OMEGA HEALTHCARE INVESTORS INC
Form 10-K
February 27, 2015

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

FORM 10-K

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

For the fiscal year ended December 31, 2014.

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

For the transition period from to

Commission file number 1-11316

OMEGA HEALTHCARE INVESTORS, INC.
(Exact Name of Registrant as Specified in its Charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	38-3041398 (I.R.S. Employer Identification No.)
200 International Circle, Suite 3500 Hunt Valley, MD (Address of Principal Executive Offices)	 21030 (Zip Code)

Registrant’s telephone number, including area code: 410-427-1700

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

Title of Each Class	Name of Exchange on Which Registered
Common Stock, $.10 Par Value	New York Stock Exchange

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes
No

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

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

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

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

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

The aggregate market value of the common stock of the registrant held by non-affiliates was $4,670,627,910.40 as of June 30, 2014, the last business day of the registrant's most recently completed second fiscal quarter. The aggregate market value was computed using the $36.86 closing price per share for such stock on the New York Stock Exchange on such date.

As of February 13, 2015, there were 138,617,823 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the registrant's 2014 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2014, is incorporated by reference in Part III herein.

OMEGA HEALTHCARE INVESTORS, INC.
2014 FORM 10-K ANNUAL REPORT

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Item 1 – Business

Overview; Recent Events

Omega Healthcare Investors, Inc. (“Omega,” “we,” “our” or the “Company”) was incorporated in the State of Maryland on March 31, 1992. We are a self-administered real estate investment trust (“REIT”), investing in income producing healthcare facilities, principally long-term care facilities located throughout the United States. We provide lease or mortgage financing to qualified operators of skilled nursing facilities (“SNFs”) and, to a lesser extent, assisted living facilities (“ALFs”), independent living facilities and rehabilitation and acute care facilities. We have historically financed investments through borrowings under our revolving credit facilities, private placements or public offerings of our debt and equity securities, the assumption of secured indebtedness, retention of cash flow, or a combination of these methods.

In 2014, we completed the following transactions totaling approximately $566 million in new investments:

$415 million of refinancing/consolidating mortgage loans with an existing operator. We entered into an agreement to refinance/consolidate $117 million in existing mortgages with maturity dates ranging from 2021 to 2023 on 17 facilities into one mortgage and simultaneously provide mortgage financing for an additional 14 facilities. The new $415 million mortgage matures in 2029 and 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.

$112.5 million mortgage loan with an existing operator. The loan is secured by seven SNFs and two 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.

$84.2 million of new investment with an existing operator. The investment included the purchase/leaseback of four ALFs. Two of these facilities are located in Pennsylvania, one in Oregon and one in Arkansas with a total of 371 beds. The new master lease has an initial annual cash yield of 6.0% with 2.5% annual escalators.

$34.6 million of new investments with an existing operator. The acquisitions consisted of 3 SNFs, one located in Georgia and two in South Carolina with a total of 345 beds. The facilities were combined into a 12 year master lease with an initial annual cash yield of 9.5%.

$8.2 million of new investment with an existing operator. The investment included the purchase/leaseback of one SNF in Texas totaling 125 beds.

$4.7 million of new investment with an existing operator. The investment included the purchase /leaseback of an ALF in Arizona totaling 90 beds.

$23.6 million of investments in our capital expenditure programs.

As of December 31, 2014, our portfolio of investments included 568 healthcare facilities located in 38 states and operated by 50 third-party operators. We use the term “operator” to refer to our tenants and mortgagees and their affiliates who manage and/or operate our properties. This portfolio was made up of:

474 SNFs, 23 ALFs and 11 specialty facilities;

fixed rate mortgages on 53 SNFs and two ALFs; and
five facilities and one parcel of land closed/held-for-sale.

As of December 31, 2014, our gross investments in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $4.4 billion. In addition, we held miscellaneous investments of approximately $49.0 million at December 31, 2014, consisting primarily of secured loans to third-party operators of our facilities.

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On October 30, 2014, we, along with our newly formed subsidiaries, OHI Healthcare Properties Holdco, Inc. ("Merger Sub") and OHI Healthcare Properties Limited Partnership, L.P. ("Omega Operating Partnership"), entered into an Agreement and Plan of Merger (the "Merger Agreement") with Aviv REIT, Inc. ("Aviv") and Aviv Healthcare Properties Limited Partnership, L.P. (the "Aviv Operating Partnership"). The Merger Agreement provides for the merger of Aviv with and into the Merger Sub (the "Merger"), with the Merger Sub surviving as a wholly-owned subsidiary of Omega. At the effective time of the Merger, and subject to the terms and conditions set forth in the Merger Agreement, each outstanding share of Aviv common stock shall be converted into the right to receive 0.90 of a share of Omega common stock. In connection with the Merger, holders of limited partnership units of the Aviv Operating Partnership will receive units of the Omega Operating Partnership based on the same exchange ratio as provided for Aviv common stock in the Merger Agreement. Holders of Omega Operating Partnership units will have the right to tender their units for redemption at a redemption price equal to the fair market value of the Company's common stock. The Company may generally elect to pay the redemption price for tendered Omega Operating Partnership units in cash or in shares of the Company common stock. We expect to complete the Merger early in the second quarter of 2015, subject to the terms and conditions of the Merger Agreement.

On February 9, 2015, we issued 10.925 million shares of our common stock in an underwritten public offering at a public offering price of $42.00 per share, before underwriting discounts and offering expenses. We intend to use the $439 million in net proceeds of the offering to redeem our outstanding $200 million aggregate principal amount 7.50% senior notes due 2020 (callable February 2015), repay outstanding borrowings under our revolving credit facility, and for general corporate purposes.

Our filings with the Securities and Exchange Commission ("SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge on our website at www.omegahealthcare.com. The contents of our website are not incorporated by reference herein or in any of our filings with the SEC.

Summary of Financial Information

The following table summarizes our revenues by asset category for 2014, 2013 and 2012. (See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations," "Note 3 – Properties", "Note 5 – Direct Financing Leases", "Note 6 – Mortgage Notes Receivable" and "Note 7 – Other Investments").

Revenues by Asset Category
(in thousands)

	Year Ended December 31,		
	2014	2013	2012
Core assets:			
Rental income	$388,443	$375,135	$314,592
Income from direct financing leases	56,719	5,203	—
Mortgage interest income	53,007	29,351	30,446
Total core asset revenues	498,169	409,689	345,038
Other investment income - net	6,618	9,025	5,422
Total operating revenue	$504,787	$418,714	$350,460

The following table summarizes our real estate assets by asset category as of December 31, 2014 and 2013.

Assets by Category

(in thousands)

	As of December 31,	
	2014	2013
Core assets:		
Leased assets	$3,223,785	$3,099,547
Investment in direct financing leases	539,232	529,445
Mortgaged assets	648,079	241,515
Total core assets	4,411,096	3,870,507
Other investments	48,952	53,054
Total real estate assets before held for sale assets	4,460,048	3,923,561
Held for sale assets	12,792	1,356
Gross investments	$4,472,840	$3,924,917

Description of the Business

Investment Strategy. We maintain a portfolio of long-term healthcare facilities and mortgages on healthcare facilities located throughout the United States. Our investments are generally geographically diverse and operated by a diverse group of established, middle market healthcare operators that meet our standards for quality and experience of management and creditworthiness. Our criteria for evaluating potential investments includes but is not limited to:

the quality and experience of management and the creditworthiness of the operator of the facility;
the facility's historical and forecasted cash flow and its ability to meet operational needs, capital expenditure requirements and lease or debt service obligations;
the construction quality, condition and design of the facility;
the location of the facility;
the tax, growth, regulatory and reimbursement environment of the applicable jurisdiction;
the occupancy rate for the facility and demand for similar healthcare facilities in the same or nearby communities; and
the payor mix of private, Medicare and Medicaid patients at the facility.

We seek to obtain (i) contractual rent escalations under long-term, non-cancelable, "triple-net" leases and (ii) fixed-rate mortgage loans. We typically obtain substantial liquidity deposits, covenants regarding minimum working capital and net worth, liens on accounts receivable and other operating assets, and various provisions for cross-default, cross-collateralization and corporate/personal guarantees, when appropriate.

We prefer to invest in equity ownership of properties. Due to regulatory, tax or other considerations, we may pursue alternative investment structures. The following summarizes our primary investment structures. The average annualized yields described below reflect existing contractual arrangements. However, due to the nature of the long-term care industry, we cannot assure you that the operators of our facilities will meet their payment obligations in full or when due. Therefore, the annualized yields as of January 1, 2015, set forth below, are not necessarily indicative of future yields, which may be lower.

Purchase/Leaseback. In a purchase/leaseback transaction, we purchase a property from an operator and lease it back to the operator over a term typically ranging from 5 to 15 years, plus renewal options. Our leases generally provide for minimum annual rentals that are subject to annual formula increases based on factors such as increases in the Consumer Price Index. At January 1, 2015, our average annualized yield from leases was approximately 11.6%.

Direct Financing Leases. In addition to our typical lease agreements, we provided four 50 year leases to an operator in connection with the Ark Holding purchase/leaseback transaction that occurred during the fourth quarter of 2013. The leases are being accounted for as direct financing leases and include annual escalators of 2.5% beginning in year 5. At January 1, 2015, our annualized yield from the direct financing leases was 10.6%.

Fixed-Rate Mortgages. Our mortgages typically have a fixed interest rate for the mortgage term and are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. At January 1, 2015, our average annualized yield on these investments was approximately 9.5%.

The table set forth in "Item 2 – Properties" contains information regarding our properties and investments as of December 31, 2014.

Borrowing Policies. We generally attempt to match the maturity of our indebtedness with the maturity of our investment assets and employ long-term, fixed-rate debt to the extent practicable in view of market conditions in existence from time to time.

We may use the proceeds of new indebtedness to finance our investments in additional healthcare facilities. In addition, we may invest in properties subject to existing loans, secured by mortgages, deeds of trust or similar liens on properties.

Policies With Respect To Certain Activities. With respect to our capital requirements, we typically rely on equity offerings, debt financing and retention of cash flow (subject to provisions in the Internal Revenue Code (the “Code”) concerning taxability of undistributed REIT taxable income), or a combination of these methods. Our financing alternatives include bank borrowings, publicly or privately placed debt instruments, purchase money obligations to the sellers of assets or securitizations, any of which may be issued as secured or unsecured indebtedness.

We have the authority to issue our common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire our securities.

Subject to the percentage of ownership limitations and gross income and asset tests necessary for REIT qualification, we may invest in securities of other REITs, other entities engaged in real estate activities or securities of other issuers, including for the purpose of exercising control over such entities.

We may engage in the purchase and sale of investments. We do not underwrite the securities of other issuers.

Our officers and directors may change any of these policies without a vote of our stockholders. In the opinion of our management, our properties are adequately covered by insurance.

Competition. The healthcare industry is highly competitive and will likely become more competitive in the future. We face competition from other REITs, investment companies, private equity and hedge fund investors, healthcare operators, lenders, developers and other institutional investors, some of whom have greater resources and lower costs of capital than us. Our operators compete on a local and regional basis with operators of facilities that provide comparable services. The basis of competition for our operators includes the quality of care provided, reputation, the physical appearance of a facility, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location and the size and demographics of the population and surrounding areas.

Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete is also impacted by national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends. For additional information on the risks associated with our business, please see “Item 1A — Risk Factors” below.

Taxation

The following is a general summary of the material United States federal income tax considerations applicable to (i) us, (ii) the holders of our securities and (iii) our election to be taxed as a REIT. It is not tax advice. This summary is not intended to represent a detailed description of the United States federal income tax consequences applicable to a particular stockholder in view of any person’s particular circumstances, nor is it intended to represent a detailed description of the United States federal income tax consequences applicable to stockholders subject to special treatment under the federal income tax laws such as insurance companies, tax-exempt organizations, financial institutions, securities broker-dealers, investors in pass-through entities, expatriates and taxpayers subject to alternative minimum taxation.

The following discussion, to the extent it constitutes matters of law or legal conclusions (assuming the facts, representations and assumptions upon which the discussion is based are accurate), represents some of the material United States federal income tax considerations relevant to ownership of our securities. The sections of the Code relating to the qualification and operation as a REIT are highly technical and complex. The following sets forth certain material aspects of those sections. The information in this section is based on, and is qualified in its entirety by the Code; current, temporary and proposed Treasury Regulations promulgated under the Code; the legislative history of the Code; current administrative interpretations and practices of the Internal Revenue Service (“IRS”); and court decisions, in each case, as of the date of this report. In addition, the administrative interpretations and practices of the IRS include its practices and policies as expressed in private letter rulings, which are not binding on the IRS, except with respect to the particular taxpayers who requested and received those rulings.

General. We have elected to be taxed as a REIT, under Sections 856 through 860 of the Code, beginning with our taxable year ended December 31, 1992. We believe that we were organized and have operated in such a manner as to qualify for taxation as a REIT. We intend to continue to operate in a manner that will allow us to maintain our qualification as a REIT, but no assurance can be given that we have operated or will be able to continue to operate in a manner so as to qualify or remain qualified as a REIT.

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If we qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net income that is currently distributed to stockholders. However, we will be subject to certain federal income taxes as follows. First, we will be taxed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains; provided, however, that if we have a net capital gain, we will be taxed at regular corporate rates on our undistributed REIT taxable income, computed without regard to net capital gain and the deduction for capital gains dividends, plus a 35% tax on undistributed net capital gain, if our tax as thus computed is less than the tax computed in the regular manner. Second, under certain circumstances, we may be subject to the “alternative minimum tax” on our items of tax preference that we do not distribute or allocate to our stockholders. Third, if we have (i) net income from the sale or other disposition of “foreclosure property,” which is held primarily for sale to customers in the ordinary course of business, or (ii) other nonqualifying income from foreclosure property, we will be subject to tax at the highest regular corporate rate on such income. Fourth, if we have net income from prohibited transactions (which are, in general, certain sales or other dispositions of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business by us, (i.e., when we are acting as a dealer), such income will be subject to a 100% tax. Fifth, if we should fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), but nonetheless have maintained our qualification as a REIT because certain other remedial requirements have been met, we will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater of the amount by which we fail the 75% or 95% test, multiplied by (b) a fraction intended to reflect our profitability. Sixth, if we should fail to distribute by the end of each year at least the sum of (i) 85% of our REIT ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. Seventh, we will be subject to a 100% excise tax on transactions with a taxable REIT subsidiary (“TRS”) that are not conducted on an arm’s-length basis. Eighth, if we acquire any asset that is defined as a “built-in gain asset” from a C corporation that is not a REIT (i.e., generally a corporation subject to full corporate-level tax) in a transaction in which the basis of the built-in gain asset in our hands is determined by reference to the basis of the asset (or any other property) in the hands of the C corporation, and we recognize gain on the disposition of such asset during the 10-year period beginning on the date on which such asset was acquired by us (such period, the “recognition period”), then, to the extent of the built-in gain (i.e., the excess of (a) the fair market value of such asset on the date such asset was acquired by us over (b) our adjusted basis in such asset on such date), our recognized gain will be subject to tax at the highest regular corporate rate. The results described above with respect to the recognition of built-in gain assume that we will not make an election pursuant to Treasury Regulations Section 1.337(d)-7(c)(5).

Ownership of Partnership Interest. In the case of a REIT that is a direct or indirect partner in a partnership or other entity taxable as a partnership for U.S. federal income tax purposes, the Treasury Regulations provide that the REIT is deemed to own its proportionate share of the partnership’s assets, and to earn its proportionate share of the partnership’s income for purposes of the asset and gross income tests applicable to REITs as described below. Similarly, the assets and gross income of the partnership are deemed to retain the same character in the hands of the REIT.

In connection with the pending Merger, the assets of the Aviv Operating Partnership, will be combined with the Company’s assets under the Omega Operating Partnership. Thus, the Company’s proportionate share of the assets, liabilities, and items of income in the Omega Operating Partnership will be treated as the Company’s assets, liabilities, and items of income for purposes of applying the REIT requirements described below. A summary of certain rules governing the United States federal income taxation of partnerships and their partners is provided below in “Tax Aspects of Investments in the Omega Operating Partnership.”

Requirements for Qualification. The Code defines a REIT as a corporation, trust or association: (1) which is managed by one or more trustees or directors; (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest; (3) which would be taxable as a domestic corporation, but for Sections

856 through 859 of the Code; (4) which is neither a financial institution nor an insurance company as defined in provisions of the Code; (5) the beneficial ownership of which is held by 100 or more persons; (6) during the last half year of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities); and (7) which meets certain other tests, described below, regarding the nature of its income and assets and the amount of its annual distributions to stockholders. The Code provides that conditions (1) to (4) inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. For purposes of conditions (5) and (6), pension funds and certain other tax-exempt entities are treated as individuals, subject to a "look-through" exception in the case of condition (6).

Income Tests. To maintain our qualification as a REIT, we annually must satisfy two gross income requirements. First, at least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property (including generally “rents from real property,” interest on mortgages on real property, and gains on sale of real property and real property mortgages, other than property described in Section 1221(a)(1) of the Code) and income derived from certain types of temporary investments. Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from such real property investments, dividends, interest and gain from the sale or disposition of stock or securities other than property held for sale to customers in the ordinary course of business.

Rents received by us will qualify as “rents from real property” in satisfying the gross income requirements for a REIT described above only if several conditions are met. First, the amount of the rent must not be based in whole or in part on the income or profits of any person. However, any amount received or accrued generally will not be excluded from the term “rents from real property” solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, the Code provides that rents received from a tenant (other than rent from a tenant that is a TRS that meets the requirements described below) will not qualify as “rents from real property” in satisfying the gross income tests if we, or an owner (actually or constructively) of 10% or more of the value of our stock, actually or constructively owns 10% or more of such tenant, which is defined as a related party tenant. Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as “rents from real property.” Finally, for rents received to qualify as “rents from real property,” we generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an independent contractor from which we derive no revenue. We may, however, directly perform certain services that are “usually or customarily rendered” in connection with the rental of space for occupancy only and are not otherwise considered “rendered to the occupant” of the property. In addition, we may directly provide a minimal amount of “non-customary” services to the tenants of a property as long as our income from the services does not exceed 1% of our income from the related property. Furthermore, we may own up to 100% of the stock of a TRS, which may provide customary and non-customary services to our tenants without tainting our rental income from the related properties. For our tax years beginning after 2004, rents for customary services performed by a TRS or that are received from a TRS and are described in Code Section 512(b)(3) no longer need to meet the 100% excise tax safe harbor. Instead, such payments avoid the excise tax if we pay the TRS at least 150% of its direct cost of furnishing such services. Beginning in 2009, we were allowed to include as qualified rents from real property rental income that is paid to us by a TRS with respect to a lease of a health care facility to the TRS provided that the facility is operated and managed by an “eligible independent contractor,” although none of our facilities were leased to any of our TRSs.

The term “interest” generally does not include any amount received or accrued (directly or indirectly) if the determination of such amount depends in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term “interest” solely by reason of being based on (i) a fixed percentage or (ii) percentages of gross receipts or sales. In addition, an amount that is based on the income or profits of a debtor will be qualifying interest income as long as the debtor derives substantially all of its income from the real property securing the debt from leasing substantially all of its interest in the property, but only to the extent that the amounts received by the debtor would be qualifying “rents from real property” if received directly by a REIT.

If a loan contains a provision that entitles us to a percentage of the borrower’s gain upon the sale of the real property securing the loan or a percentage of the appreciation in the property’s value as of a specific date, income attributable to that loan provision will be treated as gain from the sale of the property securing the loan, which generally is qualifying income for purposes of both gross income tests.

Interest on debt secured by mortgages on real property or on interests in real property generally is qualifying income for purposes of the 75% gross income test. However, if the highest principal amount of a loan outstanding during a taxable year exceeds the fair market value of the real property securing the loan as of the date we agreed to originate or acquire the loan, a portion of the interest income from such loan will not be qualifying income for purposes of the 75% gross income test, but will be qualifying income for purposes of the 95% gross income test. The portion of the interest income that will not be qualifying income for purposes of the 75% gross income test will be equal to the portion of the principal amount of the loan that is not secured by real property. A modification of a mortgage loan, if it is deemed significant for income tax purposes, could be considered to be the deemed issuance of a new mortgage loan that is subject to re-testing under these rules, with the possible re-characterization of the mortgage interest on such loan as non-qualifying income for purposes of the 75% gross income test (but not the 95% gross income test, which is discussed below), as well as non-qualifying assets under the asset test (discussed below) and the deemed exchange of the modified loan for the new loan could result in imposition of the 100% prohibited transaction tax (also discussed below). The IRS recently issued guidance providing relief in the case of certain existing mortgage loans held by a REIT that are modified in response to these market conditions such that (i) the modified mortgage loan need not be re-tested for purposes of determining whether the income from the mortgage loan continues to be qualified income for purposes of the 75% gross income test or whether the mortgage loan retains its character as a qualified REIT asset for purposes of the asset test (discussed below), and (ii) the modification of the loan will not be treated as a prohibited transaction. At present, we do not hold any mortgage loans that have been modified, which would require us to take advantage of these rules for special relief. We monitor our mortgage loans and direct financing leases for compliance with the above rules.

Prohibited Transactions. We will incur a 100% tax on the net income derived from any sale or other disposition of property, other than foreclosure property, that we hold primarily for sale to customers in the ordinary course of a trade or business. We believe that none of our assets is primarily held for sale to customers and that a sale of any of our assets would not be in the ordinary course of our business. Whether a REIT holds an asset primarily for sale to customers in the ordinary course of a trade or business depends, however, on the facts and circumstances in effect from time to time, including those related to a particular asset. Nevertheless, we will attempt to comply with the terms of safe-harbor provisions in the federal income tax laws prescribing when an asset sale will not be characterized as a prohibited transaction. The Code also provides a number of alternative exceptions from the 100% tax on “prohibited transactions” if certain requirements have been satisfied with respect to property disposed of by a REIT. These requirements relate primarily to the number and/or amount of properties disposed of by a REIT, the period of time the property has been held by the REIT, and/or aggregate expenditures made by the REIT with respect to the property being disposed of. The conditions needed to meet these requirements have been lowered for taxable years beginning in 2009 and thereafter. However, we cannot assure you that we will be able to comply with the safe-harbor provisions or that we would be able to avoid the 100% tax on prohibited transactions if we were to dispose of an owned property that otherwise may be characterized as property that we hold primarily for sale to customers in the ordinary course of a trade or business.

Foreclosure Property. We will be subject to tax at the maximum corporate rate on any income from foreclosure property, other than income that otherwise would be qualifying income for purposes of the 75% gross income test, less expenses directly connected with the production of that income. However, gross income from foreclosure property is treated as qualifying for purposes of the 75% and 95% gross income tests. Foreclosure property is any real property, including interests in real property, and any personal property incident to such real property:

that is acquired by a REIT as the result of (i) the REIT having bid on such property at foreclosure, or having otherwise reduced such property to ownership or possession by agreement or process of law, after there was a default, or (ii) default was imminent on a lease of such property or on indebtedness that such property secured;

for which the related loan or lease was acquired by the REIT at a time when the default was not imminent or anticipated; and

for which the REIT makes a proper election to treat the property as foreclosure property.

Such property generally ceases to be foreclosure property at the end of the third taxable year following the taxable year in which the REIT acquired the property, or longer (for a total of up to six years) if an extension is granted by the Secretary of the Treasury. In the case of a “qualified health care property” acquired solely as a result of termination of a lease, but not in connection with default or an imminent default on the lease, the initial grace period terminates on the second (rather than third) taxable year following the year in which the REIT acquired the property (unless the REIT establishes the need for and the Secretary of the Treasury grants one or more extensions, not exceeding six years in total, including the original two-year period, to provide for the orderly leasing or liquidation of the REIT’s interest in the qualified health care property). This grace period terminates and foreclosure property ceases to be foreclosure property on the first day:

on which a lease is entered into for the property that, by its terms, will give rise to income that does not qualify for purposes of the 75% gross income test, or any amount is received or accrued, directly or indirectly, pursuant to a lease entered into on or after such day that will give rise to income that does not qualify for purposes of the 75% gross income test;

on which any construction takes place on the property, other than completion of a building or any other improvement, where more than 10% of the construction was completed before default became imminent; or

which is more than 90 days after the day on which the REIT acquired the property and the property is used in a trade or business that is conducted by the REIT, other than through an independent contractor from whom the REIT itself does not derive or receive any income.

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The definition of foreclosure property includes any "qualified health care property," as defined in Code Section 856(e)(6) acquired by us as the result of the termination or expiration of a lease of such property. We have from time to time operated qualified healthcare facilities acquired in this manner for up to two years (or longer if an extension was granted). However, we do not currently own any property with respect to which we have made foreclosure property elections. Properties that we had taken back in a foreclosure or bankruptcy and operated for our own account were treated as foreclosure properties for income tax purposes, pursuant to Code Section 856(e). Gross income from foreclosure properties was classified as "good income" for purposes of the annual REIT income tests upon making the election on the tax return. Once made, the income was classified as "good" for a period of three years, or until the properties were no longer operated for our own account. In all cases of foreclosure property, we utilized an independent contractor to conduct day-to-day operations to maintain REIT status. In certain cases, we operated these facilities through a taxable REIT subsidiary. For those properties operated through the taxable REIT subsidiary, we utilized an eligible independent contractor to conduct day-to-day operations to maintain REIT status. As a result of the foregoing, we do not believe that our participation in the operation of nursing homes increased the risk that we would fail to qualify as a REIT. Through our 2014 taxable year, we had not paid any tax on our foreclosure property because those properties had been producing losses. We cannot predict whether, in the future, our income from foreclosure property will be significant and whether we could be required to pay a significant amount of tax on that income.

Hedging Transactions. From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items and futures and forward contracts. To the extent that we enter into an interest rate swap or cap contract, option, futures contract, forward rate agreement, or any similar financial instrument to hedge our indebtedness incurred to acquire or carry "real estate assets," any periodic income or gain from the disposition of that contract should be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. Accordingly, our income and gain from our interest rate swap agreements generally is qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. To the extent that we hedge with other types of financial instruments, or in other situations, it is not entirely clear how the income from those transactions will be treated for purposes of the gross income tests. We have structured and intend to continue to structure any hedging transactions in a manner that does not jeopardize our status as a REIT. For tax years beginning after 2004, we were no longer required to include income from hedging transactions in gross income (i.e., not included in either the numerator or the denominator) for purposes of the 95% gross income test and we are no longer required to include in gross income (i.e., not included in either the numerator or the denominator) for purposes of the 75% gross income test any gross income from any hedging transaction entered into after July 30, 2008. We did not engage in hedge transactions in 2011, 2012, 2013, or 2014.

