OMEGA HEALTHCARE INVESTORS INC
Form PRER14A
January 22, 2002

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SCHEDULE 14A
(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by Registrant /x/
Filed by a Party other than the Registrant / /

Check the appropriate box:

/x/	Preliminary Proxy Statement
/ /	**Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
/ /	Definitive Proxy Statement
/ /	Definitive Additional Materials
/ /	Soliciting Material Pursuant to Rule 14a-11(c) or Rule 14a-12

OMEGA HEALTHCARE INVESTORS, INC.

(Name of Registrant as Specified in Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/x/ No fee required.

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(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

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/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form of Schedule and the date of its filing.

(1) Amount previously paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing party:

(4) Date filed:

OMEGA HEALTHCARE INVESTORS, INC.

9690 Deereco Road
Timonium, Maryland 21093
(410) 561-5726

January 25, 2002

To Our Stockholders:

On October 30, 2001, we announced a plan to raise $50 million in new equity capital from our current stockholders. The purpose of such offering is to satisfy the conditions to the modification of our revolving credit facilities and to enhance our ability to repay approximately $98 million in debt maturing during the first half of 2002. We reached agreements with the bank groups under both our credit facilities on December 21, 2001. These agreements, which become effective upon the closing of these transactions, will modify and/or waive certain financial covenants with which we were not in compliance. We expect to use the proceeds from the offering to repay a portion of the maturing debt and for working capital and other general corporate purposes. We need you, as stockholders, to approve certain matters relating to these transactions, as further described in these proxy materials. A copy of the prospectus describing these transactions will be sent separately to stockholders. The essential components of these transactions are as follows:

Rights Offering. We are conducting a rights offering pursuant to which holders of our common stock will have the opportunity to purchase their pro rata percentage of additional shares of our common stock in an aggregate amount equal to $26.4 million. **The enclosed proxy solicitation materials relate solely to a special meeting of stockholders to be held on February 18, 2002. The prospectus and subscription materials relating to our rights offering will be provided separately to stockholders. To exercise your rights, you must follow the procedures set forth in the separate prospectus and subscription materials.**

Explorer's Investment Commitment. Explorer Holdings, L.P., which owns all of our outstanding Series C preferred stock and 553,850 shares of our common stock, representing 47.1% of our voting stock, will not purchase common stock in this rights offering. Although Explorer will not participate in the rights offering, Explorer has agreed to purchase $23.6 million of our stock in a private placement concurrent with the closing of the rights offering, at the same price per common share as in this rights offering. The amount that Explorer has committed to invest in the private placement represents its pro rata portion, with respect to shares of our Series C preferred stock and common stock it holds, of the $50 million in additional equity capital we are seeking to raise. Explorer has also agreed to increase the size of its private placement investment in our company by an additional amount equal to the aggregate subscription price of any shares that are not subscribed for in this offering. As a result of this commitment, we are assured of receiving a total of $50 million in gross proceeds upon the completion of the rights offering and the private placement to Explorer. The shares to be issued to Explorer are not registered as a part of the rights offering and will be restricted securities under the Securities Act of 1933. We are seeking your approval to issue shares of common stock to Explorer because Explorer is an affiliate of ours and the rules of the New York Stock Exchange require that stockholders approve any sale of this amount of voting capital stock to an affiliate and issuance of securities that may result in a change of control of the company. If stockholders have not approved the sale of common stock to Explorer at the time we close the rights offering and Explorer's investment, we will sell Explorer shares of non-voting Series D preferred stock in lieu of our common stock. The Series D preferred stock will automatically convert into common stock upon receipt of stockholder approval or the waiver by the New York Stock Exchange of its stockholder approval requirement.

Amendment of Agreements with Explorer. As a condition to Explorer's investment, we have agreed to amend certain of the agreements relating to Explorer's July 2000 investment in our company.

These amendments will be effective as of the closing of Explorer's new investment. The effect of these amendments is generally to remove those provisions in our agreements that prohibit Explorer from voting in excess of 49.9% of our stock and from taking certain actions without the prior approval of our Board of Directors. The proposed amendment to the terms of our Series C preferred stock also requires stockholder approval. The Explorer agreements and the negotiated changes are described in more detail under "Proposed Amendment of Our Articles Supplementary for the Series C Convertible Preferred Stock" on page 29 and "Modifications to Agreements with Explorer" on page 30 of the accompanying Proxy Statement.

Increase Size of Board of Directors. At the special meeting of stockholders you will also be asked to approve amendments to our Articles of Incorporation and Bylaws increasing the maximum size of our Board of Directors from nine to eleven directors. If the amendments are approved, we have agreed with Explorer that the size of the Board of Directors will be fixed at ten and that I will be appointed to fill the vacancy.

These transactions were referred to a special committee comprised solely of directors who are not affiliated with Explorer. This special committee unanimously recommended the proposed transactions to the Board of Directors. The Board believes these transactions are the best alternative available to address our current capital needs. Our Board of Directors also received a written opinion from Shattuck Hammond Partners LLC, an independent financial advisor, that as of October 29, 2001, the date of their opinion, the financial terms of the investment agreement with Explorer, taken as a whole, are fair to us from a financial point of view.

I urge you to vote **FOR** the issuance of shares of common stock to Explorer, **FOR** the amendment to the terms of the Series C preferred stock and **FOR** the amendments to our Articles of Incorporation and Bylaws. Details of the proposed investment and other important information are described in the attached Proxy Statement and the separate prospectus. Please read these documents carefully.

Thank you for your continuing support. I assure you that, through these challenging times, our directors, officers and employees have been devoted to serving the best interests of our company and you, its stockholders.

Very truly yours,

/s/ C. TAYLOR PICKETT

Chief Executive Officer

YOUR VOTE IS IMPORTANT. Please sign, date and mail the proxy card promptly in the enclosed envelope whether or not you plan to attend the meeting or exercise your subscription rights. It is important that you return the proxy card promptly whether or not you plan to attend the meeting or exercise your subscription rights, so that your shares are properly voted.

If you hold shares through a broker, bank or other nominee (in "street name"), you may also have the ability to vote by telephone or the Internet in accordance with instructions that they will include with this mailing. In either event, we urge you to vote promptly.

These proxy materials relate solely to the solicitation of proxies in connection with the meeting of stockholders and are not an offer to sell Omega common stock or rights. The rights offering is made pursuant to the rights offering prospectus that will be sent to stockholders separately. If you hold your shares in street name and do not receive a copy of the prospectus relating to the rights offering, you should contact your broker to obtain a copy. Stockholders can also obtain a copy of the prospectus by contacting Georgeson Shareholder Communications, Inc. at (800) 223-2064 or via the Internet at the web site maintained by the Securities and Exchange Commission at http://www.sec.gov.

OMEGA HEALTHCARE INVESTORS, INC.

9690 Deereco Road
Timonium, Maryland 21093
(410) 561-5726

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

January 25, 2002

To Our Stockholders:

A Special Meeting of Stockholders of Omega Healthcare Investors, Inc. will be held at Holiday Inn Select, 2004 Greenspring Drive, Timonium, Maryland on Monday, February 18, 2002, at 10:00 a.m., for the following purposes:

1. To approve the issuance to Explorer Holdings, L.P. of shares of our common stock either in connection with Explorer's commitment to invest $23.6 million plus an amount equal to the aggregate subscription price of any shares of common stock not purchased in the rights offering by other stockholders or upon the conversion of shares of Series D preferred stock issued to Explorer in lieu of common stock if we close Explorer's investment prior to receiving the stockholder approval sought pursuant to the proxy statement to issue common stock to Explorer, and any change of control that may result from such issuance.

2. To approve an amendment to our Articles of Incorporation amending the terms of our Articles Supplementary for the Series C Convertible Preferred Stock by removing the provisions prohibiting Explorer from voting in excess of 49.9% of our common stock, by changing the number and manner in which holders of our Series C and Series D preferred stock can appoint directors if we fail to pay dividends for a specified period of time, by providing that the subscription price in the rights offering will not result in an adjustment to the conversion price of our Series C preferred stock and by making certain other technical changes to reflect the possible issuance of the Series D preferred stock.

3. To approve amendments to our Articles of Incorporation and our Bylaws to increase the size of the Board of Directors from nine to eleven members, and to provide that any future increase in the number of directors can be effected by an amendment to our Bylaws approved by our Board or our stockholders.

Your Board of Directors has fixed the close of business on January 24, 2002 as the record date for the determination of stockholders who are entitled to notice of and to vote at the Special Meeting or any adjournments thereof.

By order of the Board of Directors

/s/ CAROL A. ALBAUGH
Corporate Secretary

January 25, 2002
Ann Arbor, Michigan

Whether you are able to attend or not, we urge you to cast your vote promptly on the enclosed proxy card **FOR** each of the matters listed above, all as set forth in the attached Proxy Statement.

Please sign, date and return the enclosed proxy card promptly in the enclosed envelope. If you attend the Special Meeting, you may vote in person even if you have previously mailed a proxy card.

OMEGA HEALTHCARE INVESTORS, INC.

9690 Deereco Road
Timonium, Maryland 21093

(410) 561-5726

PROXY STATEMENT
FOR
SPECIAL MEETING OF STOCKHOLDERS

To be Held on February 18, 2002

The accompanying proxy is solicited by our Board of Directors to be voted at the Special Meeting of Stockholders to be held at Holiday Inn Select, 2004 Greenspring Drive, Timonium, Maryland on February 18, 2002, and any adjournments of the meeting. It is anticipated that this proxy material will be mailed on or about January 25, 2002 to our common stockholders of record on January 24, 2002.

A stockholder giving a proxy has the power to revoke it at any time before it is exercised. A proxy may be revoked by filing with our Secretary (i) a signed instrument revoking the proxy or (ii) a duly executed proxy bearing a later date. A proxy also may be revoked if the person executing the proxy is present at the meeting and elects to vote in person. If the proxy is not revoked, it will be voted by those named in the proxy.

Your vote will not affect your ability to exercise your rights received in the rights offering. Stockholders may vote to approve the issuance of shares of common stock to Explorer and still decline to exercise their subscription rights. Conversely, stockholders can vote against the issuance of shares to Explorer yet still exercise their subscription rights if the closing conditions to which the rights offering is subject are met.

VOTING SECURITIES

Our outstanding voting securities as of January 24, 2002, the record date, consisted of 19,999,065 shares of common stock, par value $.10 per share and 1,048,420 shares of Series C convertible preferred stock. Each holder of record of common stock and Series C preferred stock as of the close of business on January 24, 2002 is entitled to notice of and to vote at the Special Meeting or any adjournments thereof. Each holder of shares of common stock is entitled to one vote per share on all matters properly brought before the Special Meeting. The holder of our Series C preferred stock will vote as a single class with holders of common stock on all matters properly brought before the Special Meeting on an as-converted basis, except as expressly required by law. The 1,048,420 shares of Series C preferred stock outstanding as of January 24, 2002 are convertible into 16,774,722 shares of common stock and accordingly an aggregate of 36,773,787 votes are entitled to be cast by the holders of common stock and Series C preferred stock at the meeting.

VOTING

The presence at the Special Meeting of shares representing a majority of the voting power associated with our issued and outstanding common stock and Series C preferred stock will be necessary to establish a quorum for the conduct of business at the Special Meeting. The proposal to issue shares of common stock to Explorer Holdings, L.P. in connection with its investment must be approved by the affirmative vote of a majority of the shares of our common stock and Series C preferred stock that are cast at the Special Meeting. The proposal to approve an amendment to our Articles of Incorporation to amend the terms of our Articles Supplementary for the Series C Convertible Preferred Stock must be approved by the affirmative vote of a majority of the shares of our issued and outstanding common stock and Series C preferred stock, voting together as a class, and two-thirds of the issued and outstanding shares of Series C preferred stock voting separately as a class. The proposal to amend our Articles of Incorporation and Bylaws to increase the maximum number of members of the Board of Directors from nine to eleven must be approved by the affirmative vote of at least 80% of the shares of issued and outstanding common stock and Series C preferred stock, voting together as a class on an as converted basis.

As of the record date, directors and executive officers of our company beneficially owned 1,018,220 shares of our common stock (including 52,997 shares subject to company stock options exercisable within 60 days). As of the record date, shares held by directors and executive officers of our company entitle them to exercise approximately 2.8% of the voting power of the shares entitled to vote at the special meeting on an as-converted basis. Explorer has committed to vote its shares of common stock and shares of Series C preferred stock, representing approximately 47.1% of the voting shares, in favor of the proposal relating to the issuance of shares of common stock to Explorer and the two proposals relating to the amendments to our Articles of Incorporation and Bylaws.

Brokers holding shares in "street name" may vote the shares only if the beneficial owner provides instructions on how to vote. Brokers will provide beneficial owners instructions on how to direct the brokers to vote the shares. Brokers holding shares for beneficial owners cannot vote on the actions proposed in this Proxy Statement without the beneficial owners' specific instructions. A so-called "broker non-vote" occurs when a broker, holding common stock as nominee, does not receive voting instructions from the beneficial owner. With respect to all matters submitted to stockholders for their consideration, abstentions will be included as shares cast on such proposals, whereas broker non-votes will not be included as part of the total number of votes cast on such proposals since shares represented by broker non-votes are not legally eligible to vote on any matter to which the non-vote relates. Thus, abstentions will have the same effect as votes against any given proposal. Broker non-votes will have no effect in determining whether the stockholders have approved the proposal to approve the issuance of shares of common stock to Explorer Holdings, L.P. because approval of such proposal is based on the number of shares that are actually voted. However, broker non-votes will have the same effect as a vote against the two proposals to amend our Articles of Incorporation and Bylaws because approval of such proposals is based on the number of shares issued and outstanding. There are no rights of appraisal or similar dissenter's rights with respect to any matter to be acted upon pursuant to this Proxy Statement.

We urge stockholders to vote promptly either by signing, dating and returning the enclosed proxy card in the enclosed envelope, or for stockholders who own their shares in street name through a broker, in accordance with the telephone or Internet voting instructions your broker may include with this mailing.

PROPOSAL 1 APPROVAL OF THE ISSUANCE OF COMMON STOCK IN CONNECTION WITH EXPLORER HOLDINGS, L.P.'s INVESTMENT

Description of Rights Offering and Explorer's Investment

On October 30, 2001, we announced a plan to raise $50 million in new equity capital from our current stockholders. The purpose of this plan is to satisfy the conditions to the modification of our revolving credit facilities and to enhance our ability to repay approximately $98 million in debt maturing during the first half of 2002. We reached agreements with the bank groups under both our credit facilities on December 21, 2001. These agreements include modification and/or waivers to certain financial covenants with which we were not in compliance. The effectiveness of these agreements is conditioned on our raising an additional $50 million of equity capital. We expect to use the proceeds from the rights offering to repay a portion of the maturing debt and for working capital and other general corporate purposes.

Our plan to raise $50 million of new common equity consists of two components: a $26.4 million rights offering to our common stockholders and a private placement of at least $23.6 million to Explorer Holdings, L.P., our largest stockholder. The number of rights that each common stockholder will receive represents the stockholder's pro rata portion on an as-converted basis of the $50 million we propose to raise, thereby allowing stockholders who fully participate in the rights offering the opportunity to avoid any dilution in their ownership interest.

Explorer Holdings, L.P., which owns all of our outstanding Series C preferred stock and 553,850 shares of our common stock, representing 47.1% of our voting stock, will not purchase common stock in this rights offering. Although Explorer will not participate in the rights offering, Explorer has agreed to purchase $23.6 million of our stock in a private placement concurrent with the closing of the rights offering, at the same price per common share as in this rights offering. The amount that Explorer has committed to invest in the private placement represents its pro rata portion, with respect to shares of our Series C preferred stock and common stock it holds, of the $50 million in additional equity capital we are seeking to raise. Explorer has also agreed to increase the size of its private placement investment in our company by an additional amount equal to the aggregate subscription price of any shares that are not subscribed for in this offering. As a result of this commitment, we are assured of receiving a total of $50 million in gross proceeds upon the completion of the rights offering and the private placement to Explorer. The shares to be issued to Explorer are not registered as a part of the rights offering and will be restricted securities under the Securities Act of 1933.

Holders of our Series A and Series B preferred stock are not entitled to participate in the rights offering. If the issuance of common stock to Explorer has not been approved by our stockholders at the time of closing of the rights offering and Explorer's investment, Explorer will receive shares of a newly created series of non-voting convertible Series D preferred stock. If issued, the Series D preferred stock has terms substantially similar to Explorer's Series C preferred stock (except the Series D preferred stock would be non-voting) and will automatically convert into common stock upon receipt of stockholder approval or upon the waiver by the New York Stock Exchange of its stockholder approval requirement. Explorer has committed to vote its shares of common stock and shares of Series C preferred stock, representing approximately 47.1% of the voting shares, in favor of this proposal.

