	6.75 %	575,000	575,000
2024 notes	2024	5.875 %	400,000	400,000
2024 notes	2024	4.95 %	400,000	—
2025 notes	2025	4.50 %	250,000	—
Subordinated debt	2021	9.00 %	20,782	20,892
			1,845,782	1,195,892
(Discount) premium - net			(3,805)	3,995
Total unsecured borrowings			2,044,977	1,725,887
Totals – net			$2,301,380	$2,024,418

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

Certain of our other secured and unsecured borrowings are subject to customary affirmative and negative covenants, including financial covenants. As of December 31, 2013 and September 30, 2014, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

Bank Credit Facilities

On June 27, 2014, we entered into a new $1.2 billion unsecured credit facility, comprised of a $1 billion senior unsecured revolving credit facility (the "Revolving Credit Facility") and a $200 million senior unsecured term loan facility (the “Term Loan Facility” and, collectively, the “2014 Credit Facilities”).

The 2014 Credit Facilities replace our previous $700 million senior unsecured credit facility (the “2012 Credit Facilities”). The 2014 Credit Facilities include an “accordion feature” that permits us to expand our borrowing capacity by $550 million, for maximum aggregate commitments of up to $1.75 billion.

The Revolving Credit Facility is priced at LIBOR plus an applicable percentage (beginning at 130 basis points, with a range of 92.5 to 170 basis points) based on our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings, plus a facility fee based on the same ratings (initially 25 basis points, with a range of 12.5 to 30 basis points). The Revolving Credit Facility will be used for acquisitions and general corporate purposes. At September 30, 2014, we had $3 million in borrowings outstanding under the Revolving Credit Facility. The Revolving Credit Facility matures on June 27, 2018, subject to a one-time option by us to extend such maturity date by one year.

The Term Loan Facility is also priced at LIBOR plus an applicable percentage (beginning at 150 basis points, with a range of 100 to 195 basis points) based on our ratings from Standard & Poor's, Moody's and/or Fitch Ratings. At September 30, 2014, we had $200 million in borrowings outstanding under the Term Loan Facility. The Term Loan Facility matures on June 27, 2019.

For the nine month period ended September 30, 2014, we recorded a non-cash charge of approximately $2.6 million relating to the write-off of unamortized deferred financing costs associated with the termination of the 2012 Credit Facilities.

HUD Mortgage Loans Payoff

On September 30, 2014, we paid approximately $36.1 million to retire four mortgages guaranteed by U.S. Department of Housing and Urban Development ("HUD"). The payoff resulted in a $1.6 million gain on the extinguishment of the debt due to the write-off of the $3.3 million premium recorded at the time of acquisition offset by a prepayment fee of approximately $1.7 million.

Issuance of $250 Million of Senior Notes

On September 11, 2014, we sold $250 million aggregate principal amount of our 4.50% Senior Notes due 2025, or the 2025 Notes. The 2025 Notes were sold at an issue price of 99.131% of their face value before the initial purchasers' discount resulting in gross proceeds of approximately $247.8 million. We used the net proceeds of the offering to repay a portion of our indebtedness outstanding under our Revolving Credit Facility.

The 2025 Notes were issued pursuant to an indenture dated as of September 11, 2014 among Omega, certain of its subsidiaries, as guarantors, and U.S. Bank National Association, as trustee. The 2025 Notes mature on January 15, 2025. The 2025 Notes bear an interest rate of 4.50% per annum, payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2015. The notes are fully and unconditionally guaranteed, jointly and severally, by our existing and future subsidiaries that guarantee indebtedness for money borrowed of Omega in a principal amount at least equal to $50 million (including as of the date hereof our existing senior notes and the facilities under our revolving credit agreement). We may redeem some or all of the notes prior to October 15, 2024 at a price equal to 100% of the principal amount thereof plus a "make-whole" premium, and accrued and unpaid interest, if any, to, but not including, the applicable redemption date. The notes are redeemable on or after October 15, 2024 at a redemption price equal to 100% of the principal amount thereof plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date.

Issuance of $400 Million of Senior Notes and Exchange Offer

On March 11, 2014, we sold $400 million aggregate principal amount of our 4.95% Senior Notes due 2024. These notes were sold at an issue price of 98.58% of the principal amount of the notes, before the initial purchasers' discount resulting in gross proceeds of approximately $394.3 million. We used the net proceeds of the offering to repay in full our $200 million 2013 Term Loan Facility defined below, and a portion of our indebtedness outstanding under our Revolving Credit Facility.

On August 26, 2014, we commenced an offer to exchange $400 million of our 4.95% Senior Notes due 2024 that have been registered under the Securities Act of 1933 ("exchange notes") for the $400 million of our 4.95% Senior Notes due 2024 privately placed in March 2014 ("initial notes"). Approximately 99.875% of the $400 million aggregate principal amount of the initial notes were validly tendered and not withdrawn prior to the expiration of the exchange offer, and were exchanged for exchange notes as of October 17, 2014, pursuant to the terms of the exchange offer. The exchange notes are identical in all material respects to the initial notes, except that the exchange notes were registered under the Securities Act of 1933 and the provisions of the initial notes relating to transfer restrictions, registration rights and additional interest will not apply to the exchange notes.