TRS Income. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% of the value of a REIT's assets may consist of securities of one or more TRSs. Prior to 2009, a TRS was not permitted to directly or indirectly (i) operate or manage a health care (or lodging) facility, or (ii) provide to any other person (under a franchise, license, or otherwise) rights to any brand name under which a health care (or lodging) facility is operated. Beginning in 2009, TRSs became permitted to own or lease a health care facility provided that the facility is operated and managed by an "eligible independent contractor." A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the new rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's operators that are not conducted on an arm's-length basis. As stated above, we do not lease any of our facilities to any of our TRSs.

Failure to Satisfy Income Tests. If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for such year if we are entitled to relief under certain relief provisions of the Code. These relief provisions will be generally available if our failure to meet such tests was due to reasonable cause and not due to willful neglect, we attach a schedule of the sources of our income to our tax return, and any incorrect information on the schedule was not due to fraud with intent to evade tax. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. Even if these relief provisions apply, we would incur a 100% tax on the gross income attributable to the greater of the amounts by which we fail the 75% and 95% gross income tests, multiplied by a fraction intended to reflect our profitability and we would file a schedule with descriptions of each item of gross income that caused the failure.

Asset Tests. At the close of each quarter of our taxable year, we must also satisfy the following tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets (including (i) our allocable share of real estate assets held by partnerships in which we own an interest and (ii) stock or debt instruments held for less than one year purchased with the proceeds of a stock offering or long-term (at least five years) debt offering of our company), cash, cash items and government securities. Second, of our investments not included in the 75% asset class, the value of our interest in any one issuer’s securities may not exceed 5% of the value of our total assets. Third, we may not own more than 10% of the voting power or value of any one issuer’s outstanding securities. Fourth, no more than 25% of the value of our total assets may consist of the securities of one or more TRSs. Fifth, no more than 25% of the value of our total assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test.

For purposes of the second and third asset tests described above the term “securities” does not include our equity or debt securities of a qualified REIT subsidiary, a TRS, or an equity interest in any partnership, since we are deemed to own our proportionate share of each asset of any partnership of which we are a partner. Furthermore, for purposes of determining whether we own more than 10% of the value of only one issuer’s outstanding securities, the term “securities” does not include: (i) any loan to an individual or an estate; (ii) any Code Section 467 rental agreement; (iii) any obligation to pay rents from real property; (iv) certain government issued securities; (v) any security issued by another REIT; and (vi) our debt securities in any partnership, not otherwise excepted under (i) through (v) above, (A) to the extent of our interest as a partner in the partnership or (B) if 75% of the partnership’s gross income is derived from sources described in the 75% income test set forth above.

We may own up to 100% of the stock of one or more TRSs. However, overall, no more than 25% of the value of our assets may consist of securities of one or more TRSs, and no more than 25% of the value of our assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries (including stock in non-REIT C corporations) and other assets that are not qualifying assets for purposes of the 75% asset test. If the outstanding principal balance of a mortgage loan exceeds the fair market value of the real property securing the loan, a portion of such loan likely will not be a qualifying real estate asset for purposes of the 75% test. The nonqualifying portion of that mortgage loan will be equal to the portion of the loan amount that exceeds the value of the associated real property. As discussed under the 75% gross income test (see above), the IRS recently provided relief from re-testing certain mortgage loans held by a REIT that have been modified as a result of the current distressed market conditions with respect to real property. At present, we do not hold any mortgage loans that have been modified, which would require us to take advantage of these rules for special relief.

After initially meeting the asset tests at the close of any quarter, we will not lose our status as a REIT for failure to satisfy any of the asset tests at the end of a later quarter solely by reason of changes in asset values. If the failure to satisfy the asset tests results from an acquisition of securities or other property during a quarter, the failure can be cured by disposition of sufficient nonqualifying assets within 30 days after the close of that quarter.

Subject to certain de minimis exceptions, we may avoid REIT disqualification in the event of certain failures under the asset tests, provided that (i) we file a schedule with a description of each asset that caused the failure, (ii) the failure was due to reasonable cause and not willful neglect, (iii) we dispose of the assets within 6 months after the last day of the quarter in which the identification of the failure occurred (or the requirements of the rules are otherwise met within such period) and (iv) we pay a tax on the failure equal to the greater of (A) $50,000 per failure and (B) the product of the net income generated by the assets that caused the failure for the period beginning on the date of the failure and ending on the date we dispose of the asset (or otherwise satisfy the requirements) multiplied by the highest applicable corporate tax rate.

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

Furthermore, if we fail to distribute during a calendar year, or by the end of January following the calendar year in the case of distributions with declaration and record dates falling in the last three months of the calendar year, at least the sum of:

85% of our REIT ordinary income for such year;

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95% of our REIT capital gain income for such year; and

any undistributed taxable income from prior periods,

we will incur a 4% nondeductible excise tax on the excess of such required distribution over the amounts we actually distribute. We may elect to retain and pay income tax on the net long-term capital gain we receive in a taxable year. If we so elect, we will be treated as having distributed any such retained amount for purposes of the 4% excise tax described above. We have made, and we intend to continue to make, timely distributions sufficient to satisfy the annual distribution requirements. We may also be entitled to pay and deduct deficiency dividends in later years as a relief measure to correct errors in determining our taxable income. Although we may be able to avoid income tax on amounts distributed as deficiency dividends, we will be required to pay interest to the IRS based upon the amount of any deduction we take for deficiency dividends.

The availability to us of, among other things, depreciation deductions with respect to our owned facilities (which reduce our taxable income and the amount of our required dividend distributions) depends upon the determination that, for federal income tax purposes, we are the true owner of such facilities for federal income tax purposes, which is dependent on the classification of the leases to operators or our facilities as “true leases” rather than financing arrangements for federal income tax purposes. The determinations of whether (1) we are the owner of such facilities, and (2) the leases are true leases, for federal tax purposes are essentially factual matters. We believe that we will be treated as the owner of each of the facilities that we lease, and such leases will be treated as true leases for federal income tax purposes. However, no assurances can be given that the IRS will not successfully challenge our status as the owner of our facilities subject to leases, and the status of such leases as true leases, asserting that the purchase of the facilities by us and the leasing of such facilities merely constitute steps in secured financing transactions in which the lessees are owners of the facilities and we are merely a secured creditor. In such event, we would not be entitled to claim depreciation deductions with respect to any of the affected facilities. As a result, we might fail to meet the 90% distribution requirement or, if such requirement is met, we might be subject to corporate income tax or the 4% excise tax.

Reasonable Cause Savings Clause. We may avoid disqualification in the event of a failure to meet certain requirements for REIT qualification if the failures are due to reasonable cause and not willful neglect, and if the REIT pays a penalty of $50,000 for each such failure. This reasonable cause safe harbor is not available for failures to meet the 95% and 75% gross income tests or the assets tests.

Failure to Qualify. If we fail to qualify as a REIT in any taxable year, and the reasonable cause relief provisions do not apply, we will be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify will not be deductible, and our failure to qualify as a REIT would reduce the cash available for distribution by us to our stockholders. In addition, if we fail to qualify as a REIT, all distributions to stockholders will be taxable as dividend income, to the extent of our current and accumulated earnings and profits. However, in such a case, subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction with respect to dividends that we make, and in the case of an individual, trust, or an estate, dividends are treated the same as capital gain income, which currently is subject to a maximum income tax rate that is lower than regular income tax rates. In addition, in the case of an individual, trust or an estate, to the extent such taxpayer’s unearned income (including dividends) exceeds certain threshold amounts, the Medicare Tax on unearned income also will apply to dividend income. Unless entitled to relief under specific statutory provisions, we would also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to such statutory relief. Failure to qualify could result in our incurring indebtedness or liquidating investments to pay the resulting taxes.

Tax Aspects of Investments in the Omega Operating Partnership. After the pending Merger and partnership combination, the Company will hold substantially all of its real estate assets through the Omega Operating Partnership, an "operating partnership" that holds pass-through subsidiaries. In general, an entity classified as a partnership (or a disregarded entity) for United States federal income tax purposes is a "pass-through" entity that is not subject to United States federal income tax. Rather, partners or members are allocated their proportionate shares of the items of income, gain, loss, deduction, and credit of the entity, and are potentially subject to tax on these items, without regard to whether the partners or members receive a distribution from the entity. Thus, the Company would include in its income its proportionate share of these income items for purposes of the various REIT income tests and in the computation of the Company's REIT taxable income. Moreover, for purposes of the REIT asset tests, the Company would include its proportionate share of the assets held by the Omega Operating Partnership. Consequently, to the extent that the Company holds an equity interest in a partnership, the partnership's assets and operations may affect the Company's ability to qualify as a REIT.

The Company's investment in the Omega Operating Partnership involves special tax considerations, including the possibility of a challenge by the IRS of the tax status of such partnership. If the IRS were to successfully treat the Omega Operating Partnership as an association or publicly traded partnership taxable as a corporation, as opposed to a partnership, for United States federal income tax purposes, the Omega Operating Partnership would be subject to an entity-level tax on its income. In such a situation, the character of the Company's assets and items of gross income would change and could preclude the Company from satisfying the REIT asset tests or the gross income tests as discussed in "Income Tests" and "Asset Tests" above, which in turn could prevent the Company from qualifying as a REIT unless the Company is eligible for relief from the violation pursuant to relief provisions described above. See "Income Tests" and "Asset Tests," and "Failure to Qualify" above, for a discussion of the effect of the Company's failure to meet these tests for a taxable year, and of the relief provisions. Furthermore, any change in the status of the Omega Operating Partnership for United States federal income tax purposes could be treated as a taxable event, in which case the Company could have taxable income that is subject to the REIT distribution requirements without receiving any cash.

Under the Code and Treasury Regulations, income, gain, loss, and deduction attributable to appreciated or depreciated property that is contributed to a partnership in exchange for an interest in the partnership must be allocated for United States federal income tax purposes in a manner such that the contributing partner is charged with, or benefits from, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of the unrealized gain or unrealized loss is generally equal to the difference between the fair market value of the contributed property at the time of contribution, and the adjusted tax basis of such property at the time of contribution. Such allocations are solely for United States federal income tax purposes and do not affect other economic or legal arrangements among the partners. These rules may apply to a contribution of property by the Company to the Omega Operating Partnership. To the extent that the Omega Operating Partnership acquires appreciated (or depreciated) properties by way of capital contributions from its partners, allocations would need to be made in a manner consistent with these requirements. Where a partner contributes cash to a partnership at a time at which the partnership holds appreciated (or depreciated) property, the Treasury Regulations provide for a similar allocation of these items to the other (i.e., non-contributing) partners. As a result, partners, including the Company, could be allocated greater or lesser amounts of depreciation and taxable income in respect of the partnership's properties than would be the case if all of the partnership's assets (including any contributed assets) had a tax basis equal to their fair market values at the time of any contributions to that partnership. This could cause the Company to recognize taxable income in excess of cash flow from the partnership, which might adversely affect the Company's ability to comply with the REIT distribution requirements discussed above.

Qualified REIT Subsidiaries. We own and operate a number of properties through qualified REIT subsidiaries ("QRSs"). The QRSs are treated as qualified REIT subsidiaries under the Code. Code Section 856(i) provides that a corporation that is a qualified REIT subsidiary shall not be treated as a separate corporation, and all assets, liabilities and items of income, deduction and credit of a qualified REIT subsidiary shall be treated as assets, liabilities and such items (as the case may be) of the REIT. Thus, in applying the tests for REIT qualification described above, the QRSs will be ignored, and all assets, liabilities and items of income, deduction, and credit of such QRSs will be treated as our assets, liabilities and items of income, deduction, and credit.

Government Regulation and Reimbursement

The health care industry is heavily regulated. Our operators are subject to extensive and complex federal, state and local healthcare laws and regulations. These laws and regulations are subject to frequent and substantial changes resulting from the adoption of new legislation, rules and regulations, and administrative and judicial interpretations of existing law. The ultimate timing or effect of these changes, which may be applied retroactively, cannot be predicted. Changes in laws and regulations impacting our operators, in addition to regulatory non-compliance by our operators, can have a significant effect on the operations and financial condition of our operators, which in turn may adversely impact us. See “Item 1A – Risk Factors.” The following is a discussion of certain laws and regulations generally applicable to our operators, and in certain cases, to us.

Healthcare Reform. A substantial amount of rules and regulations have been issued under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education and Reconciliation Act of 2010 (collectively referred to as the "Healthcare Reform Law"). We expect additional rules, regulations and interpretations under the Healthcare Reform Law that may materially affect our operators' financial condition and operations. For example, although the U.S. Supreme Court has upheld the Healthcare Reform Law (other than the requirement that states expand Medicaid beginning in 2014), the Healthcare Reform Law and the implementation thereof continue to receive challenge and scrutiny from Congress, state attorneys general and legislators, and private individuals and organizations. In addition, certain measures recently taken under the authority of, or in connection with, the Healthcare Reform Law may lead to additional modification and/or clarification in the future, including the following:

On January 3, 2013, a new federal Commission on Long-Term Care was established and tasked with developing a plan for the establishment, implementation and financing of a high-quality system to provide long-term care services. In September 2013, the Commission released a report with 38 proposals for legislative and administrative actions to promote the establishment and financing of a long-term care services system that will ensure the availability of such services to those who need them. The Commission recommended creating a national advisory committee and convening a 2015 White House Conference on aging.

The Healthcare Reform Law requires private health insurers that sell policies to individuals and small businesses to provide, starting in 2014, a set of "essential health benefits" in ten categories, including prescription drugs, rehabilitative and habilitative services, and chronic disease management. As required under the law, each state has defined the essential health benefits required in that state.

The Healthcare Reform Law requires SNFs to implement a compliance and ethics program that is effective in preventing and detecting criminal, civil and administrative violations and in promoting quality of care. The Department of Health and Human Services ("HHS") has not yet issued the proposed regulations to implement this law that were due in March 2012.

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

Reimbursement Generally. A significant portion of our operators' revenue is derived from governmentally-funded reimbursement programs, consisting primarily of Medicare and Medicaid. In recent years, the federal government and many state governments have focused on reducing expenditures under the Medicare and Medicaid programs, resulting in significant cost-cutting at both the federal and state levels. These cost-cutting measures, together with the implementation of changes in reimbursement rates such as those described below, could result in a significant reduction of reimbursement rates to our operators under both the Medicare and Medicaid programs.

On April 1, 2014, President Obama signed the "Protecting Access to Medicare Act of 2014" which calls for HHS to develop a value based purchasing program for SNFs aimed at lowering readmission rates. Beginning in 2018, 2% of SNFs' Medicare payments could be withheld and about 70% of those dollars would be distributed to SNFs with reduced hospital readmissions.

We currently believe that our operator coverage ratios are adequate and that our operators can absorb moderate reimbursement rate reductions and still meet their obligations to us. However, significant limits on the scopes of services reimbursed and/or reductions of reimbursement rates could have a material adverse effect on our operators' results of operations and financial condition, which could adversely affect our operators' ability to meet their obligations to us.

Medicaid. State budgetary concerns, coupled with the implementation of rules under the Healthcare Reform Law, may result in significant changes in healthcare spending at the state level. Many states are currently focusing on the reduction of expenditures under their state Medicaid programs, which may result in a reduction in reimbursement rates for our operators. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. Since our operators' profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement or an increase in the number of Medicaid patients could adversely affect our operators' results of operations and financial condition, which in turn could negatively impact us.

The Healthcare Reform Law provided for Medicaid coverage to be expanded to all individuals under age 65 with incomes up to 133% of the federal poverty level, beginning January 1, 2014. The federal government will pay the entire cost for Medicaid coverage for newly eligible beneficiaries for 3 years (2014 through 2016). In 2017, the federal share declines to 95%; in 2018, to 94%; in 2019, to 93%; and in 2020 and subsequent years, to 90%. Pursuant to the law, states may delay Medicaid expansion after 2014, but the federal payment rates will be less.

However, on June 28, 2012, the Supreme Court ruled that states could not be required to expand Medicaid or risk losing federal funding of their existing Medicaid programs. Over half of the states have expanded or are expanding Medicaid coverage as contemplated by the Healthcare Reform Law, with many of the remaining states involved in a variety of legislative proposals or discussions. HHS has stated that it will consider a limited number of premium assistance demonstration programs from states that want to privatize Medicaid expansion. States must provide a choice between at least two qualified health plans that offer very similar benefits as those required by the health insurance exchanges. Arkansas became the first state to obtain federal approval to use Medicaid funding to purchase private insurance for low-income residents. Iowa, Michigan and Pennsylvania have also secured waivers, and Indiana has a pending waiver for alternative Medicaid expansion plans.

Medicare. The Center for Medicaid and Medicare Services ("CMS") estimates that aggregate Medicare payments to SNFs will increase by $750 million, or 2.0%, for the federal fiscal year that begins October 1, 2014 relative to payments in the prior federal fiscal year. This estimated increase is attributable to a 2.5% market based increase, reduced by a 0.5% multifactor productivity adjustment required by law.

Provisions contained in the American Taxpayer Relief Act ("ATRA") of 2012, known colloquially as the fiscal cliff deal, are designed to reduce Medicare payments to SNFs by an estimated $600 million during 2012 to 2022. It also reduces payments for multiple procedures or therapies provided on the same day, which will result in approximately $1.8 billion savings to Medicare over the next 10 years, which will impact SNFs as well. Under ATRA, sequestration cuts impacting domestic and defense spending became effective March 1, 2013. Although Medicaid is exempted from the sequestration cuts, they included a 2% cut in payments to Medicare providers and suppliers, which amounted to an estimated $11.3 billion in cuts in federal fiscal year 2013. The Bipartisan Budget Act of 2013 provides for $63 billion in sequestration relief in federal fiscal years 2014 and 2015 which will be split evenly between defense and nondefense programs. It is unknown how Medicare will be impacted.

The "Protecting Access to Medicare Act of 2014" also extended the Medicare therapy cap exceptions process through March 31, 2015. The statutory Medicare Part B outpatient cap for occupational therapy is $1,920 for 2014, and the combined cap for physical therapy and speech therapy is also $1,920 for 2014. These caps do not apply to therapy services covered under Medicare Part A for SNFs, although the caps apply in most other instances involving patients in SNFs or long-term care facilities who receive therapy services covered under Medicare Part B. The exception process permits medically necessary therapy services beyond the cap limits. Expiration of the therapy cap exceptions process in the future could have a material adverse effect on our operators' financial condition and operations, which could adversely impact their ability to meet their obligations to us.

Quality of Care Initiatives. The CMS has implemented a number of initiatives focused on the quality of care provided by nursing homes that could affect our operators. For instance, in December 2008, the CMS released quality ratings for all of the nursing homes that participate in Medicare or Medicaid under its "Five Star Quality Rating System." Facility rankings, ranging from five stars ("much above average") to one star ("much below average") are updated on a monthly basis. SNFs are required to provide information for the CMS Nursing Home Compare website regarding staffing and quality measures. Based on this data and the results of state health inspections, SNFs are then rated based on the five-star rating system. Beginning in 2015, CMS is making changes to the rating system including: (1) revising scoring methodology by which quality measure ratings are calculated for SNFs; (2) increasing the number and type of quality measures that are not solely based on self-reported data and (3) adding critical measures to staffing such as turnover and retention. It is possible that this or any other ranking system could lead to future reimbursement policies that reward or penalize facilities on the basis of the reported quality of care parameters.

CMS has incorporated hospital readmissions review into the Quality Indicators Survey. Under Medicare's Inpatient Prospective Payment System, CMS began adjusting payments to hospitals for excessive readmissions of patients for heart attacks, heart failure and pneumonia during fiscal years beginning on and after October 1, 2012. Long term care facilities will be under increased scrutiny to prevent residents from being readmitted to hospitals for these conditions in particular, and have an opportunity to demonstrate their quality of care by reducing their hospital readmission rates. It is anticipated that hospital readmissions will be a consideration in the future in the CMS five-star rating system.

Office of the Inspector General Activities. The Office of Inspector General's (the "OIG") Work Plan for government fiscal year 2015, which describes projects that the OIG plans to address during the fiscal year, includes a number of projects related to nursing homes. Reviews of Medicare Part A and Part B payments and services for SNFs will focus on the following: (1) (new) monitor Part B billings for abuse during non-Part A stays; (2) billing patterns for Part B services; (3) state agency verification of deficiency corrections; (4) background checks for employees; and (5) hospitalization of residents for manageable and preventable conditions. The OIG will also continue its efforts in addressing fraud and abuse. While we cannot predict the results of the OIG's activities, the projects could result in further scrutiny and/or oversight of nursing homes.

The OIG has identified one of its top management and performance challenges as using enforcement actions against SNFs that render substandard care. State Medicaid Fraud Units, which receive oversight and funding from the OIG are devoting substantial resources to investigating and prosecuting abuse and neglect in Medicaid-funded SNFs. To date, the OIG has placed almost 40 nursing home companies (greater than 750 SNFs) under corporate integrity agreements that include quality-monitoring provisions.

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

The federal anti-kickback statute is a criminal statute that prohibits the knowing and willful offer, payment, solicitation or receipt of any remuneration in return for, to induce or to arrange for the referral of individuals for any item or service payable by a federal or state healthcare program. There is also a civil analogue. States also have enacted similar statutes covering Medicaid payments, and some states have broader statutes. Some enforcement efforts have targeted relationships between SNFs and ancillary providers, relationships between SNFs and referral sources for SNFs and relationships between SNFs and facilities for which the SNFs serve as referral sources. The federal self-referral law, commonly known as the "Stark Law," is a civil statute that prohibits a physician from making referrals to an entity for "designated health services" if the physician has a financial relationship with the entity. Some of the services provided in SNFs are classified as designated health services. There are also criminal provisions that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, as well as failing to refund overpayments or improper payments. Violation of the anti-kickback statute or Stark Law may form the basis for a federal False Claims Act ("FCA") violation. With increased frequency, the federal government is relying on a "worthless services" theory of liability in FCA cases. The allegations are that the SNF charged the government for something of value that it knowingly didn't provide.

In addition, the federal False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, these so-called "whistleblower" suits have become more frequent. The violation of any of these laws or regulations by an operator may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid and all other federal and state healthcare programs.

Privacy. Our operators are subject to various federal, state and local laws and regulations designed to protect the confidentiality and security of patient health information, including the federal Health Insurance Portability and Accountability Act of 1996, as amended, the Health Information Technology for Economic and Clinical Health Act, and the corresponding regulations promulgated thereunder ("HIPAA"). On January 25, 2013, the Office for Civil Rights issued a final rule modifying HIPAA to increase the requirements on our operators. Some of the new requirements include, among other things: making business associates subject to the HIPAA Privacy and Security Rules which will require new business associate agreements; changes in determining whether a breach of unsecured protected health information occurred; new requirements for the Notice of Privacy Practices; and decreasing the time to disclose protected health information and requiring disclosures to be electronic under certain conditions. HHS has been conducting audits of covered entities to evaluate compliance with HIPAA, and it will continue its audit program in 2015 which will also include business associates and will focus on security risk assessments.

Various states have similar laws and regulations that govern the maintenance and safeguarding of patient records, charts and other information generated in connection with the provision of professional medical services. These laws and regulations require our operators to expend the requisite resources to secure protected health information, including the funding of costs associated with technology upgrades. Operators found in violation of HIPAA or any other privacy law or regulation may face large penalties. In addition, compliance with an operator's notification requirements in the event of a breach of unsecured protected health information could cause reputational harm to an operator's business.

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

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

General and Professional Liability. Although arbitration agreements have been effective in limiting general and professional liabilities for long term care providers, there have been national efforts to outlaw the use of pre-dispute arbitration agreements in long term care settings. At least one state is allowing residents to sue a SNF for failing to comply with staffing quality measures. All of these factors have a potential impact on liability costs of our operators, which could adversely affect our operators' ability to meet their obligations to us.

Executive Officers of Our Company

As of February 1, 2015, the executive officers of our company were as follows:

C. Taylor Pickett (53) is our Chief Executive Officer and has served in this capacity since June 2001. Mr. Pickett has also served as Director of the Company since May 30, 2002. Mr. Pickett's term as a Director expires in 2017. Mr. Pickett has also been a member of the board of trustees of Corporate Office Properties Trust, an office REIT focusing on U.S. government agencies and defense contractors, since November 2013. Mr. Pickett is also a Director of Atherio, a technology, outsourcing, consulting and managed services company. From January 1993 to June 2001, Mr. Pickett served as a member of the senior management team of Integrated Health Services, Inc., most recently as Executive Vice President and Chief Financial Officer. Prior to joining Integrated Health Services, Inc. Mr. Pickett held various positions at PHH Corporation and KPMG Peat Marwick.

Daniel J. Booth (51) is our Chief Operating Officer and has served in this capacity since October 2001. From 1993 to October 2001, Mr. Booth served as a member of the management team of Integrated Health Services, Inc., most recently serving as Senior Vice President, Finance. Prior to joining Integrated Health Services, Inc., Mr. Booth served as a Vice President in the Healthcare Lending Division of Maryland National Bank (now Bank of America).

R. Lee Crabill, Jr. (61) is our Senior Vice President of Operations and has served in this capacity since July 2001. From 1997 to 2000, Mr. Crabill served as a Senior Vice President of Operations at Mariner Post Acute Network, Inc. Prior to joining Mariner Post Acute Network, Inc., Mr. Crabill served as an Executive Vice President of Operations at Beverly Enterprises, Inc.

Robert O. Stephenson (51) is our Chief Financial Officer and has served in this capacity since August 2001. From 1996 to July 2001, Mr. Stephenson served as the Senior Vice President and Treasurer of Integrated Health Services, Inc. Prior to joining Integrated Health Services, Inc., Mr. Stephenson held various positions at CSX Intermodal, Inc., Martin Marietta Corporation and Electronic Data Systems.

Michael D. Ritz (46) is our Chief Accounting Officer and has served in this capacity since February 2007. From April 2005 to February 2007, Mr. Ritz served as the Vice President, Accounting & Assistant Corporate Controller of Newell Rubbermaid Inc., and from August 2002 to April 2005, Mr. Ritz served as the Director, Financial Reporting of Newell Rubbermaid Inc. From July 2001 through August 2002, Mr. Ritz served as the Director of Accounting and Controller of Novavax Inc.

As of December 31, 2014, we had 27 full-time employees, including the five executive officers listed above.