The closing of both the rights offering and Explorer's investment will occur no later than ten business days following the expiration of the subscription period for the rights offering, and is subject to customary closing conditions. See "Conditions" on page 7 of this Proxy Statement.

Reasons for the Rights Offering

Our current financial challenges are the result of the continuation of the unprecedented financial difficulties in the long-term care industry. The introduction in 1998 of a new Medicare Prospective Payment System for the reimbursement of skilled nursing facilities, in lieu of the cost-based

reimbursement system, was implemented with harsh and somewhat unexpected consequences for the long-term care industry. The prospective payment system significantly reduced payments to nursing home operators which forced many nursing home operators in America into financial distress. Ultimately, many of them, including our customers Allegheny Health Systems, Sun Healthcare Group, Frontier Group, Inc., Integrated Health Services, RainTree Healthcare Corp. and Mariner Post-Acute Network, Inc. were forced to seek bankruptcy protection in order to continue to deliver care to the nation's elderly.

The wave of bankruptcy filings by large nursing home operators seriously disrupted the long-term care industry to which we provide capital and virtually froze our access to capital sources in 2000. In response to these financial challenges, we completed a transaction with Explorer in July 2000 pursuant to which Explorer provided us with $100.0 million in exchange for $100.0 million of our Series C preferred stock. The proceeds of the initial Explorer investment were used to fund the repayment of debt that matured in July 2000, and the Company was subsequently able to repay $48.4 million in indebtedness that matured in February 2001. However, our portfolio of investments continued to experience difficulties as we sought to restructure certain investments (such as Mariner) and as we recovered other properties which we have now reclassified as "owned and operated."

As a result of the continuing financial difficulties in the long-term care industry and the recording of the settlement of a lawsuit in June 2001, we were not in compliance with certain of the financial covenants contained in the loan agreements relating to our two credit facilities. These violations prevented us from drawing upon the remaining credit available under both credit facilities. The waiver of existing defaults and the modification of the terms of the credit facilities in a manner acceptable to both us and Explorer is a condition to the closing of the rights offering and Explorer's investment. We have entered into amendments to our credit facilities that are satisfactory to us and Explorer that become effective concurrently with the closing of the rights offering. We believe these amendments satisfy the closing conditions relating to our credit facilities. We have approximately $98 million of indebtedness maturing in the first half of 2002. Although we suspended dividends on our common and preferred stock in February, 2001 in order to conserve cash to assist us in repaying this indebtedness, we cannot assure you that we will be successful in addressing these pending obligations unless we obtain additional cash from one or more sources.

In the face of the continuing financial difficulties plaguing the long-term care industry in general and our investment portfolio in particular, management explored a number of capital financing alternatives including discussions with Explorer to address our near-term liquidity challenges.

Our Board of Directors asked a special committee, composed solely of directors who are unaffiliated with Explorer, to evaluate any proposals received from Explorer and make a recommendation to the full Board of Directors regarding what action, if any, our company should take with respect to such proposals. The special committee engaged Shattuck Hammond Partners LLC on October 15, 2001 as the committee's financial advisor to (i) review and analyze potential financing alternatives for our company as well as financing proposals we received; and (ii) if requested, render an opinion to the Board of Directors regarding the fairness from a financial point of view of a financing contemplated by us involving, among other things, an investment by Explorer, a 45.5% owner of our common stock on an as converted basis as of the date of the fairness opinion, and a rights offering to our stockholders other than Explorer. Prior to being engaged by us as the financial advisor to the special committee, Shattuck Hammond had no professional relationship with us nor Employer.

Shattuck Hammond worked with our management team and counsel to the special committee to negotiate the terms of the proposed Explorer investment and finalize the documentation relating thereto. On October 23, 2001, Shattuck Hammond delivered its preliminary reports to the special committee and Board of Directors regarding Shattuck Hammond's evaluation of the terms of the proposed Explorer investment and an assessment of viable alternatives. On October 29, 2001, following a review of the definitive documentation pertaining to the proposed Explorer investment, Shattuck

Hammond rendered its written opinion to our Board of Directors to the effect that the financial terms of the investment agreement, taken as a whole, are fair to us from a financial point of view. Shattuck Hammond's opinion relates solely to the fairness to Omega of the financial terms of the investment agreement, and does not address the fairness of either the investment agreement to unaffiliated stockholders or the subscription price in the rights offering. See "Opinion of Financial Advisor to the Special Committee of Independent Directors and the Board of Directors."

The Board of Directors unanimously approved the rights offering and Explorer's investment transactions. The process of evaluating Explorer's proposal compared with other potential capital alternatives and negotiating the terms of our agreement with Explorer, as described in this Proxy Statement, was deliberative and thoughtful. The special committee engaged in extensive deliberations to structure a transaction that meets our near-term liquidity needs while affording our existing stockholders an opportunity to participate in our future on the same terms on which Explorer may invest.

The rights offering affords our existing stockholders an opportunity to subscribe for the new shares of common stock, at the same price per common share as the Explorer private placement, and to maintain their proportionate interest in us. Some of the factors considered by our Board of Directors in deciding to proceed with the rights offering include:

- our need for capital;
- the alternative methods available to us for raising capital;
- the pro rata nature of a rights offering to our stockholders;
- the terms of the investment agreement with Explorer;
- the time period available in which to raise the needed capital and the uncertainty of closure associated with various alternative methods for raising capital;
- the market price of our common stock; and
- conditions of the capital markets in general.

In addition, since no underwriting or sales commission will be paid in respect of the shares purchased in the rights offering, we believe the rights offering will be a low-cost method of raising additional capital.

Summary of Key Terms of the New Explorer Investment

The following summary of the material terms of Explorer's investment is subject to, and qualified in its entirety by, the complete text of the investment agreement described below and the other material documents described in more detail under "Proposed Amendment of Our Articles Supplementary for the Series C Convertible Preferred Stock" on page 29 and "Modifications to Agreements with Explorer" on page 30 of this Proxy Statement. Copies of the investment agreement and the other material agreements are attached as appendices to this Proxy Statement and are incorporated in this Proxy Statement by reference. You should read the full text of the Explorer agreements because those agreements, and not this Proxy Statement, are the legal documents that govern the additional investment by Explorer. In the event of any discrepancy between the terms of the investment agreement and the following summary, the investment agreement will control.

Investment Agreement

Amount and Nature of Explorer Investment. Under the terms of the investment agreement, as amended by supplemental agreement dated January 15, 2002, Explorer has agreed to invest at least $23.56 million, representing its pro rata portion on an as-converted basis of the $50 million in new equity we are seeking to raise, based on Explorer's ownership of our Series C preferred stock and common stock. A copy of the investment agreement as modified by the supplemental agreement is

attached as Appendix A to this Proxy Statement. Explorer has also committed to invest in the concurrent private placement an additional amount equal to the aggregate subscription price of the shares that are not subscribed for by other stockholders in this rights offering. Explorer has agreed to purchase its stock at the same price per share as is offered to our stockholders in the rights offering. Our Board of Directors has authorized the issuance and sale to Explorer of either newly issued shares of our Series D preferred stock, having the designations, voting powers, preferences and other rights as set forth in the Articles Supplementary to the Series D Convertible Preferred Stock, a copy of which is attached as Appendix B to this Proxy Statement, or, if we have the approval of our stockholders prior to the closing of Explorer's investment, our common stock, in each case having an aggregate value equal to the difference between $50 million and the gross proceeds we receive from the rights offering. We anticipate the closing of Explorer's investment to occur no later than ten business days following the expiration of the subscription period for the rights offering.

Representations, Warranties and Indemnities. The investment agreement contains representations, warranties and indemnification provisions that we believe are customary for a transaction of this nature. In the investment agreement, Omega made representations and warranties about itself related to, among other things:

- corporate existence, qualification to conduct business and corporate power;
- ownership of subsidiaries;
- capital structure;
- corporate authority to enter into, and carry out the obligations under, the investment agreement and the agreements entered into in connection therewith, and the enforceability of such agreements;
- our rights plan;
- absence of a breach or conflict with its charter documents, bylaws or material agreements as a result of the transactions contemplated by the investment agreement;
- filings with the SEC;
- financial statements;
- absence of undisclosed liabilities;
- compliance with laws;
- legal proceedings;
- absence of specified changes or events since July 1, 2001;
- tax matters;
- environmental matters;
- material contracts;
- employee benefit plans; and
- information supplied for use in this Proxy Statement and the registration statement related to the rights offering.

The representations and warranties survive the closing of Explorer's investment for two years. Subject to certain thresholds and caps, we have agreed to indemnify Explorer and its affiliates for all losses relating to a breach of our representations and warranties, and to indemnify Explorer and its affiliates for all losses relating to a breach of our agreements or any actual or threatened claim made by any third party relating to or in connection with the transactions contemplated by the investment agreement.

We have also agreed to reimburse Explorer for its out-of-pocket costs and expenses in connection with the transactions contemplated by the investment agreement, not to exceed $1 million.

Conditions. The closing of Explorer's investment is subject to conditions relating to modifications to our credit facilities and the absence of any governmental order or litigation that is likely to render it impossible or unlawful to complete the rights offering and/or Explorer's investment, or that could reasonably be expected to have a material adverse effect on our business, results of operations, or financial condition, or materially restrict the rights of Explorer under the documents relating to its investment.

On December 21, 2001, we reached agreements with the bank groups under both of our revolving credit facilities that are satisfactory to us and Explorer that become effective concurrently with the closing of the rights offering. We believe that these amendments will satisfy the closing conditions relating to our credit facilities. These agreements include modifications and/or waivers to the financial covenants with which we were not in compliance. In addition, certain other financial covenants will be either modified or eliminated going forward. The effectiveness of these agreements is subject to the completion of the rights offering and private placement to Explorer. In the event such conditions are not satisfied, we will terminate the rights offering and the private placement to Explorer. While there currently exists no governmental order or litigation with respect to this offering, we cannot assure you that such governmental order or litigation will not arise prior to closing the rights offering. If a governmental order or litigation arises prior to the closing of the rights offering, we may not be able to complete the rights offering and/or the private placement to Explorer.

Termination. Explorer may terminate the investment agreement if the closing has not occurred by February 28, 2002.

Summary of Terms of Series D Preferred Stock

The terms of the Series D preferred stock are set forth in the Articles Supplementary for Series D Convertible Preferred Stock, a copy of which is attached as Appendix B to this Proxy Statement. The following description does not purport to be complete and is qualified in its entirety by reference to the Articles Supplementary. You should read the full text of the Series D Preferred Stock Articles Supplementary because that document, and not this Proxy Statement, is the legal document that contains the specific rights and preferences of the Series D preferred stock be sold to Explorer. In the event of any discrepancy between the terms of the Series D Preferred Stock Articles Supplementary and the following summary, the Articles Supplementary will control.

General. Under our Articles of Incorporation, our Board of Directors is authorized without further stockholder action to provide for the issuance of up to an aggregate of 10,000,000 shares of our preferred stock, in one or more series, with such designations, preferences, powers and relative participating, optional or other special rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions), the redemption price or prices, and the liquidation preferences as will be stated in the resolutions providing for the issuance of a series of such stock, adopted, at any time or from time to time, by our Board of Directors. The Series D Articles Supplementary authorize us to issue up to 1,000,000 shares of the Series D preferred stock. Whether or not we file the Series D Articles Supplementary with the Maryland State Department of Assessment and Taxation or issue any shares of Series D preferred stock will depend on whether our stockholders have approved the issuance of common stock upon conversion of the Series D preferred stock prior to the closing of Explorer's investment in our company.

Rank. The Series D preferred stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our company, rank: (i) senior to our common stock and to all other equity securities that by their terms rank junior to the Series D preferred stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our company; (ii) on a parity

with our outstanding Series A preferred stock, Series B preferred stock, Series C preferred stock and any other equity securities that may be issued by our company that have terms which specifically provide that such equity securities will rank on a parity with the Series D preferred stock; and (iii) junior to all of our existing and future indebtedness. Any of our Company's convertible debt securities will rank senior to the Series D preferred stock prior to conversion.

Dividend Rights. If approval of our stockholders to permit the conversion of Series D preferred stock into common stock is not received by February 28, 2002, holders of shares of the Series D preferred stock are entitled to receive dividends at the greater of:

- 10% per annum of the liquidation preference, as discussed below, per share; and
- the amount per share declared or paid by us on our common stock based on the number of shares of common stock into which the shares of Series D preferred stock are then convertible.

Dividends on each share of the Series D preferred stock will be cumulative commencing from the date of issuance unless the Series D preferred stock is converted into common stock prior to February 28, 2002, in which case there will be no adjustment or payment in respect of any accrued dividends. Dividends are payable in arrears for each dividend period ended July 31, October 31, January 31 and April 30 on or before the relevant dividend payment date, which will be the 15th day of August, November, February and May of each year. Any dividend payable on shares of the Series D preferred stock for any partial period will be prorated for the partial period based on the actual number of days elapsed commencing with and including the date of issuance of such shares through the end of the dividend period. Dividends will be payable at the election of the holders of a majority of the Series D preferred stock with respect to any period after June 30, 2002, and at the election of our Board of Directors with respect to any period on or prior to June 30, 2002, (i) by the issuance as of the relevant dividend payment date of additional shares of Series D preferred stock having an aggregate liquidation preference equal to the amount of such accrued dividends, or (ii) in cash. If dividends are paid in additional shares of Series D preferred stock, the number of authorized shares of Series D preferred stock will be deemed, without further action, to be increased by the number of shares so issued. Dividends on shares of Series D preferred stock will not be declared by our Board of Directors or paid or set apart for payment if the terms of any agreement to which we are a party, including any agreement relating to our indebtedness, prohibits the declaration or payment of dividends on the Series D preferred stock or provides that such declaration, payment or setting aside for payment would constitute a breach thereof or default thereunder; provided that in such case dividends on the Series D preferred stock will accrue. Dividends on the Series D preferred stock will also accrue whether or not we have earnings or other funds legally available for the payment of such dividends. Accrued but unpaid dividends on the Series D preferred stock will not bear interest. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any of our capital stock or any other series of preferred stock ranking, as to dividends, on a parity with or junior to the Series D preferred stock, other than a dividend in shares of our common stock or in shares of any other class of stock ranking junior to the Series D preferred stock as to dividends and upon liquidation, for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series D preferred stock for all past dividend periods and the then current dividend period. When dividends are not paid in full upon the Series D preferred stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series D preferred stock, all dividends declared upon the Series D preferred stock and any other series of preferred stock ranking on a parity as to dividends with the Series D preferred stock will be declared pro rata so that the amount of dividends declared per share of Series D preferred stock and such other series of preferred stock will in all cases bear to each other the same ratio that accrued dividends per share on the Series D preferred stock and such other series of preferred stock, which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend, bear to each other.

Unless full cumulative dividends on the Series D preferred stock have been or contemporaneously are declared and paid in full or declared and a sum sufficient for the payment thereof is set apart for payment in full, no dividends, other than certain dividends payable in our capital stock, may be declared or paid upon our common stock, except for certain limited exceptions such as dividends paid for the purpose of preserving our qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended. Any dividend payment made on shares of the Series D preferred stock will first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

Liquidation Preference. Upon any voluntary or involuntary liquidation, dissolution or winding up of our affairs, each holder of shares of Series D preferred stock will, at the election of such holder, be entitled to be paid the liquidation preference out of our assets legally available for distribution to our stockholders before any distribution of assets is made to holders of common stock or any other class or series of our capital stock that ranks junior to the Series D preferred stock as to liquidation rights. After payment of the full amount of the liquidation preference, plus any accrued and unpaid dividends and interest thereon, if any, to which they are entitled, the holders of Series D preferred stock will have no right or claim to any of our remaining assets. The consolidation or merger of our company with or into any other corporation, trust or entity or of any other corporation with or into us in a manner that constitutes a change in control, or the sale, lease or conveyance of all or substantially all of our property or business will be deemed to constitute a liquidation, dissolution or winding up of our company. The liquidation preference for shares of Series D preferred stock is equal to the original issue price of the Series D preferred stock plus any accrued and unpaid dividends.

Redemption. The Series D preferred stock is not redeemable, subject, however, to certain restrictions on transfer and ownership, described in "Redemption and Business Combination Provisions" on page 10 of this Proxy Statement. In any event, the Series D preferred stock may not be redeemed without the consent of the holders thereof.