Repayment of $200 Million Term Loan

On December 27, 2013, we entered into a new $200 million senior unsecured, deferred draw, term loan facility (the "2013 Term Loan Facility") that was scheduled to mature on February 29, 2016.

The 2013 Term Loan Facility was priced at LIBOR plus an applicable percentage (beginning at 175 basis points, with a range of 110 to 230 basis points) based on the Company's ratings from Standard & Poor's, Moody's and/or Fitch Ratings.

In January 2014, we drew all $200 million under the 2013 Term Loan Facility and used the proceeds to (i) fund a new mortgage investment and (ii) repay outstanding borrowings under the 2012 Revolving Credit Facility. In March 2014, we paid off and terminated the 2013 Term Loan Facility with proceeds from the sale of our 4.95% Senior Notes due 2024 (see above). In addition, we recorded a non-cash charge of approximately $2.0 million relating to the write-off of deferred financing costs associated with the termination of the 2013 Term Loan Facility.

$250 Million Equity Shelf Program

On March 18, 2013, we entered into separate Equity Distribution Agreements (collectively, the "2013 Equity Shelf Agreements") to sell shares of our common stock having an aggregate gross sales price of up to $250 million (the "2013 Equity Shelf Program") with several financial institutions, each as a sales agent and/or principal (collectively, the "Managers").

For the three-month period ended September 30, 2014, we issued approximately 0.1 million shares under the 2013 Equity Shelf Program, at an average price of $37.93 per share, generating gross proceeds of approximately $5.0 million, before $75 thousand of commissions. For the nine-month period ended September 30, 2014, we issued approximately 1.8 million shares under the 2013 Equity Shelf Program, at an average price of $34.33 per share, generating gross proceeds of approximately $63.5 million, before $1.2 million of commissions.

Dividend Reinvestment and Common Stock Purchase Plan

For the three-month period ended September 30, 2014, approximately 0.5 million shares of our common stock at an average price of $37.51 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for gross proceeds of approximately $20.5 million. For the nine-month period ended September 30, 2014, approximately 1.9 million shares of our common stock at an average price of $34.09 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for gross proceeds of approximately $66.3 million.

NOTE 10 – FINANCIAL INSTRUMENTS

At September 30, 2014 and December 31, 2013, the carrying amounts and fair values of our financial instruments were as follows:

	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:	(in thousands)			
Cash and cash equivalents	$452	$452	$2,616	$2,616
Restricted cash	31,821	31,821	31,759	31,759
Investment in direct financing leases	536,687	536,687	529,445	529,445
Mortgage notes receivable – net	647,590	634,448	241,515	240,482
Other investments – net	51,852	52,529	53,054	50,124
Totals	$1,268,402	$1,255,937	$858,389	$854,426
Liabilities:				
Revolving line of credit	$3,000	$3,000	$326,000	$326,000
Term loan	200,000	200,000	200,000	200,000
7.50% notes due 2020 – net	198,149	255,040	197,890	256,852
6.75% notes due 2022 – net	580,584	753,536	581,105	735,687
5.875% notes due 2024 – net	400,000	438,251	400,000	411,266
4.95% notes due 2024 – net	394,626	403,261	—	—
4.50% notes due 2025 – net	247,836	244,163	—	—
HUD debt	256,403	260,832	298,531	287,718
Subordinated debt	20,782	28,906	20,892	28,849
Totals	$2,301,380	$2,586,989	$2,024,418	$2,246,372

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 Annual Report on Form 10-K for the year ended December 31, 2013). 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) (Level 1).

Mortgage notes receivable: The fair value 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 (Level 3).

Direct financing leases: The fair value of the direct financing receivables are estimated using a discounted cash flow analysis, using interest rates being offered for similar leases to borrowers with similar credit ratings (Level 3).

Other investments: Other investments are primarily comprised of: (i) notes receivable and (ii) an investment in a 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 (Level 3). The fair value of the investment in the unconsolidated business is estimated using quoted market value and considers the terms of the underlying arrangement (Level 3).

Revolving line of credit and term loan: 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 (Level 3).

Senior notes and subordinated debt: The fair value of our borrowings under fixed rate agreements are estimated based on open market trading activity provided by a third party (Level 2).

HUD debt: The fair value of our borrowings under HUD debt agreements are estimated based on quote obtained by HUD debt brokers (Level 2).