Item 1A - Risk Factors

Following are some of the risks and uncertainties that could cause the Company's financial condition, results of operations, business and prospects to differ materially from those contemplated by the forward-looking statements contained in this report or the Company's other filings with the SEC. These risks should be read in conjunction with the other risks described in this report including but not limited to those described in "Taxation" and "Government Regulation and Reimbursement" under "Item 1" above. The risks described below are not the only risks facing the Company and there may be additional risks of which the Company is not presently aware or that the Company currently considers unlikely to significantly impact the Company. Our business, financial condition, results of operations or liquidity could be materially adversely affected by any of these risks, and, as a result, the trading price of our common stock could decline.

Risks Related to the Proposed Merger with Aviv

In addition to the risks related to our operators, our operations and our stock described below, the following are additional risks related to the announced proposed Merger with Aviv.

The pendency of the Merger could adversely affect the business and operations of the Company and Aviv.

In connection with the pending Merger, some tenants, operators, borrowers, managers or vendors may delay or defer decisions related to their business dealings with Aviv and the Company, which could negatively impact the revenues, earnings, cash flows or expenses of Aviv and the Company, regardless of whether the Merger is completed. Similarly, employees of Aviv and the Company may experience uncertainty about their future roles with the combined company following the Merger, which may materially adversely affect the ability of Aviv and the Company to attract and retain key personnel during the pendency of the Merger. In addition, due to operating covenants in the Merger Agreement, each of the Company and Aviv may be unable, during the pendency of the Merger, to pursue certain strategic transactions, undertake certain significant capital projects, undertake certain significant financing transactions and otherwise pursue other actions that are not in the ordinary course of business without the consent of the other, even if such actions would prove beneficial to the Company or Aviv, respectively.

The ownership percentage of the Company's stockholders will be diluted by the Merger.

The Merger will dilute the ownership percentage of the Company's stockholders. Upon completion of the Merger, the Company estimates that legacy Company stockholders will own approximately 70% of the outstanding Company common stock on a fully diluted basis and former Aviv investors will own approximately 30% of the outstanding Company common stock on a fully diluted basis. Consequently, the Company's current stockholders, as a general matter, may have less influence over the management and policies of the Company after the effective time of the Merger than they currently exercise over the management and policies of the Company.

Failure to complete the Merger could have material adverse effects on the Company.

There can be no assurance that the conditions to closing of the Merger will be satisfied or waived or that the Merger will be completed. If the Merger is not completed, the ongoing business of the Company could be adversely affected and the Company will be subject to a variety of risks associated with the failure to complete the Merger, including the following:

- the Company being required, under certain circumstances, to incur certain transaction costs, regardless of whether the Merger closes;
- diversion of Company management focus and resources from operational matters and other strategic opportunities while working to implement the Merger; and
- the market price of shares of Company common stock could decline to the extent that the current market price reflects, and is positively affected by, a market assumption that the transactions contemplated by the Merger Agreement will be completed.

The exchange ratio is fixed and will not be adjusted in the event of any change in either the Company's or Aviv's stock price.

Upon the closing of the Merger, each share of Aviv common stock will be converted into the right to receive 0.90 of a share of Company common stock, with cash paid in lieu of fractional shares. This exchange ratio was fixed in the Merger Agreement and will not be adjusted for changes in the market price of either Company common stock or Aviv common stock. Changes in the price of Company common stock prior to the Merger will affect the market value of the Merger consideration that Aviv stockholders will receive on the date of the Merger. Stock price changes may result from a variety of factors (many of which are beyond either company's control), including the following:

- market reaction to the announcement of the Merger;
- changes in the business, operation, assets, liabilities, financial position and prospects of either company or in market assessments thereof;
- changes in the operating performance of the Company, Aviv or similar companies;

- changes in market valuations of similar companies;
- market assessments of the likelihood that the Merger will be completed;
- interest rates, general market and economic conditions and other factors generally affecting the price of the Company's and Aviv's common stock;
- federal, state and local legislation, governmental regulation and legal developments in the businesses in which Aviv and the Company operate;
- dissident stockholder activity;
- changes that affect the Company's and Aviv's industry, the U.S. or global economy, or capital, financial or securities markets generally; and
- other factors beyond the control of either the Company or Aviv.

Tax Risks Related to the Proposed Merger with Aviv

The Company may incur adverse tax consequences if Aviv has failed or fails to qualify as a REIT for United States federal income tax purposes.

Each of the Company and Aviv has operated in a manner that it believes has allowed it to qualify as a REIT for United States federal income tax purposes under the Code and intends to continue to do so through the time of the Merger. The Company intends to operate in a manner that it believes allows it to qualify as a REIT after the Merger. Neither the Company nor Aviv has requested or plans to request a ruling from the IRS that it qualifies as a REIT. Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury Regulations that have been promulgated under the Code is greater in the case of a REIT that holds its assets through a partnership (which the Company will do after the Merger). The determination of various factual matters and circumstances not entirely within the control of the Company or Aviv may affect its ability to qualify as a REIT. In order to qualify as a REIT, each of the Company and Aviv must satisfy a number of requirements, including requirements regarding the ownership of its stock and the composition of its gross income and assets. Also, a REIT must make distributions to stockholders aggregating annually at least 90% of its net taxable income, excluding any capital gains.

If Aviv has failed or fails to qualify as a REIT for United States federal income tax purposes and the Merger is completed, the Company may inherit significant tax liabilities and could lose its REIT status. Even if the Company retains its REIT status, if Aviv loses its REIT status for a taxable year before the Merger or that includes the Merger, the Company will face serious tax consequences that could substantially reduce its cash available for distribution to its stockholders because:

- the Company, as the successor by Merger to Aviv, would generally inherit any corporate income tax liabilities of Aviv, including penalties and interest; the Company would be subject to tax on the built-in gain on each asset of Aviv existing at the time of the Merger if Omega were to dispose of an Aviv asset during a specified period (generally ten years) following the Merger; and
- the Company could be required to pay a special distribution and/or employ applicable deficiency dividend procedures (including penalties and interest payments to the IRS) to eliminate any earnings and profits accumulated by Aviv for taxable periods that it did not qualify as a REIT.

As a result of these factors, Aviv's failure before the Merger to qualify as a REIT could impair the Company's ability after the Merger to expand its business and raise capital, and could materially adversely affect the value of the Company's common stock.

Finally, Aviv has availed itself of the self-determination provisions and the deficiency dividend procedures under the REIT sections of the Code and supporting Treasury Regulations and IRS pronouncements to remedy certain potential technical violations of the REIT requirements. If there is an adjustment to Aviv's REIT taxable income or dividends paid deductions as a result of Aviv taking such action, or other determinations by the IRS, the Company could be required to further implement the deficiency dividend procedures in order to maintain Aviv's REIT status or take other steps to remedy any past non-compliance by Aviv. Any such further implementation of the deficiency dividend procedures could require the Company to make significant distributions to its stockholders and to pay significant penalties and interest to the IRS, which could impair the Company's ability after the Merger to expand its business and raise capital, reduce its cash available for distribution to its stockholders and materially adversely affect the value of the Company's common stock.

Risk Factors Relating to the Company Following the Merger

If the proposed Merger closes, we will face various additional risks.

If the proposed Merger closes, the Company will face various additional risks, including, among others, the following:

- the Company expects to incur substantial expenses related to the Merger;
- following the Merger, the Company may be unable to integrate the businesses of the Company and Aviv successfully and realize the anticipated synergies and other benefits of the Merger or do so within the anticipated timeframe;
- following the Merger, the Company may be unable to retain key employees;
- the future results of the Company will suffer if the Company does not effectively manage its expanded operations following the Merger; and
- counterparties to certain significant agreements with the Company or Aviv may exercise contractual rights under such agreements in connection with the Merger.

Any of these risks could adversely affect the business and financial results of the Company.

If the proposed Merger closes, there will be additional risks relating to an investment in our common stock.

The results of operations of the Company, as well as the market price of the common stock of the Company, after the Merger may be affected by other factors in addition to those currently affecting the Company's results of operations and the market prices of the Company's common stock. Such factors include:

- there will be a greater number of shares of the Company common stock outstanding as compared to the number of currently outstanding shares of Company common stock;
- there will be different stockholders;
- there will be different assets and capitalizations;
- the market price of the Company's common stock may decline as a result of the Merger;
- the Company cannot assure you that it will be able to continue paying dividends at or above the rate currently paid by the Company;
- the Company may need to incur additional indebtedness in the future;
- the Company may incur adverse tax consequences if the Company or Aviv has failed or fails to qualify as a REIT for U.S. federal income tax purposes; and
- in certain circumstances, even if the Company qualifies as a REIT, it and its subsidiaries may be subject to certain U.S. federal, state, and other taxes, which would reduce the Company's funds available for distribution to shareholders.

An adverse judgment in a lawsuit challenging the Merger may prevent the Merger from becoming effective or from becoming effective within the expected timeframe.

Stockholders of Aviv have filed lawsuits challenging the Merger, which may name the Company as a defendant. As of January 30, 2015, four lawsuits have been filed by purported stockholders of Aviv. All of these lawsuits name Aviv, the Aviv board of directors, the Aviv Operating Partnership, the Company, the Merger Sub and the Omega Operating Partnership as defendants. All of the named plaintiffs claim to be Aviv stockholders and purport to represent all holders of Aviv common stock. Each complaint generally alleges that the Aviv board of directors breached fiduciary duties owed to the plaintiffs and the other public stockholders of Aviv, and that the Company, the Merger Sub and/or the Omega Operating Partnership aided and abetted those breaches. Several of these complaints assert both direct and derivative claims. Among other remedies, the complaints seek injunctive relief prohibiting the defendants from completing the proposed Merger or, in the event that an injunction is not awarded, unspecified money damages, costs and attorneys' fees. The four lawsuits have been consolidated into a single action that is pending in the Circuit Court for Baltimore City, State of Maryland.

We cannot assure you as to the outcome of such lawsuits, including the amount of costs associated with defending these claims or any other liabilities that may be incurred in connection with the litigation of these claims. If plaintiffs are successful in obtaining an injunction prohibiting the parties from completing the Merger on the agreed-upon terms, such an injunction may delay the completion of the Merger in the expected timeframe, or may prevent it from being completed altogether. Whether or not any plaintiff's claim is successful, this type of litigation is often expensive and diverts management's attention and resources, which could adversely affect the operation of the Company's business.

Risks Related to the Operators of Our Facilities

Our financial position could be weakened and our ability to make distributions and fulfill our obligations with respect to our indebtedness could be limited if any of our major operators become unable to meet their obligations to us or fail to renew or extend their relationship with us as their lease terms expire or their mortgages mature, or if we become unable to lease or re-lease our facilities or make mortgage loans on economically favorable terms. We have no operational control over our operators. Adverse developments concerning our operators could arise due to a number of factors, including those listed below.

The bankruptcy or insolvency of our operators could limit or delay our ability to recover on our investments.

We are exposed to the risk that a distressed operator may not be able to meet its lease, mortgage or other obligations to us or other third parties. This risk is heightened during a period of economic or political instability. Although each of our lease and loan agreements typically provide us with the right to terminate, evict an operator, foreclose on our collateral, demand immediate payment and exercise other remedies upon the bankruptcy or insolvency of an operator, title 11 of the United States Code, as amended and supplemented (the "Bankruptcy Code"), would limit or, at a minimum, delay our ability to collect unpaid pre-bankruptcy rents and mortgage payments and to pursue other remedies against a bankrupt operator.

Leases. A bankruptcy filing by one of our lessee operators would typically prevent us from collecting unpaid pre-bankruptcy rents or evicting the operator, absent approval of the bankruptcy court. The Bankruptcy Code provides a lessee with the option to assume or reject an unexpired lease within certain specified periods of time. Generally, a lessee is required to pay all rent that becomes payable between the date of its bankruptcy filing and the date of the assumption or rejection of the lease (although such payments will likely be delayed as a result of the bankruptcy filing). If one of our lessee operators chooses to assume its lease with us, the operator must cure all monetary defaults existing under the lease (including payment of unpaid pre-bankruptcy rents) and provide adequate assurance of its ability to perform its future obligations under the lease. If one of our lessee operators opts to reject its lease with us, we would have a claim against such operator for unpaid and future rents payable under the lease, but such claim would be subject to a statutory "cap" and would generally result in a recovery substantially less than the face value of such claim. Although the operator's rejection of the lease would permit us to recover possession of the leased facility, we would likely face losses, costs and delays associated with re-leasing the facility to a new operator.

Several other factors could impact our rights under leases with bankrupt operators. First, the operator could seek to assign its lease with us to a third party. The Bankruptcy Code generally disregards anti-assignment provisions in leases to permit the assignment of unexpired leases to third parties (provided all monetary defaults under the lease are cured and the third party can demonstrate its ability to perform its obligations under the lease). Second, in instances in which we have entered into a master lease agreement with an operator that operates more than one facility, the bankruptcy court could determine that the master lease was comprised of separate, divisible leases (each of which could be separately assumed or rejected), rather than a single, integrated lease (which would have to be assumed or rejected in its entirety). Finally, the bankruptcy court could re-characterize our lease agreement as a disguised financing arrangement, which could require us to receive bankruptcy court approval to foreclose or pursue other remedies with respect to the facility.

Mortgages. A bankruptcy filing by an operator to whom we have made a mortgage loan would typically prevent us from collecting unpaid pre-bankruptcy mortgage payments and foreclosing on our collateral, absent approval of the bankruptcy court. As an initial matter, we could ask the bankruptcy court to order the operator to make periodic payments or provide other financial assurances to us during the bankruptcy case (known as "adequate protection"), but the ultimate decision regarding “adequate protection” (including the timing and amount) rests with the bankruptcy court. In addition, we would need bankruptcy court approval before commencing or continuing any foreclosure action against the operator’s facility. The bankruptcy court could withhold such approval, especially if the operator can demonstrate that the facility is necessary for an effective reorganization and that we have a sufficient “equity cushion” in the facility. If the bankruptcy court does not either grant us “adequate protection” or permit us to foreclose on our collateral, we may not receive any loan payments until after the bankruptcy court confirms a plan of reorganization for the operator. Even if the bankruptcy court permits us to foreclose on the facility, we would still be subject to the losses, costs and other risks associated with a foreclosure sale, including possible successor liability under government programs, indemnification obligations and suspension or delay of third-party payments. Should such events occur, our income and cash flow from operations would be adversely affected.

Failure by our operators to comply with various local, state and federal government regulations may adversely impact their ability to make debt or lease payments to us.

Our operators are subject to numerous federal, state and local laws and regulations, including those described below, that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from new legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. The ultimate timing or effect of these changes cannot be predicted. These changes may have a dramatic effect on our operators' costs of doing business and on the amount of reimbursement by both government and other third-party payors. The failure of any of our operators to comply with these laws, requirements and regulations could adversely affect their ability to meet their obligations to us.

Healthcare Reform. The Healthcare Reform Law represents the most comprehensive change to healthcare benefits since the inception of the Medicare program in 1965 and will affect reimbursement for governmental programs, private insurance and employee welfare benefit plans in various ways. See "Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform." We cannot predict the impact of the Healthcare Reform Law on our operators or their ability to meet their obligations to us.

Reimbursement; Medicare and Medicaid. A significant portion of our operators' revenue is derived from governmentally-funded reimbursement programs, primarily Medicare and Medicaid. See "Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform," "– Reimbursement," "– Medicaid," and "– Medicare," and risk factor entitled "Our operators depend on reimbursement from governmental and other third-party payors, and reimbursement rates from such payors may be reduced" for a further discussion on governmental and third-party payor reimbursement and the associated risks presented to our operators. Failure to maintain certification in these programs would result in a loss of funding from such programs and could negatively impact an operator's ability to meet its obligations to us.

Quality of Care Initiatives. The CMS has implemented a number of initiatives focused on the quality of care provided by nursing homes that could affect our operators, including a quality rating system for nursing homes released in December 2008. See "Item 1. Business – Government Regulation and Reimbursement – Quality of Care Initiatives." Any unsatisfactory rating of our operators under any rating system promulgated by the CMS could result in the loss of our operators' residents or lower reimbursement rates, which could adversely impact their revenues and our business.

Licensing and Certification. Our operators and facilities are subject to various federal, state and local licensing and certification laws and regulations, including laws and regulations under Medicare and Medicaid requiring operators of SNFs and ALFs to comply with extensive standards governing operations. See "Item 1. Business – Government Regulation and Reimbursement – Licensing and Certification." Governmental agencies administering these laws and regulations regularly inspect our operators' facilities and investigate complaints. Our operators and their managers receive notices of observed violations and deficiencies from time to time, and sanctions have been imposed from time to time on facilities operated by them. Failure to obtain any required licensure or certification, the loss or suspension of any required licensure or certification, or any violations or deficiencies with respect to relevant operating standards may require a facility to cease operations or result in ineligibility for reimbursement until the necessary licenses or certifications are obtained or reinstated, or any such violations or deficiencies are cured. In such event, our revenues from these facilities could be reduced or eliminated for an extended period of time or permanently.

Fraud and Abuse Laws and Regulations. There are various federal and state civil and criminal laws and regulations governing a wide array of healthcare provider referrals, relationships and arrangements, including laws and regulations prohibiting fraud by healthcare providers. Many of these complex laws raise issues that have not been clearly interpreted by the relevant governmental authorities and courts. In addition, federal and state governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. See “Item 1. Business – Government Regulation and Reimbursement – Fraud and Abuse.” The violation of any of these laws or regulations, including the anti-kickback statute and the Stark Law, by an operator may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid and all other federal and state healthcare programs. Such fines or penalties could jeopardize an operator’s ability to make lease or mortgage payments to us or to continue operating its facility.

Privacy Laws. Our operators are subject to federal, state and local laws and regulations designed to protect the privacy and security of patient health information, including HIPAA, among others. See “Item 1. Business – Government Regulation and Reimbursement – Privacy.” These laws and regulations require our operators to expend the requisite resources to protect and secure patient health information, including the funding of costs associated with technology upgrades. Operators found in violation of HIPAA or any other privacy or security law may face large penalties. In addition, compliance with an operator’s notification requirements in the event of a breach of unsecured protected health information could cause reputational harm to an operator’s business. Such penalties and damaged reputation could adversely affect an operator’s ability to meet its obligations to us.

Other Laws. Other federal, state and local laws and regulations affect how our operators conduct their operations. See “Item 1. Business – Government Regulation and Reimbursement – Other Laws and Regulations.” We cannot predict the effect that the costs of complying with these laws may have on the revenues of our operators, and thus their ability to meet their obligations to us.

Legislative and Regulatory Developments. Each year, legislative and regulatory proposals are introduced at the federal, state and local levels that, if adopted, would result in major changes to the healthcare system. See “Item 1. Business – Government Regulation and Reimbursement” in addition to the other risk factors set forth below.We cannot accurately predict whether any proposals will be adopted, and if adopted, what effect (if any) these proposals would have on our operators or our business.

Provisions of the Healthcare Reform Law require certain changes to reimbursement and studies of reimbursement policies that may adversely affect payments to SNFs.

Several provisions of the Healthcare Reform Law will affect Medicare payments to SNFs, including, but not limited to, provisions changing the payment methodology, implementing value-based purchasing and payment bundling and studying the appropriateness of restrictions on payments for health care acquired conditions. These provisions are in various stages of implementation See “Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform,” “– Reimbursement,” “– Medicaid,” and “– Medicare.” Although we cannot accurately predict whether or how such provisions may be implemented, or the effect any such implementation would have on our operators or our business, the Healthcare Reform Law could result in decreases in payments to our operators, increase our operators’ costs or otherwise adversely affect the financial condition of our operators, thereby negatively impacting their ability to meet their obligations to us.

The Healthcare Reform Law imposes additional requirements on SNFs regarding compliance and disclosure.

The Healthcare Reform Law requires SNFs to implement, by March 2013, a compliance and ethics program that is effective in preventing and detecting criminal, civil and administrative violations and in promoting quality of care. HHS has not yet issued the proposed regulations to implement this law that were due in March 2012. It is unclear whether this provision of the law will be enforced until the regulations are issued. See “Item 1. Business – Government Regulation and Reimbursement – Healthcare Reform.” If our operators fall short in their compliance and ethics programs and quality assurance and performance improvement programs, if and when required, their reputations and ability to attract residents could be adversely affected.

Our operators depend on reimbursement from governmental and other third-party payors, and reimbursement rates from such payors may be reduced.

Changes in the reimbursement rate or methods of payment from third-party payors, including the Medicare and Medicaid programs, or the implementation of other measures to reduce reimbursements for services provided by our operators has in the past, and could in the future, result in a substantial reduction in our operators’ revenues and operating margins. See “Item 1. Business – Government Regulation and Reimbursement – Reimbursement,” “– Medicaid,” and “– Medicare.” We currently believe that our operator coverage ratios are adequate and that our operators can absorb moderate reimbursement rate reductions and still meet their obligations to us. However, significant limits on the scopes of services reimbursed and on reimbursement rates could have a material adverse effect on our operators’ results of operations and financial condition, which could cause the revenues of our operators to decline and negatively impact their ability to meet their obligations to us.

Additionally, net revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable, additional documentation is necessary or certain services were not covered or were not medically necessary. New legislative and regulatory proposals could impose further limitations on government and private payments to healthcare providers. In some cases, states have enacted or are considering enacting measures designed to reduce Medicaid expenditures and to make changes to private healthcare insurance. We cannot assure you that adequate third-party payor reimbursement levels will continue to be available for the services provided by our operators.

Government budget deficits could lead to a reduction in Medicare and Medicaid reimbursement.

Many states are focusing on the reduction of expenditures under their Medicaid programs, which may result in a reduction in reimbursement rates for our operators. See “Item 1. Business – Government Regulation and Reimbursement – Reimbursement,” “– Medicaid,” and “– Medicare.” These potential reductions could be compounded by the potential for federal cost-cutting efforts that could lead to reductions in reimbursement to our operators under both the Medicare and Medicaid programs. Potential reductions in Medicare and Medicaid reimbursement to our operators could reduce the cash flow of our operators and their ability to make rent or mortgage payments to us. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. Medicaid enrollment may significantly increase in the near future, as the Healthcare Reform Law allows states to increase the number of people who are eligible for Medicaid beginning in 2014 and simplifies enrollment in this program. Since our operators’ profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement and an increase in the number of Medicaid patients could place some operators in financial distress, which in turn could adversely affect us. If funding for Medicare and/or Medicaid is reduced, it could have a material adverse effect on our operators’ results of operations and financial condition, which could adversely affect our operators’ ability to meet their obligations to us.

The American Taxpayer Relief Act will cut payments to SNFs.

On January 3, 2013, Congress enacted the American Taxpayer Relief Act (“ATRA”) of 2012. Payments to SNFs will be cut by approximately $600 million from FY 2013 - FY 2022. Under ATRA, payments for multiple procedures or therapies provided on the same day will be reduced, resulting in approximately $1.8 billion savings to Medicare over the next 10 years. Sequestration cuts to domestic and defense spending, including a 2% cut in payments to Medicare providers and suppliers, became effective on March 1, 2013. See “Item 1. Business – Government Regulation and Reimbursement – Medicare.”

We may be unable to find a replacement operator for one or more of our leased properties.

From time to time, we may need to find a replacement operator for one or more of our leased properties for a variety of reasons, including upon the expiration of the lease term or the occurrence of an operator default. During any period in which we are attempting to locate one or more replacement operators, there could be a decrease or cessation of rental payments on the applicable property or properties. We cannot assure you that any of our current or future operators will elect to renew their respective leases with us upon expiration of the terms thereof. Similarly, we cannot assure you that we will be able to locate a suitable replacement operator or, if we are successful in locating a replacement operator, that the rental payments from the new operator would not be significantly less than the existing rental payments. Our ability to locate a suitable replacement operator may be significantly delayed or limited by various state licensing, receivership, certificate of need or other laws, as well as by Medicare and Medicaid change-of-ownership rules. We also may incur substantial additional expenses in connection with any such licensing, receivership or change-of-ownership proceedings. Any such delays, limitations and expenses could materially delay or impact our ability to collect rent, obtain possession of leased properties or otherwise exercise remedies for default.

A prolonged economic slowdown could adversely impact our operating income and earnings, as well as the results of operations of our operators, which could impair their ability to meet their obligations to us.

We believe the risks associated with our investments will be more acute during periods of economic slowdown or recession (such as the recent recession), due to the adverse impact caused by various factors including inflation, deflation, increased unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, the

U.S. mortgage market, a distressed real estate market, market volatility and weakened business and consumer confidence. This difficult operating environment caused by an economic slowdown or recession could have an adverse impact on the ability of our operators to maintain occupancy rates, which could harm their financial condition. Any sustained period of increased payment delinquencies, foreclosures or losses by our operators under our leases and loans could adversely affect our income from investments in our portfolio.

Certain third parties may not be able to satisfy their obligations to us or our operators due to uncertainty in the capital markets.

Interest rate fluctuations, financial market volatility or credit market disruptions could limit the ability of our operators to obtain credit to finance their businesses on acceptable terms, which could adversely affect their ability to satisfy their obligations to us. Similarly, if any of our other counterparties, such as letter of credit issuers, insurance carriers, banking institutions, title companies and escrow agents, experience difficulty in accessing capital or other sources of funds or fail to remain a viable entity, it could have an adverse effect on our business.

Our operators may be subject to significant legal actions that could result in their increased operating costs and substantial uninsured liabilities, which may affect their ability to meet their obligations to us.

As is typical in the long-term healthcare industry, our operators are often subject to claims for damages relating to the services that they provide. We can give no assurance that the insurance coverage maintained by our operators will cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional and general liability claims and/or litigation may not, in certain cases, be available to operators due to state law prohibitions or limitations of availability. As a result, our operators operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits.

We also believe that there has been, and will continue to be, an increase in governmental investigations of long-term care providers, particularly in the area of Medicare/Medicaid false claims, as well as an increase in enforcement actions resulting from these investigations. Insurance is not available to our operators to cover such losses. Any adverse determination in a legal proceeding or governmental investigation, whether currently asserted or arising in the future, could have a material adverse effect on an operator's financial condition. If an operator is unable to obtain or maintain insurance coverage, if judgments are obtained in excess of the insurance coverage, if an operator is required to pay uninsured punitive damages, or if an operator is subject to an uninsurable government enforcement action, the operator could be exposed to substantial additional liabilities. Such liabilities could adversely affect the operator's ability to meet its obligations to us.

In addition, we may in some circumstances be named as a defendant in litigation involving the services provided by our operators. Although we generally have no involvement in the services provided by our operators, and our standard lease agreements and loan agreements generally require our operators to indemnify us and carry insurance to cover us in certain cases, a significant judgment against us in such litigation could exceed our and our operators' insurance coverage, which would require us to make payments to cover the judgment.