Voting Rights. Holders of Series D preferred stock will not have voting rights, except as set forth below. Whenever dividends on any shares of Series D preferred stock are in arrears for two or more dividend periods, the number of directors then constituting the Board of Directors will be increased by two if not already increased pursuant to a similar provision in the Amended and Restated Articles Supplementary for Series C Convertible Preferred Stock, which will become effective upon stockholder approval as set forth in the description of the Series C preferred stock in "Proposed Amendment of Our Articles Supplementary for the Series C Convertible Preferred Stock" on page 29 of this Proxy Statement. The holders of such shares of Series D preferred stock and the holders of Series C preferred stock upon which like voting rights have been conferred and are exercisable, voting together as a single class, will be entitled to vote as a single class to elect the additional preferred stock directors until such time as all dividends accumulated on such shares of Series D preferred stock and Series C preferred stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid, at which time the directors elected pursuant to this right are required to resign. In any vote to elect or remove such directors, each holder of shares of Series D preferred stock and Series C preferred stock will be entitled to one vote for each share held by such holder. So long as any shares of Series D preferred stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series D preferred stock outstanding at the time (voting as a single class together with any other classes of preferred stock adversely affected in the same manner), amend, alter or repeal the provisions of our charter or the Series D Articles Supplementary, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series D preferred stock, including the creation of any series of preferred stock ranking senior to the Series D preferred stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, but not including the creation or issuance of preferred stock ranking on a parity with the Series D preferred stock.

Conversion. The holders of Series D preferred stock have the following conversion rights:

Automatic Conversion. Each share of Series D preferred stock will automatically convert into shares of our common stock upon the earlier of: (i) the date the holders of a majority of the shares of our common stock, giving effect to the conversion of the Series C preferred stock, present and entitled to vote at a duly convened meeting of our stockholders vote to approve the conversion of the Series D preferred stock into common stock and the issuance of common stock upon such conversion; and (ii) the date the New York Stock Exchange waives any requirement for stockholder approval of the conversion of the Series D preferred stock into common stock under its rules and policies.

Conversion Price. Subject to certain limitations on conversion set forth in the Series D Articles Supplementary, each share of Series D preferred stock will be converted into the number of shares of our common stock as is equal to the quotient obtained by dividing the original issue price for such share by the conversion price, as discussed below, in effect at the time of conversion. The conversion price will be adjusted to reflect the economic impact of a stock split, stock combination, certain dividends paid on common stock, the issuance of additional common stock at a price less than fair market value and similar events.

Redemption and Business Combination Provisions

If our Board of Directors is, at any time and in good faith, of the opinion that direct or indirect ownership of at least 9.9% or more of the voting shares of capital stock has or may become concentrated in the hands of one beneficial owner, our Board of Directors will have the power:

by lot or other means deemed equitable by it, to call for the purchase from any of our stockholders a number of voting shares sufficient, in the opinion of our Board of Directors, to maintain or bring the direct or indirect ownership of voting shares of capital stock of such beneficial owner to a level of no more than 9.9% of our outstanding voting shares of our capital stock, and

to refuse to transfer or issue voting shares of our capital stock to any person whose acquisition of such voting shares would, in the opinion of our Board of Directors, result in the direct or indirect ownership by that person of more than 9.9% of our outstanding voting shares of our capital stock.

Further, any transfer of shares, options, warrants, or other securities convertible into voting shares that would create a beneficial owner of more than 9.9% of the outstanding voting shares will be deemed void ab initio and the intended transferee will be deemed never to have had an interest therein. Subject to the rights of the preferred stock described below, the purchase price for any voting shares of our capital stock so redeemed will be equal to the fair market value of the shares reflected in the closing sales prices for the shares, if then listed on a national securities exchange, or the average of the closing sales prices for the shares if then listed on more than one national securities exchange, or if the shares are not then listed on a national securities exchange, the latest bid quotation for the shares if then traded over-the-counter, on the last business day immediately preceding the day on which we send notices of such acquisitions, or, if no such closing sales prices or quotations are available, then the purchase price shall be equal to the net asset value of such stock as determined by our Board of Directors in accordance with the provisions of applicable law. The purchase price for shares of Series A preferred stock, Series B preferred stock, Series C preferred stock and Series D preferred stock will be equal to the fair market value of the shares reflected in the closing sales price for the shares, if then listed on a national securities exchange, or if the shares are not then listed on a national securities exchange, the purchase price will, in the case of the Series A preferred stock and Series B preferred stock, be equal to the redemption price of such shares of Series A preferred stock and Series B preferred stock, respectively, and, in the case of the Series C preferred stock and Series D preferred

stock, the purchase price will be equal to the liquidation preference of such shares of Series C preferred stock and Series D preferred stock, respectively. From and after the date fixed for purchase by our Board of Directors, the holder of any shares so called for purchase will cease to be entitled to distributions, voting rights and other benefits with respect to such shares, except the right to payment of the purchase price for the shares.

Our Articles of Incorporation require that, except in certain circumstances, business combinations between us and a beneficial holder of 10% or more of our outstanding voting stock, a related person, be approved by the affirmative vote of at least 80% of our outstanding voting shares. A "business combination" is defined in the Articles of Incorporation as:

- any merger or consolidation of our company with or into a related person;
- any sale, lease, exchange, transfer or other disposition, including without limitation a mortgage or any other security device, of all or any "substantial part," as defined below, of our assets including, without limitation, any voting securities of a subsidiary to a related person;
- any merger or consolidation of a related person with or into our company;
- any sale, lease, exchange, transfer or other disposition of all or any substantial part of the assets of a related person to our company;
- the issuance of any securities (other than by way of pro rata distribution to all stockholders) of our company to a related person; and
- any agreement, contract or other arrangement providing for any of the transactions described in the definition of business combination.

The term "substantial part" is defined as more than 10% of the book value of our total assets as of the end of our most recent fiscal year ending prior to the time the determination is being made. The 80% voting requirement described above will not be applicable if (i) our Board of Directors has unanimously approved in advance the acquisition of our stock that caused a related person to become a related person or (ii) the business combination is solely between us and a wholly owned subsidiary. Our Board of Directors unanimously approved in advance Explorer's acquisition of our Series C preferred stock, which made Explorer a related person to us. Therefore, the 80% voting requirement is inapplicable to Explorer.

Under the terms of our Articles of Incorporation, our Board of Directors is classified into three classes. Each class of directors serves for a term of three years, with one class being elected each year. As of the date of this Proxy Statement, there are nine directors, with each class consisting of three directors.

The foregoing provisions of our Articles of Incorporation and certain other matters may not be amended without the affirmative vote of at least 80% of our outstanding voting shares.

The foregoing provisions may have the effect of discouraging unilateral tender offers or other takeover proposals which certain stockholders might deem in their interests or in which they might receive a substantial premium. Our Board of Directors' authority to issue and establish the terms of currently authorized preferred stock, without stockholder approval, may also have the effect of discouraging takeover attempts. The provisions could also have the effect of insulating current management against the possibility of removal and could, by possibly reducing temporary fluctuations in market price caused by the accumulation of shares, deprive stockholders of opportunities to sell at a temporarily higher market price. However, our Board of Directors believes that inclusion of the business combination provisions in the Articles of Incorporation may help assure fair treatment of all stockholders and preserve our assets.

The foregoing summary of certain provisions of the Articles of Incorporation relating to business combinations does not purport to be a complete summary of our Articles of Incorporation.

Dividends on Common Stock

In February 2001, we suspended payment of all dividends on all common stock and preferred stock. We do not know when or if we will resume dividend payments on our common stock or, if resumed, what the amount or timing of any dividend will be. We do not anticipate paying dividends on any class of capital stock at least until our $98 million of debt maturing in the first half of 2002 has been repaid, and in any event, all accrued and unpaid dividends on our Series A, B, C and D (if issued) preferred stock must be paid in full before dividends on our common stock can be resumed. Dividends on our Series A, B and C preferred stock currently outstanding accrue at $20.1 million annually. As of December 30, 2001, we had $19.9 million of accumulated and unpaid preferred dividends on our preferred stock. Notwithstanding the suspension of dividends, we have made sufficient distributions to satisfy the distribution requirements under the REIT rules of the Internal Revenue Code of 1986 to maintain our REIT status for 2000 and expect to satisfy the requirements under the REIT rules for 2001.

On March 30, 2001 our Board of Directors approved payment of the accrued Series C dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 shares of Series C preferred stock to Explorer on April 2, 2001. Dividends paid in stock to a specific class of stockholders, such as our payment of our Series C preferred stock in April 2001, constitute dividends eligible for the 2001 dividends paid deduction. Additionally, and as specifically authorized by the Internal Revenue Code, dividends declared by September 15, 2002 and paid by December 31, 2002 may be elected to be treated as a distribution of 2001 taxable income.

Reason for Seeking Stockholder Approval

Our common stock trades on the New York Stock Exchange. The rules of the New York Stock Exchange require that a company whose securities are listed on the New York Stock Exchange receive stockholder approval before selling or issuing to an affiliate, such as Explorer, common stock or stock convertible into common stock that represents 1% or more of the issuing company's outstanding common stock. Because the number of shares of common stock which will be issued pursuant to the investment agreement will be more than 1% of Omega's outstanding common stock, we must obtain stockholder approval to issue shares of common stock to Explorer. The New York Stock Exchange rules also require stockholder approval prior to the issuance of any securities that may result in a change in control.

Vote Required for Approval of the Share Issuance Proposal

The share issuance proposal must be approved by the affirmative vote of a majority of all shares of common stock and Series C preferred stock present and voting at the Special Meeting. Explorer has committed to vote its shares of common stock and shares of Series C preferred stock, representing approximately 47.1% of the voting shares, in favor of the proposal relating to the issuance of shares of common stock to Explorer.

Capitalization

The following table shows, as of September 30, 2001, our historical capitalization and our capitalization as adjusted for the rights offering and Explorer's investment, including the application of the proceeds, assuming net proceeds of $48 million. For purposes of this table, we have assumed that all of the rights will be exercised in full by stockholders in the rights offering and that we will issue Series D preferred stock to Explorer at the closing of the rights offering. If stockholders approve

Explorer's investment before the closing of the rights offering, Explorer will be issued a number of shares of common stock equal to the number of shares of common stock that would otherwise have been issuable upon conversion of the Series D preferred stock in lieu of the Series D preferred stock. To the extent stockholders do not exercise all of the rights, the amount of Series D preferred stock or common stock issued to Explorer will increase. For purposes of our capitalization as adjusted, we have assumed a subscription price of $2.92 per share.

	Unaudited	
	Historical	**As Adjusted**
	(In thousands)	
Debt:		
Revolving lines of credit	$ 203,641	$ 203,641
Other secured borrowings	18,595	18,595
Unsecured borrowings:		
6.95% Notes Due June 2002(1)	99,641	51,641

	Unaudited	
6.95% Notes Due August 2007	100,000	100,000
Other unsecured borrowings	4,160	4,160
Total Debt	426,037	378,037
Stockholders' Equity:		
Preferred Stock $1.00 par value:		
Authorized 10,000 Shares		
Issued and Outstanding 2,300 shares Series A with an aggregate liquidation preference of $57,500	57,500	57,500
Issued and Outstanding 2,000 shares Series B with an aggregate liquidation preference of $50,000	50,000	50,000
Issued and Outstanding 1,048 shares Series C with an aggregate liquidation preference of $104,842	104,842	104,842
Issued and Outstanding 228 shares Series D with an aggregate liquidation preference of $22,808(2)		22,808
Common Stock $.10 par value:		
Authorized 100,000 shares		
Issued and Outstanding 20,076(2)	2,008	
Issued and Outstanding 37,199(2)		3,720
Additional paid-in capital	438,384	461,864
Cumulative net earnings	171,272	171,272
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(202)	(202)
Accumulated other comprehensive income	(1,491)	(1,491)
Total Stockholders' Equity	456,659	504,659
Total Capitalization	$ 882,696	$ 882,696

(1) For purposes of our capitalization, as adjusted, we have assumed that the net proceeds from the rights offering and the Explorer investment will be approximately $48 million and that we used those proceeds to repay notes due June 2002. We have not determined the actual allocation of proceeds from this offering and the Explorer investment and management will have broad discretion in making that determination.

(2) If none of the subscription rights are exercised by stockholders, 20,076,024 shares of common stock and 500,000 shares of Series D preferred stock with a liquidation preference of $50 million will be outstanding following the closing of the rights offering and Explorer's investment as adjusted. Upon stockholder approval of the issuance of common stock to Explorer, all the outstanding Series D preferred stock will automatically be converted into 17,123,288 shares of common stock.

Opinion of Financial Advisor to the Special Committee of Independent Directors and the Board of Directors

Our Board of Directors asked a special committee, composed solely of directors who are unaffiliated with Explorer, to evaluate any proposals received from Explorer and make a recommendation to the full Board of Directors regarding what action, if any, our company should take with respect to such proposals. The special committee engaged Shattuck Hammond Partners LLC on October 15, 2001 as the committee's financial advisor to (i) review and analyze potential financing alternatives for our company as well as financing proposals we received; and (ii) if requested, render an opinion to the Board of Directors regarding the fairness from a financial point of view of a financing contemplated by us involving, among other things, an investment by Explorer, a 45.5% owner of our common stock on an as converted basis as of the date of the fairness opinion, and a rights offering to our stockholders other than Explorer. Prior to being engaged by us as the financial advisor to the special committee, Shattuck Hammond had no professional relationship with us nor Explorer.

The amount, terms and structure of the proposed financing were determined through a negotiated process between the special committee and Explorer and are set forth in an investment agreement dated as of October 29, 2001 between us and Explorer. Shattuck Hammond did not participate directly in the negotiation of the terms of the investment agreement. Pursuant to the investment agreement, among other things, Explorer commits to invest, subject to certain closing conditions being satisfied or waived, up to $50 million in payment for our common stock or Series D preferred stock. The actual amount of Explorer's investment will be equal to the difference between $50 million and the gross proceeds received by us through a rights offering to our common stockholders other than Explorer, defined as the "unsubscribed purchase amount." If all rights offered in the rights offering are exercised, it was Shattuck Hammond's understanding that the proportional ownership of our stock by stockholders other than Explorer and by Explorer on an as converted basis would, upon Explorer's payment of the unsubscribed purchase amount and the issuance to it of shares of our common stock, remain approximately the same as of the date of Shattuck Hammond's opinion.

It was also Shattuck Hammond's understanding that the subscription price per common share in the rights offering and the price per common share or the conversion price of the Series D preferred to be paid by Explorer would be the same. For purposes of their opinion Shattuck Hammond also assumed that the subscription price was $2.92, the maximum price approved by our Board of Directors.

Shattuck Hammond rendered an oral opinion to the special committee and our Board of Directors on October 23, 2001, subject to review of definitive documentation that was in the process of being negotiated, and a written opinion addressed to the special committee and our Board of Directors on October 29, 2001, in each case to the effect that, as of such date and subject to the assumptions made, matters considered and the limitations set forth in its opinion, the financial terms of the investment agreement taken as a whole, defined as the "financial terms of the investment agreement" as described more fully in its opinion, are fair to us from a financial point of view. The full text of Shattuck Hammond's written opinion is attached as Appendix C to this Proxy Statement and is incorporated herein by reference. Shattuck Hammond's opinion sets forth the assumptions made, the matters considered and limits on the review undertaken by Shattuck Hammond in connection with its engagement. The following summary of Shattuck Hammond's opinion is qualified in its entirety by reference to the full text of such opinion. Shattuck Hammond's opinion is directed only to the fairness to us, from a financial point of view, of the financial terms of the investment agreement taken as a

whole and does not address any other aspect of the investment by Explorer or the rights offering or any other transaction to which Explorer and our company are parties. Shattuck Hammond's opinion was provided for the information and assistance of the special committee and the Board of Directors in connection with their consideration of the financing proposal put forward by Explorer and is not a recommendation of any action that the special committee, the Board of Directors or any of our stockholders should take.

It was Shattuck Hammond's further understanding that the investment agreement included, among other things, the various financial terms that are specifically identified in Shattuck Hammond's fairness opinion set forth in Appendix C to this Proxy Statement.

In connection with preparing its opinion, Shattuck Hammond reviewed a variety of materials including those specifically identified in its fairness opinion set forth in Appendix C to this Proxy Statement and made such investigations as it deemed appropriate. Shattuck Hammond did not independently verify any of the information it obtained for the purposes of its opinion. Instead, Shattuck Hammond assumed the accuracy and completeness of all such information. Shattuck Hammond relied upon assurances by our management that all forward-looking information concerning us reflected the best currently available judgments and estimates of management as to our likely future financial performance and capital requirements. Shattuck Hammond assumed that the financing will be consummated in accordance with the terms of the investment agreement. Shattuck Hammond did not make an independent inspection, evaluation or appraisal of our assets or liabilities, nor did anyone furnish Shattuck Hammond with any such evaluation or appraisal. The Shattuck Hammond opinion is based on market, economic and other conditions as they existed and could be evaluated at the time their fairness opinion was rendered.

No limitations were imposed by the special committee, the Board of Directors or us on the scope of Shattuck Hammond's investigation or the procedures Shattuck Hammond followed in rendering its opinion. The terms of Shattuck Hammond's engagement, however, did not include soliciting interest in an investment transaction from investors, and Shattuck Hammond made no such solicitation.