NOTE 11 – LITIGATION

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

NOTE 12 – 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 available to common stockholders 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(in thousands, except per share amounts)			
Numerator:				
Net income	$ 61,713	$ 38,137	$ 164,359	$ 125,315
Numerator for net income available to common stockholders' per share - basic and diluted	$ 61,713	$ 38,137	$ 164,359	$ 125,315
Denominator:				
Denominator for basic earnings per share	127,464	117,600	126,132	115,527
Effect of dilutive securities:				
Common stock equivalents	964	862	763	808
Denominator for diluted earnings per share	128,428	118,462	126,895	116,335
Earnings per share – basic:				
Net income – basic	$ 0.48	$ 0.32	$ 1.30	$ 1.08
Earnings per share – diluted:				

Net income – diluted	$ 0.48	$ 0.32	$ 1.30	$ 1.08

22

NOTE 13 – CONSOLIDATING FINANCIAL STATEMENTS

As of September 30, 2014, we had outstanding: (i) $200 million 7.5% Senior Notes due 2020, (ii) $575 million 6.75% Senior Notes due 2022, (iii) $400 million 5.875% Senior Notes due 2024, (iv) $400 million 4.95% Senior Notes due 2024 and (v) $250 million 4.5% Senior Notes due 2025, 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. All of our subsidiaries that guarantee the Senior Notes also guarantee the 2014 Credit Facilities. 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 or the 2014 Credit Facilities.

As of and prior to March 31, 2010, the non-guarantor subsidiaries were minor and insignificant. On June 29, 2010, we designated as "unrestricted subsidiaries" the 39 subsidiaries we acquired from CapitalSource subject to HUD indebtedness, of which 12 subsidiaries were re-designated as "restricted subsidiaries" and subsidiary guarantors in July 2013 due to the retirement of the HUD related debt on 11 facilities. During the fourth quarter of 2011, we designated as "unrestricted subsidiaries" 20 subsidiaries we acquired subject to HUD indebtedness, of which six subsidiaries were re-designated as "restricted subsidiaries" and subsidiary guarantors in July 2012 due to the retirement of the HUD related mortgages on five facilities. During the fourth quarter of 2012, we designated as "unrestricted subsidiaries" eight subsidiaries we acquired subject to HUD indebtedness. The following summarized condensed consolidating financial information reflects these changes.

For the three months ended September 30, 2014 and 2013, the operating cash flow of the non-guarantor subsidiaries approximated net income of the non-guarantor subsidiaries, adjusted for depreciation and amortization expense and rent recorded on straight-line basis. On September 30, 2014, we retired four HUD mortgages, $34.3 million related to the outstanding principal of the four HUD mortgages, $3.3 million related to the noncash write off of unamortized premium recorded at the time of acquisition offset by a prepayment fee of approximately $1.7 million.

During the nine months ended September 30, 2014, the non-guarantor subsidiaries also made $3.8 million of routine principal payments. For the nine-month period ended September 30, 2013, the non-guarantor subsidiaries did not engage in investing or financing activities other than the principal payment of $3.4 million for the HUD mortgages on the facilities owned by the non-guarantor subsidiaries. All of the subsidiary guarantors of our outstanding Senior Notes and 2014 Credit Facilities, and all of our non-guarantor subsidiaries, are 100% owned by Omega.

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

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

	September 30, 2014			
	Issuer & Subsidiary Guarantors	Non-Guarantor Subsidiaries	Elimination Company	Consolidated
ASSETS				
Real estate properties				
Land and buildings	$ 2,684,567	$ 458,789	$ -	$ 3,143,356
Less accumulated depreciation	(725,746)	(68,359)	-	(794,105)
Real estate properties – net	1,958,821	390,430	-	2,349,251
Investment in direct financing leases	536,687	-	-	536,687
Mortgage notes receivable – net	647,590	-	-	647,590
	3,143,098	390,430	-	3,533,528
Other investments – net	51,852	-	-	51,852
	3,194,950	390,430	-	3,585,380
Assets held for sale – net	6,670	-	-	6,670
Total investments	3,201,620	390,430	-	3,592,050
Cash and cash equivalents	452	-	-	452
Restricted cash	7,013	24,808	-	31,821
Accounts receivable – net	153,569	9,059	-	162,628
Investment in affiliates	140,802	-	(140,802)	-
Other assets	43,612	26,939	-	70,551
Total assets	$ 3,547,068	$ 451,236	$ (140,802)	$ 3,857,502
LIABILITIES AND STOCKHOLDERS' EQUITY				
Revolving line of credit	$ 3,000	$ -	$ -	$ 3,000
Term loan	200,000	-	-	200,000
Secured borrowings	-	256,403	-	256,403
Unsecured borrowings – net	1,821,195	20,782	-	1,841,977
Accrued expenses and other liabilities	116,496	33,249	-	149,745
Intercompany payable	-	102,200	(102,200)	-
Total liabilities	2,140,691	412,634	(102,200)	2,451,125
Stockholders' equity:				
Common stock	12,741	-	-	12,741
Common stock – additional paid-in capital	2,131,033	-	-	2,131,033
Cumulative net earnings	1,091,008	38,602	(38,602)	1,091,008
Cumulative dividends paid	(1,828,405)	-	-	(1,828,405)
Total stockholders' equity	1,406,377	38,602	(38,602)	1,406,377
Total liabilities and stockholders' equity	$ 3,547,068	$ 451,236	$ (140,802)	$ 3,857,502

24

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

	December 31, 2013			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination Company	Consolidated
ASSETS				
Real estate properties				
Land and buildings	$2,642,047			