Increased competition as well as increased operating costs result in lower revenues for some of our operators and may affect the ability of our operators to meet their obligations to us.

The long-term healthcare industry is highly competitive and we expect that it may become more competitive in the future. Our operators are competing with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. Our operators compete on a number of different levels including the quality of care provided, reputation, the physical appearance of a facility, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location and the size and demographics of the population in the surrounding areas. We cannot be certain that the operators of all of our facilities will be able to achieve occupancy and rate levels that will enable them to meet all of their obligations to us. Our operators may encounter increased competition in the future that could limit their ability to attract residents or expand their businesses and therefore affect their ability to pay their lease or mortgage payments.

In addition, the market for qualified nurses, healthcare professionals and other key personnel is highly competitive and our operators may experience difficulties in attracting and retaining qualified personnel. Increases in labor costs due to higher wages and greater benefits required to attract and retain qualified healthcare personnel incurred by our operators could affect their ability to meet their obligations to us. This situation could be particularly acute in certain states that have enacted legislation establishing minimum staffing requirements.

We may be unable to successfully foreclose on the collateral securing our mortgage loans, and even if we are successful in our foreclosure efforts, we may be unable to successfully find a replacement operator, or operate or occupy the underlying real estate, which may adversely affect our ability to recover our investments.

If an operator defaults under one of our mortgage loans, we may foreclose on the loan or otherwise protect our interest by acquiring title to the property. In such a scenario, we may be required to make substantial improvements or repairs to maximize the facility's investment potential. Operators may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against our exercise of enforcement or other remedies and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Even if we are able to successfully foreclose on the collateral securing our mortgage loans, we may be unable to expeditiously find a replacement operator, if at all, or otherwise successfully operate or occupy the property, which could adversely affect our ability to recover our investment.

Certain of our operators account for a significant percentage of our real estate investment and revenues.

At December 31, 2014, we had investments with one operator and/or manager that exceeded 10% of our total investments: New Ark Investment, Inc. (“New Ark”) (13%). No other operator represents more than 10% of our investments at December 31, 2014.

For the year ended December 31, 2014, our revenues from operations totaled $504.8 million, of which approximately $58.6 million were from New Ark (12%) and $55.2 million were from Genesis (11%). No other operator generated more than 9% of our revenues from operations for the year ended December 31, 2014.

We cannot assure you that any of our operators will have sufficient assets, income or access to financing to enable them to satisfy their obligations to us. Any failure by our operators, and specifically those operators described above, to effectively conduct their operations could materially reduce our revenues and net income, which could in turn reduce the amount of dividends we pay and cause our stock price to decline.

Uninsured losses or losses in excess of our operators’ insurance coverage could adversely affect our financial position and our cash flow.

Under the terms of our leases, our operators are required to maintain comprehensive general liability, fire, flood, earthquake, boiler and machinery, nursing home or long-term care professional liability and extended coverage insurance with respect to our properties with policy specifications, limits and deductibles set forth in the leases or other written agreements between us and the operator. However, our properties may be adversely affected by casualty losses which exceed insurance coverages and reserves. Should an uninsured loss occur, we could lose both our investment in, and anticipated profits and cash flows from, the property. Even if it were practicable to restore the property to its condition prior to the damage caused by a major casualty, the operations of the affected property would likely be suspended for a considerable period of time. In the event of any substantial loss affecting a property, disputes over insurance claims could arise.

Risks Related to Us and Our Operations Regardless of Whether the Proposed Merger with Aviv is Consummated

We rely on external sources of capital to fund future capital needs, and if we encounter difficulty in obtaining such capital, we may not be able to make future investments necessary to grow our business or meet maturing commitments.

To qualify as a REIT under the Code, we are required to, among other things, distribute at least 90% of our REIT taxable income each year to our stockholders. Because of this distribution requirement, we may not be able to fund, from cash retained from operations, all future capital needs, including capital needed to make investments and to satisfy or refinance maturing commitments. As a result, we rely on external sources of capital, including debt and equity financing. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to grow our business, or to meet our obligations and commitments as they mature, which could negatively affect the ratings of our debt and even, in extreme circumstances, affect our ability to continue operations. Our access to capital depends upon a number of factors over which we have little or no control, including the performance of the national and global economies generally; competition in the healthcare industry; issues facing the healthcare industry, including regulations and government reimbursement policies; our operators’ operating costs; the ratings of our debt securities; the market’s perception of our growth potential; the market value of our properties; our current and potential future earnings and cash distributions; and the market price of the shares of our capital stock. Difficult capital market conditions in our industry during the past several years, and our need to stabilize our portfolio have limited and may continue to limit our access to capital. While we currently have sufficient cash flow from operations to fund our obligations and commitments, we may not be in a position to take advantage of future investment opportunities in the event that we are unable to access the capital markets on a timely basis or we are only able to obtain financing on unfavorable terms.

Economic conditions and turbulence in the credit markets may create challenges in securing third-party borrowings or refinancing our existing debt.

Depressed economic conditions, the availability and cost of credit, turmoil in the mortgage market and depressed real estate markets have contributed and will in the future contribute to increased volatility and diminished expectations for real estate markets and the economy as a whole. Significant market disruption and volatility could impact our ability to secure third-party borrowings or refinance our existing debt in the future.

Our ability to raise capital through equity sales is dependent, in part, on the market price of our common stock, and our failure to meet market expectations with respect to our business could negatively impact the market price of our common stock and availability of equity capital.

As with other publicly-traded companies, the availability of equity capital will depend, in part, on the market price of our common stock which, in turn, will depend upon various market conditions and other factors that may change from time to time including:

- the extent of investor interest;
- the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;
- the financial performance of us and our operators;
- analyst reports on us and the REIT industry in general;
- general stock and bond market conditions, including changes in interest rates on fixed income securities, which may lead prospective purchasers of our common stock to demand a higher annual yield from future distributions;
- our failure to maintain or increase our dividend, which is dependent, to a large part, on the increase in funds from operations, which in turn depends upon increased revenues from additional investments and rental increases; and
- other factors such as governmental regulatory action and changes in REIT tax laws.

The market value of the equity securities of a REIT is generally based upon the market's perception of the REIT's growth potential and its current and potential future earnings and cash distributions. Our failure to meet the market's expectation with regard to future earnings and cash distributions would likely adversely affect the market price of our common stock and, as a result, the availability of equity capital to us.

We are subject to risks associated with debt financing, which could negatively impact our business and limit our ability to make distributions to our stockholders and to repay maturing debt.

The financing required to make future investments and satisfy maturing commitments may be provided by borrowings under our credit facilities, private or public offerings of debt or equity, the assumption of secured indebtedness, mortgage financing on a portion of our owned portfolio or through joint ventures. To the extent we must obtain debt financing from external sources to fund our capital requirements, we cannot guarantee such financing will be available on favorable terms, if at all. In addition, if we are unable to refinance or extend principal payments due at maturity or pay them with proceeds from other capital transactions, our cash flow may not be sufficient to make distributions to our stockholders and repay our maturing debt. Furthermore, if prevailing interest rates, changes in our debt ratings or other factors at the time of refinancing result in higher interest rates upon refinancing, the interest expense relating to that refinanced indebtedness would increase, which could reduce our profitability and the amount of dividends we are able to pay. Moreover, additional debt financing increases the amount of our leverage. The degree of leverage could have important consequences to stockholders, including affecting our investment grade ratings and our ability to obtain additional financing in the future, and making us more vulnerable to a downturn in our results of operations or the economy generally.

Unforeseen costs associated with the acquisition of new properties could reduce our profitability.

Our business strategy contemplates future acquisitions that may not prove to be successful. For example, we might encounter unanticipated difficulties and expenditures relating to our acquired properties, including contingent liabilities, or our newly acquired properties might require significant management attention that would otherwise be devoted to our ongoing business. As a further example, if we agree to provide funding to enable healthcare operators to build, expand or renovate facilities on our properties and the project is not completed, we could be forced to become involved in the development to ensure completion or we could lose the property. Such costs may negatively affect our results of operations.

We may not be able to adapt our management and operational systems to integrate and manage our growth without additional expense.

We cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems to integrate and manage the long-term care facilities we have acquired in the past and those that we may acquire under our existing cost structure in a timely manner. Our failure to timely integrate and manage recent and future acquisitions or developments could have a material adverse effect on our results of operations and financial condition.

We may be subject to additional risks in connection with our recent and future acquisitions of long-term care facilities.

We may be subject to additional risks in connection with our recent and future acquisitions of long-term care facilities, including but not limited to the following:

- our limited prior business experience with certain of the operators of the facilities we have recently acquired or may acquire in the future;
- the facilities may underperform due to various factors, including unfavorable terms and conditions of the lease agreements that we assume, disruptions caused by the management of the operators of the facilities or changes in economic conditions impacting the facilities and/or the operators;
- diversion of our management's attention away from other business concerns;
- exposure to any undisclosed or unknown potential liabilities relating to the facilities; and
- potential underinsured losses on the facilities.

We cannot assure you that we will be able to manage our recently acquired or future new facilities without encountering difficulties or that any such difficulties will not have a material adverse effect on us.

Our assets may be subject to impairment charges.

We periodically, but not less than annually, evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we are required to make an adjustment to the net carrying value of the asset, which could have a material adverse affect on our results of operations and funds from operations in the period in which the write-off occurs.

We may not be able to sell certain closed facilities for their book value.

From time to time, we close facilities and actively market such facilities for sale. To the extent we are unable to sell these properties for our book value, we may be required to take a non-cash impairment charge or loss on the sale, either of which would reduce our net income.

Our indebtedness could adversely affect our financial condition.

We have a material amount of indebtedness and we may increase our indebtedness in the future. Debt financing could have important consequences to our stockholders. For example, it could:

- increase our vulnerability to adverse changes in general economic, industry and competitive conditions;

limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions, debt service requirements, execution of our business plan or other general corporate purposes on satisfactory terms or at all;
require us to dedicate a substantial portion of our cash flow from operations to make payments on our indebtedness and leases, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;
limit our ability to make material acquisitions or take advantage of business opportunities that may arise;
expose us to fluctuations in interest rates, to the extent our borrowings bear variable rates of interests;
limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate; and
place us at a competitive disadvantage compared to our competitors that have less debt.

Covenants in our debt documents limit our operational flexibility, and a covenant breach could materially adversely affect our operations.

The terms of our credit agreements and note indentures require us to comply with a number of customary financial and other covenants which may limit our management's discretion by restricting our ability to, among other things, incur additional debt, redeem our capital stock, enter into certain transactions with affiliates, pay dividends and make other distributions, make investments and other restricted payments, and create liens. Any additional financing we may obtain could contain similar or more restrictive covenants. Our continued ability to incur indebtedness and conduct our operations is subject to compliance with these financial and other covenants. Breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness, in addition to any other indebtedness cross-defaulted against such instruments. Any such breach could materially adversely affect our business, results of operations and financial condition.

We have now, and may have in the future, exposure to contingent rent escalators.

We receive revenue primarily by leasing our assets under leases that are long-term triple-net leases in which the rental rate is generally fixed with annual rent escalations, subject to certain limitations. Certain leases contain escalators contingent on changes in the Consumer Price Index. If the Consumer Price Index does not increase, our revenues may not increase.

We are subject to particular risks associated with real estate ownership, which could result in unanticipated losses or expenses.

Our business is subject to many risks that are associated with the ownership of real estate. For example, if our operators do not renew their leases, we may be unable to re-lease the facilities at favorable rental rates, if at all. Other risks that are associated with real estate acquisition and ownership include, without limitation, the following:

- general liability, property and casualty losses, some of which may be uninsured;
- the inability to purchase or sell our assets rapidly to respond to changing economic conditions, due to the illiquid nature of real estate and the real estate market;
- leases that are not renewed or are renewed at lower rental amounts at expiration;
- the exercise of purchase options by operators resulting in a reduction of our rental revenue;
- costs relating to maintenance and repair of our facilities and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act;
- environmental hazards created by prior owners or occupants, existing tenants, mortgagors or other persons for which we may be liable;
- acts of God affecting our properties; and
- acts of terrorism affecting our properties.

Our real estate investments are relatively illiquid.

Real estate investments are relatively illiquid and generally cannot be sold quickly. In addition, some of our properties serve as collateral for our secured debt obligations and cannot be readily sold. Additional factors that are specific to our industry also tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. For example, all of our properties are ‘‘special purpose’’ properties that cannot be readily converted into general residential, retail or office use. In addition, transfers of operations of nursing homes and other healthcare-related facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that an operator becomes unable to meet its obligations to us, then the liquidation value of the property may be substantially less, particularly relative to the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses. Furthermore, the receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. Should such events occur, our income and cash flows from operations would be adversely affected.

As an owner or lender with respect to real property, we may be exposed to possible environmental liabilities.

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner of real property or a secured lender, such as us, may be liable in certain circumstances for the costs of investigation, removal or remediation of, or related releases of, certain hazardous or toxic substances at, under or disposed of in connection with such property, as well as certain other potential costs relating to hazardous or toxic substances, including government fines and damages for injuries to persons and adjacent property. Such laws often impose liability based on the owner's knowledge of, or responsibility for, the presence or disposal of such substances. As a result, liability may be imposed on the owner in connection with the activities of an operator of the property. The cost of any required investigation, remediation, removal, fines or personal or property damages and the owner's liability therefore could exceed the value of the property and/or the assets of the owner. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect an operators' ability to attract additional residents and our ability to sell or rent such property or to borrow using such property as collateral which, in turn, could negatively impact our revenues.

Although our leases and mortgage loans require the lessee and the mortgagor to indemnify us for certain environmental liabilities, the scope of such obligations may be limited. For instance, most of our leases do not require the lessee to indemnify us for environmental liabilities arising before the lessee took possession of the premises. Further, we cannot assure you that any such mortgagor or lessee would be able to fulfill its indemnification obligations.

The industry in which we operate is highly competitive. Increasing investor interest in our sector and consolidation at the operator level or REIT level could increase competition and reduce our profitability.

Our business is highly competitive and we expect that it may become more competitive in the future. We compete for healthcare facility investments with other healthcare investors, including other REITs, some of which have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals. If we cannot capitalize on our development pipeline, identify and purchase a sufficient quantity of healthcare facilities at favorable prices, or if we are unable to finance such acquisitions on commercially favorable terms, our business, results of operations and financial condition may be materially adversely affected. In addition, if our cost of capital should increase relative to the cost of capital of our competitors, the spread that we realize on our investments may decline if competitive pressures limit or prevent us from charging higher lease or mortgage rates.

We may be named as defendants in litigation arising out of professional liability and general liability claims relating to our previously owned and operated facilities that if decided against us, could adversely affect our financial condition.

We and several of our wholly-owned subsidiaries were named as defendants in professional liability and general liability claims related to our owned and operated facilities prior to 2005. Other third-party managers responsible for the day-to-day operations of these facilities were also named as defendants in these claims. In these suits, patients of certain previously owned and operated facilities have alleged significant damages, including punitive damages, against the defendants. Although all of these prior suits have been settled, we or our affiliates could be named as defendants in similar suits. There can be no assurance that we would be successful in our defense of such potential matters or in asserting our claims against various managers of the subject facilities or that the amount of any settlement or judgment would be substantially covered by insurance or that any punitive damages will be covered by insurance.

Our charter and bylaws contain significant anti-takeover provisions which could delay, defer or prevent a change in control or other transactions that could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock.

Our charter and bylaws contain various procedural and other requirements which could make it difficult for stockholders to effect certain corporate actions. Our Board of Directors is divided into three classes and the members of our Board of Directors are currently elected for terms that are staggered. Although our Board of Directors has recommended that our stockholders approve an amendment to our charter to provide for the annual election of directors, we cannot assure you that such amendment will be approved by the requisite vote of stockholders. Our Board of Directors also has the authority to issue additional shares of preferred stock and to fix the preferences, rights and limitations of the preferred stock without stockholder approval. These provisions could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of us, which could adversely affect the market price of our securities and/or result in the delay, deferral or prevention of a change in control or other transactions that could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock.

The Company is exposed to risks associated with entering new geographic markets.

The Company's acquisition and development activities may involve entering geographic markets where the Company has not previously had a presence. The construction and/or acquisition of properties in new geographic areas involves risks, including the risk that the property will not perform as anticipated and the risk that any actual costs for site development and improvements identified in the pre-construction or pre-acquisition due diligence process will exceed estimates. There is, and it is expected that there will continue to be, significant competition for investment opportunities that meet management's investment criteria, as well as risks associated with obtaining financing for acquisition activities, if necessary.

We may change our investment strategies and policies and capital structure.

Our Board of Directors, without the approval of our stockholders, may alter our investment strategies and policies if it determines that a change is in our stockholders' best interests. The methods of implementing our investment strategies and policies may vary as new investments and financing techniques are developed.

Our success depends in part on our ability to retain key personnel and our ability to attract or retain other qualified personnel.

Our future performance depends to a significant degree upon the continued contributions of our executive management team and other key employees. The loss of the services of our current executive management team could have an adverse impact on our operations. Although we have entered into employment agreements with the members of our executive management team, these agreements may not assure their continued service. In addition, our future success depends, in part, on our ability to attract, hire, train and retain other qualified personnel. Competition for qualified employees is intense, and we compete for qualified employees with companies with greater financial resources. Our failure to successfully attract, hire, retain and train the people we need would significantly impede our ability to implement our business strategy.

Failure to properly manage our rapid growth could distract our management or increase our expenses.

We have experienced rapid growth and development in a relatively short period of time and expect to continue this rapid growth in the future. This growth has resulted in increased levels of responsibility for our management. Future property acquisitions could place significant additional demands on, and require us to expand, our management, resources and personnel. Our failure to manage any such rapid growth effectively could harm our business and, in particular, our financial condition, results of operations and cash flows, which could negatively affect our ability to make distributions to stockholders and the trading price of our common stock. Our growth could also increase our capital requirements, which may require us to issue potentially dilutive equity securities and incur additional debt.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personal identifying information, tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for processing, transmission and storage of confidential tenant and other customer information, such as individually identifiable information, including information relating to financial accounts.

Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not be able to prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could have a material adverse effect on our business, financial condition and results of operations.

Failure to maintain effective internal control over financial reporting could have a material adverse effect on our business, results of operations, financial condition and stock price.

Pursuant to the Sarbanes-Oxley Act of 2002, we are required to provide a report by management on internal control over financial reporting, including management's assessment of the effectiveness of such control. Changes to our business will necessitate ongoing changes to our internal control systems and processes. Internal control over financial reporting may not prevent or detect misstatements due to inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. If we fail to maintain the adequacy of our internal controls, including any failure to implement required new or improved controls, or if we experience difficulties in their implementation, our business, results of operations and financial condition could be materially adversely harmed, we could fail to meet our reporting obligations and there could be a material adverse effect on our stock price.

If we fail to maintain our REIT status, we will be subject to federal income tax on our taxable income at regular corporate rates.

We were organized to qualify for taxation as a REIT under Sections 856 through 860 of the Code. See "Item 1. Business – Taxation." We believe that we have operated in such a manner as to qualify for taxation as a REIT under the Code and intend to continue to operate in a manner that will maintain our qualification as a REIT. Qualification as a REIT involves the satisfaction of numerous requirements, some on an annual and some on a quarterly basis, established under highly technical and complex provisions of the Code for which there are only limited judicial and administrative interpretations and involve the determination of various factual matters and circumstances not entirely within our control. We cannot assure you that we will at all times satisfy these rules and tests.

If we were to fail to qualify as a REIT in any taxable year, as a result of a determination that we failed to meet the annual distribution requirement or otherwise, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates with respect to each such taxable year for which the statute of limitations remains open. Moreover, unless entitled to relief under certain statutory provisions, we also would be disqualified from treatment as a REIT for the four taxable years following the year during which qualification is lost. This treatment would significantly reduce our net earnings and cash flow because of our additional tax liability for the years involved, which could significantly impact our financial condition.

We generally must distribute annually at least 90% of our taxable income to our stockholders to maintain our REIT status. To the extent that we do not distribute all of our net capital gain or do distribute at least 90%, but less than 100% of our "REIT taxable income," as adjusted, we will be subject to tax thereon at regular ordinary and capital gain corporate tax rates.

Even if we remain qualified as a REIT, we may face other tax liabilities that reduce our cash flow.

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including taxes on any undistributed income, tax on income from some activities conducted as a result of a foreclosure, and state or local income, property and transfer taxes. Any of these taxes would decrease cash available for the payment of our debt obligations. In addition, to meet REIT qualification requirements, we may hold some of our non-healthcare assets through taxable REIT subsidiaries or other subsidiary corporations that will be subject to corporate level income tax at regular rates.

Qualifying as a REIT involves highly technical and complex provisions of the Code and complying with REIT requirements may affect our profitability.

Qualification as a REIT involves the application of technical and intricate Code provisions. Even a technical or inadvertent violation could jeopardize our REIT qualification. To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the nature and diversification of our assets, the sources of our income and the amounts we distribute to our stockholders. Thus, we may be required to liquidate otherwise attractive investments from our portfolio, or be unable to pursue investments that would be otherwise advantageous to us, to satisfy the asset and income tests or to qualify under certain statutory relief provisions. We may also be required to make distributions to stockholders at disadvantageous times or when we do not have funds readily available for distribution (e.g., if we have assets which generate mismatches between taxable income and available cash). Having to comply with the distribution requirement could cause us to: (i) sell assets in adverse market conditions; (ii) borrow on unfavorable terms; or (iii) distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt. As a result, satisfying the REIT requirements could have an adverse effect on our business results and profitability.

Risks Related to Our Stock

In addition to the risks related to our operators and our operations described above, the following are additional risks associated with our stock.

The market value of our stock could be substantially affected by various factors.

Market volatility may adversely affect the market price of our common stock. As with other publicly traded securities, the share price of our stock depends on many factors, which may change from time to time, including:

- the market for similar securities issued by REITs;
- changes in estimates by analysts;
- our ability to meet analysts' estimates;
- prevailing interest rates;
- our credit rating;
- general economic and market conditions; and
- our financial condition, performance and prospects.

Our issuance of additional capital stock, warrants or debt securities, whether or not convertible, may reduce the market price for our outstanding securities, including our common stock, and dilute the ownership interests of existing stockholders.

We cannot predict the effect, if any, that future sales of our capital stock, warrants or debt securities, or the availability of our securities for future sale, will have on the market price of our securities, including our common stock. Sales of substantial amounts of our common stock or preferred shares, warrants or debt securities convertible into or exercisable or exchangeable for common stock in the public market, or the perception that such sales might occur, could negatively impact the market price of our stock and the terms upon which we may obtain additional equity financing in the future.

In addition, we may issue additional capital stock in the future to raise capital or as a result of the following:

- the issuance and exercise of options to purchase our common stock or other equity awards under remuneration plans (we may also issue equity to our employees in lieu of cash bonuses or to our directors in lieu of director's fees);
- the issuance of shares pursuant to our dividend reinvestment and direct stock purchase plan or at-the-market offerings;
- the issuance of debt securities exchangeable for our common stock;
- the exercise of warrants we may issue in the future;
- the issuance of warrants or other rights to acquire shares to current or future lenders in connection with providing financing; and
- the sales of securities convertible into our common stock.

There are no assurances of our ability to pay dividends in the future.

Our ability to pay dividends may be adversely affected upon the occurrence of any of the risks described herein. Our payment of dividends is subject to compliance with restrictions contained in our credit agreements, the indentures governing our senior notes and any preferred stock that our Board of Directors may from time to time designate and authorize for issuance. All dividends will be paid at the discretion of our Board of Directors and will depend upon our earnings, our financial condition, maintenance of our REIT status and such other factors as our Board of Directors may deem relevant from time to time. There are no assurances of our ability to pay dividends in the future. In addition, our dividends in the past have included, and may in the future include, a return of capital.

Holders of our preferred stock that we may issue from time to time may have liquidation and other rights that are senior to the rights of the holders of our common stock.

On March 7, 2011, we redeemed all of our issued and outstanding 8.375% Series D cumulative redeemable preferred stock. However, our Board of Directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock.

Legislative or regulatory action could adversely affect purchasers of our stock.

Significant legislative, judicial and administrative changes to the federal income tax laws could adversely impact the income tax consequences of owning our stock. Such changes have occurred in the past and are likely to continue to occur in the future, and we cannot assure you that any of these changes will not adversely affect an investment in our stock or on our stock's market value or resale potential. Stockholders are urged to consult with their own tax advisor with respect to the impact that past legislative, regulatory or administrative changes or potential legislation may have on their investment in our stock.

A downgrade of our credit rating could impair our ability to obtain additional debt financing on favorable terms, if at all, and significantly reduce the trading price of our common stock.

If any rating agency downgrades our credit rating, or places our rating under watch or review for possible downgrade, then it may be more difficult or expensive for us to obtain additional debt financing, and the trading price of our common stock may decline. Factors that may affect our credit rating include, among other things, our financial performance, our success in raising sufficient equity capital, adverse changes in our debt and fixed charge coverage ratios, our capital structure and level of indebtedness and pending or future changes in the regulatory framework applicable to our operators and our industry. We cannot assure you that these credit agencies will not downgrade our credit rating in the future.

Item 1B – Unresolved Staff Comments

None.