In evaluating the fairness, from a financial point of view, of the financial terms of the investment agreement taken as a whole to us, Shattuck Hammond employed a variety of analyses and reviews which it believes were appropriate for preparing its opinion. The preparation of a fairness opinion involves various determinations of the most appropriate and relevant methods of financial analyses and review and the application of those methods to the particular circumstances. Therefore such an opinion is not necessarily susceptible to partial analysis or summary description. Shattuck Hammond believes that its analyses and reviews must be considered as a whole and that selection of portions of its analyses and reviews and of the factors considered by it, without considering all of the factors and analyses and reviews, would create a misleading view of the processes underlying its opinion. In arriving at its opinion, Shattuck Hammond did not attribute any particular weight to any particular analysis, review or factor considered by it, but rather made qualitative judgments about the significance and relevance of each analysis, review and factor.

In performing its analyses and reviews, Shattuck Hammond made numerous assumptions with respect to industry performance, general business and economic conditions and other matters, many of which are beyond our control. The analyses and reviews performed by Shattuck Hammond do not purport to be an appraisal and are not necessarily indicative of actual values or actual future results that might be achieved, all of which may be significantly more or less favorable than suggested by Shattuck Hammond's analyses and reviews.

In connection with its analyses and reviews, Shattuck Hammond utilized estimates and forecasts of our future operating results contained in or derived from projections developed and supplied by our management. Analyses based on forecasts of future results are not necessarily indicative of actual future results, which may be significantly more or less favorable than the forecasts. Such analyses are

inherently subject to uncertainty, being based on numerous factors or events beyond our control, and are susceptible to interpretations and periodic revision based on actual experience and business and economic developments after the date they were prepared. Therefore, future results or actual values may be materially different from these forecasts or assumptions.

The following is a brief summary of material analyses and reviews performed by Shattuck Hammond in connection with the preparation of Shattuck Hammond's fairness opinion delivered to the special committee and our Board of Directors on October 29, 2001. The following analyses and reviews reflect substantially the same methodologies used by Shattuck Hammond in its preliminary oral presentation to the special committee and our Board of Directors on October 23, 2001, but updated and confirmed in writing to reflect financial information and market data that was available as of October 26, 2001 as well as a review of the definitive documentation executed in connection with the Explorer investment.

Alternative Financing Structures Review

General. Shattuck Hammond reviewed a number of financing alternatives to Explorer's investment including:

- equity financing (secondary public offering, private investment into public equity, private placement);
- debt financing (subordinated debt, collateralized mortgage backed securitization, Health and Urban Development insured and senior unsecured); and
- other financings (asset sales, sale or merger of our company).

Shattuck Hammond's review was based on a number of theoretical criteria including pricing, completion risk, timing, deleveraging of balance sheet, governance and approval requirements, fees and other factors. Based on its review and the criteria cited, Shattuck Hammond was of the view that no other financing alternative was clearly better than the Explorer investment. In this regard, Shattuck Hammond noted that, among other things:

- Explorer did not require any additional due diligence;
- Explorer and our company were willing to enter into agreements on terms that were substantially similar to the definitive documentation related to Explorer's investment in our Series C preferred stock;

the views of our management regarding the potential consequences if we did not reach an agreement with its banks for covenant waivers by mid December, 2001, including, without limitation, interest rate increases and other penalties and possible acceleration of its senior debt;

the requirement of our banks that there be an infusion of equity or other junior capital in connection with any covenant waivers and possible term extensions;

Explorer's commitment to purchase our common stock at a fixed price per share determined under the investment agreement irrespective of the actual price of our common stock at the time Explorer makes its investment;

the structure of the Explorer investment as an investment in our common stock or Series D preferred stock to convert into our common stock thereby eliminating the potential need to pay dividends or interest that other investments might require (assuming that Series D preferred stock is not issued or, if issued, is outstanding for only a short period of time);

an investment of equity would deleverage our balance sheet;

the World Trade Center attack on September 11, 2001 negatively impacted the financing markets; and

a rights offering is "democratic" from the perspective that all stockholders can participate based on their proportional ownership.

Market Valuation of Omega Publicly-Traded Senior Unsecured Debt and Series A and B Preferred Stock. Shattuck Hammond noted that our senior unsecured debt and Series A and B preferred stock were trading at significant discounts to their respective par values. Moreover, Shattuck Hammond further noted that our unsecured debt has a below investment grade rating and that the Series A and B preferred stock have had their dividends suspended. Shattuck Hammond concluded that our below investment grade rating on our debt, dividend suspension on our preferred stock and relative trading values of such securities to their par amounts were indicative of the challenges we would face in attempting to complete an alternative financing to the Explorer investment.

Omega Senior Unsecured Debt

	Price	YTM	S&P Rating
Omega 6.95%; 6/15/02	85	35.8%	CCC+
Omega 6.95%; 8/01/07	60	18.5%	CCC+

Series A and Series B Preferred (Actual Dollars)

	Liquidation Preference	Current Price as of 10/26/01	Discount to Liquidation Preference	Dividend Yield
Series A Preferred	$ 25.00	$ 14.51	58.0%	NA (1)
Series B Preferred	$ 25.00	$ 13.70	54.8%	NA (2)

(1)

Dividend suspended; accrues at rate of 9.250%.

(2)
Dividend suspended; accrues at rate of 8.625%.

Explorer Pro Forma Ownership Analysis. Shattuck Hammond noted that Explorer's current ownership of 45.5% of our voting capital stock and the ability to designate four out of nine Board seats (and approve an independent director) provided Explorer with significant control of our company. Based on the $50 million financing and an assumed subscription price of $2.92, depending on the number of our stockholders other than Explorer who exercise their rights, Explorer's ownership of our voting capital stock could exceed 50% on an as converted basis.

The table below presents Explorer and non-Explorer ownership of our common stock on an as converted basis based on different assumed levels of non-Explorer stockholder participation in the rights offering:

Ownership Analysis (Shares in Millions)

	Common Shares on an as Converted Basis(1)					
Explorer Ownership Level	**Non-Explorer Participation In Rights Offering**	**Total Shares Non-Explorer**	**Percentage Non-Explorer**	**Total Shares Explorer**	**Percentage Explorer**	**Total Shares**
High	0%	20.1	37.2%	33.9	62.8%	54.0
Medium	50%	24.7	45.8%	29.2	54.2%	54.0
Low	100%	29.4	54.5%	24.6	45.5%	54.0

(1)
Excludes options and warrants and 553,850 shares of our common stock acquired by Explorer subsequent to October 29, 2001.

Shattuck Hammond further noted that in the event that upon consummation of the rights offering and transactions contemplated by the investment agreement, Explorer were to beneficially own more than 50% of our voting securities, Explorer would have voting control of our company through its unrestricted right to vote our voting capital stock and the power to designate a majority of our Board of Directors subject to the following restrictions imposed by the investment agreement and any other limitation or restriction imposed by law:

- a limitation on the number of our Board of Directors which Explorer could designate;
- so long as Explorer holds at least 15% of our voting securities, a commitment by Explorer to vote in favor of the election of three directors who are both "independent" under the rules of the New York Stock Exchange and unaffiliated with Explorer and, upon the increase in the number of directors to ten, one additional person who is unaffiliated with Explorer; and
- except for a transaction approved by a committee of our Board of Directors comprised entirely of independent directors and under certain other limited circumstances, a prohibition against Explorer acquiring beneficial ownership of more than 80% of our voting securities.

Rights Offering Analysis

Shattuck Hammond reviewed 31 rights offerings (excluding rights offerings involving closed end funds and American Depositary Receipts) that have been completed since January 1, 2001. Shattuck Hammond noted that rights offerings are:

in many instances used by financially troubled companies, and approximately 61% of the companies in the sample involved companies with share prices less than $5.00 per share;

all of the rights offerings in the sample for which information was available had over-subscription rights available to all stockholders;

approximately 41% of such rights offerings for which information was available had a large investor that was willing to purchase all or a large part of any rights which were not exercised;

approximately 36% of the rights offerings in the sample for which information was available had rights that were transferable; and

approximately 86% of the sample for which information was available were priced based on intangible factors that may have had no relation to the value of the companies' assets, operating performance or share price.

Shattuck Hammond also reviewed the relative share price performance of the sample group based on the date of announcement and ex dividend date, and concluded that rights offerings typically have relatively little impact on a company's share price.

Rights Offering Analysis

Analysis by Announcement Date

Week Before	Day Before	On Day of	One Day After	One Week After
1.00	0.99	1.00	0.97	0.93

Analysis by Ex Date

Week Before	Day Before	On Day of	One Day After	One Week After
1.13	1.13	1.00	0.98	1.05

Omega Float Comparison

Based on information provided by Bloomberg Investor Services, Shattuck Hammond compared our public float (common shares not owned by management or other affiliates) with the public float of a select group of publicly-traded financially stable healthcare REITs, which consisted of Health Care Property Investors, Inc., Health Care REIT, Inc., Healthcare Realty Trust, Inc., Nationwide Health Properties, Inc. and Senior Housing Properties Trust, and a select group of publicly-traded financially distressed REITs, which consisted of LTC Properties, Inc. and National Health Investors, Inc.. The REITs in each group were selected because their healthcare focus and mix of assets were reasonably similar to those of our company. The general criteria used to distinguish between a stable and distressed REIT is that stable REITs generally have stronger financial performance, fewer operators who are in bankruptcy, and pay a dividend to their common stockholders. Shattuck Hammond considered our company to be a distressed REIT.

The public float for the stable REITs ranged from 16.4 million shares to 54.7 million shares and averaged 37.9 million shares. The public float for the distressed REITs, excluding our company, ranged from 20.2 million shares to 21.8 million shares and averaged 21.0 million shares. Shattuck Hammond noted that a larger float generally increases the trading liquidity of a stock and may enhance the ability to undertake a reverse split to increase share price. In this regard, if any non-Explorer stockholders (other than management and other affiliates) exercised their rights, our float would increase.

The table below presents the pro forma impact on our float based on different levels of assumed participation in the rights offering by our stockholders other than Explorer:

Omega Pro Forma Float Analysis (Shares in Millions)

	High	Medium	Low
Omega Float	19.2	19.2	19.2
Non-Explorer Rights Participation	100%	50%	0%
New Shares Issued(1)	9.3	4.7	0.0
Total Pro Forma Float	28.5	23.9	19.2
% Increase in Float	48%	24%	0%

(1) *Assumes $27.3 million Rights Offering priced at $2.92 per share representing a 6% discount to average closing price for 20 trading day period ended October 26, 2001.*

Pro Forma Debt to Capitalization Analysis

Shattuck Hammond analyzed the debt to capitalization of the stable REITs and the distressed REITs (excluding our company) and compared them to our company. Debt/capitalization is calculated as (long-term debt + short-term debt)/(long-term debt + short-term debt + preferred stock + equity value).The debt/capitalization of the stable REITs ranged from 14.2% to 56.7% and from 30.8% to 38.5% for the distressed REITs. Shattuck Hammond noted that a $50 million equity financing and additional subsequent repayment of debt through cash flow from operations would significantly lower our debt/capitalization ratio and bring such ratio into closer proximity with the ratios of the distressed REITs and stable REITs.

The table presents our capitalization at June 30, 2001 and as adjusted on a pro forma basis for a $50 million equity investment that is assumed will be used to repay debt, and for an assumed further $73.5 million reduction in debt through cash flow from operations:

Omega Pro Forma Debt to Capitalization Analysis (Dollars in Millions)

	June 30, 2001	Equity Investment	Pro Forma with Equity	Further Reduction	Pro Forma June 30, 2001
Debt					
Total Debt(1)	$ 425.6	(50.0)	$ 375.6	(73.5)	$ 302.1
Equity					
Preferred	$ 212.3		$ 212.3		$ 212.3
Other	247.4	50.0	297.4		297.4
Total Equity	$ 459.7	50.0	$ 509.7		$ 509.7
Debt to Capitalization:	**48.1**%		**42.4**%		**37.2**%
Mean(2)					
Distressed REITs	34.7%		34.7%		34.7%
Stable REITs	42.5%		42.5%		42.5%
Median(2)					
Distressed REITs	34.7%		34.7%		34.7%
Stable REITs	40.3%		40.3%		40.3%

(1) *Assumes additional $10.0 million of debt is repaid from proceeds in excess of $113.5 million due in March and June of 2002.*

(2) *Mean and median for distressed REITs exclude Omega. Mean and median for stable REITs exclude Senior Housing Properties Trust.*

Omega Share Price Analysis

Shattuck Hammond compared our share price performance to an index created by Shattuck Hammond of the share price performances of the stable REITs and the distressed REITs. Shattuck Hammond noted that we under-performed both indices for the five year period and twelve month period ended October 26, 2001. Shattuck Hammond also noted that for the three months ended October 26, 2001, we outperformed the stable REIT index and improved relative to the distressed REIT index.

Shattuck Hammond calculated our average share price based on the daily close for our common stock for the five year, twelve month and three month period ended October 26, 2001. Such averages were $20.26, $3.03 and $3.03, respectively. Shattuck Hammond noted that the maximum rights offering price of $2.92 was 94% of the average price for both the twelve month and three month period.

Comparable Company Analysis

In its comparable company analysis, Shattuck Hammond derived various valuation and leverage multiples as well as leverage and operating margins for our company and compared them to similar multiples and margins for the stable REITs and the distressed REITs. As previously discussed, the REITs in each group were selected because their healthcare focus and mix of assets were reasonably similar to our company. Shattuck Hammond focused the comparable company analysis on:

- the common share price to funds from operations multiple defined as "Price/FFO" where FFO is defined as net income available to common stockholders plus depreciation and amortization less any gains or losses on sales of assets, and adjusted for any items deemed extraordinary or "one-time" items; and

- the Debt/Capitalization ratio, see "Omega Pro Forma Debt to Capitalization Analysis" above.

Shattuck Hammond noted that Omega's Price/FFO multiple was below the median and mean multiples for the distressed and stable REITs. Shattuck Hammond further noted that completion of the Explorer investment and rights offering could result in an increase in our Price/FFO multiple. The table below presents the mean and median price to FFO multiples for the periods shown:

Comparable Public Companies' Price/FFO Multiples

	LTM 6/30/01	Six Months Annualized 6/30/01	2001 Estimated	2002 Projected
Stable REITs				
Mean	10.4x	10.5x	9.6x	9.2x
Median	10.4x	10.4x	10.2x	9.8x
Distressed REITs				
Mean(1)	5.6x	6.0x	7.0x	7.0x
Median(1)	5.6x	6.0x	7.0x	7.0x
Omega(2)(3)	**3.2x**	**3.1x**	**3.9x**	**4.4x**

(1)

Mean and median excludes Omega.

(2)
2001E and 2002P assume full conversion of Series C preferred stock, and includes additional stock in 2002 due to proposed $50 million financing.

(3)
Our FFO per share includes add-back of one-time items and certain adjustments related to 2002 financing.

In addition to the foregoing, Shattuck Hammond reviewed certain other valuation and leverage multiples as well as leverage and operating margins, including:

Comparable Public Companies' Equity Value as a Percentage of Total Enterprise Value.

Shattuck Hammond calculated the Equity Value, or EV, for each of the stable REITs and the distressed REITs by multiplying the fully-diluted number of shares outstanding by the share price at October 26, 2001 and dividing the result by the Total Enterprise Value, or TEV. TEV is defined as EV plus long and short-term debt, plus other long-term liabilities, plus preferred stock, less all cash and cash equivalents.

Shattuck Hammond noted that compared to all of the comparable REITs, the EV of Omega is small relative to TEV. Shattuck Hammond further noted that as a result, an increase in Omega's share price has a significant impact on increasing Omega's Price/FFO multiple, but little impact on Omega's TEV to Earnings Before Interest, Taxes, Depreciation and Amortization, or EBITDA multiple, or TEV/EBITDA. This is the primary reason why Shattuck Hammond focused its comparable company analysis on the Price/FFO multiple.

The table below presents the EV as a percentage of TEV for the period shown:

Comparable Public Companies' EV as a % of TEV

	As of October, 26 2001
Stable REITs	
Mean	62.4%
Median	55.6%
Distressed REITs	
Mean(1)	31.4%
Median(1)	25.4%
Omega	**9.2%**

(1)
Mean and median for Distressed REITs include Omega.

Comparable Public Companies' TEV/EBITDA Multiple. Shattuck Hammond noted that Omega's TEV/EBITDA multiple is greater than the mean and median multiples of the distressed REITs and less than the mean and median multiples of the stable REITs.

The table below presents mean and median TEV/EBITDA multiples for the periods shown:

Comparable Public Companies' TEV/EBITDA

	LTM 6/30/01	6 Months Annualized 6/30/01
Stable REITs		
Mean	10.5x	10.7x
Median	10.6x	10.7x
Distressed REITs		
Mean(1)	7.9x	8.4x
Median(1)	7.8x	8.6x
Omega(2)	**8.7x**	**9.0x**

(1) *Mean and median for Distressed REITs include Omega.*

(2) *Omega EBITDA adjusted to reflect add-back and reduction of certain one-time items.*

Comparable Public Companies' FFO as a Percentage of Debt. Shattuck Hammond noted that Omega's FFO as a percentage of debt, or FFO/Debt, was below the median and mean percentages for the distressed and stable REITs.