Item 2 - Properties

At December 31, 2014, our real estate investments included long-term care facilities and rehabilitation hospital investments, either in the form of purchased facilities and direct financing leased facilities that are leased to operators or other affiliates, mortgages on facilities that are operated by the mortgagors or their affiliates and facilities subject to leasehold interests. The properties are located in 38 states and are operated by 50 operators. We use the term "operator" to refer to our tenants and mortgagees and their affiliates who manage and/or operate our properties. In some cases, our tenants and mortgagees contract with a healthcare operator to operate the facilities. The following table summarizes our property investments as of December 31, 2014:

Investment Structure/Operator	Number of Operating Beds	Number of Facilities	Gross Investment (in thousands)
Leased Facilities(1)			
Genesis HealthCare	5,774	51	$342,033
Health and Hospital Corporation	4,606	44	304,719
CommuniCare Health Services, Inc.	3,340	28	277,987
Airamid Health Management	4,418	37	255,125
Signature Holdings II, LLC	3,309	32	238,816
S&F Management Company, LLC	1,920	15	217,073
Capital Funding Group, Inc.	2,226	21	216,278
Gulf Coast Master Tenant I, LLC	2,254	18	156,936
Guardian LTC Management Inc.	1,679	23	125,971
Consulate Health Care	2,023	17	117,654
Diversicare Healthcare Services	2,726	23	103,093
Nexion Health Inc.	2,095	19	92,064
Affiliates of Persimmon Ventures, LLC & White Pine Holdings, LLC	757	5	83,940
Essex Healthcare Corporation	1,236	13	83,564
TenInOne Acquisition Group, LLC	1,451	10	82,617
Swain/Herzog	1,008	9	59,746
Mark Ide Limited Liability Company	1,085	12	46,771
Southern Administrative Services, LLC	1,084	11	44,843
Sava Senior Care, LLC	469	3	36,970
New ARK Investments, Inc.	345	3	34,600
Haven Health Group of AZ	476	6	33,426
Pinon Management, Inc.	517	6	30,390
StoneGate Senior Care LP	633	6	29,783
Fundamental Long Term Care Holding, LLC	381	3	23,961
Daybreak Venture, LLC	483	5	21,292
Rest Haven Nursing Center Inc.	176	1	14,400
Health Systems of Oklahoma LLC	407	3	12,470
Washington N&R	239	2	12,152
Care Initiatives, Inc.	188	1	10,347
Adcare Health Systems	301	2	10,000
Ensign Group, Inc.	271	3	9,656

Lakeland Investors, LLC	274	1	9,625
Infinity Health Care Management	200	2	9,547
Community Eldercare Services, LLC	100	1	7,572
Southwest LTC	150	1	6,840
Longwood Management Corporation	185	2	6,448
Crowne Management, LLC	172	1	6,351
EmpRes Healthcare Management, LLC	105	1	6,294
Elite Senior Living, Inc.	105	1	5,893
AMFM, LLC	150	2	5,786
Sante MC OP Co, LLC	52	1	5,728
Country Villa Claremont Healthcare Center, Inc.	99	1	4,546
HMS Holdings at Texarkana, LLC	114	1	4,281
Hoosier Enterprises Inc.	47	1	3,622
Laurel	112	1	3,554
Generations Healthcare, Inc.	59	1	3,007
Hickory Creek Healthcare Foundation	63	1	2,835
Diamond Care Vida Encantada, LLC	102	1	2,028
Closed Facilities	-	2	1,151
	49,966	454	3,223,785

Assets Held for Sale			
Genesis Healthcare	123	1	6,000
Sava Senior Care, LLC	98	1	3,234
Laurel	123	1	2,888
Parcel of Land	-	-	670
	344	3	12,792

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Investment Structure/Operator	Number of Operating Beds	Number of Facilities	Gross Investment (in thousands)
Investment in Direct Financing Leases			
New Ark Investment, Inc.	5,440	56	539,232
	5,440	56	539,232
Fixed - Rate Mortgages(2)			
Ciena Healthcare	3,383	31	415,876
Guardian LTC Management, Inc.	798	9	112,500
CommuniCare Health Services, Inc.	1,028	8	77,323
Affiliates of Persimmon Ventures, LLC & White Pine Holdings, LLC	412	4	26,500
Meridian	240	3	15,880
	5,861	55	648,079
Total	61,611	568	$4,423,888

(1) Certain of our lease agreements contain purchase options that permit the lessees to purchase the underlying properties from us.
(2) In general, many of our mortgages contain prepayment provisions that permit prepayment of the outstanding principal amounts thereunder.

The following table presents the concentration of our facilities by state as of December 31, 2014:

	Number of Facilities	Number of Operating Beds	Gross Investment (in thousands)	% of Gross Investment	
Florida	86	10,126	$621,153	14.0	%
Michigan	35	3,782	453,876	10.3	
Ohio (1)	52	5,457	384,672	8.7	
Indiana	55	5,371	343,735	7.8	
Pennsylvania	34	3,065	327,758	7.4	
Mississippi	19	2,017	222,486	5.0	
South Carolina	18	1,630	198,947	4.5	
Texas (1)	40	4,596	192,352	4.4	
California	22	2,367	187,032	4.2	
Maryland	16	2,068	174,077	3.9	
Arkansas	24	2,510	161,409	3.7	
Tennessee	18	2,460	151,228	3.4	
Arizona	11	1,077	102,769	2.3	
Colorado	12	1,297	79,659	1.8	
West Virginia	11	1,255	75,796	1.7	
Georgia	8	967	72,634	1.6	
Kentucky	15	1,215	68,211	1.5	
North Carolina	11	1,290	67,196	1.5	
Virginia	4	527	64,631	1.5	
Massachusetts	8	779	57,347	1.3	
Louisiana	13	1,418	56,796	1.3	
Alabama	10	1,259	54,440	1.2	
Rhode Island	4	558	43,534	1.0	
Idaho	6	598	33,714	0.8	
Wisconsin	4	526	30,562	0.7	
Oklahoma	4	511	24,137	0.5	
Nevada	3	381	23,961	0.5	
New Hampshire	3	221	23,082	0.5	
Washington	3	270	21,580	0.5	
Iowa	3	359	21,202	0.5	
Utah	3	287	16,873	0.4	
Oregon	2	141	16,448	0.4	
Illinois	4	446	14,406	0.3	
Vermont (1)	2	238	12,925	0.3	
Missouri	2	239	12,152	0.3	
New Mexico	2	221	7,228	0.2	
Kansas	1	82	3,210	0.1	
Connecticut (1)	-	-	670	-	
Total	568	61,611	$4,423,888	100	%

(1) These states each include a facility/property that is classified as held-for-sale as of December 31, 2014.

Geographically Diverse Property Portfolio. Our portfolio of properties is broadly diversified by geographic location. Our portfolio includes healthcare properties located in 38 states. In addition, the majority of our 2014 rental, direct financing lease and mortgage income was derived from facilities in states that require state approval for development and expansion of healthcare facilities. We believe that such state approvals may limit competition for our operators and enhance the value of our properties.

Large Number of Tenants. Our facilities are operated by 50 different public and private healthcare providers and/or managers. Except for New Ark Investment, Inc. (“Ark”) (13%), Ciena Healthcare (9%), CommuniCare Health Services, Inc. (8%), Genesis HealthCare (8%), Health and Hospital Corporation (7%), subsidiaries and affiliates of Airamid Health Management (6%), Signature Holdings II, LLC (5%) and Guardian LTC Management Inc. (5%) which together hold approximately 61% of our portfolio (by investment), no other single tenant holds greater than 5% of our portfolio (by investment).

Significant Number of Long-term Leases and Mortgage Loans. At December 31, 2014, approximately 75% of our operating leases, 100% of our mortgages and 100% of our direct financing leases have primary terms that expire after 2019. The majority of our leased real estate properties are leased under provisions of master lease agreements. We also lease facilities under single facility leases. The initial terms of both types of leases typically range from 5 to 15 years, plus renewal options with the exception of our investment in the Ark leases which are 50 year leases and expire in 2063.

All of our leased properties are leased under long term, triple-net leases. The following table displays the expiration of the annualized straight-line rental revenues under our operating lease agreements as of December 31, 2014 by year without giving effect to any renewal options:

Expiration Year ($ in thousands)	Annualized Straight-line Rental Revenue Expiring	Number of Leases Expiring
2015	1,865	4
2016	1,087	1
2017	7,049	5
2018	37,258	6
2019	-	-
2020	2,257	3
2021	31,802	3
2022	55,131	7
2023	72,017	11
2024	56,224	8
2025	79,817	8
Thereafter	54,822	8
Total	$ 399,329	64

Item 3 - Legal Proceedings

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.

Four putative class actions have been filed by purported stockholders of Aviv against Aviv, its directors, the Company and Merger Sub challenging the Merger. The lawsuits seek injunctive relief preventing the parties from consummating the Merger, rescission of the transactions contemplated by the Merger Agreement, imposition of a constructive trust in favor of the class upon any benefits improperly received by the defendants, compensatory damages, and litigation costs including attorneys' fees. The four cases have been transferred to the Business and Technology Case Management Program of the Circuit Court, Baltimore City, Maryland. The plaintiffs in each case amended their complaints to add allegations that the disclosures in the Form S-4 filed with the Securities and Exchange Commission on January 5, 2015 in connection with the Merger, are inadequate to allow Aviv shareholders to make an informed decision whether to approve the Merger. On January 28, 2015, the court entered a stipulated consolidation order consolidating the four lawsuits into a single proceeding styled In re Aviv REIT Inc. Stockholder Litigation, Case No. 24-C-14-006352. On February 6, 2015, the parties filed a stipulation providing that the Second Amended Complaint filed by plaintiff Andrew Wolf shall serve as the operative consolidated complaint. On the same date, (1) Aviv, the Aviv Partnership and the Aviv directors filed a motion to dismiss the consolidated complaint and (2) the Company, Merger Sub and the Omega Operating Partnership separately moved to dismiss the consolidated complaint as to them. The plaintiffs have moved to expedite the discovery period. A hearing to consider the motions to dismiss and the plaintiffs' request to expedite discovery has been scheduled for February 27, 2015.

The Company believes that these actions have no merit and intend to defend vigorously against them.

Item 4 - Mine Safety Disclosures

Not applicable.

PART II

Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

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

2014				2013			
Quarter	High	Low	Dividends Per Share	Quarter	High	Low	Dividends Per Share
First	$33.89	$29.32	$ 0.49	First	$30.53	$24.13	$ 0.45
Second	38.33	33.22	0.50	Second	38.41	28.32	0.46
Third	39.31	33.69	0.51	Third	34.29	27.37	0.47
Fourth	40.74	33.89	0.52	Fourth	34.00	29.66	0.48
			$ 2.02				$ 1.86

The closing price for our common stock on the New York Stock Exchange on February 13, 2015 was $40.61 per share. As of February 13, 2015 there were 138,617,823 shares of common stock outstanding with approximately 2,741 registered holders.

The following table provides information about shares available for future issuance under our equity compensation plans as of December 31, 2014.

<u>Equity Compensation Plan Information</u>

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights (2)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (3)
Equity compensation plans approved by security holders	1,114,844	$ —	2,646,977
Equity compensation plans not approved by security holders	—	—	—
Total	1,114,844	$ —	2,646,977

(1)

Reflects (i) a maximum of 541,045 shares that could be issued if certain performance conditions are achieved related to the December 31, 2013 award of performance restricted stock units, (ii) a maximum of 309,168 shares that could be issued if certain performance condition are achieved related to the January 1, 2014 award of performance restricted stock units, (iii) 122,137 restricted stock units that were granted on January 1, 2014, and (iv) 142,494 restricted stock units that were granted on December 31, 2013.

(2) No exercise price is payable with respect to the restricted stock units and performance restricted stock units.

(3) Reflects shares of common stock remaining available for future awards under our 2013 Stock Incentive Plans.

During the fourth quarter of 2014, we purchased 53,239 outstanding shares of our common stock from employees to pay the withholding taxes related to the vesting of restricted stock.

Issuer Purchases of Common Stock

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May be Purchased Under these Plans or Programs
October 1, 2014 to October 31, 2014	17,337	$ 34.19	-	-
November 1, 2014 to November 30, 2014	-	-	-	-
December 1, 2014 to December 31, 2014	35,902	$ 39.07	-	-
Total	53,239	$ 37.48	-	-

(1) Represents shares purchased from employees to pay the withholding taxes related to the vesting of restricted stock. The shares were not part of a publicly announced repurchase plan or program.

Item 6 - Selected Financial Data

The following table sets forth our selected financial data and operating data for our Company on a historical basis. The following data should be read in conjunction with our audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. Our historical operating results may not be comparable to our future operating results. The comparability of our selected financial data is significantly affected by our acquisitions and new investments from 2010 to 2014. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Portfolio and Other Developments."

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands, except per share amounts)				
Operating Data					
Revenues from core operations	$504,787	$418,714	$350,460	$292,204	$250,985
Revenues from nursing home operations	-	-	-	-	7,336
Total revenues	$504,787	$418,714	$350,460	$292,204	$258,321
Net income available to common stockholders	221,349	172,521	120,698	47,459	49,350
Per share amounts:					
Net income available to common stockholders:					
Basic	$1.75	$1.47	$1.12	$0.46	$0.52
Diluted	1.74	1.46	1.12	0.46	0.52
Dividends, Common Stock[1]	$2.02	$1.86	$1.69	$1.55	$1.37
Dividends, Series D Preferred[1]	-	-	-	0.74	2.09
Weighted-average common shares outstanding, basic	126,550	117,257	107,591	102,119	94,056
Weighted-average common shares outstanding,diluted	127,294	118,100	108,011	102,177	94,237

	As of December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Balance Sheet Data					
Gross investments	$4,472,840	$3,924,917	$3,325,533	$2,831,132	$2,504,818
Total assets	3,921,645	3,462,216	2,982,005	2,557,312	2,304,007
Revolving line of credit	85,000	326,000	158,000	272,500	-
Term loan	200,000	200,000	100,000	-	-
Other long-term borrowings	2,093,503	1,498,418	1,566,932	1,278,900	1,176,965
Stockholders' equity	1,401,327	1,300,103	1,011,329	878,484	1,004,066

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

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Item 7 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

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

(i) those items discussed under “Risk Factors” in Item 1A of this report;
(ii) uncertainties relating to the business operations of the operators of our assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels;
(iii) the ability of any operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages and impede our ability to collect unpaid rent or interest during the process of a bankruptcy proceeding and retain security deposits for the debtors’ obligations;
(iv) our ability to sell closed or foreclosed assets on a timely basis and on terms that allow us to realize the carrying value of these assets;
(v) our ability to negotiate appropriate modifications to the terms of our credit facilities;
(vi) our ability to manage, re-lease or sell any owned and operated facilities;
(vii) the availability and cost of capital;
(viii) changes in our credit ratings and the ratings of our debt securities;
(ix) competition in the financing of healthcare facilities;
(x) regulatory and other changes in the healthcare sector;
(xi) the effect of economic and market conditions generally and, particularly, in the healthcare industry;
(xii) changes in the financial position of our operators;
(xiii) changes in interest rates;
(xiv) the amount and yield of any additional investments;
(xv) changes in tax laws and regulations affecting real estate investment trusts;
(xvi) the possibility that the proposed Merger with Aviv will not close, including by the failure to obtain applicable shareholder approvals or the failure to satisfy other closing conditions under the Merger Agreement or by the termination of the Merger Agreement;
(xvii) the possibility that the combined company will not realize estimated synergies or growth, or that such benefits may take longer to realize than expected; and
(xviii) our ability to maintain our status as a real estate investment trust.

Overview

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

Our portfolio of investments at December 31, 2014, included 568 healthcare facilities (including five facilities closed/held-for-sale), located in 38 states and operated by 50 third-party operators. Our gross investment in these facilities totaled approximately $4.4 billion at December 31, 2014, with 99% of our real estate investments related to long-term healthcare facilities. The portfolio is made up of (i) 474 SNFs, (ii) 23 ALFs, (iii) 11 specialty facilities, (iv) fixed rate mortgages on 53 SNFs and two ALFs and (v) five facilities and one parcel of land that are currently closed/held-for-sale. At December 31, 2014, we also held other investments of approximately $49.0 million, consisting primarily of secured loans to third-party operators of our facilities.

Current market and economic conditions, including deficits at both the federal and state level could result in additional cost-cutting at both the federal and state levels resulting in additional reductions to reimbursement rates and levels to our operators under both the Medicare and Medicaid programs. State deficits could be exacerbated by the potential for increased enrollment in Medicaid due to prolonged high unemployment levels and declining family incomes, which could cause states to reduce state expenditures under their respective state Medicaid programs by lowering reimbursement rates.

We currently believe that our operator coverage ratios are strong and that our operators can absorb moderate reimbursement rate reductions under Medicaid and Medicare and still meet their obligations to us. However, significant limits on the scope of services reimbursed and on reimbursement rates and fees could have a material adverse effect on an operator's results of operations and financial condition, which could adversely affect the operator's ability to meet its obligations to us.

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.

2014 and Recent Highlights

Acquisition and Other Investments

See "Portfolio and Other Developments" below for a description of 2014 acquisitions and other investments.

Issuance of 10.925 Million Shares of Common Stock

On February 9, 2015, we issued 10.925 million shares of our common stock in an underwritten public offering at a public offering price of $42.00 per share, before underwriting discounts and offering expenses. We intend to use the $439 million in net proceeds of the offering to redeem our outstanding $200 million aggregate principal amount 7.50% senior notes due 2020 (callable February 2015), repay outstanding borrowings under our revolving credit facility, and for general corporate purposes.

$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"). Under the terms of the 2013 Equity Shelf Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to $250 million. Sales of the shares will be made by means of ordinary brokers' transactions on the New York Stock Exchange at market prices, or as otherwise agreed with the applicable Manager. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable 2013 Agreement. We are not obligated to sell and the Managers are not obligated to buy or sell any shares under the 2013 Equity Shelf Agreements. No assurance can be given that we will sell any shares under the 2013 Equity Shelf Agreements, or, if we do, as to the price or amount of shares that we sell, or the dates when such sales will take place.

For the year ended December 31, 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 $1.5 million of commissions and expenses.

Since inception of the 2013 Equity Shelf Program, we sold a total of 7.4 million shares of common stock generating total gross proceeds of $233.8 million under the program, before $4.7 million of commissions. As of December 31, 2014, we had approximately $16.2 million available under the 2013 Equity Shelf Program.

Redemption of Outstanding 7.5% Senior Notes due 2020

On February 11, 2015, we announced that we will redeem all $200 million aggregate principal amount of our 7.5% senior notes on March 13, 2015.

$1.2 Billion Unsecured Credit Facility

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 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. See “Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements” below for detail.

In January 2015, we entered into an engagement letter with respect to various proposed amendments to our existing 2014 Credit Facilities. Among other modifications to the 2014 Credit Facilities, the proposed amendments would increase the amount of the 2014 Credit Facilities to $1.75 billion, consisting of a $1.25 billion senior unsecured revolving credit facility, a $200 million senior unsecured term loan facility, and a $300 million senior unsecured incremental term loan facility. The amended 2014 Credit Facilities are also expected to include an accordion feature permitting us to increase the amount of the 2014 Credit Facilities to $2.0 billion and to allocate the $250 million increase to the existing revolving or term loan facilities or additional tranches thereunder as we may elect, subject to various conditions set forth in our existing 2014 Credit Facilities. The amended 2014 Credit Facilities are expected to include maturity dates of June 27, 2017, 2018 and 2019 for the incremental term loan facility, revolving credit facility and term loan facility, respectively, subject to our ability to extend the maturity date of the revolving credit facility and the incremental term loan facility to June 27, 2019 subject to various conditions. We have received commitment letters from lenders for increased amounts that would be available under the facility in accordance with the proposed amendments, subject to our completion of the Merger transactions. Our ability to complete the proposed amendments to our existing senior unsecured credit facility is subject to a number of conditions, and the completion of definitive loan documentation. Although we expect that the amendments to our senior unsecured credit facility will be completed, we can offer no assurances that the conditions to the proposed amendments will be satisfied.

HUD Mortgage Payoffs

On October 31, 2014, we paid approximately $3.6 million to retire one mortgage guaranteed by U.S. Department of Housing and Urban Development (“HUD”) that was assumed as part of an October 2011 acquisition. The payoff resulted in a $27 thousand gain on the extinguishment of the debt due to the write-off of the $0.2 million unamortized premium offset by a prepayment fee of approximately $0.2 million.

On September 30, 2014, we paid approximately $36.1 million to retire four HUD mortgages that were assumed as part of a December 2012 acquisition. 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 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. See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below for detail.

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 Diversicare 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.

Issuance of $400 Million 4.95% of Senior Notes Due 2024 and Exchange Offer

On March 11, 2014, we sold $400 million aggregate principal amount of our 4.95% Senior Notes due 2024. The notes mature on April 1, 2024 and pay interest semi-annually on April 1st and October 1st.

On August 26, 2014, we commenced an offer to exchange $400 million of our 4.95% Senior Notes due 2024. See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below for detail."

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.

In January 2014, we drew all $200 million under the 2013 Term Loan 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 "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below for detail."

Dividends

On January 14, 2015 the Board of Directors declared a common stock dividend of $0.53 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid February 16, 2015 to common stockholders of record on February 2, 2015.

On February 17, 2014, May 15, 2014, August 15, 2014 and November 17, 2014, we paid dividends to our common stockholders in the per share amounts of $0.49, $0.50, $0.51 and $0.52, for stockholders of record on January 31, 2014, April 30, 2014, July 31, 2014 and October 31, 2014, respectively.

Portfolio and Other Developments

2014 Acquisitions and Other Investments

Pending Aviv Merger

On October 30, 2014, we, along with our newly formed subsidiaries, OHI Healthcare Properties Holdco, Inc. (“Merger Sub”) and OHI Healthcare Properties Limited Partnership, L.P. (“Omega Operating Partnership”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Aviv REIT, Inc. (“Aviv”) and Aviv Healthcare Properties Limited Partnership, L.P. (the “Aviv Operating Partnership”). The Merger Agreement provides for the merger of Aviv with and into the Merger Sub (the “Merger”), with the Merger Sub surviving as a wholly-owned subsidiary of Omega. At the effective time of the Merger, and subject to the terms and subject to the conditions set forth in the Merger Agreement, each outstanding share of Aviv common stock shall be converted into the right to receive 0.90 of a share of Omega common stock. In connection with the Merger, holders of limited partnership units of the Aviv Operating Partnership will receive units of an Omega Operating Partnership based on the same exchange ratio as provided for Aviv common stock in the Merger Agreement. Holders of Omega Operating Partnership units will have the right to tender their units for redemption at a redemption price equal to the fair market value of the Company’s common stock. The Company may generally elect to pay the redemption price for tendered Omega Operating Partnership units in cash or in shares of the Company common stock. We expect to complete the Merger early in the second quarter of 2015, subject to the terms and conditions of the Merger Agreement. We expect to issue approximately 45.5 million shares of Omega’s common stock and 10.3 million Omega Operating Partnership units as a result of the Merger.

Acquisition of Four ALFs in Pennsylvania, Oregon and Arkansas

On November 20, 2014, we completed a purchase/lease-back of four ALFs (two in Pennsylvania, one in Oregon and one in Arkansas) from an existing operator of Omega for approximately $84.2 million. The four ALFs (with 371 total beds) were leased to the operator under a new master lease with an initial annual cash yield of 6.0% and include annual escalators of 2.5%. We are in the process of completing our purchase accounting and expect the process to be complete in 2015. As of December 31, 2014, we recorded approximately $84.2 million consisting of land ($5.1 million), building and site improvements ($76.7 million), and furniture and fixtures ($2.4 million). We have not recorded goodwill in connection with this transaction.

Acquisition of One SNF in Texas

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 9.75%. We recorded 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

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 year ended December 31, 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.

Acquisitions of Three SNFs in Georgia and South Carolina

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 cash yield of 9.5%.

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 recorded 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.

$415 Million of Refinancing/Consolidating Mortgage Loans

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 required us to record 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.

Acquisition of an ALF in Arizona

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 recorded 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.

$113 Million of New Mortgage Loan

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 with a total of 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.

Acquisition costs related to the above transactions and the pending Merger with Aviv were expensed as period costs. For the year ended December 31, 2014, we expensed $3.9 million of acquisition related expenses in connection with the aforementioned acquisitions.

2013 Acquisitions and Other Investments

$529 Million Purchase/Leaseback Transaction

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 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 among four cross-defaulted Master Leases. The four regions include the Southeast (39 facilities), the Northwest (7 facilities), Texas (9 facilities) and Indiana (1 facility). The initial year one contractual rent is $47 million with 2.5% escalators beginning in year five.

Acquisition of an ALF in Florida

On October 2, 2013, we purchased a 97 bed ALF in Florida for $10.3 million in cash. The ALF was added to an existing master lease.

We completed our purchase accounting in 2014 with no change from our preliminary allocation. We recorded approximately $10.3 million consisting of land ($0.6 million), building and site improvements ($9.0 million), and furniture and fixtures ($0.7 million). We have not recorded goodwill in connection with this transaction.

Acquisition of four SNFs in Indiana

On October 31, 2013, we purchased four SNFs totaling 384 beds in Indiana for $22.2 million in cash. The four SNFs were added to an existing master lease, but the terms of the lease and the purchase price were based on an existing lease agreement between the seller and the lessee which was below current market conditions. We recorded approximately $3.0 million to below market leases as a result of the transaction for a total investment of $25.2 million.

We completed our purchase accounting in 2014 with no change from our preliminary allocation. We recorded approximately $25.2 million consisting of land ($0.7 million), building and site improvements ($21.8 million), and furniture and fixtures ($2.7 million). We have not recorded goodwill in connection with this transaction.

Transition of 11 Arkansas Facilities to a New Operator

On August 30, 2013, we transitioned 11 SNFs located in Arkansas that we previously leased to Diversicare Healthcare Services to a new third party operator. The 11 facilities represent 1,084 operating beds. We amended our Diversicare master lease to provide for reduced rent to reflect the transition of the 11 facilities to the new operator, and recorded a $2.3 million provision for uncollectible straight-line rent receivable. Simultaneously with the amendment to the Diversicare master lease, we entered into a new master lease with the new third party operator of the 11 facilities. The new master lease expires on August 30, 2023 and includes fixed annual rent escalators.

Acquisition costs related to the above transactions were expensed as period costs. For the year ended December 31, 2013, we expensed $0.2 million of acquisition related expenses.

2012 Acquisitions and Investments

Arizona and California Acquisitions

During the three-month period ended December 31, 2012, we completed the acquisition of approximately $203.4 million of new investments and leased them back to a new operator. The investments involved two separate transactions to purchase 14 facilities (12 SNFs, 1 ALF and 1 combined SNF/ALF). The combined transactions consisted of the assumption of approximately $71.9 million of HUD indebtedness and payment of $131.5 million in cash. The $71.9 million of assumed HUD debt is comprised of 8 HUD mortgage loans with a blended interest rate of 5.50% and maturities between April 2031 and February 2045. The 14 facilities, representing 1,830 operating beds, are located in California (10) and Arizona (4). The transaction involved several separate master lease agreements covering all 14 facilities.

Transaction 1 (First Closing): On November 30, 2012, we purchased four Arizona facilities (2 SNFs, 1 ALF and 1 combined SNF/ALF) for an aggregate purchase price of $60.0 million. The transaction consisted of the assumption of $27.6 million of indebtedness guaranteed by HUD and $32.4 million in cash. The blended interest rate on the HUD indebtedness assumed for the Arizona facilities was 4.73%. The four facilities were simultaneously leased back to a new operator under a new 12 year master lease.

We recorded approximately $64.6 million consisting of land ($5.5 million), building and site improvements ($55.9 million), and furniture and fixtures ($3.2 million). We recorded approximately $4.6 million of fair value adjustment related to above market debt assumed based on the terms of comparable debt and other market factors. We have not recorded goodwill in connection with this transaction.

Transaction 2 (Second Closing): In November 2012, we entered into a Purchase and Sales Agreement to purchase and then leaseback 10 California SNFs. On November 30, 2012, we purchased five SNFs for approximately $70.2 million. The five SNFs were then leased back to the new operator under a new 12 year master lease.

We recorded approximately $70.2 million consisting of land ($11.5 million), building and site improvements ($55.5 million), and furniture and fixtures ($3.2 million). We have not recorded goodwill in connection with this transaction.

Transaction 2 (Third Closing): On December 31, 2012, we purchased the remaining five California SNFs for an aggregate purchase price of $72.2 million (net of purchase price reduction of approximately $1.0 million related to funds escrowed by the seller to reimburse us for costs associated with refinancing some of the assumed HUD debt). The transaction consisted of the assumption of $44.3 million of HUD indebtedness and $28.9 million in cash. The blended interest rate on the HUD indebtedness assumed for the five California facilities was 5.97%. The five SNFs were then leased back to the new operator under new 12 year master leases.

We recorded approximately $77.5 million consisting of land ($13.0 million), building and site improvements ($60.8 million), and furniture and fixtures ($3.7 million). We recorded approximately $5.4 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt and other market factors. We have not recorded goodwill in connection with this transaction.

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Indiana Acquisitions

In 2012 we completed four transactions in Indiana involving two existing operators and 34 facilities. The following is a summary of the transactions:

Transaction 1: On June 29, 2012, we purchased one SNF encompassing 80 operating beds in Indiana for approximately $3.4 million and leased the facility back to an existing operator under an existing master lease. We recorded approximately $3.4 million consisting of land ($0.2 million), building and site improvements ($2.9 million), and furniture and fixture ($0.3 million). We have not recorded goodwill in connection with this transaction.

Transaction 2: On June 29, 2012, we purchased four facilities encompassing 383 operating beds in Indiana for approximately $21.7 million and leased the facilities to an existing operator. We recorded approximately $21.7 million consisting of land ($1.9 million), buildings and site improvements ($18.4 million) and furniture and fixtures ($1.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 3: On August 31, 2012, we purchased 27 facilities (17 SNFs, four ALFs and six independent living facilities) totaling 2,892 operating beds in Indiana from an unrelated third party for approximately $203 million in cash and assumed a liability associated with the lease of approximately $13.9 million. Simultaneous with the transaction, we also purchased one parcel of land for $2.8 million. The purchase price of both (i) 27 facilities and (ii) the parcel of land were funded from cash on hand and borrowings from our credit facility. The 27 facilities and land parcel were added to an existing master lease. We recorded approximately $219.7 million consisting of land ($16.1 million), building and site improvements ($189.2 million) and furniture and fixtures ($14.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 4: On December 31, 2012, we purchased two SNFs encompassing 167 operating beds in Indiana for approximately $9.5 million and leased these facilities back to an existing operator under a new consolidated master lease. We recorded approximately $9.5 million consisting of land ($0.6 million), building and site improvements ($8.0 million), and furniture and fixtures ($0.9 million). We have not recorded goodwill in connection with this transaction.

Michigan Acquisition and New Mortgage

On November 30, 2012, we completed $21.5 million of combined new investments with an existing operator and mortgagee. The investments involved both a purchase and mortgage transaction related to two facilities and 231 operating beds.

Purchase Transaction – We purchased one ALF for $20 million from an unrelated third party and added it to an existing master lease with an existing operator. The 171 operating bed ALF is located in Michigan. We completed our fair value allocation in 2013. We allocated approximately $20.0 million consisting of land ($0.4 million), building and site improvements ($18.9 million), and furniture and fixtures ($0.7 million). We have not recorded goodwill in connection with this transaction.

Mortgage Transaction – We entered into a new $1.5 million first mortgage loan with an existing operator/mortgagee. The mortgage is secured by a lien on one 60 operating bed SNF located in Michigan.

Texas Acquisition

On October 31, 2012, we purchased one SNF from an unrelated third party encompassing 90 operating beds in Texas for approximately $2.7 million and leased the facility to an existing operator. We recorded approximately $2.7 million consisting of land ($0.2 million), building and site improvements ($2.2 million), and furniture and fixtures ($0.3 million). We have not recorded goodwill in connection with this transaction.

Acquisition costs related to the above transactions were expensed as period costs. For the year ended December 31, 2012, we expensed $0.9 million of acquisition related expenses.

Significant Lease Amendment – Genesis Healthcare

On December 1, 2012, Genesis Healthcare (“Genesis”), an existing operator to Omega, completed the purchase of Sun Healthcare Group (“Sun”), which was also an existing operator to Omega. Prior to the purchase, Sun was our second largest tenant representing 40 facilities located in 10 states. Prior to the purchase, we also had a master lease with Genesis representing 13 facilities located in 5 states.

In connection with the acquisition, on December 1, 2012, we entered into a new 53 facility master lease with Genesis expiring on December 31, 2025. In 2013, we transitioned one facility to another operator reducing the number of facilities covered by the Genesis lease to 52 facilities.

Results of Operations

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

Year Ended December 31, 2014 compared to Year Ended December 31, 2013

Operating Revenues

Our operating revenues for the year ended December 31, 2014, were $504.8 million, an increase of $86.1 million over the same period in 2013. Following is a description of certain of the changes in operating revenues for the year ended December 31, 2014:

Rental income was $388.4 million, an increase of $13.3 million over the same period in 2013. The increase was the result of new investments made in 2013 and 2014 and lease amendments made since January 1, 2013.

Direct financing lease income was $56.7 million, an increase of $51.5 million over the same period in 2013. The increase was primarily related to the timing of the New Ark transaction. The direct financing lease was entered into in November 2013.

Mortgage interest income totaled $53.0 million, an increase of $23.7 million over the same period in 2013. The increase was primarily due to: (a) an incremental $298 million in a new mortgage loan (See $415 Million of Refinancing/Consolidating Mortgage Loans above) we entered into with an existing operator in the second quarter of 2014 and (b) a $112.5 million mortgage we entered into with an existing operator in the first quarter of 2014.

Other investment income totaled $6.6 million, a decrease of $2.4 million over the same period in 2013. The decrease was primarily related to interest received on a mezzanine loan that was paid off in December 2013.

Operating Expenses

Operating expenses for the year ended December 31, 2014, were $159.5 million, an increase of approximately $6.4 million over the same period in 2013. Following is a description of certain of the changes in our operating expenses for the year ended December 31, 2013:

Our depreciation and amortization expense was $123.3 million for the year ended December 31, 2014, compared to $128.6 million for the same period in 2013. The decrease of $5.4 million was primarily due to the acquisition of furniture and fixtures that we acquired several years ago as part of the Capital Source transaction that are now fully depreciated partially offset by the deprecation on fourth quarter of 2013 and 2014 acquisitions and capital renovation and improvement program.

Our general and administrative expense, excluding stock-based compensation expense, was $17.3 million, compared to $15.6 million for the same period in 2013. The increase is primarily related to development costs related to securing additional beds license for future development.

Our stock-based compensation expense was $8.6 million, an increase of $2.7 million over the same period in 2013. The increase was primarily due to new restricted stocks granted to employees in December 2013 and January 2014.

In 2014, acquisition costs were $3.9 million, compared to $0.2 million for the same period in 2013. The $3.7 million increase was primarily the result of $3.3 million of acquisition related costs attributed to the pending Aviv Merger.

In 2014, we recorded $3.7 million of provision for impairment, compared to $0.4 million for the same period in 2013. The $3.2 million increase in provision of impairment was primarily the result of two facilities that were closed in 2014.

Our provision for uncollectible mortgages, notes and accounts receivable was $2.7 million, compared to $2.1 million for the same period in 2013. In 2014, we recorded $2.7 million provision for uncollectible receivables related to (i) a write-off of an effective yield interest receivable related to the refinancing (termination) of a mortgage receivable (see $415 Million of Refinancing/Consolidating Mortgage Loan above) and (ii) a straight-line receivable related to the transition of two facilities from an existing operator to a new operator.

Other Income (Expense)

For the year ended December 31, 2014, total other expenses were $126.8 million, an increase of approximately $34.8 million over the same period in 2013. The $34.8 million increase was primarily the result of: (i) a $19.0 million increase in interest expense due to (a) an increase in borrowings outstanding and (b) an increase in the average rate of the borrowings due to the repayment of lower cost credit facility debt with higher cost long term bond debt and (ii) a $14.2 million increase in interest refinancing charge. In 2014, we recorded approximately $3.0 million in refinancing related costs including: (a) $2.6 million write-off of deferred financing costs associated with the termination of our previous $700 million 2012 Credit Facilities, (b) $2.0 million write-off of deferred financing costs associated with the termination of our 2013 Term Loan Facility as defined under "Issuance and Repayment of $200 Million Term Loan" below and (c) $1.7 million prepayment penalty on the payoff of HUD debt in June 2014, partially offset by $3.3 million gain related the write-off of premium on the HUD debt paid off in September 2014. In 2013, we recorded an $11.1 million gain primarily related to write-off of premium associated with HUD debt that was retired in May 2013.

2014 Taxes

Because we qualify as a REIT, we generally are not subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. For tax year 2014, we made common dividend payments of $258.6 million to satisfy REIT requirements relating to qualifying income. 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 December 31, 2014 of $1.0 million. The loss carry-forward was fully reserved with a valuation allowance due to uncertainties regarding realization. We recorded interest and penalty charges associated with tax matters as income tax expense.

Net Income

Net income for the year ended December 31, 2014 was $221.3 million compared to $172.5 million for the same period in 2013.

Funds From Operations

Our funds from operations available to common stockholders ("FFO"), for the year ended December 31, 2014, was $345.4 million, compared to $302.7 million for the same period in 2013.

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

FFO of other REITs that do not use the same definition or implementation guidelines or interpret the standards differently from us.

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

The following table presents our FFO results for the years ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	2013
	(in thousands)	
Net income available to common	$221,349	$172,521
(Deduct gain)/add back loss from real estate dispositions	(2,863)	1,151
	218,486	173,672
Elimination of non-cash items included in net income:		
Depreciation and amortization	123,257	128,646
Add back impairments on real estate properties	3,660	415
Funds from operations available to common stockholders	$345,403	$302,733

Year Ended December 31, 2013 compared to Year Ended December 31, 2012

Operating Revenues

Our operating revenues for the year ended December 31, 2013, were $418.7 million, an increase of $68.3 million over the same period in 2012. Following is a description of certain of the changes in operating revenues for the year ended December 31, 2013:

Rental income was $375.1 million, an increase of $60.5 million over the same period in 2012. The increase was primarily due to: (i) new investments made in 2012 and 2013 and (ii) the full year impact of the December 2012 Genesis merger with Sun and corresponding lease extension. In 2013, we recorded rental revenue associated with the 2012 acquisitions of approximately $54.7 million compared to approximately $11.0 million in 2012. In 2013, we recorded rental revenue associated with the 2013 acquisitions of approximately $0.6 million.

Direct financing lease income of $5.2 million is a result of the November 2013 Ark transaction.

Mortgage interest income totaled $29.4 million, a decrease of $1.1 million over the same period in 2012. The decrease was primarily due to the $12.2 million payoff of a mortgage in 2012.

Other investment income totaled $8.9 million, an increase of $4.1 million over the same period in 2012. The increase was primarily the result of: (i) a new $25 million investment in a mezzanine loan that was entered into during the current year and paid off in December 2013. The mezzanine loan included an annual interest rate of 12%. In addition, we recorded approximately $1.4 million of additional income as a result of the payoff, including a prepayment penalty of $1.0 million and acceleration of fees that we received that were being amortized over the term of the loan.

Operating Expenses

Operating expenses for the year ended December 31, 2013, were $153.0 million, an increase of approximately $17.5 million over the same period in 2012. Following is a description of certain of the changes in our operating expenses for the year ended December 31, 2012:

Our depreciation and amortization expense was $128.6 million for the year ended December 31, 2013, compared to $113.0 million for the same period in 2012. The increase is primarily due to (i) a full year of depreciation related to the fourth quarter 2012 acquisitions and (ii) additional depreciation associated with the 2013 new investment, including the 2013 acquisition and capital renovation and improvement program.

Our general and administrative expense, excluding stock-based compensation expense, was $15.6 million, compared to $15.4 million for the same period in 2012.

Both periods included stock-based compensation expense of $5.9 million.

The $2.1 million recorded in provision for uncollectible mortgages, notes and accounts receivable in 2013 was primarily related to the write-off of straight-line receivables for 11 Arkansas facilities that were transitioned from a current operator to a new operator during the third quarter of 2013.

In 2013, acquisition costs were $0.2 million, compared to $0.9 million for the same period in 2012.

Other Income (Expense)

For the year ended December 31, 2013, total other expenses were $92.0 million, a decrease of approximately $14.1 million over the same period in 2012. The $14.1 million decrease was primarily the result of a $4.9 million increase in interest expense due to an increase in borrowings outstanding, including debt assumed or incurred to finance the 2012 and 2013 investment, offset by a $19.0 million decrease in interest refinancing costs. In 2013, we recorded an $11.1 million interest refinancing gain associated with the write-off of the premium for above market value debt assumed on 11 HUD mortgage loans that we paid off in May 2013. In 2012, we recorded $7.9 million of net interest refinancing costs. The refinancing costs included: (i) $7.1 million in costs including (a) prepayment penalties of approximately $4.5 million, (b) the write-off of deferred financing costs of $2.2 million and (c) $0.4 million of expenses associated with the tender offer and redemption of our outstanding $175 million 7% 2016 Notes and (ii) $2.5 million related to the write-off of deferred financing costs associated with the termination of the $475 million 2011 Credit Facility. The 2012 costs were partially offset by a net gain of $1.7 million associated with the write-off of the premium for above market value debt assumed on four HUD loans that were paid off early during the second quarter of 2012.

2013 Taxes

Because we qualify as a REIT, we generally are not subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. For tax year 2013, we made common dividend payments of $218 million to satisfy REIT requirements relating to qualifying income. 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 December 31, 2013 of $1.0 million. The loss carry-forward was fully reserved with a valuation allowance due to uncertainties regarding realization. We recorded interest and penalty charges associated with tax matters as income tax expense.

Net Income

Net income for the year ended December 31, 2013 was $172.5 million compared to $120.7 million for the same period in 2012.

Funds From Operations

Our funds from operations available to common stockholders ("FFO"), for the year ended December 31, 2013, was $302.7 million, compared to $222.2 million for the same period in 2012.

The following table presents our FFO results for the years ended December 31, 2013 and 2012:

Year Ended
December 31,

	2013	2012
	(in thousands)	
Net income available to common	$172,521	$120,698
Add back loss/(deduct gain) from real estate dispositions	1,151	(11,799)
	173,672	108,899
Elimination of non-cash items included in net income:		
Depreciation and amortization	128,646	112,983
Add back impairments on real estate properties	415	272
Funds from operations available to common stockholders	$302,733	$222,154

Liquidity and Capital Resources

At December 31, 2014, we had total assets of $3.9 billion, stockholders' equity of $1.4 billion and debt of $2.4 billion, with such debt representing approximately 62.9% of total capitalization.

The following table shows the amounts due in connection with the contractual obligations described below as of December 31, 2014.

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
	(in thousands)				
Debt[1]	$2,367,881	$4,565	$9,749	$295,637	$2,057,930
Interest payments on long-term debt	1,128,588	123,598	250,016	245,272	509,702
Operating lease obligations	20,450	2,703	5,433	5,194	7,120
Total	$3,516,919	$130,866	$265,198	$546,103	$2,574,752

(1) The $2.4 billion of debt outstanding includes (i) $85.0 million in borrowings under the $1.0 billion senior unsecured revolving credit facility (the "Revolving Credit Facility") due in June 2018; (ii) $200 million borrowings under the $200 million senior unsecured term loan (the "Term Loan Facility") due in June 2019; (iii) $200 million aggregate principal amount of 7.5% Senior Notes due February 2020; (iv) $575 million aggregate principal amount of 6.75% Senior Notes due October 2022; (v) $400 million of 5.875% Senior Notes due March 2024; (vi) $400 million of 4.95% Senior Notes due April 2024; (vii) $250 million of 4.50% Senior Notes due January 2025; (viii) $20 million of 9.0% subordinated debt maturing in December 2021; (ix) $121 million of HUD Debt at a 4.85% annual interest rate and maturing between January 2040 and January 2045; (x) $57 million of HUD debt at a 3.06% weighted average annual interest rate maturing July 2044; (xi) $24 million of HUD debt at a 4.91% weighted average annual interest rate maturing April 2036; (xii) $27 million of HUD debt at a 4.73% weighted average annual interest rate maturing between February 2040 and February 2045 and (xiii) $9 million of HUD debt at a 4.35% weighted average annual interest rate maturing March 2041.

Financing Activities and Borrowing Arrangements

Issuance of 10.925 Million Shares of Common Stock

On February 9, 2015, we issued 10.925 million shares of our common stock in an underwritten public offering at a public offering price of $42.00 per share, before underwriting discounts and offering expenses. We intend to use the $439 million in net proceeds of the offering to redeem our outstanding $200 million aggregate principal amount 7.50% senior notes due 2020 (callable February 2015), repay outstanding borrowings under our revolving credit facility, and for general corporate purposes.

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 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 December 31, 2014, we had $85.0 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 December 31, 2014, we had $200 million in borrowings outstanding under the Term Loan Facility. The Term Loan Facility matures on June 27, 2019.

In January 2015, we entered into an engagement letter with respect to various proposed amendments to our existing 2014 Credit Facilities. Among other modifications to the 2014 Credit Facilities, the proposed amendments would increase the amount of the 2014 Credit Facilities to $1.75 billion, consisting of a $1.25 billion senior unsecured revolving credit facility, a $200 million senior unsecured term loan facility, and a $300 million senior unsecured incremental term loan facility. The amended 2014 Credit Facilities are also expected to include an accordion feature permitting us to increase the amount of the 2014 Credit Facilities to $2.0 billion and to allocate the $250 million increase to the existing revolving or term loan facilities or additional tranches thereunder as we may elect, subject to various conditions set forth in our existing 2014 Credit Facilities. The amended 2014 Credit Facilities are expected to include maturity dates of June 27, 2017, 2018 and 2019 for the incremental term loan facility, revolving credit facility and term loan facility, respectively, subject to our ability to extend the maturity date of the revolving credit facility and the incremental term loan facility to June 27, 2019 subject to various conditions. We have received commitment letters from lenders for increased amounts that would be available under the facility in accordance with the proposed amendments, subject to our completion of the Merger transactions. Our ability to complete the proposed amendments to our existing senior unsecured credit facility is subject to a number of conditions, and the completion of definitive loan documentation. Although we expect that the amendments to our senior unsecured credit facility will be completed, we can offer no assurances that the conditions to the proposed amendments will be satisfied.

For the year ended December 31, 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 Loans Payoff

On October 31, 2014, we paid approximately $3.6 million to retire one HUD mortgage that was assumed as part of an October 2011 acquisition. The payoff resulted in a $27 thousand gain on the extinguishment of the debt due to the write-off of the $0.2 million unamortized premium offset by a prepayment fee of approximately $0.2 million.

On September 30, 2014, we paid approximately $36.1 million to retire four HUD mortgages that were assumed as part of a December 2012 acquisition. 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.

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 Diversicare 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.

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Issuance and 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"). The 2013 Term Loan Facility matures 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 our 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. 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.

The credit agreements governing the 2014 Credit Facilities and the 2013 Term Loan Facility contain customary affirmative and negative covenants, including, without limitation, limitations on indebtedness; limitations on investments; limitations on liens; limitations on mergers and consolidations; limitations on sales of assets; limitations on transactions with affiliates; limitations on negative pledges; limitations on prepayment of debt; limitations on use of proceeds; limitations on changes in lines of business; limitations on repurchases of our capital stock if a default or event of default exists; and maintenance of REIT status. In addition, the credit agreements contain financial covenants, including, without limitation, those relating to maximum total leverage, maximum secured leverage, maximum unsecured leverage, minimum fixed charge coverage, minimum consolidated tangible net worth, minimum unsecured debt yield, minimum unsecured interest coverage and maximum distributions.

As of December 31, 2013 and 2014, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

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 and a portion of our indebtedness outstanding under our 2012 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.

We may redeem some or all of the notes prior to the date that is 90 days prior to the scheduled maturity of the notes at a price equal to 100% of the principal amount thereof plus a "make-whole" premium. The notes will be redeemable at any time on or after the date that is 90 days prior to the final maturity date of the notes 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.

Dividends

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

In 2014, we paid dividends of $2.02 per share of common stock and a total of $258.6 million in dividends to common stockholders.

Common Dividends

On January 14, 2015, the Board of Directors declared a common stock dividend of $0.53 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter, which was paid February 16, 2015 to common stockholders of record on February 2, 2015.

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, which was 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.

Liquidity

We believe our liquidity and various sources of available capital, including cash from operations, our existing availability under our 2014 Credit Facilities and expected proceeds from mortgage payoffs are more than adequate to finance operations, meet recurring debt service requirements and fund future investments through the next twelve months.

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

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

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

Cash and cash equivalents totaled $4.5 million as of December 31, 2014, an increase of $1.9 million as compared to the balance at December 31, 2013. The following is a discussion of changes in cash and cash equivalents due to operating, investing and financing activities, which are presented in our Consolidated Statement of Cash Flows.

Operating Activities – Operating activities generated $337.5 million of net cash flow for the year ended December 31, 2014, as compared to $279.9 million for the same period in 2013, an increase of $57.6 million. The increase was primarily due to the additional cash flow generated from new investments, including the facilities acquired and leased throughout 2013 and 2014 as well as the new investments in mortgage financing.

Investing Activities – Net cash flow from investing activities was an outflow of $547.9 million for the year ended December 31, 2014, as compared to an outflow of $598.8 million for the same period in 2013. The $50.9 million decrease in cash outflow from investing activities related primarily to (i) a decrease of $528.7 million investment in direct financing lease as compared to the same period in 2013; (ii) a decrease of $13.4 million in our capital renovation program investment compared to the same period of 2013; (iii) in 2014 we had a net cash inflow of $4.1 million from other investments – net compared to a net cash outflow of $5.7 million for the same period in 2013 and (iv) an increase of $1.8 million in proceeds from the sale of real estate in 2014 compared to the same period in 2013. Offsetting the decreases of the cash outflow was: (i) $406.6 million of net mortgage investment made in 2014 compared to $2.9 million during the same period in 2013 and (ii) $131.7 million acquisitions made in 2014 compared to $32.5 million during the same period in 2013.

Financing Activities – Net cash flow from financing activities was an inflow of $212.3 million for the year ended December 31, 2014 as compared to an inflow of $319.8 million for the same period in 2013. The $107.5 million decrease in cash inflow from financing activities was primarily a result of: (i) an increase in net payments of $409.0 million on the credit facility compared to the same period in 2013; (ii) an increase of $127.9 million in payments of long term borrowings primarily due to early extinguishment of $200 million 2013 Term Loan Facility and $42.5 million HUD mortgage loans payoff including routine HUD debt principal in 2014 as compared to a $114.6 million HUD mortgage payoff including routine HUD debt principal for the same period in 2013; (iii) a decrease in net proceeds of $131.8 million from our common stock issued through our Equity Shelf Program compared to the same period in 2013; (iv) a decrease in net proceeds of $84.6 million from issuance of 2.9 million shares of common stock compared to the same period in 2013; (v) a decrease of net proceeds of $100 million on the 2012 Term Loan Facility compared to the same period in 2013; (iv) dividend payments increased by $40.4 million due to an increase in number of shares outstanding and an increase of $0.16 per share in the common dividends. Offsetting these decreases of the cash inflow was: (i) an increase in proceeds of $782.8 million in long term borrowings which included (a) cash proceeds of $394.3 million from our 4.95% Senior Notes due 2024 issued in March 2014; (b) cash proceeds of $200 million on the 2013 Term Loan Facility in the first quarter of 2014 and (c) cash proceeds of $247.8 million from our 4.5% Senior Notes due 2025 issued in September 2014, as compared to $59.4 million proceeds from HUD debt refinancing during the first quarter of 2013.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with generally accepted accounting principles (“GAAP”) in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our significant accounting policies are described in “Note 2 – Summary of Significant Accounting Policies.” These policies were followed in preparing the consolidated financial statements for all periods presented. Actual results could differ from those estimates.

We have identified four significant accounting policies that we believe are critical accounting policies. These critical accounting policies are those that have the most impact on the reporting of our financial condition and those requiring significant assumptions, judgments and estimates. With respect to these critical accounting policies, we believe the application of judgments and assessments is consistently applied and produces financial information that fairly presents the results of operations for all periods presented. The four critical accounting policies are:

Lease Accounting

At the inception of the lease and during the amendment process, we evaluate each lease to determine if the lease should be considered an operating lease, a sales-type lease or direct financing lease. We have determined that all of our leases except for the four 2013 New Ark leases should be accounted for as operating leases. The four 2013 New Ark leases will be accounted for as direct financing leases.

For leases accounted for as operating leases, we retain ownership of the asset and record depreciation expense. We also record lease revenue based on the contractual terms of the operating lease agreement which often includes annual rent escalators, see "Revenue Recognition" below for further discussion regarding the recordation of revenue on our operating leases.

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For leases accounted for as direct financing leases, we record the present value of the future minimum lease payments (utilizing a constant interest rate over the term of the lease agreement) as a receivable and record interest income based on the contractual terms of the lease agreement. As of December 31, 2014, $3.4 million of unamortized direct costs related to originating the direct financing leases have been deferred and recorded as “other assets” in our consolidated balance sheets.

Revenue Recognition and Allowance for Doubtful Accounts

We have various different investments that generate revenue, including leased and mortgaged properties, as well as, other investments, including working capital loans. We recognized rental income and mortgage interest income and other investment income as earned over the terms of the related master leases and notes, respectively.

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 increase over the prior year’s rent, generally between 2.0% and 3.0%; (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); or (iii) specific dollar increases over prior years. Revenue under lease arrangements with fixed and determinable increases is recognized over the term of the lease on a straight-line basis. The authoritative guidance does not provide for the recognition of contingent revenue until all possible contingencies have been eliminated. We consider the operating history of the lessee, the payment history, the general condition of the industry and various other factors when evaluating whether all possible contingencies have been eliminated. We do not include contingent rents as income until the contingencies are resolved.

In the case of rental revenue recognized on a straight-line basis, we generally record reserves against earned revenues from leases when collection becomes questionable or when negotiations for restructurings of troubled operators result in significant uncertainty regarding ultimate collection. The amount of the reserve is estimated based on what management believes will likely be collected. We continually evaluate the collectability of our straight-line rent assets. If it appears that we will not collect future rent due under our leases, we will record a provision for loss related to the straight-line rent asset.