The table below presents the mean and median FFO/Debt percentages for the periods shown:

Comparable Public Companies' FFO/Debt

	LTM 6/30/01	6 Months Annualized 6/30/01
Stable REITs		
Mean(1)	17.2%	17.2%
Median(1)	17.8%	17.9%
Distressed REITs		
Mean(2)	15.4%	14.6%
Median(2)	12.8%	11.1%
Omega(3)	**4.8%**	**4.9%**

(1) *Senior Housing Property Trust excluded from mean and median as an outlier.*

(2) *Mean and median for Distressed REITs include Omega.*

(3) *Omega FFO adjusted to reflect add-back and reduction of certain one-time items.*

Comparable Public Companies' Debt to EBITDA Multiple. Shattuck Hammond noted that Omega's Debt to EBITDA, or Debt/EBITDA, multiple was greater than the mean and median multiples for the distressed REITs and the stable REITs.

The table below presents the mean and median Debt/EBITDA multiples for the periods shown:

Comparable Public Companies' Debt/EBITDA

	LTM 6/30/01	6 Months Annualized 6/30/01
Stable REITs		
Mean(1)	3.6x	3.7x
Median(1)	3.5x	3.5x
Distressed REITs		
Mean(2)	3.6x	3.8x
Median(2)	3.3x	3.6x
Omega(3)	**5.2x**	**5.4x**

(1) *Senior Housing Property Trust excluded from mean and median as an outlier.*

(2) *Mean and median for Distressed REITs include Omega.*

(3) *Omega EBITDA adjusted to reflect add-back and reduction of certain one-time items.*

Comparable Public Companies' EBITDA to Interest Multiple. Shattuck Hammond noted that Omega's EBITDA to Interest, or EBITDA/Interest, multiple was less than the mean and median multiples for the distressed REITs and the stable REITs.

The table below presents the mean and median EBITDA/Interest multiples for the periods shown:

Comparable Public Companies' EBITDA/Interest

	LTM 6/30/01	6 Months Annualized 6/30/01
Stable REITs		
Mean(1)	3.5x	3.5x
Median(1)	3.5x	3.7x
Distressed REITs		
Mean(2)	2.7x	2.8x
Median(2)	2.8x	2.8x
Omega(3)	**2.1x**	**2.1x**

(1) *Senior Housing Property Trust excluded from mean and median as an outlier.*

(2) *Mean and median for Distressed REITs include Omega.*

(3) *Omega EBITDA adjusted to reflect add-back and reduction of certain one-time items.*

Comparable Public Companies' EBITDA as a Percentage of Revenues. Shattuck Hammond noted that Omega's EBITDA as a percentage of revenue, or EBITDA/Revenue, was less than the mean and median percentages for the distressed REITs and the stable REITs.

The table below presents the mean and median EBITDA/Revenue percentages for the periods shown:

Comparable Public Companies' EBITDA/Revenue

	LTM 6/30/01	6 Months Annualized 6/30/01
Stable REITs		
Mean(1)	89.7%	90.1%
Median(1)	89.7%	90.5%
Distressed REITs		
Mean(2)	59.8%	58.8%
Median(2)	59.1%	57.4%
Omega(3)	**28.8%**	**29.1%**

(1) *Senior Housing Property Trust excluded from mean and median as an outlier.*

(2) *Mean and median for Distressed REITs include Omega.*

(3) *Omega EBITDA adjusted to reflect add-back and reduction of certain one-time items.*

Comparable Public Companies' Net Income as a Percentage of Revenue. Shattuck Hammond noted that Omega's Net Income as a percentage of revenue, or Net Income/Revenue, was less than the mean and median percentages for the distressed REITs and the stable REITs.

The table below presents the mean and median Net Income/Revenue percentages for the periods shown:

Comparable Public Companies' Net Income/Revenue

	LTM 6/30/01	6 Months Annualized 6/30/01
Stable REITs		
Mean(1)	41.6%	41.0%
Median(1)	40.1%	40.0%
Distressed REITs		
Mean(2)	29.7%	26.5%
Median(2)	29.7%	30.2%
Omega	**7.1%**	**7.4%**

(1) *Senior Housing Property Trust excluded from mean and median as an outlier.*

(2) *Mean and median for Distressed REITs include Omega.*

Net Asset Value Analysis

Shattuck Hammond performed a net asset value analysis that compared the estimated net asset value per fully-diluted common share to our actual share price at October 26, 2001. A similar comparative analysis was done with respect to the stable REITs and the distressed REITs. The analysis was based on financial results for the latest twelve months ended June 30, 2001 and the six months ended June 30, 2001 annualized. The net asset value calculation was based on determining a value for owned properties and other income and then adjusting this combined value for various balance sheet

related items such as cash, debt and preferred stock. The value of owned properties was determined by multiplying property cash flow by a multiple. Property cash flow was assumed to be equal to real estate operating revenue less direct real estate operating costs. Other income is assumed to consist primarily of interest income and excludes income or losses related to sales of assets. The value of other income is determined by multiplying other income for the period by a multiple. For the stable REITs, the property cash flow multiple and other income multiple utilized is 10.0x and 6.0x, respectively. For the distressed REITs, the property cash flow multiple and other income multiple utilized is 8.0x and 5.5x, respectively.

The table below presents the calculation of our net asset value, the median and mean net asset values per share for the stable REITs and the distressed REITs and the premium or discount of the actual share prices to the net asset value per share for each group of REITs and our company at October 26, 2001:

Summary Net Asset Value per Share (Actual Dollars)

	LTM 6/30/01	Premium/ (Discount)	Six Months Annualized 6/30/01	Premium/ (Discount)
Stable REITs				
Mean	$ 25.5	(6.8)%	$ 25.0	(4.7)%
Median	$ 24.8	(3.7)%	$ 24.8	(2.2)%
Distressed REITs				
Mean(1)	$ 13.31	(22.9)%	$ 11.95	(8.3)%
Median(1)	$ 13.31	(22.9)%	$ 11.95	(8.3)%
Omega	**$ 2.97**	**7.2%**	**$ 2.39**	**33.2%**

(1) *Distressed REITs exclude Omega.*

Calculation of Omega's Net Asset Value (Dollars in Millions)

	LTM 6/30/01	Six Months Annualized 6/30/01
Real Estate Operating Revenue	$ 251.6	$ 241.1
Direct Operating Expenses	191.2	180.3
Property Cash Flow	$ 60.4	$ 60.8
Applied Market Multiple	8.0x	8.0x
Property Asset Value	$ 483.4	$ 486.7
Other Income	$ 31.3	$ 28.6

		LTM 6/30/01		Six Months Annualized 6/30/01
Applied Market Multiple		5.5x		5.5x
Other Income for NAV Purposes	$	172.3	$	157.2
Balance Sheet (6/30/01)				
Property Asset Value	$	483.4	$	486.7
Other Income		172.3		157.2
Plus: Land		32.1		32.1
Plus: Cash		10.8		10.8
Less: Debt		(425.7)		(425.7)
Less: Preferred		(212.3)		(212.3)
Net Asset Value	$	60.5	$	48.7
Shares Outstanding (Millions)		**20.4**		**20.4**
Net Asset Value per Share	**$**	**2.97**	**$**	**2.39**
Current Share Price (10/26/01)	**$**	**3.18**	**$**	**3.18**
Share Price Relative to NAV		**7.16%**		**33.17%**

Selection and Engagement of Shattuck Hammond

The Board of Directors authorized the special committee to engage a financial advisor to provide financial advice and issue a fairness opinion with respect to the rights offering. The special committee solicited proposals from several investment banking firms. After careful consideration, the special committee elected to engage Shattuck Hammond based on a number of factors including the firm's experience in the healthcare sector as well as the competitive terms of its fee proposal. As part of its investment banking business, Shattuck Hammond is continually engaged in the valuation of businesses and their securities in connection with mergers and acquisitions, negotiated underwritings, secondary distributions of securities, private placements and other purposes. Shattuck Hammond acted as financial advisor to the special committee in connection with a review of other financing alternatives that might be available to us and a review of any proposals related to Explorer and will receive a fee from us for such services and an additional fee upon the delivery of its opinion.

As compensation for its services as financial advisor to the special committee, pursuant to a letter agreement dated October 15, 2001, we agreed to pay Shattuck Hammond $250,000 in cash as follows:

- a retainer of $50,000;
- $50,000 upon the submission of a written report to the Board of Directors which addressed a review and analysis of potential financing alternatives for us as well as a review and analysis of financing proposals received by us; and
- $250,000 (less any fees previously received) upon the earlier of the completion of a financing or the delivery of a written opinion as to the fairness of such financing from a financial point of view.

On October 29, 2001, the October 15, 2001 agreement was amended in recognition of the increased time requirement of Shattuck Hammond, to provide for Shattuck Hammond to receive a fee of $400,000 (instead of $250,000) less any fees received, upon the earlier of the completion of a financing and the delivery of its written opinion. In addition, Shattuck Hammond agreed to pay for all of its out-of-pocket expenses.

Interests of Directors and Officers in Matters to be Acted Upon.

Hampstead Investment Partners III, L.P. holds the ultimate controlling interest in Explorer, which owns 553,850 shares of common stock and 1,048,420 shares of Series C preferred stock, representing 47.1% of our outstanding voting power. Daniel A. Decker, the Chairman of our Board of Directors, is a member of Hampstead. Donald J. McNamara, the Chairman of Hampstead, is one of our directors. Christopher W. Mahowald, a member of the Board of Directors, through a separate investment fund, contributed $5 million towards Explorer's $100 million investment in our company in July 2000.

Recommendation of Board of Directors

The Board of Directors unanimously recommends a vote **FOR** the approval of the issuance of common stock to Explorer either upon consummation of its investment or, if such investment is completed prior to the date of the Special Meeting, upon conversion of the Series D preferred stock.

PROPOSAL 2 APPROVAL OF THE AMENDMENT TO OUR ARTICLES OF INCORPORATION AMENDING TERMS OF OUR ARTICLES SUPPLEMENTARY FOR SERIES C CONVERTIBLE PREFERRED STOCK

Explorer Holdings, L.P., which owns all of our outstanding Series C preferred stock and 553,850 shares of our common stock, representing 47.1% of our voting stock, will not purchase common stock in this rights offering. Although Explorer will not participate in the rights offering, Explorer has agreed to purchase $23.6 million of our stock in a private placement concurrent with the closing of the rights offering, at the same price per common share as in this rights offering. The amount that Explorer has committed to invest in the private placement represents its pro rata portion, with respect to shares of our Series C preferred stock and common stock it holds, of the $50 million in additional equity capital we are seeking to raise. Explorer has also agreed to increase the size of its private placement investment in our company by an additional amount equal to the aggregate subscription price of any shares that are not subscribed for in this offering. As a result of this commitment, we are assured of receiving a total of $50 million in gross proceeds upon the completion of the rights offering and the private placement to Explorer. The shares to be issued to Explorer are not registered as a part of the rights offering and will be restricted securities under the Securities Act of 1933.

As a condition to Explorer's investment in our company, we have agreed to amend certain of the agreements relating to Explorer's July 2000 investment in our company. These amendments will be effective as of the closing of the private placement to Explorer. The effect of these amendments is to remove the provisions in our agreements that prohibit Explorer from voting in excess of 49.9% of our common stock and from taking certain actions without the prior approval of our Board of Directors. The proposed amendments also (i) modify the right of the holders of our Series C preferred stock to appoint directors upon our failure to pay dividends for a specified period of time, (ii) provide that the subscription price in the rights offering will not result in an adjustment to the conversion price of our Series C preferred stock, and (iii) make certain other technical changes to reflect the possible issuance of the Series D preferred stock. The amendment to our Articles of Incorporation to amend the terms of our Articles Supplementary for the Series C Convertible Preferred Stock to effect these changes requires stockholder approval.

The following summary of the material changes to the Articles Supplementary for the Series C Convertible Preferred Stock and the Explorer investment agreements is subject to, and qualified in its entirety by, the complete text of each amendment and the other material documents described below. A copy of the Amended and Restated Articles Supplementary for the Series C Convertible Preferred Stock, which is marked to show the proposed modifications to our Articles Supplementary for the Series C Convertible Preferred Stock filed in July 2000, is attached as Appendix D to this Proxy Statement. The Explorer investment agreements have been previously filed as exhibits to a Schedule 13D/A filed on behalf of Explorer on October 29, 2001. You should read the full text of the amendments to the Explorer agreements and other material agreements because those agreements, and not this Proxy Statement, are the legal documents that govern the investment by Explorer. In the event there are any discrepancies between the terms of the Explorer agreements and the amendments thereto in the following summary, the Explorer agreements and amendments will control.

Proposed Amendment of Our Articles Supplementary for the Series C Convertible Preferred Stock

Pursuant to the Articles Supplementary for the Series C Convertible Preferred Stock and our investment agreement with Explorer, we are required to seek the approval of our stockholders to amend the Series C Articles Supplementary for the Series C Convertible Preferred Stock presently owned by Explorer. A copy of the Amended and Restated Articles Supplementary for the Series C Convertible Preferred Stock, which is marked to show the proposed modifications to our Articles Supplementary for the Series C Convertible Preferred Stock filed in July 2000, is attached as

Appendix D to this Proxy Statement. Pursuant to the Amended Series C Articles Supplementary, the terms of the Series C preferred stock will be amended to:

(i) remove the restriction that prevents the voting or conversion of the Series C preferred stock in excess of 49.9% of our voting securities owned by Explorer;

(ii) provide that if we fail to pay dividends owed upon the Series C preferred stock or the Series D preferred stock for a period of time, the holders of the Series C preferred stock and the Series D preferred stock, voting together as a single class, will be entitled to designate two additional directors to our Board of Directors;

(iii) provide that the subscription price in the rights offering will not result in an adjustment to the conversion price of our Series C preferred stock; and

(iv) make other technical changes to reflect the existence of the Series D preferred stock.

As a result of this amendment, if Explorer holds greater than fifty percent of the outstanding shares of voting stock of our company, it will have the ability to control certain aspects of our company. In addition, if we are in arrears on our dividends for four or more periods, Explorer could gain more control of our Board of Directors.

The above amendments will not be effective unless approved by our stockholders. The proposed amendments must be approved by the affirmative vote of a majority of all issued and outstanding shares of common stock and Series C preferred stock voting together as a class and at least two-thirds of the shares of the issued and outstanding Series C preferred stock. Explorer has committed to vote its shares, representing approximately 47.1% of our voting shares on an as converted basis, in favor of these amendments. We will file an amended Series C Articles Supplementary with the Department of Assessments and Taxation of the State of Maryland following receipt of stockholder approval and the closing of the private placement to Explorer.

Modifications to Agreements with Explorer

Amended and Restated Stockholders Agreement. We will enter into an amended and restated stockholders agreement at the closing of the private placement to Explorer. If Explorer owns more than 50% of our common stock, Explorer would be able to elect all of the members of the Board of Directors. However, pursuant to the amended and restated stockholders agreement, Explorer will be entitled to designate to our Board of Directors that number of directors that would generally be proportionate to Explorer's ownership of voting securities of our company, not to exceed five directors (six following increase in the size of the Board of Directors to ten directors). We will limit the number of directors on our Board so as not exceed nine without the consent of Explorer (ten following stockholder approval of the increase in size of the Board of Directors to ten). We will also take such action to ensure generally that Explorer's representation on all committees of the Board is proportionate to its representation on the entire Board of Directors other than any special committee established to consider transactions in which Explorer or any of its affiliates may have a conflict of interest.

Explorer will, so long as it owns at least 15% of our voting securities, vote its shares in favor of three "independent directors" as defined under the rules of the New York Stock Exchange who are not affiliates of Explorer. Upon the increase of the size of the Board of Directors to ten members, Explorer will vote its shares in accordance with the previous sentence in favor of an additional director who is not affiliated with Explorer. Upon the increase of the size of the Board to ten members, we will appoint C. Taylor Pickett, our Chief Executive Officer, as a new director. Mr. Pickett will then constitute the fourth non-Explorer director.

Pursuant to the amended stockholders agreement, Explorer will no longer be subject to certain restrictions under the prior stockholders agreement preventing it from acquiring more than 5% of our voting securities without prior approval of our Board of Directors, but Explorer will be restricted from acquiring beneficial ownership of more than 80% of our voting securities without the approval of a committee of the Board consisting entirely of independent directors. Other restrictions on Explorer under the prior stockholders agreement, including the agreement of Explorer not to solicit proxies in opposition to, or prior to the issuance of a recommendation by, the Board; not to join, form or participate in a group relating to the ownership or voting of our securities or control of our company; not to deposit any securities in a voting trust or other voting arrangement; and not to tender any securities in a tender offer not approved by the Board will also no longer apply to Explorer. Explorer will also no longer be subject to the right of first offer transfer restrictions in the prior stockholders agreement.

Pursuant to the amended stockholders agreement, Explorer will not transfer our voting securities to a transferee who, as a result of such transfer, would beneficially own 10% or more of our outstanding voting securities unless such transferee agrees to be bound by certain provisions of the amended stockholders agreement including those relating to the election of independent directors.

Amended and Restated Registration Rights Agreement. Pursuant to an amended and restated registration rights agreement, we have agreed, subject to certain limitations and under certain circumstances, to register for sale any shares of our stock held by Explorer. We will enter into the amended and restated registration rights agreement with Explorer at the closing of the private placement to Explorer.

Stockholders Rights Plan Amendment. Pursuant to our investment agreement with Explorer, we have amended our stockholders rights plan to provide that neither Explorer nor its affiliates shall be an "acquiring person" for purposes of activating the rights that were issued pursuant to our stockholders rights plan. The amendment also exempts direct and indirect transferees of Explorer, other than in transfers through an underwriter or national securities exchange, from the definition of an "acquiring person."

Advisory Agreement Side Letter. We have agreed that upon the closing of the rights offering The Hampstead Group, L.L.C., an affiliate of Explorer, will have fulfilled all of its obligations under the amended and restated advisory agreement to provide certain specified financial advisory, consulting and operational services, including, but not limited to, assistance in our efforts to refinance, repay or extend certain indebtedness and assistance in efforts to manage our capitalization and liquidity. As a result, the advisory fee payable to Hampstead under the advisory agreement will be earned but will only be payable at such time as all of the conditions to payment of the advisory fee contained in the advisory agreement are met. These conditions include the extension, repayment or refinancing of the outstanding balances of our senior unsecured notes maturing on June 15, 2002 as well as the extension, refinancing or repayment of our $175 million senior secured revolving credit facility. The advisory fee that will be payable is equal to 1% of the amount of refinanced indebtedness (based on the maximum amount available to be drawn in the case of revolving credit facilities) up to a maximum fee of $3.1 million. Following completion of the rights offering and the effectiveness of the agreements with our bank groups, the full $3.1 million advisory fee will have been earned. However, Hampstead has agreed to defer payment of this fee until all the indebtedness maturing in 2002 shall have been repaid, refinanced, or extended. If Hampstead provides additional services, we will be required to pay them a customary advisory fee.

Vote Required for Approval of the Amendment to our Articles of Incorporation to Amend Certain Terms of the Articles Supplementary for the Series C Convertible Preferred Stock

The proposed amendment to our Articles of Incorporation to amend certain terms of the Articles Supplementary for the Series C Convertible Preferred Stock must be approved by the affirmative vote of a majority of the voting power of our issued and outstanding shares of common stock and Series C preferred stock voting together as a class and the affirmative vote of at least two-thirds of all issued and outstanding shares of Series C preferred stock, voting separately as a class. Explorer has committed to vote its shares of common stock and Series C preferred stock, representing approximately 47.1% of the voting shares and all of the outstanding shares of Series C preferred stock, in favor of this proposal.

Reason for Seeking Stockholder Approval

The Articles Supplementary for the Series C Convertible Preferred Stock and our Articles of Incorporation require that a majority of all shares of common stock and Series C preferred stock voting together as a class, and at least two-thirds of the Series C preferred stock, voting separately, as a class vote in favor of any amendments to the Articles Supplementary for the Series C Convertible Preferred Stock.

Recommendation of Board of Directors

The Board of Directors unanimously recommends a vote **FOR** the approval of the amendment to our Articles of Incorporation to amend certain terms of the Articles Supplementary for the Series C Convertible Preferred Stock.

PROPOSAL 3 APPROVAL OF THE AMENDMENTS TO THE ARTICLES OF INCORPORATION AND BYLAWS INCREASING THE MAXIMUM NUMBER OF DIRECTORS

Article V, Section 3 of our Articles of Incorporation and Article III, Section 1 of our Bylaws currently provide that Omega shall have not less than five nor more than nine directors. Any increase in the number of authorized directors requires the affirmative vote of the holders of 80% of the shares of our common stock. The Board of Directors has approved and recommends that you approve amendments to our Articles of Incorporation and to our Bylaws that increase the maximum number of directors from nine to eleven, and that provide that any future increase in the number of directors can be effected by an amendment to our Bylaws approved by our Board or our stockholders.

The purpose of these amendments to our Articles of Incorporation and to our Bylaws is to enable Omega to take timely advantage of the availability of well-qualified candidates and to increase our ability to attract high-quality individuals to serve as directors of Omega. The Board of Directors has deemed these amendments to be in the best interest of Omega because it believes that the presence of additional talented individuals with industry experience will enhance our ability to meet the challenges we face in an increasingly competitive market. We have also agreed with Explorer that if stockholders approve the amendments to increase the size of our Board of Directors, the total number of directors will be fixed at ten. If stockholders approve the increase in the size of the Board of Directors, the Board of Directors intends to appoint our Chief Executive Officer, C. Taylor Pickett, to serve as a member of our Board of Directors.

In addition, as a result of the proposed amendments, future increases in the maximum number of directors can be made by an amendment to our Bylaws approved by the Board of Directors or the affirmative vote of the holders of a majority of the voting power of our issued and outstanding voting securities. The purpose of this change is to give the Board of Directors greater flexibility in determining the proper size of the Board of Directors, without the requirement that Omega obtain stockholder approval of any such change.

Accordingly, it is proposed that the last paragraph of Article V, Section 3 of our Articles of Incorporation be amended to read as follows:

> "The number of Directors may be increased or decreased from time to time in such manner as may be provided in the Bylaws."

Accordingly, it is also proposed that the first two sentences of Article III, Section 1 of our Bylaws be amended to read as follows:

> "The number of Directors shall be not less than five (5) nor more than eleven (11) until changed by amendment of these Bylaws subject, however, to any rights of the holders of any series of preferred stock to elect additional directors. Subject to any rights of holders of preferred stock, the exact number of Directors shall be ten (10) until changed, within the limits specified, by a Bylaw amending this section duly adopted by the Board of Directors or Stockholders."

Any person who is appointed as a director would stand for re-election at the next annual meeting of stockholders following his or her appointment.

Required Vote for Approval of the Amendment to our Articles of Incorporation and Bylaws

The affirmative vote of the holders of 80% of the shares of common stock is required to approve the amendments to our Articles of Incorporation and our Bylaws to increase the size of the Board of Directors.

Recommendation of Board of Directors

The Board of Directors unanimously recommends a vote **"FOR"** the approval of the amendment to our Articles of Incorporation and Bylaws to increase the maximum size of the Board of Directors from nine to eleven members.

SELECTED FINANCIAL DATA

The historical operating data set forth below for the nine months ended September 30, 2000 and 2001 and the balance sheet data as of September 30, 2001 are derived from our unaudited consolidated financial statements and notes included in this Proxy Statement and, in the opinion of our management, include all adjustments, consisting of only normal recurring adjustments, considered necessary for a fair presentation. Interim results are not necessarily indicative of the results that can be expected for a full fiscal year. The historical operating data set forth below for each of the years in the three-year period ended December 31, 2000 and the balance sheet data as of December 31, 2000 and 1999 are derived from our audited consolidated financial statements and notes included in this Proxy Statement, which have been audited by Ernst & Young LLP, independent auditors. The historical operating data set forth below for each of the years in the two-year period ended December 31, 1997 and the balance sheet data as of December 31, 1998, 1997 and 1996 are derived from our audited consolidated financial statements and notes, which have not been included in this Proxy Statement but which we have previously filed with the Securities and Exchange Commission and have been audited by Ernst & Young LLP, independent auditors. The following selected financial data have been derived from and should be read in conjunction with our consolidated financial statements and the related notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Nine Months Ended September 30,		Year Ended December 31,				
	2001	**2000**	**2000**	**1999**	**1998**	**1997**	**1996**
	(unaudited)		(In thousands, except per share amounts)				
Operating Data							
Revenues(1)	$ 201,666	$ 195,673	$ 275,793	$ 148,129	$ 109,314	$ 90,820	$ 73,127
Net Earnings (Loss) Available to Common (before gain/loss on assets sold and provision for impairment in 2001, 2000, 1999 and 1998 and gain from early extinguishment of debt in 2001)	(19,951)	(13,500)	(14,784)	40,047	41,777	41,305	34,590
Net Earnings (Loss) Available to Common	(26,242)	(57,507)	(66,485)	10,040	68,015	41,305	34,590
Per Share Amounts:							
Net Earnings (Loss) (before gain/loss on assets sold and provision for impairment in 2001, 2000, 1999 and 1998 and gain from early extinguishment of debt in 2001):							
Basic	(1.00)	(0.67)	$ (0.74)	$ 2.01	$ 2.09	$ 2.16	$ 2.01
Diluted	(1.00)	(0.67)	(0.74)	2.01	2.08	2.16	2.01
Net Earnings (Loss) Available to Common:							
Basic	(1.31)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Diluted	(1.31)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Net Earnings (Loss) before gain on early extinguishment of debt:							
Basic	(1.46)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Diluted	(1.46)	(2.87)	(3.32)	0.51	3.39	2.16	2.01
Dividends, Common Stock(2)		0.75	1.00	2.80	2.68	2.58	2.48
Dividends, Series A Preferred(2)		1.73	2.31	2.31	2.31	1.16	
Dividends, Series B Preferred(2)		1.62	2.16	2.16	1.08		
Dividends, Series C Preferred(3)			0.25				
Weighted Average Common Shares Outstanding, Basic	20,032	20,058	20,052	19,877	20,034	19,085	17,196
Weighted Average Common Shares Outstanding, Diluted	20,032	20,058	20,052	19,877	20,041	19,137	17,240

	Nine Months Ended September 30,	December 31,				
	2001	**2000**	**1999**	**1998**	**1997**	**1996**

	Nine Months Ended September 30,	December 31,				
	(unaudited)					
Balance Sheet Data						
Gross Investments	$ 944,148	$ 974,507	$ 1,072,398	$ 1,069,646	$ 839,927	$ 643,261
Total Assets	911,265	948,451	1,038,731	1,037,207	816,108	634,836
Revolving Lines of Credit	203,641	185,641	166,600	123,000	58,300	6,000
Other Long-Term Borrowings	222,396	249,161	339,764	342,124	208,966	135,659
Subordinated Convertible Debentures		16,590	48,405	48,405	62,485	94,810
Stockholders' Equity	456,659	464,313	457,081	505,762	468,221	383,007

(1) Revenues for the nine months ended September 2001 and 2000 and the years ended December 2000 and December 1999 include $133,613, $123,461, $175,559, and $26,223, respectively, of revenues from nursing home operations from facilities recovered from customers and managed for our own account.

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

(3) Dividends per share are those declared during each period, based on the number of shares of common stock issuable upon conversion of the outstanding Series C. See Note 15 to our December 31, 2000 consolidated financial statements included in this Proxy Statement.

PRINCIPAL STOCKHOLDERS

The following table sets forth information regarding beneficial ownership of our common stock as of December 31, 2001 by:

- each of our directors and named executive officers;
- all directors and executive officers as a group; and
- all persons known to us to be the beneficial owner of more than 5% of our outstanding common stock.

Except as indicated in the footnotes to this table, the persons named in the table have sole voting and investment power with respect to all shares of our common stock shown as beneficially owned by them, subject to community property laws where applicable. The business address of the directors and executive officers is 9690 Deereco Road, Timonium, Suite 100, Maryland 21093.

	Common Stock							
	Before the Rights Offering and Explorer Investment		After the Rights Offering and Explorer Investment(15)		Series A Preferred		Series B Preferred	
Beneficial Owner	Number of Shares	Percent of Class(1)	Number of Shares	Percent of Class(16)	Number of Shares	Percent of Class(18)	Number of Shares	Percent of Class(19)
Directors and Executive Officers:								
C. Taylor Pickett	50,000(2)	0.1%	73,256	0.1%				
Robert O. Stephenson	1,000	*	1,466	*				
Daniel J. Booth								
R. Lee Crabill								

	Common Stock							
Thomas W. Erickson	54,407(3)	0.1%	56,302	0.1%				
Richard M. FitzPatrick								
F. Scott Kellman	39,888(4)(5)	0.1%	58,442	0.1%				
Laurence D. Rich	13,114(6)	*	19,214	*				
Thomas F. Franke	39,682(7)(8)	0.1%	57,985	0.1%	4,000	*		
Harold J. Kloosterman	64,837(8)(9)	0.2%	94,840	0.2%				
Bernard J. Korman	366,307(8)	1.0%	536,528	1.0%	200	*	1,300	*
Edward Lowenthal	8,707(8)(10)	*	12,602	*				
Christopher W. Mahowald	4,407(8)	*	6,302	*				
Donald J. McNamara	17,695,627(8)(11)(12)	48.1%	25,934,794	48.1%	3,600(17)	*	4,300	*
Daniel A. Decker	17,332,977(8)(12)	47.1%	25,403,467	47.1%				
Stephen D. Plavin	4,407(8)	*	6,302	*				
Directors and executive officers as a group (16 persons)	18,346,790(13)	49.9%	26,864,335	49.8%	7,800	*	5,600	*
5% Beneficial Owners:								
Merrill Lynch & Co. Inc. (on behalf of Merrill Lynch Asset Management Group) World Financial Center North Tower 250 Vesey Street New York, NY 10381	1,136,750(14)	3.1%	1,665,471	3.1%				
Hampstead Investment Partners III, L.P. 4200 Texas Commerce Tower West 2200 Ross Avenue Dallas, TX 75201	17,328,570(12)	47.1%	25,139,563	46.6%				

*
Less than 0.10%

(1)
Based on 36,773,618 shares of our common stock outstanding as of December 31, 2001, including 16,774,722 shares of our common stock issuable upon conversion of Series C Preferred Stock. See Note 12 below.

(2)
Represents unvested shares of Restricted Stock granted in July 2001.

(3)
Includes stock options that are exercisable within 60 days to acquire 50,333 shares.

(4)
Includes shares owned jointly by Mr. Kellman and his wife, plus 171 shares held solely in Mrs. Kellman's name. Mr. Kellman disclaims any beneficial interest in the shares held solely by Mrs. Kellman.

(5)
Includes 647 unvested shares of Restricted Stock granted in January 1999.

(6)
Includes 215 unvested shares of Restricted Stock granted in January 1999.

(7)
Includes 26,037 shares owned by a family limited liability company (Franke Family LLC) of which Mr. Franke is a member.

(8)

Includes stock options that are exercisable within 60 days to acquire 333 shares.

(9) Includes shares owned jointly by Mr. Kloosterman and his wife, and 23,269 shares held solely in Mrs. Kloosterman's name.

(10) Includes 1,000 shares held in a private profit sharing plan for the benefit of Mr. Lowenthal.

(11) Includes 251,000 shares held by a partnership established by Mr. McNamara for the benefit of certain members of Mr. McNamara's family, 5,150 shares held by a charitable foundation established by Mr. McNamara, and 1,000 shares held by a trust established by Mr. McNamara for non-family members of which Mr. McNamara is the trustee. Mr. McNamara disclaims any beneficial ownership of the shares held by the partnership, the foundation and the trust.

(12) Based on Amendment No. 4 to Schedule 13D filed by Hampstead Investment Partners III, L.P. on November 29, 2001. Represents shares of our common stock issuable upon conversion of 1,048,420 shares of Series C preferred stock and 553,850 shares of common stock owned by Explorer. Hampstead holds the ultimate controlling interest in Explorer. Messrs. McNamara and Decker disclaim beneficial ownership of the Series C preferred stock and the common stock, which they may be deemed to beneficially own because of their ownership interests in Hampstead, which holds the ultimate controlling interest in Explorer.

(13) Includes options that are exercisable within 60 days to acquire 52,997 shares. Also includes 50,862 unvested shares of Restricted Stock. Includes shares of our common stock issuable upon conversion of Series C preferred stock owned by Explorer. See Note 12.

(14) Based on the Schedule 13G filed by Merrill Lynch & Co., Inc. with the Securities and Exchange Commission on February 7, 2000.

(15) Assumes full exercise of the subscription rights by each stockholder in the rights offering. If none of the subscription rights are exercised in the rights offering, Explorer would beneficially own 34,451,860 shares or 63.9%, of our common stock, represented by 553,850 shares of common stock, 1,048,420 shares of Series C preferred stock and 500,000 shares of Series D preferred stock, depending on whether or not we have obtained stockholder approval for Explorer's investment at the time of the investment.

(16) Based on 53,896,906 shares of our common stock, including 17,123,288 issued pursuant to this offering and private placement and 16,774,722 shares of our common stock issuable upon conversion of Series C preferred stock. See Note 12.