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

Gains on sales of real estate assets are recognized in accordance with the authoritative guidance for sales of real estate. The specific timing of the recognition of the sale and the related gain is measured against the various criteria in the guidance related to the terms of the transactions and any continuing involvement associated with the assets sold. To the extent the sales criteria are not met, we defer gain recognition until the sales criteria are met.

Depreciation and Asset Impairment

Under GAAP, real estate assets are stated at the lower of depreciated cost or fair value, if deemed impaired. Depreciation is computed on a straight-line basis over the estimated useful lives of 20 to 40 years for buildings and improvements and three to 10 years for furniture, fixtures and equipment. Management periodically, but not less than annually, evaluates our real estate investments for impairment indicators, including the evaluation of our assets' useful lives. The judgment regarding the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and legal structure. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows are determined to be permanently less than the carrying values of the assets. An adjustment is made to the net carrying value of the leased properties and other long-lived assets for the excess of historical cost over fair value. The fair value of the real estate investment is determined by market research, which includes valuing the property as a nursing home as well as other alternative uses. All impairments are taken as a period cost at that time, and depreciation is adjusted going forward to reflect the new value assigned to the asset.

If we decide to sell rental properties or land holdings, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell. Our estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers.

For the years ended December 31, 2014, 2013, and 2012, we recognized impairment losses of $3.7 million, $0.4 million and $0.3 million, respectively. The impairments are primarily the result of closing facilities or updating the estimated proceeds we expect for the sale of closed facilities. For additional information, see Note 3 – Properties and Note 4 – Assets Held For Sale.

Loan and Direct Financing Lease Impairment

Management evaluates our outstanding mortgage notes, direct financing leases and other notes receivable. When management identifies potential loan or direct financing lease impairment indicators, such as non-payment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator or other circumstances that may impair full execution of the loan documents or direct financing leases, and management believes it is probable that all amounts will not be collected under the contractual terms of the loan or direct financing leases, the loan or direct financing lease is written down to the present value of the expected future cash flows. In cases where expected future cash flows are not readily determinable, the loan or direct financing lease is written down to the fair value of the collateral. The fair value of the loan or direct financing leases is determined by market research, which includes valuing the property as a nursing home as well as other alternative uses.

We currently account for impaired loans and direct financing leases using (a) the cost-recovery method, and/or (b) the cash basis method. We generally utilize the cost recovery method for impaired loans or direct financing leases for which impairment reserves were recorded. We utilize the cash basis method for impairment loans or direct financing leases for which no impairment reserves were recorded because the net present value of the discounted cash flows expected under the loan or direct financing lease and/or the underlying collateral supporting the loan or direct financing lease were equal to or exceeded the book value of the loans or direct financing leases. Under the cost recovery method, we apply cash received against the outstanding loan balance or direct financing leases prior to recording interest income. Under the cash basis method, we apply cash received to principal or interest income based on the terms of the agreement. As of December 31, 2014 and 2013, we had loan loss reserves totaling $0 and $2.0 million, respectively. As of December 31, 2014 and 2013, we had no reserves for direct financing lease. In 2014 and 2013, we received recovery on previously written-off loans relating to an existing operator's note from the receivership of approximately $46 thousand and $0.2 million, respectively. In 2012, we did not record provisions for loan losses or charge-offs related to our mortgage or note receivable portfolios.

Item 7A - Quantitative and Qualitative Disclosure about Market Risk

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

The following disclosures of estimated fair value of financial instruments 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. Readers are cautioned that many of the statements contained in these paragraphs are forward-looking and should be read in conjunction with our disclosures under the heading “Forward-looking Statements, Reimbursement Issues and Other Factors Affecting Future Results” set forth above. The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented below are not necessarily indicative of the amounts we would realize in a current market exchange.

Mortgage notes receivable - The fair value of mortgage notes receivable is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Direct Financing Leases - The fair value of direct financing receivable is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Notes receivable - The fair value of notes receivable is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Borrowings under variable rate agreements - Our variable rate debt as of December 31, 2014 includes our credit facility. The fair value of our borrowings under variable rate agreements is estimated using an expected present value technique based on expected cash flows discounted using the current credit-adjusted risk-free rate.

Senior unsecured notes -The fair value of the senior unsecured notes is estimated based on open market trading activity provided by third parties.

The market value of our long-term fixed rate borrowings and mortgages is subject to interest rate risks. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of our total long-term borrowings at December 31, 2014 was approximately $2.6 billion. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $164 million at December 31, 2014. The estimated fair value of our total long-term borrowings at December 31, 2013 was approximately $2.2 billion. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $125 million at December 31, 2013.

While we currently do not engage in hedging strategies, we may engage in such strategies in the future, depending on management's analysis of the interest rate environment and the costs and risks of such strategies.

Item 8 - Financial Statements and Supplementary Data

The consolidated financial statements and the report of Ernst & Young LLP, Independent Registered Public Accounting Firm, on such financial statements are filed as part of this report beginning on page F-1. The summary of unaudited quarterly results of operations for the years ended December 31, 2014 and 2013 is included in "Note 17" to our audited consolidated financial statements, which is incorporated herein by reference in response to Item 302 of Regulation S-K.

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

None.

Item 9A - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

In connection with the preparation of our Form 10-K as of and for the year ended December 31, 2014, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2014. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2014.

Management’s Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, a company’s principal executive and principal financial officers, or persons performing similar functions, and effected by a company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations and can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

In connection with the preparation of our Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In making that assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework (1992 framework). Based on management’s assessment, management believes that, as of December 31, 2014, our internal control over financial reporting was effective based on those criteria.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included above a report of management’s assessment of the design and effectiveness of our internal controls as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2014. Our independent registered public accounting firm also reported on the effectiveness of internal control over financial reporting. The independent registered public accounting firm’s attestation report is included in our 2014 financial statements under the caption entitled “Report of Independent Registered Public Accounting Firm” and is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2014 identified in connection with the evaluation of our disclosure controls and procedures described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10 – Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2015 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

For information regarding executive officers of our Company, see "Item 1 – Business – Executive Officers of Our Company."

Code of Business Conduct and Ethics. We have adopted a written Code of Business Conduct and Ethics ("Code of Ethics") that applies to all of our directors and employees, including our chief executive officer, chief financial officer, chief accounting officer and controller. A copy of our Code of Ethics is available on our website at www.omegahealthcare.com, and print copies are available upon request without charge. You can request print copies by contacting our Chief Financial Officer in writing at Omega Healthcare Investors, Inc., 200 International Circle, Suite 3500, Hunt Valley, Maryland 21030 or by telephone at 410-427-1700. Any amendment to our Code of Ethics or any waiver of our Code of Ethics will be disclosed on our website at www.omegahealthcare.com promptly following the date of such amendment or waiver.

Item 11 - Executive Compensation

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2015 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2015 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

Item 13 - Certain Relationships and Related Transactions, and Director Independence

The information required by this item, if any, is incorporated herein by reference to our Company's definitive proxy statement for the 2015 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

Item 14 - Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2015 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

PART IV

Item 15 - Exhibits and Financial Statement Schedules

(a)(1) Listing of Consolidated Financial Statements

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

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

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

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

(c) Financial Statement Schedules — The following consolidated financial statement schedules are included herein:

Schedule III — Real Estate and Accumulated Depreciation.

Schedule IV — Mortgage Loans on Real Estate.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Omega Healthcare Investors, Inc.

We have audited the accompanying consolidated balance sheets of Omega Healthcare Investors, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2014. Our audits also included the financial statement schedules listed in the Index at Item 15(a)(2). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omega Healthcare Investors, Inc. at December 31, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Omega Healthcare Investors, Inc.'s internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated February 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 27, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Omega Healthcare Investors, Inc.

We have audited Omega Healthcare Investors, Inc.'s internal control over financial reporting as of December 31. 2014, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) (the COSO criteria). Omega Healthcare Investors, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Omega Healthcare Investors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Omega Healthcare Investors, Inc. as of December 31, 2014 and 2013, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2014 and our report dated February 27, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland

February 27, 2015

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

	December 31, 2014	December 31, 2013
ASSETS		
Real estate properties		
Land and buildings	$3,223,785	$3,099,547
Less accumulated depreciation	(821,712)	(707,410)
Real estate properties – net	2,402,073	2,392,137
Investment in direct financing leases	539,232	529,445
Mortgage notes receivable	648,079	241,515
	3,589,384	3,163,097
Other investments	48,952	53,054
	3,638,336	3,216,151
Assets held for sale – net	12,792	1,356
Total investments	3,651,128	3,217,507
Cash and cash equivalents	4,489	2,616
Restricted cash	29,076	31,759
Accounts receivable – net	168,176	147,504
Other assets	68,776	62,830
Total assets	$3,921,645	$3,462,216
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving line of credit	$85,000	$326,000
Term loan	200,000	200,000
Secured borrowings	251,454	298,531
Unsecured borrowings – net	1,842,049	1,199,887
Accrued expenses and other liabilities	141,815	137,695
Total liabilities	2,520,318	2,162,113
Stockholders' equity:		
Common stock $.10 par value authorized – 200,000 shares, issued and outstanding – 127,606 shares as of December 31, 2014 and 123,530 as of December 31, 2013	12,761	12,353
Common stock – additional paid-in capital	2,136,234	1,998,169
Cumulative net earnings	1,147,998	926,649
Cumulative dividends paid	(1,895,666)	(1,637,068)
Total stockholders' equity	1,401,327	1,300,103
Total liabilities and stockholders' equity	$3,921,645	$3,462,216

See accompanying notes.

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

	Year Ended December 31,		
	2014	2013	2012
Revenues			
Rental income	$388,443	$375,135	$314,592
Income from direct financing leases	56,719	5,203	-
Mortgage interest income	53,007	29,351	30,446
Other investment income – net	6,618	9,025	5,422
Total operating revenues	504,787	418,714	350,460
Expenses			
Depreciation and amortization	123,257	128,646	112,983
General and administrative	25,888	21,588	21,330
Acquisition costs	3,948	245	909
Impairment on real estate properties	3,660	415	272
Provisions for uncollectible mortgages, notes and accounts receivable	2,723	2,141	-
Total operating expenses	159,476	153,035	135,494
Income before other income and expense	345,311	265,679	214,966
Other income (expense)			
Interest income	44	41	29
Interest expense	(119,369)	(100,381)	(95,527)
Interest – amortization of deferred financing costs	(4,459)	(2,779)	(2,649)
Interest – refinancing (costs) gain	(3,041)	11,112	(7,920)
Total other expense	(126,825)	(92,007)	(106,067)
Income before gain (loss) on assets sold	218,486	173,672	108,899
Gain (loss) on assets sold – net	2,863	(1,151)	11,799
Net income available to common stockholders	$221,349	$172,521	$120,698
Income per common share available to common stockholders:			
Basic:			
Net income	$1.75	$1.47	$1.12
Diluted:			
Net income	$1.74	$1.46	$1.12
Weighted-average shares outstanding, basic	126,550	117,257	107,591
Weighted-average shares outstanding, diluted	127,294	118,100	108,011

See accompanying notes.

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

	Common Stock Par Value	Common Stock Additional Paid in Capital	Cumulative Net Earnings	Cumulative Dividends Paid	Total
Balance at December 31, 2011 (103,410 common shares)	$ 10,341	$ 1,471,381	$ 633,430	$ (1,236,668)	$ 878,484
Issuance of common stock:					
Grant of restricted stock to company executives (428 shares)	43	(43)	—	—	—
Grant of restricted stock to company directors (13 shares at $20.29 per share)	1	(1)	—	—	—
Amortization of restricted stock	—	5,880	—	—	5,880
Vesting of restricted stock to company executives, net of tax withholdings (72 shares)	7	(1,247)	—	—	(1,240)
Dividend reinvestment plan (5,063 shares at $22.11 per share)	506	111,408	—	—	111,914
Grant of stock as payment of directors fees (9 shares at an average of $22.17 per share)	1	199	—	—	200
Equity Shelf Program (3,398 shares at $23.47 per share, net of issuance costs)	340	77,278	—	—	77,618
Net income	—	—	120,698	—	120,698
Common dividends ($1.69 per share)	—	—	—	(182,225)	(182,225)
Balance at December 31, 2012 (112,393 common shares)	11,239	1,664,855	754,128	(1,418,893)	1,011,329
Issuance of common stock:					
Grant of restricted stock to company directors (15 shares at $30.33 per share)	2	(2)	—	—	—
Amortization of restricted stock	—	5,817	—	—	5,817
Restricted stock shares surrendered for tax withholding (193 shares)	(19)	(5,755)	—	—	(5,774)
Dividend reinvestment plan (1,930 shares at $28.94 per share)	193	55,632	—	—	55,825
Grant of stock as payment of directors fees (6 shares at an average of $31.21 per share)	—	187	—	—	187
Equity Shelf Program (6,504 shares at $30.48 per share, net of issuance costs)	650	193,149	—	—	193,799
Issuance of common stock(2,875 shares at $29.48 per share)	288	84,286	—	—	84,574
Net income	—	—	172,521	—	172,521
Common dividends ($1.86 per share)	—	—	—	(218,175)	(218,175)

Balance at December 31, 2013 (123,530 common shares)	12,353	1,998,169	926,649	(1,637,068)	1,300,103
Issuance of common stock:					
Grant of restricted stock to company directors (12 shares at $35.79 per share)	1	(1)	—	—	—
Amortization of restricted stock	—	8,382	—	—	8,382
Vesting of restricted stock to company executives, net of tax withholdings (126 shares)	13	(3,590)	—	—	(3,577)
Dividend reinvestment plan (2,084 shares at $34.32 per share)	208	71,279	—	—	71,487
Grant of stock as payment of directors fees (6 shares at an average of $35.52 per share)	1	199	—	—	200
Equity Shelf Program (1,848 shares at $34.33 per share, net of issuance costs)	185	61,796	—	—	61,981
Net income	—	—	221,349	—	221,349
Common dividends ($2.02 per share)	—	—	—	(258,598)	(258,598)
Balance at December 31, 2014 (127,606 common shares)	$ 12,761	$ 2,136,234	$ 1,147,998	$ (1,895,666)	$ 1,401,327

See accompanying notes.

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

	Year Ended December 31, 2014	2013	2012
Cash flows from operating activities			
Net income	221,349	$172,521	$120,698
Adjustment to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	123,257	128,646	112,983
Provision for impairment on real estate properties	3,660	415	272
Provision for uncollectible mortgages, notes and accounts receivable	2,723	2,141	—
Amortization of deferred financing and debt extinguishment costs (gain)	7,500	(8,333)	10,569
Accretion of direct financing leases	(9,787)	(770)	—
Restricted stock amortization expense	8,592	5,942	5,942
(Gain) loss on assets sold – net	(2,863)	1,151	(11,799)
Amortization of acquired in-place leases - net	(4,986)	(5,083)	(5,312)
Other	—	—	(663)
Change in operating assets and liabilities – net of amounts assumed/acquired:			
Accounts receivable, net	(2,264)	867	(246)
Straight-line rent receivables	(20,956)	(26,899)	(25,404)
Lease inducements	2,656	3,080	3,369
Effective yield receivable on mortgage notes	(2,878)	(1,757)	(2,235)
Other operating assets and liabilities	11,537	8,028	97
Net cash provided by operating activities	337,540	279,949	208,271
Cash flows from investing activities			
Acquisition of real estate – net of liabilities assumed and escrows acquired	(131,689)	(32,515)	(396,623)
Investment in direct financing leases	—	(528,675)	—
Placement of mortgage loans	(529,548)	(3,378)	(11,969)
Proceeds from sale of real estate investments – net	4,077	2,292	29,023
Capital improvements to real estate investments	(17,917)	(31,347)	(29,436)
Proceeds from other investments	13,589	30,962	15,355
Investments in other investments	(9,441)	(36,655)	(9,737)
Collection of mortgage principal	122,984	485	12,684
Net cash used in investing activities	(547,945)	(598,831)	(390,703)
Cash flows from financing activities			
Proceeds from credit facility borrowings	900,000	511,000	712,000
Payments on credit facility borrowings	(1,141,000)	(343,000)	(726,500)
Proceeds from term loan	—	100,000	—
Receipts of other long-term borrowings	842,148	59,355	400,000
Payments of other long-term borrowings	(242,544)	(114,642)	(190,686)
Payments of financing related costs	(17,716)	(3,234)	(17,124)
Receipts from dividend reinvestment plan	71,487	55,825	111,914
Payments for exercised options and restricted stock – net	(3,577)	(5,774)	(1,240)
Net proceeds from issuance of common stock	61,981	278,373	77,618
Dividends paid	(258,501)	(218,116)	(182,190)
Net cash provided by financing activities	212,278	319,787	183,792

Increase in cash and cash equivalents	1,873	905	1,360
Cash and cash equivalents at beginning of year	2,616	1,711	351
Cash and cash equivalents at end of year	$4,489	$2,616	$1,711
Interest paid during the period, net of amounts capitalized	$110,919	$100,716	$94,841

Non-cash investing activities:

	Year Ended December 31,		
	2014	2013	2012
	(in thousands)		
Assumed debt obligations	$ —	$ —	$ 80,946
Assumed other assets/liabilities	—	—	13,640
Total non-cash real estate acquisition related items	$ —	$ —	$ 94,586

See accompanying notes.

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OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Organization

Omega Healthcare Investors, Inc. (“Omega,” “we,” “our” or the “Company”) a Maryland corporation, is a self-administered real estate investment trust (“REIT”). From the date that we commenced operations in 1992, we have invested primarily in income-producing healthcare facilities, which include long-term care skilled nursing facilities (“SNFs”), assisted living facilities (“ALFs”), independent living facilities and rehabilitation hospitals.

We have one reportable segment consisting of investments in healthcare related real estate properties. Our business is to provide financing and capital to the long-term healthcare industry with a particular focus on SNFs located in the United States. Our core portfolio consists of long-term lease 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.

Substantially all depreciation expenses reflected in the consolidated statements of operations relate to the ownership of our investment in real estate. At December 31, 2014, we have investments in 568 healthcare facilities located throughout the United States, including five facilities that are currently closed/held-for-sale.

On October 30, 2014, we, along with our newly formed subsidiaries, OHI Healthcare Properties Holdco, Inc. and OHI Healthcare Properties Limited Partnership, L.P. (“Omega Operating Partnership”), entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Aviv REIT, Inc. (“Aviv”) and Aviv Healthcare Properties Limited Partnership, L.P. (the “Aviv Operating Partnership”). The Merger Agreement provides for the merger of Aviv with and into the Merger Sub (the “Merger”), with the Merger Sub surviving as a wholly-owned subsidiary of Omega. At the effective time of the Merger, and subject to the terms and subject to the conditions set forth in the Merger Agreement, each outstanding share of Aviv common stock shall be converted into the right to receive 0.90 of a share of Omega common stock. In connection with the Merger, holders of limited partnership units of the Aviv Operating Partnership will receive units of the Omega Operating Partnership based on the same exchange ratio as provided for Aviv common stock in the Merger Agreement. Holders of Omega Operating Partnership units will have the right to tender their units for redemption at a redemption price equal to the fair market value of the Company’s common stock. The Company may generally elect to pay the redemption price for tendered Omega Operating Partnership units in cash or in shares of the Company common stock. We expect to complete the Merger early in the second quarter of 2015, subject to the terms and conditions of the Merger Agreement. We expect to issue approximately 45.5 million shares of Omega’s common stock and 10.3 million Omega Operating Partnership units as a result of the Merger.

All disclosures related to the number of beds are unaudited.

Consolidation

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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

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

Fair Value Measurement

The Company measures and discloses the fair value of nonfinancial and financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 - quoted prices for identical instruments in active markets;

Level 2 - quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 - fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

The Company measures fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at fair value. When available, the Company utilizes quoted market prices from an independent third party source to determine fair value and classifies such items in Level 1. In some instances where a market price is available, but the instrument is in an inactive or over-the-counter market, the Company consistently applies the dealer (market maker) pricing estimate and classifies the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads and/or market capitalization rates. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or Level 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by the Company include discounted cash flow and Monte-Carlo valuation models.

Purchase Accounting/Real Estate Investments and Depreciation

We record the purchase of properties to net tangible and identified intangible assets acquired and liabilities assumed at their fair value. In making estimates of fair value for purposes of recording the purchase, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. We also consider information obtained about each property as a result of our pre-acquisition due diligence, marketing and leasing activities as well as other critical valuation metrics such as capitalization rates and discount rates used to estimate the fair value of the tangible and intangible assets acquired (Level 3). When liabilities are assumed as part of a transaction, we consider information obtained about the liabilities and use similar valuation metrics (Level 3). In some instances when debt is assumed and an identifiable active market for similar debt is present, we use market interest rates for similar debt to estimate the fair value of the debt assumed (Level 2). The Company determines fair value as follows:

Land is determined based on third party appraisals.

Buildings and site improvements acquired are valued using a combination of discounted cash flow projections that assume certain future revenue and costs and consider capitalization and discount rates using current market conditions as well as replacement cost analysis.

Furniture and fixture is determined based on third party appraisals.

Intangible assets acquired are valued using a combination of discounted cash flow projections as well as other valuation techniques based on current market conditions for the intangible asset being acquired. For additional information regarding above and below market leases assumed as part of an acquisition see "In-Place Leases" below.

Other assets acquired and liabilities assumed are typically valued at stated amounts, which approximate fair value on the date of the acquisition.

Assumed debt balances are valued by discounting the contractual cash flows using a current market rate of interest rate, with the computed discount/premium amortized over the remaining term of the obligation assumed.

The costs of significant improvements, renovations and replacements are capitalized. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement. Expenditures for maintenance and repairs are charged to operations as they are incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives ranging from 20 to 40 years for buildings and improvements and three to 10 years for furniture, fixtures and equipment. Leasehold interests are amortized over the shorter of the estimated useful life or term of the lease.

As of December 31, 2014 and 2013, we had identified conditional asset retirement obligations primarily related to the future removal and disposal of asbestos that is contained within certain of our real estate investment properties. The asbestos is appropriately contained, and we believe we are compliant with current environmental regulations. If these properties undergo major renovations or are demolished, certain environmental regulations are in place, which specify the manner in which asbestos must be handled and disposed. We are required to record the fair value of these conditional liabilities if they can be reasonably estimated. As of December 31, 2014 and 2013, sufficient information was not available to estimate our liability for conditional asset retirement obligations as the obligations to remove the asbestos from these properties have indeterminable settlement dates. As such, no liability for conditional asset retirement obligations was recorded on our accompanying consolidated balance sheets as of December 31, 2014 and 2013.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Lease Accounting

At the inception of the lease and during the amendment process, we evaluate each lease to determine if the lease should be considered an operating lease, sales-type lease, or direct financing lease. We have determined that all of our leases except for the four New Ark Investment, Inc. ("New Ark") leases entered into in 2013 should be accounted for as operating leases. The four New Ark leases are accounted for as direct financing leases.

For leases accounted for as operating leases, we retain ownership of the asset and record depreciation expense, see "Purchase Accounting/Real Estate Investments and Depreciation" above for additional information regarding our investment in real estate leased under operating lease agreements. We also record lease revenue based on the contractual terms of the operating lease agreement which often includes annual rent escalators, see "Revenue Recognition" below for further discussion regarding the recordation of revenue on our operating leases.

For leases accounted for as direct financing leases, we record the present value of the future minimum lease payments (utilizing a constant interest rate over the term of the lease agreement) as a receivable and record interest income based on the contractual terms of the lease agreement. The New Ark lease agreements include annual rent escalators; see "Revenue Recognition" below for further discussion regarding the recording of interest income on our direct financing leases. As of December 31, 2014, $3.4 million of unamortized direct costs related to originating the direct financing leases have been deferred and recorded as "other assets" in our consolidated balance sheets.

In-Place Leases

In-place lease assets and liabilities result when we assume a lease as part of a facility purchase. The fair value of in-place leases consists of the following components as applicable (1) the estimated cost to replace the leases, and (2) the above/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place at the time of acquisition to projected cash flows of comparable market-rate leases (referred to as Lease Intangibles). Lease Intangible assets and liabilities are classified as lease contracts above and below market value, respectively in "other assets" and "accrued expenses and other liabilities," and amortized on a straight-line basis as decreases and increases, respectively, to rental revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portion of the Lease Intangible is written off.

As of December 31, 2014 and 2013, we had $20.4 million and $26.5 million, respectively, of below market leases and $2.4 million and $3.5 million, respectively, of above market leases recorded on our consolidated balance sheets. We expect net amortization of the in-place leases to increase rental income by:

	(in millions)
2015	$ 4.3
2016	3.1
2017	2.0
2018	1.7
2019	1.5

Thereafter	5.4
Total	$ 18.0

For the years ended December 31, 2014, 2013 and 2012, we have amortized $5.0 million, $5.0 million and $5.3 million, respectively as a net increase to rental revenue.

Asset Impairment

Management periodically, but not less than annually, evaluates our real estate investments for impairment indicators, including the evaluation of our assets' useful lives. The judgment regarding the existence of impairment indicators is based on factors such as, but not limited to, market conditions, operator performance and legal structure. If indicators of impairment are present, management evaluates the carrying value of the related real estate investments in relation to the future undiscounted cash flows of the underlying facilities. Provisions for impairment losses related to long-lived assets are recognized when expected future undiscounted cash flows are determined to be less than the carrying values of the assets. An adjustment is made to the net carrying value of the real estate investments for the excess of carrying value over fair value. The fair value of the real estate investment is determined by market research, which includes valuing the property as a nursing home as well as other alternative uses. All impairments are taken as a period cost at that time, and depreciation is adjusted going forward to reflect the new value assigned to the asset.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

If we decide to sell real estate properties or land holdings, we evaluate the recoverability of the carrying amounts of the assets. If the evaluation indicates that the carrying value is not recoverable from estimated net sales proceeds, the property is written down to estimated fair value less costs to sell. Our estimates of cash flows and fair values of the properties are based on current market conditions and consider matters such as rental rates and occupancies for comparable properties, recent sales data for comparable properties, and, where applicable, contracts or the results of negotiations with purchasers or prospective purchasers.

For the years ended December 31, 2014, 2013 and 2012, we recognized impairment losses of $3.7 million, $0.4 million and $0.3 million, respectively. The impairments are primarily the result of closing facilities or updating the estimated proceeds we expect to receive for the sale of closed facilities. For additional information, see Note 3 – Properties and Note 4 – Assets Held For Sale.