(17) Includes 800 shares held by a trust established by Mr. McNamara for non-family members of which Mr. McNamara is the trustee. Mr. McNamara disclaims any beneficial ownership of shares held by the trust.

(18) Based on 2,300,000 shares of Series A preferred stock outstanding on December 31, 2001.

(19) Based on 2,000,000 shares of Series B preferred stock outstanding on December 31, 2001.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion contains forward-looking statements. 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 "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 Proxy Statement and only speak as of 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 those discussed under "Forward-Looking Statements."

Overview

The long-term care industry has experienced unprecedented financial challenges in the recent past that have had an adverse impact on us during 2000 and 2001. These challenges are due principally to the Balanced Budget Act of 1997 which introduced the prospective payment system for the reimbursement of Medicare patients in skilled nursing facilities, implementing an acuity-based reimbursement system in lieu of the cost-based reimbursement system historically used. The prospective payment system significantly reduced payments to nursing home operators. That reduction, in turn, has negatively affected the revenues of our nursing home facilities and the ability of our nursing home operators to service their capital costs to us. Many nursing home operators, including a number of our large nursing home operators, have sought protection under Chapter 11 of the Bankruptcy Act.

In response to the adverse impact of the prospective payment system reimbursement cuts, the Federal government passed the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act of 2000, both of which increase payments to nursing home operators. These increases have positively affected the revenues of our nursing home facilities and the ability of our nursing home operators to service their capital costs to us. In addition, the facilities that we own and currently operate for our own account have been likewise positively affected by the Balanced Budget Refinement Act and Benefits Improvement and Protection Act.

The initial impact of the prospective payment system negatively affected our financial results and our access to capital sources to fund growth and refinance existing indebtedness. To obtain sufficient liquidity to enable us to address the maturity in July 2000 and February 2001 of indebtedness totaling $129.8 million, we issued $100.0 million of Series C preferred stock to Explorer in July 2000 as described in more detail in Note 10 to our audited consolidated financial statements included in this Proxy Statement. Simultaneously with the issuance of the Series C preferred stock, we also refinanced our then existing credit facilities.

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

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As of September 30, 2001, we owned 60 long-term healthcare facilities that had been recovered from customers and are currently operated for our own account. During 1999, 2000 and 2001, we experienced a significant increase in nursing home revenues attributable to the increase in owned and operated assets. In addition, in connection with the recovery of these assets, we often fund working capital and deferred capital expenditure needs for a transitional period until license transfers and other regulatory matters are completed and reimbursement from third-party payors recommences. Our management intends to sell or re-lease these assets as promptly as possible consistent with achieving valuations that reflect our management's estimate of fair realizable value of the assets. We do not know, however, if or when the dispositions will be completed or whether the dispositions will be completed on terms that will enable us to realize the fair value of such assets.

In November 2000, Explorer agreed to defer receipt until April 2, 2001 of $4.7 million in dividends declared in October 2000 on the Series C preferred stock. We requested this deferral in light of the maturity in February 2001 of $16.6 million of subordinated debentures. In February 2001, we suspended payment of all dividends on all common and preferred stock. This action was intended to preserve cash to facilitate our ability to obtain financing to fund debt maturing in 2002. Additionally, on March 30, 2001, we exercised our option to pay the deferred Series C preferred stock dividend and associated deferral fee by issuing 48,420 additional shares of Series C preferred stock to Explorer. These shares are convertible into 774,722 shares of our common stock at $6.25 per share. We do not know when or if we will resume dividend payments on our common stock or, if resumed, what the amount or timing of any dividend will be. We do not anticipate paying dividends on any class of capital stock at least until our $98 million of debt maturing in the first half of 2002 has been repaid, and in any event, all accrued and unpaid dividends on our Series A, B and C preferred stock must be paid in full before dividends on our common stock can be resumed. We have made sufficient distributions to satisfy the distribution requirements under the REIT rules of the Internal Revenue Code of 1986 to maintain our REIT status for 2000 and intend to satisfy the requirements under the REIT rules for 2001.

In August 2001, we paid $10 million to settle a lawsuit brought against us by Karrington Health, Inc. The recognition of this non-recurring expense associated with the settlement has resulted in violations of certain financial covenants in the loan agreements relating to our revolving credit facilities. We previously obtained a waiver from the lenders under our two revolving credit facilities through September 14, 2001 in respect of our default under these covenants. The lenders under our $175 million credit facility have granted us a waiver through December 13, 2001. The waiver granted by our lenders under our $75 million secured credit facility has expired and discussions regarding an extension are continuing.

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 consolidated financial statements and accompanying notes.

Results of Operations

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

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

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

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

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

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

Our nursing home expenses for owned and operated assets increased to $179.0 million from $25.2 million in 1999 due to the increase in the number of nursing homes operated for our account.

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

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

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

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

We recognized a $4.7 million charge for severance payments in 2000. The charges are comprised of severance and consulting payments to our former Chief Executive Officer and former Chief Financial Officer.

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

A provision for impairment of $61.7 million is included in expenses for 2000. This provision included $14.4 million for assets held for sale to reduce properties to fair value less cost to dispose, $43.0 million for facilities recovered from operators and now held as owned and operated assets to fair

value, $1.9 million for other real estate assets and $2.4 million of goodwill which, due to the diminished value of the related real estate assets, our management has determined is impaired.

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

Our funds from operations for the year ended December 31, 2000 on a fully diluted basis totaled $19.2 million, a decrease of $52.6 million as compared to the $71.9 million for 1999 due to factors mentioned above. After adjusting for the non-recurring provision for loss on mortgages and notes receivable and severance and consulting costs, funds from operations for the year was $39.3 million, a decrease of $32.6 million from the year ended December 31, 1999. Funds from operations is net earnings available to common stockholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments. Diluted funds from operations is the lower of funds from operations and funds from operations adjusted for the assumed conversion of Series C Preferred Stock and Subordinated Convertible Debentures and the exercise of in-the-money stock options. We consider funds from operations to be one performance measure which is helpful to investors of real estate companies because, along with cash flows from operating activities, financing activities and investing activities, it provides investors an understanding of our ability to incur and service debt and to make expenditures. Funds from operations in and of itself does not represent cash generated from operating activities in accordance with generally accepted accounting principles and therefore should not be considered an alternative to net earnings as an indication of operating performance, or to net cash flow from operating activities as determined by generally accepted accounting principles in the United States, as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

No provision for federal income taxes has been made since we continue to qualify as a REIT under the provisions of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. Accordingly, we have not been subject to federal income taxes on amounts distributed to stockholders, as we have distributed at least 95% of our REIT taxable income for taxable years before 2001 and have met certain other conditions. In 2001, and future taxable years, we are required to distribute at least 90% of our REIT taxable income.

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

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

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

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

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

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

Our nursing home expenses attributable to owned and operated assets increased $25.2 million due to recovery of nursing homes operated for our own account.

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

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

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

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

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

No provision for Federal income taxes has been made since we continue to qualify as a real estate investment trust under the provisions of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended.

Three- and Nine-Month Periods ended September 30, 2001 compared to Three- and Nine-Month Periods ended September 30, 2000

Revenues for the three-month and nine-month periods ended September 30, 2001 totaled $66.8 million and $201.7 million, respectively, a decrease of $1.2 million and an increase of $6.0 million, respectively, over the periods ending September 30, 2000. Excluding nursing home revenues of owned and operated assets, revenues were $23.0 million and $68.1 million, respectively, for the three-month and nine-month periods ended September 30, 2001, an increase of $1.0 million and a decrease of $4.2 million, respectively, from the comparable prior year periods.

Rental income for the three-month and nine-month periods ended September 30, 2001 totaled $14.9 million and $45.7 million, respectively, a decrease of $0.6 million and $4.0 million, respectively, over the same periods in 2000. The three-month decrease is due to $1.5 million from reductions in lease revenue due to foreclosures, bankruptcies and restructurings. This decrease is offset by

$0.3 million relating to contractual increases in rents that became effective in 2001 and $0.2 million relating to assets previously classified as owned and operated. The nine-month decrease is due to $3.8 million from reductions in lease revenue due to foreclosures, bankruptcies and restructurings, and $1.8 million from reduced investments resulting from the sale of assets in 2000. These decreases are offset by $0.9 million relating to contractual increases in rents that became effective in 2001 as defined under the related agreements and $0.2 million relating to assets previously classified as owned and operated.

Mortgage interest income for the three-month and nine-month periods ended September 30, 2001 totaled $5.1 million and $16.3 million, respectively, decreasing $0.8 million and $1.5 million, respectively, from the same periods in 2000. The three-month decrease is due to reduced investments resulting from the payoff of mortgage notes. The nine-month decrease is due to reductions from foreclosures, bankruptcies and restructurings ($0.5 million) and reduced investments resulting from the payoffs of mortgage notes ($1.2 million). These decreases are partially offset by contractual increases in interest income that became effective in 2001 as defined under the related agreements.

Nursing home revenues of owned and operated assets for the three-month and nine-month periods ended September 30, 2001 totaled $43.8 million and $133.6 million, respectively, decreasing $2.1 million and increasing $10.2 million, respectively, over the same periods in 2000. The decrease for the three-month period is due to a decreased number of operated facilities versus the same three-month period in 2000 as a result of the closure of certain facilities and their reclassification to assets held for sale as well as the re-lease of three facilities during 2001 to a new operator. The increase in the nine-month period is primarily due to the inclusion of 30 facilities formerly operated by RainTree Healthcare Corporation for the full nine-month period ended September 30, 2001 versus seven months during the nine-month period ended September 30, 2000.

Expenses for the three-month and nine-month periods ended September 30, 2001 totaled $67.4 million and $215.0 million, respectively, decreasing approximately $65.6 million and $38.0 million, respectively, over expenses of $133.0 million and $253.0 million for the three-month and nine-month periods ended September 30, 2000.

Nursing home expenses for owned and operated assets for the three-month period and nine-month periods ended September 30, 2001 decreased by $4.1 million and increased by $8.1 million, respectively, from $48.6 million and $126.4 million for same periods in 2000. The decrease in the three-month period is due to a decreased number of facilities versus the same three-month period in 2000 as a result of the closure of certain facilities and their reclassification to assets held for sale as well as the re-lease of three facilities during 2001 to a new operator. The increase in the nine-month period is primarily due to the inclusion of 30 facilities formerly operated by RainTree Healthcare Corporation for the full nine-month period ended September 30, 2001 versus seven months during the three-month period ended September 30, 2000.

The provision for depreciation and amortization totaled $5.5 million and $16.6 million, respectively, during the three-month and nine-month periods ended September 30, 2001. This is a decrease of $0.1 million and $0.8 million, respectively, over the same periods in 2000. The decrease is primarily due to assets sold in 2000, lower depreciable values due to impairment charges on owned and operated properties and a reduction in the amortization of goodwill and non-compete agreements.

Interest expense for the three-month and nine-month periods ended September 30, 2001 was approximately $9.1 million and $28.0 million, compared with $9.8 million and $32.2 million, respectively, for the same periods in 2000. The decrease in 2001 is primarily due to lower average outstanding borrowings during the 2001 period, partially offset by slightly higher average interest rates due to increased rate spreads under our credit facilities versus last year.

General and administrative expenses for the three-month and nine-month periods ended September 30, 2001 totaled $2.2 million and $7.7 million, respectively, as compared to $1.8 million and

$4.6 million, respectively, for the same periods in 2000, an increase of $0.4 million and $3.1 million. The increase is due primarily to consulting costs related to the efforts associated with the business objective of re-leasing our owned and operated assets, restructuring activities and other non-recurring expenses including executive recruiting fees.

Legal expenses for the three-month and nine-month periods ended September 30, 2001 totaled $1.1 million and $2.9 million, respectively, an increase of $0.7 million and $1.9 million, respectively, over the same periods in 2000. The increase is largely attributable to legal costs associated with the foreclosure of assets and other negotiations with our troubled operators as well as the defense of various lawsuits to which we are party.

The nine-month period ended September 30, 2001 included a $10 million litigation settlement expense related to a suit brought against us by Karrington Health, Inc. which was recorded in the quarter ended June 30, 2001.

Expenses for the nine-month period ended September 30, 2001 included a provision for impairment of $8.4 million. This provision was recorded to reduce the cost basis of assets recovered from a defaulting operator to their fair value less costs of disposal, since these assets are being marketed for sale. A provision for impairment of $54.3 million was recognized in the 2000 period, including $41.1 million related to foreclosure assets operated for our own account, $11.3 million related to assets held for sale and $1.9 million related to a leased asset doubtful of recovery.

Charges totalling $0.7 million for provision for uncollectible accounts were taken during the nine-month period ended September 30, 2001 relating to write-off of rents due from and funds advanced to the defaulting operator. A provision for uncollectible accounts of $12.1 million was recognized in the 2000 periods, including a provision for loss on mortgages of $4.9 million and notes receivable of $7.2 million.

Severance, moving and consulting agreement costs of $4.3 million were recorded in the three-month period ended September 30, 2001, in connection with our planned relocation to Maryland. The nine-month period ended September 30, 2001 also includes $0.5 million related to the termination of an employment contract with an officer of our company. Severance and consulting agreement costs of $4.7 million were recognized during the same period in 2000.

We disposed of one healthcare facility during the three-month period ended September 30, 2001, resulting in a loss on sale of $1.5 million. The loss on sale of $0.9 million for the nine-month period ended September 30, 2001 includes the gain on sale of $0.6 million from the sale of three healthcare facilities. For the nine-month period ended September 30, 2000, a gain of $10.3 million was recognized on the disposal of real estate. The net gain was comprised of a $10.9 million gain on the sale of four facilities previously leased to Tenet Healthsystem Philadelphia, Inc., offset by a loss of $0.6 million on the sale of a healthcare facility.

Funds from operations for the three-month and nine-month periods ended September 30, 2001 were $0.5 million and a deficit of $2.3 million, respectively, an increase of approximately $15.7 million and a decrease of $6.2 million, respectively, as compared to the deficit of $15.2 million and positive $3.9 million for the same periods in 2000 due to factors mentioned above. Diluted funds from operations amounts were a $3.1 million and $5.5 million, respectively, for the three-month and nine-month periods ended September 30, 2001, as compared to the deficit of $11.0 million and positive $10.2 million for the same period in 2000 due to factors mentioned above. Funds from operations is defined as net earnings available to common stockholders, excluding any gains or losses from debt restructuring and the effects of asset dispositions, plus depreciation and amortization associated with real estate investments. Diluted funds from operations is the lower of funds from operations and funds from operations adjusted for the assumed conversion of Series C Preferred Stock and Subordinated Convertible Debentures and the exercise of in-the-money stock options. We consider funds from operations to be one performance measure which is helpful to investors of real estate companies

because, along with cash flows from operating activities, financing activities and investing activities, it provides investors an understanding of our ability to incur and service debt, to make capital expenditures and to pay dividends to our stockholders. Funds from operations in and of itself does not represent cash generated from operating activities in accordance with generally accepted accounting principles and therefore should not be considered an alternative to net earnings as an indication of operating performance or to net cash flow from operating activities as determined by generally accepted accounting principles as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

No provision for Federal income taxes has been made since we continue to qualify as a real estate investment trust under the provisions of Sections 856 through 860 of the Internal Revenue Code of 1986, as amended.

Recent Developments

Mariner and Professional Healthcare Settlement. We have entered into a comprehensive settlement with Mariner Post-Acute Network, Inc. resolving all outstanding issues relating to our loan to Professional Healthcare Management Inc., a subsidiary of Mariner. Pursuant to the settlement, the Professional Healthcare loan is secured by a first mortgage on 12 skilled nursing facilities owned by Professional Healthcare with 1,668 operating beds. Professional Healthcare will remain obligated on the total outstanding loan balance as of January 18, 2000, the date Mariner filed for protection under Chapter 11 of the Bankruptcy Act, and is to pay us our accrued interest at a rate of approximately 11% for the period from the filing date until September 1, 2001. Monthly payments with interest at the rate of 11.57% per annum resumed October 1, 2001. The settlement agreement was approved by the United States Bankruptcy Court in Wilmington, Delaware on August 22, 2001, and became effective as of September 1, 2001.

On February 1, 2001, four Michigan facilities, previously operated by Professional Healthcare and subject to our pre-petition mortgage, were transferred by Professional Healthcare to a new operator who paid for the facilities by execution of a promissory note that has been assigned to us. Professional Healthcare was given a $4.5 million credit on February 1, 2001 and an additional $3.5 million credit as of September 1, 2001, both against the Professional Healthcare loan balance in exchange for the assignment of the promissory note to us. The promissory note is secured by a first mortgage on the four facilities.

Following the closing under the settlement agreement, the outstanding principal balance on the Professional Healthcare loan is approximately $59,700,000. The Professional Healthcare loan term will be ten years with Professional Healthcare having the option to extend for an additional ten years. Professional Healthcare will also have the option to prepay the Professional Healthcare loan between February 1, 2005 and July 31, 2005.