Loan and Direct Financing Lease Impairment

Management evaluates our outstanding mortgage notes, direct financing leases and other notes receivable. When management identifies potential loan or direct financing lease impairment indicators, such as non-payment under the loan documents, impairment of the underlying collateral, financial difficulty of the operator or other circumstances that may impair full execution of the loan documents or direct financing leases, and management believes it is probable that all amounts will not be collected under the contractual terms of the loan or direct financing lease, the loan or direct financing lease is written down to the present value of the expected future cash flows. In cases where expected future cash flows are not readily determinable, the loan or direct financing lease is written down to the fair value of the collateral. The fair value of the loan or direct financing lease is determined by market research, which includes valuing the property as a nursing home as well as other alternative uses.

We currently account for impaired loans and direct financing leases using (a) the cost-recovery method, and/or (b) the cash basis method. We generally utilize the cost-recovery method for impaired loans or direct financing leases for which impairment reserves were recorded. We utilize the cash basis method for impaired loans or direct financing leases for which no impairment reserves were recorded because the net present value of the discounted cash flows expected under the loan or direct financing lease and/or the underlying collateral supporting the loan or direct financing lease were equal to or exceeded the book value of the loans or direct financing leases. Under the cost-recovery method, we apply cash received against the outstanding loan balance or direct financing lease prior to recording interest income. Under the cash basis method, we apply cash received to principal or interest income based on the terms of the agreement. As of December 31, 2014 and 2013, we had loan loss reserves totaling $0 and $2.0 million, respectively. As of December 31, 2014 and 2013, we had no reserves for direct financing leases. In 2014 and 2013, we received recovery on previously written-off loans relating to an existing operator's note from the receivership of approximately $46 thousand and $0.2 million, respectively. In 2012, we did not record provisions for loan losses or charge-offs related to our mortgage or note receivable portfolios.

For additional information, see Note 5 – Direct Financing Leases, Note 6 – Mortgage Notes Receivable and Note 7 – Other Investments.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and highly liquid investments with a maturity date of three months or less when purchased. These investments are stated at cost, which approximates fair value. The majority of our cash and cash equivalents are held at major commercial banks.

Restricted Cash

Restricted cash consists primarily of funds escrowed for tenants' security deposits required by us pursuant to certain contractual terms (see Note 9 – Lease and Mortgage Deposits).

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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 the lease agreement. 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 due to us contractually. Lease inducements result from value provided by us to the lessee at the inception or renewal of the lease and 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:

	December 31,	
	2014	2013
	(in thousands)	
Contractual receivables	$4,799	$2,941
Effective yield interest receivables	6,232	5,333
Straight-line receivables	143,652	123,486
Lease inducements	13,571	16,228
Allowance	(78)	(484)
Accounts receivable – net	$168,176	$147,504

In 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 a mortgage note that was due November 2021. See Note 6 – Mortgage Notes Receivable 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, the operator's financial condition as well as current and future anticipated operating trends when evaluating whether to establish allowance reserves.

Deferred Financing Costs

External costs incurred from placement of our debt are capitalized and amortized on a straight-line basis over the terms of the related borrowings which approximates the effective interest method. The deferred financing costs are included in “other assets” in our consolidated balance sheets. Amortization of financing costs totaling $4.5 million, $2.8 million and $2.6 million in 2014, 2013 and 2012, respectively, is classified as “interest - amortization of deferred financing costs” in our consolidated statements of operations. When financings are terminated, unamortized deferred financing costs, as well as charges incurred for the termination, are expensed at the time the termination is made. Gains and losses from the extinguishment of debt are presented within income from continuing operations in the accompanying consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Revenue Recognition

We have various different investments that generate revenue, including leased and mortgaged properties, as well as other investments, including working capital loans. We recognize rental income and other investment income as earned over the terms of the related master leases and notes, respectively. Interest income is recorded on an accrual basis to the extent that such amounts are expected to be collected using the effective interest method. In applying the effective interest method, the effective yield on a loan is determined based on its contractual payment terms, adjusted for prepayment terms.

Substantially all of our operating 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 increase over the prior year's rent, generally between 2.0% and 3.0%; (ii) an increase based on the change in pre-determined formulas from year to year (e.g. increases in the Consumer Price Index); or (iii) specific dollar increases over prior years. Revenue under lease arrangements with minimum fixed and determinable increases is recognized over the non-cancellable term of the lease on a straight-line basis. The authoritative guidance does not provide for the recognition of contingent revenue until all possible contingencies have been eliminated. We consider the operating history of the lessee, the payment history, the general condition of the industry and various other factors when evaluating whether all possible contingencies have been eliminated. We do not recognize contingent rents as income until the contingencies have been resolved.

In the case of rental revenue recognized on a straight-line basis, we generally record reserves against earned revenues from leases when collection becomes questionable or when negotiations for restructurings of troubled operators result in significant uncertainty regarding ultimate collection. The amount of the reserve is estimated based on what management believes will likely be collected. We continually evaluate the collectability of our straight-line rent assets. If it appears that we will not collect future rent due under our leases, we will record a provision for loss related to the straight-line rent asset.

We record direct financing lease income on a constant interest rate basis over the term of the lease. The costs related to originating the direct financing leases have been deferred and are being amortized on a straight-line basis as a reduction to income from direct financing leases over the term of the direct financing leases.

Gains on sales of real estate assets are recognized in accordance with the authoritative guidance for sales of real estate. The specific timing of the recognition of the sale and the related gain is measured against the various criteria in the guidance related to the terms of the transactions and any continuing involvement associated with the assets sold. To the extent the sales criteria are not met, we defer gain recognition until the sales criteria are met.

Assets Held for Sale and Discontinued Operations

Assets that qualify as held for sale may also be considered as a discontinued operation if they meet the new criteria set by the Financial Accounting Standards Board ("FASB") (see "Recent Accounting Pronouncements" below). For assets that qualify as discontinued operations, we reclassify the operations of those assets to discontinued operations in the consolidated statements of operations for all periods presented and assets held for sale in the consolidated balance sheets for all periods presented. We had three facilities and one parcel of land classified as held for sale as of

December 31, 2014 with a net book value of $12.8 million. We had three facilities and one parcel of land classified as held for sale as of December 31, 2013 with a net book value of $1.4 million. The held for sale assets do not meet the FASB criteria to be classified as discontinued operations.

Earnings Per Share

Basic earnings per common 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 year. All outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends or dividend equivalents that participate in undistributed earnings with common stockholders are considered participating securities that shall be included in the two-class method of computing basic EPS. Diluted EPS reflects the potential dilution that could occur from shares issuable through stock-based compensation, including stock options and restricted stock. For additional information, see Note 19 – Earnings Per Share.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Income Taxes

We were organized to qualify for taxation as a REIT under Section 856 through 860 of the Code. As long as we qualify as a REIT; we will not be subject to Federal income taxes on the REIT taxable income that we distributed to stockholders, subject to certain exceptions. In 2014, we paid common dividend payments of $258.6 million which satisfies the 2014 REIT requirements relating to qualifying income. We are permitted to own up to 100% of a taxable REIT subsidiary ("TRS"). 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 loss carry forward of $1.0 million was fully reserved with a valuation allowance due to uncertainties regarding realization. We record interest and penalty charges associated with tax matters as income tax. For additional information on income taxes, see Note 12 – Taxes. As of December 31, 2014 and 2013, we did not have any unrecognized tax benefits. We do not believe that there will be any material changes in our unrecognized tax positions over the next 12 months. We are subject to examination by the respective taxing authorities for the tax years 2007 through 2014.

Stock-Based Compensation

Stock-based compensation expense is adjusted for estimated forfeitures and is recognized on a straight-line basis over the requisite service period of the awards, see Note 15 – Stock-Based Compensation for additional details.

Recent Accounting Pronouncements

Discontinued Operations

In April 2014, we adopted the 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.

Risks and Uncertainties

Our company is subject to certain risks and uncertainties affecting the healthcare industry as a result of healthcare legislation and growing regulation by federal, state and local governments. Additionally, we are subject to risks and uncertainties as a result of changes affecting operators of nursing home facilities due to the actions of governmental agencies and insurers to limit the growth in cost of healthcare services (see Note 8 – Concentration of Risk).

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 3 - PROPERTIES

Leased Property

Our leased real estate properties, represented by 421 SNFs, 22 ALFs and 11 specialty facilities at December 31, 2014, are leased under provisions of single leases and master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of the single leases and master leases provide for minimum annual rentals that are typically subject to annual increases. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

A summary of our investment in leased real estate properties is as follows:

	December 31,	
	2014	2013
	(in thousands)	
Buildings	$2,745,872	$2,631,774
Site improvement and equipment	227,411	222,394
Land	250,502	245,379
	3,223,785	3,099,547
Less accumulated depreciation	(821,712)	(707,410)
Total	$2,402,073	$2,392,137

The future minimum estimated contractual rents due for the remainder of the initial terms of the leases are as follows at December 31, 2014:

	(in thousands)
2015	$380,157
2016	387,580
2017	395,079
2018	381,697
2019	364,405
Thereafter	1,823,132
Total	$3,732,050

Below is a summary of the significant transactions that occurred from 2012 to 2014.

2014 Acquisitions/Other

Acquisition of Four ALFs in Pennsylvania, Oregon and Arkansas

On November 20, 2014, we completed a purchase/lease-back of four ALFs (two in Pennsylvania, one in Oregon and one in Arkansas) from an existing operator of Omega for approximately $84.2 million. The four ALFs (with 371 total beds) were leased to the operator under a new master lease with an initial annual cash yield of 6.0%.

We are awaiting additional information necessary, including information related to an earn-out provision in order to finalize our purchase accounting and expect the allocation process to be complete in 2015. As of December 31, 2014, we preliminarily recorded approximately $84.2 million consisting of land ($5.1 million), building and site improvements ($76.7 million), and furniture and fixtures ($2.4 million). We have not recorded goodwill in connection with this transaction.

Acquisition of One SNF in Texas

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 9.75%. We recorded 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.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Transition of Two West Virginia Facilities to a New Operator

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 year ended December 31, 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.

Acquisition of Three SNFs in South Carolina and Georgia

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 new 12 year master lease with an initial annual cash yield of 9.5%.

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 recorded 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.

Acquisition of One ALF in Arizona

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 recorded 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.

For the year ended December 31, 2014, revenue attributable to the acquired assets was approximately $3.2 million and net income attributable to the acquired assets was approximately $1.2 million recognized in the consolidated statement of operations. Acquisition costs related to the above transactions and the pending Merger with Aviv were expensed as period costs. For the year ended December 31, 2014, we expensed $3.9 million of acquisition related expenses, including costs associated with the aforementioned acquisitions.

2013 Acquisitions/Other

Acquisition of an ALF in Florida

On October 2, 2013, we purchased a 97 bed ALF in Florida for $10.3 million in cash. The ALF was added to an existing master lease.

We completed our purchase accounting in 2014 with no change from our preliminary allocation. As of December 31, 2013, we recorded approximately $10.3 million consisting of land ($0.6 million), building and site improvements ($9.0 million), and furniture and fixtures ($0.7 million). We have not recorded goodwill in connection with this transaction.

Acquisition of four SNFs in Indiana

On October 31, 2013, we purchased four SNFs totaling 384 beds in Indiana for $22.2 million in cash. The four SNFs were added to an existing master lease, but the terms of the lease and the purchase price were based on an existing lease agreement between the seller and the lessee which was below current market conditions. We recorded approximately $3.0 million to below market leases as a result of the transaction for a total investment of $25.2 million. We have not recorded goodwill in connection with this transaction.

We completed our purchase accounting in 2014 with no change from our preliminary allocation. As of December 31, 2013, we recorded approximately $25.2 million consisting of land ($0.7 million), building and site improvements ($21.8 million), and furniture and fixtures ($2.7 million).

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Acquisition costs related to the above transactions were expensed as period costs. For the year ended December 31, 2013, we expensed $0.2 million of acquisition related expenses.

Transition of 11 Arkansas Facilities to a New Operator

On August 30, 2013, we transitioned 11 SNFs located in Arkansas that we previously leased to Diversicare Healthcare Services to a new third party operator. The 11 facilities represent 1,084 operating beds. We amended our Diversicare master lease to provide for reduced rent to reflect the transition of the 11 facilities to the new operator, and recorded a $2.3 million provision for uncollectible straight-line rent receivable. Simultaneously with the amendment to the Diversicare master lease, we entered into a new master lease with the new third party operator of the 11 facilities. The new master lease expires on August 31, 2023 and includes fixed annual rent escalators.

2012 Acquisitions/Other

Genesis Healthcare

On December 1, 2012, Genesis Healthcare (“Genesis”), an existing operator to Omega, completed the purchase of Sun Healthcare Group (“Sun”), which was also an existing operator to Omega. Prior to the purchase, Sun was our second largest tenant representing 40 facilities located in 10 states. Prior to the purchase, we also had a master lease with Genesis representing 13 facilities located in 5 states.

In connection with the acquisition, on December 1, 2012, we entered into a 53 facility master lease with Genesis expiring on December 31, 2025. In 2013, we transitioned one facility to another operator reducing the number of facilities covered by the Genesis lease to 52 facilities.

Arizona and California Acquisitions

During the year ended December 31, 2012, we completed the acquisition of approximately $203.4 million of new investments and leased them to a new operator. The investments involved two separate transactions to purchase 14 facilities (12 SNFs, 1 ALF and 1 combined SNF/ALF). The combined transactions consisted of the assumption of approximately $71.9 million of indebtedness guaranteed by the Department of Housing and Urban Development (“HUD”) and payment of $131.5 million in cash. The $71.9 million of assumed HUD debt is comprised of 8 HUD mortgage loans with a blended interest rate of 5.50% and maturities between April 2031 and February 2045. The 14 facilities, representing 1,830 operating beds, are located in California (10) and Arizona (4). The transaction involved several separate master lease agreements covering all 14 facilities.

Transaction 1 (First Closing): On November 30, 2012, we purchased four Arizona facilities (2 SNFs, 1 ALF and 1 combined SNF/ALF) for an aggregate purchase price of $60.0 million. The transaction consisted of the assumption of $27.6 million of indebtedness guaranteed by HUD and $32.4 million in cash. The blended interest rate on the HUD indebtedness assumed for the Arizona facilities was 4.73%. The four facilities were simultaneously leased back to a new operator under a new 12 year master lease.

We recorded approximately $64.6 million consisting of land ($5.5 million), building and site improvements ($55.9 million), and furniture and fixtures ($3.2 million). We recorded approximately $4.6 million of fair value adjustment related to above market debt assumed based on the terms of comparable debt and other market factors. We have not recorded goodwill in connection with this transaction.

Transaction 2 (Second Closing): In November 2012, we entered into a Purchase and Sales Agreement to purchase and then leaseback 10 California SNFs. On November 30, 2012, we purchased five SNFs for approximately $70.2 million. The five SNFs were simultaneously leased back under a new 12 year master lease.

We recorded approximately $70.2 million consisting of land ($11.5 million), building and site improvements ($55.5 million), and furniture and fixtures ($3.2 million). We have not recorded goodwill in connection with this transaction.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Transaction 2 (Third Closing): On December 31, 2012, we purchased the remaining five California SNFs for an aggregate purchase price of $72.2 million (net of purchase price reduction of approximately $1.0 million related to funds escrowed by the seller to reimburse us for costs associated with refinancing some of the assumed HUD debt). The transaction consisted of the assumption of $44.3 million of HUD indebtedness and $28.9 million in cash. The blended interest rate on the HUD indebtedness assumed for the five California facilities was 5.97%. The five SNFs were then leased back to the new operator under new 12 year master leases.

We recorded approximately $77.5 million consisting of land ($13.0 million), building and site improvements ($60.8 million), and furniture and fixtures ($3.7 million). We recorded approximately $5.4 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt and other market factors. We have not recorded goodwill in connection with this transaction.

Indiana Acquisitions

In 2012, we completed four transactions in Indiana involving two existing operators and 34 facilities. The following is a summary of the transactions:

Transaction 1: On June 29, 2012, we purchased one SNF encompassing 80 operating beds in Indiana for approximately $3.4 million and leased the facility to an existing operator under an existing master lease. We recorded approximately $3.4 million consisting of land ($0.2 million), building and site improvements ($2.9 million), and furniture and fixtures ($0.3 million). We have not recorded goodwill in connection with this transaction.

Transaction 2: On June 29, 2012, we purchased four facilities encompassing 383 operating beds in Indiana for approximately $21.7 million and leased the facilities to an existing operator. We recorded approximately $21.7 million consisting of land ($1.9 million), buildings and site improvements ($18.4 million) and furniture and fixtures ($1.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 3: On August 31, 2012, we purchased 27 facilities (17 SNFs, four ALFs and six independent living facilities) totaling 2,892 operating beds in Indiana from an unrelated third party for approximately $203 million in cash and assumed a liability associated with the lease of approximately $13.9 million. Simultaneous with the transaction, we also purchased one parcel of land for $2.8 million. The purchase price of both (i) 27 facilities and (ii) the parcel of land were funded from cash on hand and borrowings from our credit facility. The 27 facilities and land parcel were added to an existing master lease. We recorded approximately $219.7 million consisting of land ($16.1 million), building and site improvements ($189.2 million) and furniture and fixtures ($14.4 million). We have not recorded goodwill in connection with this transaction.

Transaction 4: On December 31, 2012, we purchased two SNFs encompassing 167 operating beds in Indiana for approximately $9.5 million and leased these facilities to an existing operator under a new consolidated master lease. We recorded approximately $9.5 million consisting of land ($0.6 million), building and site improvements ($8.0 million), and furniture and fixtures ($0.9 million). We have not recorded goodwill in connection with this transaction.

Michigan Acquisition

On November 30, 2012, we purchased one ALF for $20 million from an unrelated third party and added it to an existing master lease with an existing operator. The 171 operating bed ALF is located in Michigan. We recorded approximately $20.0 million consisting of land ($0.4 million), building and site improvements ($18.9 million), and furniture and fixtures ($0.7 million). We have not recorded goodwill in connection with this transaction.

Texas Acquisition

On October 31, 2012, we purchased one SNF from an unrelated third party encompassing 90 operating beds in Texas for approximately $2.7 million and leased the facility to an existing operator. We recorded approximately $2.7 million consisting of land ($0.2 million), building and site improvements ($2.2 million), and furniture and fixtures ($0.3 million). We have not recorded goodwill in connection with this transaction.

Acquisition costs related to the above transactions were expensed as period costs. For the year ended December 31, 2012, we expensed $0.9 million of acquisition related expenses.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

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 reflect the impact of the transactions as if they occurred on January 1, 2013. 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 Year Ended December 31,	
	2014	2013
	(in thousands, except per share amounts, unaudited)	
Revenues	$512,370	$432,031
Net income available to common stockholders	224,183	177,589
Earnings per share – diluted:		
Net income available to common stockholders – as reported	$1.74	$1.46
Net income available to common stockholders – pro forma	$1.76	$1.50

In 2014, we closed two SNFs and recorded a $3.6 million provision for impairment related to these facilities (Level 3). The net book value of the two SNFs that are closed but not classified as held-for-sale is approximately $1.2 million as of December 31, 2014 (Level 3).

NOTE 4 – ASSETS HELD FOR SALE

	Properties Held-For-Sale	
	Number of Properties	Net Book Value (in thousands)
December 31, 2012 (1)	3	$ 1,020
Properties sold	-	-
Properties added	1	336
December 31, 2013 (2)	4	1,356
Properties sold (3)	(3)	(686)
Properties added	3	12,122
December 31, 2014 (2)	4	$ 12,792

(1) Includes one parcel of land and two facilities.
(2) Includes one parcel of land and three facilities.
(3) In 2014, we sold these facilities for approximately $2.8 million in net proceeds recognizing a gain on sale of approximately $2.0 million.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 5 – DIRECT FINANCING LEASES

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

	December 31,	
	2014	2013
	(in thousands)	
Minimum lease payments receivable	$4,244,067	$4,291,067
Estimated residual values	—	—
Less unearned income	(3,704,835)	(3,761,622)
Net investment in direct financing leases	$539,232	$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 December 31, 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	$47,032	$47,482	$48,669	$49,886

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 6 - MORTGAGE NOTES RECEIVABLE

As of December 31, 2014, mortgage notes receivable relate to 13 fixed-rate mortgages on 55 long-term care facilities. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in five (5) states, operated by five (5) 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.

The outstanding principal amounts of mortgage notes receivable, net of allowances, were as follows:

	December 31,	
	2014	2013
	(in thousands)	
Mortgage note due 2014; interest at 11.00%	$-	$5,000
Mortgage note due 2021; interest at 12.50%	-	5,574
Mortgage note due 2021; interest at 11.00%	-	91,123
Mortgage note due 2021; interest at 10.00%	-	913
Mortgage note due 2021; interest at 10.25%	1,326	-
Mortgage note due 2022; interest at 12.50%	-	5,310
Four Mortgage notes due 2022; interest at 12.00%	7,395	7,313
Mortgage note due 2023; interest at 11.00%	69,928	69,928
Mortgage note due 2023; interest at 12.50%	-	7,782
Mortgage note due 2023; interest at 12.50%	-	6,175
Mortgage note due 2024; interest at 9.50%	112,500	-
Mortgage note due 2029; monthly payment of $90,000, including interest at 9.00%	414,550	-
Mortgage note due 2030; interest at 10.82%	15,880	15,897
Four Mortgage notes due 2046; interest at 12.00%	26,500	26,500
Total mortgages — net[1]	$648,079	$241,515

(1) As of December 31, 2013 and 2014 we have no allowance for loan loss for any of our mortgages.

$415 Million of Refinancing/Consolidating Mortgage Loans due 2029

On June 30, 2014, we entered into an agreement to refinance/consolidate $117 million in existing mortgages with maturity dates ranging from 2021 to 2023 on 17 facilities into one mortgage and simultaneously provide mortgage financing for an additional 14 facilities. The new $415 million mortgage matures in 2029 and 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.

Mortgage Note due 2021

In 2013, we entered into a $3.5 million mortgage note with an existing operator to fund renovations on one property. The mortgage note matures in 2021 and bears interest at an initial rate of 10%, with annual escalators of 2.5%. As of December 31, 2014, the balance of the loan related to the property was approximately $1.3 million.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Mortgage Notes due 2022

As of December 31, 2014, the balance of the loan related to the property was approximately $7.4 million. These mortgage loans mature on July 31, 2022 and carry an annual interest rate of 12%.

$113 Million of Mortgage Note due 2024

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.

Mortgage Note due 2023

The $69.9 million mortgage note is secured by seven facilities located in Maryland. The interest rate will accrue at a fixed rate of 11% per year through April 2018. After April 2018, the interest rate will increase to 13.75% per year. The mortgage note matures in December 2023.

Mortgage Note due 2030

In December 2010, we entered into a first mortgage loan with a new operator in the amount of $15.9 million. The mortgage is secured by three SNFs, totaling 240 beds located in Florida. The mortgage note matures in 2030 and bears interest at an initial rate of 10%, with annual escalators of 2%.

Mortgage Notes due 2046

In October 2011, we enter into a first mortgage loan in the amount of $25 million secured by a lien on three SNFs, totaling 352 beds located in Maryland. In November 2012, we entered into an additional $1.5 million first mortgage loan secured by a lien on an additional 60 bed SNF located in Michigan. The mortgages currently bear interest at 12% and increases to 13.5% in November 2018. The mortgages mature in 2046.

Mortgage Note due 2014 Payoff

We provided a mortgage note to an existing operator for a property in Texas in 2011 for $5.0 million to provide bridge financing. The note was paid off in July 2014.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

NOTE 7 - OTHER INVESTMENTS

A summary of our other investments is as follows:

	December 31, 2014	December 31, 2013
	(in thousands)	
Other investment notes due 2015	$141	$2,318
Other investment notes due 2021 - 2023	16,182	13,427
Other investment note due 2014	-	62
$31.5 million other investment note due 2017	23,500	23,750
$2.5 million other investment note due 2014	1,640	546
$6.0 million other investment note due 2015	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
$0.9 million other investment note due 2015	750	-
Notes receivable, gross[1]	48,952	48,298
Allowance for loss on notes receivable	-	(1,977)
Notes receivable, net	48,952	46,321
Other	-	2,400
Marketable securities	-	4,333
Total other investments	$48,952	$53,054

(1) These notes bear interest at a weighted average rate of approximately 10% annually as of December 31, 2014.

Other Investment notes due 2015

During the year ended December 31, 2014, we wrote off approximately $2.0 million of these notes deemed uncollectible against loan loss reserves established in prior years.

Other Investment notes due 2021 - 2023

The 2021-2023 other investment notes relates to 17 individual notes with one operator to fund renovations on several facilities. The loans mature between 2021 and 2023 and bear interest at an initial rate of 10% with escalators of 2.5% per year. The maximum draw on all 17 loans is approximately $22.7 million.

$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.

$6.0 Million Other Investment note due 2015

In 2014, we amended an existing working capital note with an existing operator increasing the availability from $4.0 million to $6.0 million. The note bears interest at 10% and matures in February 2015.

$1.5 Million Other Investment note due 2014 Payoff

In November 2013, we entered into a $1.5 million one year promissory note at 8.95% interest rate with an existing operator. The loan was paid off in November 2014.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - Continued

Other

In October 2013, the investment of $2.4 million for the construction of a new facility that we funded to an existing operator in July 2013 was cancelled. In September 2014, under the amended master lease, we agreed to accept a repayment of the amount funded in exchange for a termination of the existing operator's obligation to pay rent after such payment. The repayment was in the form of a cash payment of $1.5 million and a promissory note in the amount of $0.9 million at 9.5% interest rate (see above "$0.9 million other investment note due 2015"). The loan matures in October 2015.

Marketable Securities

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.

NOTE 8 - CONCENTRATION OF RISK

As of December 31, 2014, our portfolio of real estate investments consisted of 568 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 $4.4 billion at December 31, 2014, with approximately 99% of our real estate investments related to long-term care facilities. Our portfolio is made up of 474 SNFs, 23 ALFs, 11 specialty facilities, fixed rate mortgages on 53 SNFs and two ALFs, and five SNFs that are closed/held-for-sale. At December 31, 2014, we also held miscellaneous investments of approximately $49.0 million, consisting primarily of secured loans to third-party operators of our facilities.

At December 31, 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 (10%) and Ohio (9%) at December 31, 2014.

For the year ended December 31, 2014, our revenues from operations totaled $504.8 million, of which approximately $58.6 million was from New Ark (12%) and $55.2 million was from Genesis (11%). No other operator generated more than 9% of our revenues from operations for the year ended December 31, 2014.

NOTE 9 - LEASE AND MORTGAGE DEPOSITS

We obtain l