Other Operators. In Note 15 to our Form 10-K for the year ended December 31, 2000, we announced continuing discussions with several of our lessees to resolve payment issues, including Alterra Healthcare Corp., Lyric Healthcare LLC, Alden Management Services, Inc. and TLC Healthcare Inc.

Alterra Healthcare Corp. has been making reduced payments of their monthly rent since March 2001. Monthly rent payments of $306,138 were not paid for March through June; $100,000 was paid in each of the July and August months; and $185,097 was paid each month from September through December. All shortfalls were funded from Alterra's security deposit. Accordingly, revenues were recognized on the full contractual rent of $306,138 per month. A term sheet has been executed with Alterra whereby we would take back two facilities, receive a fee of approximately $1.1 million, and monthly rent payments of $187,000 in 2002 increasing to $268,000 per month in 2003. However, final documentation of this agreement has not been completed. The total gross investment in the properties

leased to Alterra is $34.1 million, including $6.2 million for the two facilities that are to be taken back. These two facilities will be leased to a new operator or marketed for sale.

Integrated Health Services, Inc. filed for Chapter 11 bankruptcy protection in February 2000. With the exception of a small portion of prepetition interest (approximately $63,000), IHS paid its contractual mortgage interest from its bankruptcy filing in February 2000 until October 2001. In November, 2001, IHS informed us that it did not intend to pay future rent and mortgage interest due. We hold three mortgages on properties owned by IHS: a $37.5 million mortgage collateralized by seven facilities located in Florida and Texas; a $12 million mortgage, collateralized by two facilities located in Georgia; and a $4.9 million mortgage collateralized by one facility located in Florida. Annual contractual interest income on each of the mortgages is approximately $3.96 million, $1.25 million and $0.55 million, respectively. We also have a lease with IHS for one property in the state of Washington, representing an investment of $10 million and annualized contractual revenue of $1.45 million. IHS rejected this lease on November 9, 2001.

We are currently negotiating with IHS to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators. Rent under the lease was paid for November, but no payments were made on the October mortgage interest due November 1. As of the date of this filing, no further payments have been made. Accordingly, no revenue was recorded for the mortgage for October and November. Current appraisals of the properties underlying the mortgage loans indicate collateral value in excess of the mortgage loan balances. Accordingly, we do not expect to record any reserves relative to these loans at this time.

We entered into a forbearance agreement with Lyric Healthcare LLC through August 31, 2001, whereby the Company received $541,266 of the $860,000 monthly rent due under the Lyric leases through November 2001. On November 7, we were notified by Lyric that we would no longer be receiving payments. As of the date of this filing Lyric had not made their December rent payments to us. Revenue has been recorded as received since April 2001. We will continue to record revenue in this manner until a resolution with Lyric is finalized. Discussions are continuing with Lyric to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators. Our original investment in the ten facilities covered under the lease is $95.4 million, with annual contractual rent of $10.3 million.

On March 30, 2001, we announced that affiliates of Alden Management, Inc. were delinquent in paying their lease and escrow payments on the four facilities they lease from us. During the month of April, Alden resumed regularly scheduled lease payments to us, and began making payments on a schedule designed to bring their past due amounts current by August 2001. The facilities which Alden leases are located in the state of Illinois and derive approximately 90% of their revenues from Illinois Medicaid. Alden adhered to the schedule and was current with their rental payments to us through November. However, Alden has indicated to us that the State of Illinois has been behind in processing reimbursements under the Medicaid system.

In April 2001 we were informed by TLC Healthcare, Inc. that it could no longer meet its payroll and other operating obligations. We had leases and mortgages with TLC representing eight properties with 1,049 beds and an initial investment of $27.5 million. As a result of this action, one facility in Texas with an initial investment of $2.5 million was leased to a new operator, Lamar Healthcare, Inc. and four properties in Illinois, Indiana and Ohio, with an initial investment of $13.5 million, were taken back and placed under management agreements with Atrium Living Centers and Nexion Health Management, Inc. and are now operated for our own account and classified as Owned and Operated Assets. The remaining three properties, located in Texas, were closed and are being marketed for sale. These three facilities are classified as Assets Held for Sale and have been reduced to their fair value, less cost of disposal. Amounts due from TLC that were not collected were written off as bad debt expense during 2001.

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

Office Relocation. We are relocating our corporate offices effective as of January 1, 2002 and have entered into a lease of office space in Timonium, Maryland, a suburb of Baltimore. All of our current employees either have an employment agreement or are otherwise entitled to incentives if they remain employed with us in their current positions during the transitional period expected to be completed by January 31, 2002.

Liquidity and Capital Resources

At September 30, 2001, we had total assets of $911.3 million, stockholders' equity of $456.7 million, and long-term debt of $426.0 million, representing approximately 46.7% of total capitalization. In addition, as of September 30, 2001, we had an aggregate of $238.6 million of outstanding debt which matures in 2002, including $99.6 million of 6.95% Notes due June 2002 and $139 million on our two credit facilities maturing during 2002.

Bank Credit Facilities

On July 17, 2000, we replaced our $200 million unsecured revolving credit facility with a new $175 million secured revolving credit facility that expires on December 31, 2002. Borrowings under this facility bear interest based on the London Interbank Offered Rate, or LIBOR, plus a margin based on our consolidated debt/EBITDA ratio, which resulted in a weighted-average rate of 6.73% at September 30, 2001, and 10.00% at December 31, 2000. Borrowings under our prior credit facility bore interest at a weighted-average rate of 7.30% at December 31, 1999. Real estate investments with a gross book value of approximately $240 million are pledged as collateral for this credit facility.

On August 16, 2000, we replaced our $50 million secured revolving credit facility with a new $75 million secured revolving credit facility that expires on March 31, 2002 as to $10 million and June 30, 2005 as to $65 million. Borrowings under this facility bear interest based on LIBOR plus a margin based on our consolidated debt/EBITDA ratio, which resulted in a weighted average rate of 8.06% at September 30, 2001, and 9.77% at December 31, 2000. Borrowings under our prior credit facility bore interest at a weighted average rate of 8.44% at December 31, 1999. Real estate investments with a gross book value of approximately $90 million are pledged as collateral for this credit facility.

The settlement of the lawsuit with Karrington Health, Inc. in August 2001 fixed the amount of expense associated with this claim against us at $10 million and was therefore recorded at June 30, 2001. The recognition of this non-recurring expense resulted in certain violations of financial covenants contained in the loan agreements relating to our revolving credit facilities. For the quarter ended June 30, 2001, we were not in compliance with the maximum leverage covenant ratio of funded indebtedness to earnings before interest, taxes, depreciation and amortization, or EBITDA, in each of our credit facilities. For the quarter ended September 30, 2001, we were not in compliance with the maximum leverage covenant and the minimum EBITDA to interest expense covenants in each of our credit facilities. We previously obtained a waiver from the lenders under both credit facilities through September 14, 2001. The lenders under our $175 million secured credit facility extended their waiver through December 13, 2001, and the lenders under our $75 million secured credit facility extended their waiver through December 15, 2001. These covenant violations have been waived pursuant to the agreements described below, but currently prevent us from drawing upon the remaining availability under both credit facilities.

Modification of Bank Credit Agreements

On December 21, 2001, we reached agreements with the bank groups under both of our revolving credit facilities. These agreements include modifications and/or waivers to certain financial covenants with which we were not in compliance. In addition, certain other financial covenants will be either modified or eliminated going forward. The effectiveness of these agreements is subject to the completion of the rights offering and private placement to Explorer. Explorer has approved the amendments, and therefore the effectiveness of the amendments will satisfy the conditions to the rights offering and Explorer investment related to our credit facilities. See "The Rights Offering Closing Conditions."

These amendments to our credit facilities waive the covenant violations described above and will modify the following covenants effective as of the closing of the rights offering and the private placement to Explorer:

- The minimum tangible net worth covenant will be reduced from $445 million plus 50% of net proceeds from any equity issuances to $425 million (increasing to $435 million in the third quarter of 2002) plus 50% of proceeds from any equity issuances (after reflecting the rights offering and the private placement to Explorer).

Minimum EBITDA/interest expense covenant will be increased from 200% to 225% beginning in the second quarter of 2002, 250% in the fourth quarter of 2002 and 275% thereafter.

The requirement for no loss in a fiscal year beginning December 31, 2001 has been removed.

The maximum leverage ratio covenant has been reduced to 5.0 times EBITDA in the second quarter of 2002 and 4.75 times EBITDA thereafter.

In addition, adjusted EBITDA under the loan agreements has been redefined to exclude certain one-time charges including, but not limited to, the $10 million litigation settlement recognized in June 2001 and associated legal fees of up to $1 million and up to $5 million for relocation of our corporate headquarters to Maryland, for which we recognized a charge of $4.3 million in September 2001.

As of the closing of the rights offering and the private placement to Explorer and the effectiveness of the amendments, we will be in compliance with all covenants under our credit facilities as amended.

As part of the amendment regarding our $75 million revolving credit facility we prepaid $10 million originally scheduled to mature in March 2002. This voluntary prepayment results in a permanent reduction in the total commitment, thereby reducing the credit facility to $65 million. The agreement regarding our $175 million revolving credit facility includes a one-year extension in maturity from December 31, 2002 to December 31, 2003, and a reduction in the total commitment from $175 million to $160 million. Amounts up to $150 million may be drawn upon to repay the maturing 6.95% Notes due in June 2002.

The effectiveness of these amendments as of the completion of the rights offering will reduce our outstanding debt maturing in 2002 to $97.5 million. Upon completion of the private placement and rights offering, we expect to have approximately $17.7 million available to draw upon under our revolving credit facilities.

Dividends

In prior years, we historically distributed to stockholders a large portion of the cash available from operations. Our historical policy has been to make distributions on common stock of approximately 80% of funds from operations, but on February 1, 2001, we announced the suspension of all common and preferred dividends. This action is intended to preserve cash to facilitate our ability to obtain financing to fund the 2002 debt maturities. Additionally, on March 30, 2001, we exercised our option to pay the accrued $4,666,667 Series C preferred stock dividend from November 15, 2000 and the

associated waiver fee by issuing 48,420 Series C preferred shares to Explorer on April 2, 2001, which are convertible into 774,722 shares of our common stock at $6.25 per share.

Cash dividends paid totaled $0.25 per common share and $0.75 per common share for the three-month and nine-month periods ended September 30, 2000, respectively. No common dividends were paid during 2001 nor during the second quarter of 2000. Cash dividends paid totaled $1.00 per common share for 2000, compared with $2.80 per common share for the year ended December 31, 1999. The dividend payout ratio, that is the ratio of per common share amounts for dividends paid to the diluted per common share amounts of funds from operations, was approximately 238% for 2000 and 84.3% for 1999. Excluding the provision for loss on mortgages and notes receivable and severance and consulting agreement costs, the dividend payout ratio for 2000 was approximately 73.0%.

We do not know when or if we will resume dividend payments on our common stock or, if resumed, what the amount or timing of any dividend will be. We do not anticipate paying dividends on any class of capital stock at least until our $108 million of debt maturing in the first half of 2002 has been repaid and, in any event, all accrued and unpaid dividends on our Series A, B and C preferred stock must be paid in full before dividends on our common stock can be resumed. We have made sufficient distributions to satisfy the distribution requirements under the REIT rules to maintain our REIT status for 2000 and expect to satisfy the requirements under the REIT rules for 2001.

On March 30, 2001 our Board of Directors approved payment of the accrued Series C dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 shares of Series C preferred stock to Explorer on April 2, 2001. Dividends paid in stock to a specific class of stockholders, such as our payment of our Series C preferred stock in April 2001, constitute dividends eligible for the 2001 dividends paid deduction. Additionally, and as specifically authorized by the Internal Revenue Code, dividends declared by September 15, 2002 and paid by December 31, 2002 may be elected to be treated as a distribution of 2001 taxable income.

The table below sets forth information regarding arrearages in payment of preferred stock dividends:

Title of Class	Annual Dividend Per Share	Arrearage as of September 30, 2001
9.25% Series A Cumulative Preferred Stock	$ 2.3125	$ 3,989,063
8.625% Series B Cumulative Preferred Stock	$ 2.1563	3,234,375
Series C Convertible Preferred Stock	$ 10.0000	7,660,493
Total		$ 14,883,931

Liquidity

We have entered into an investment agreement with Explorer under which Explorer has committed to purchase, on the closing of the rights offering, at the same price per share available in the rights offering, shares of our stock. The shares that Explorer has committed to purchase represent its pro rata portion of the $50 million in additional capital we are seeking to raise, plus an additional amount equal to the aggregate subscription price for the shares that are not subscribed for in the rights offering. As a result of Explorer's commitment, we are assured of receiving a total of $50 million in gross proceeds from the rights offering and Explorer's investment assuming they are both completed.

Assuming we complete the rights offering and Explorer's investment and the amendments to our credit facilities become effective, management believes our liquidity and various sources of available capital, including funds from operations and expected proceeds from planned asset sales, are adequate to finance operations, meet recurring debt service requirements including our 2002 debt maturities and fund future investments through the next 12 months. From time to time, we explore alternative

financing arrangements and opportunities and may continue to do so in the future. However, we cannot assure you that we will be successful in obtaining alternative financing arrangements or regarding the terms thereof.

As a result of the ongoing financial challenges facing long-term care operators, the availability of the external capital sources historically used by us has become extremely limited and expensive. Therefore, if the rights offering and Explorer investment are not completed, we could not assure you that we would be able to replace or extend our debt maturing in 2002, or that any refinancing or replacement financing would be on terms favorable to us. There also can be no assurance that we will be able to complete the rights offering and Explorer investment as planned, and in such event our agreements with the lenders under our credit facilities would not become effective. If we were unable to refinance this debt or other indebtedness on acceptable terms, we might be forced to dispose of properties on disadvantageous terms, which might result in losses to us and might adversely affect the cash available for distribution to stockholders, or to pursue additional dilutive equity financing. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, our interest expense would increase, which might affect our ability to make distributions to our stockholders.

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 market value of our long-term fixed rate borrowings and mortgages are 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 September 30, 2001 was $396 million. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $5.3 million.

We are subject to risks associated with debt or preferred equity financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. If we were unable to refinance our 2002 debt maturities or other indebtedness on acceptable terms, we might be forced to dispose of properties on disadvantageous terms, which might result in losses to us and might adversely affect the cash available for distribution to stockholders, or to pursue dilutive equity financing. If interest rates or other factors at the time of the refinancing result in higher interest rates upon refinancing, our interest expense would increase, which might affect our ability to make distributions to our stockholders.

We utilize interest rate swaps to fix interest rates on variable rate debt and reduce certain exposures to interest rate fluctuations. At September 30, 2001, we had two interest rate swaps with notional amounts of $32 million each, based on 30-day LIBOR. Under the first $32 million agreement, we receive payments when LIBOR interest rates exceed 6.35% and pay the counterparties when LIBOR rates are under 6.35%. The amounts exchanged are based on the notional amounts. The $32 million agreement expires in December 2002.

Under the terms of the second agreement, which expires in December 2002, we receive payments when LIBOR rates exceed 4.89% and pay the counterparties when LIBOR rates are under 4.89%. The combined fair value of the interest rate swaps at September 30, 2001 was a deficit of $2,006,297.

FORWARD-LOOKING STATEMENTS

This Proxy Statement includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical facts included in this Proxy Statement may constitute forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that our assumptions made in connection with the forward-looking statements are reasonable, we cannot assure you that our assumptions and expectations will prove to have been correct. Important factors that could cause our actual results to differ materially from our expectations are disclosed in this Proxy Statement. These forward-looking statements are subject to various risks, uncertainties and assumptions including, among other things:

- our ability to dispose of assets held for sale on a timely basis and at appropriate prices;
- uncertainties relating to the operation of our owned and operated assets, including those relating to reimbursement by third party payors, regulatory matters and occupancy levels;
- the ability of our 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;
- our ability to negotiate appropriate modifications to the terms of our credit facilities;
- the availability and cost of capital;
- regulatory and other changes in the healthcare sector;
- our ability to manage, re-lease, or sell our owned and operated facilities;
- competition in the financing of healthcare facilities;
- the effect of economic and market conditions generally and, particularly, in the healthcare industry;

changes in interest rates;

the amount and yield of any additional investments;

changes in tax laws and regulations affecting real estate investment trusts; and

changes in the ratings of our debt securities.

RELATIONSHIP WITH INDEPENDENT AUDITORS

Ernst & Young LLP audited our financial statements for each of the years ended December 31, 1998, 1999 and 2000. Representatives of Ernst & Young LLP are expected to be present at the Special Meeting and will be given the opportunity to make a statement if they desire to do so. It is also expected that they will be available to respond to appropriate questions from stockholders at the Special Meeting.

STOCKHOLDERS PROPOSALS

January 22, 2003 is the date by which proposals of stockholders intended to be presented at the Annual Meeting of Stockholders, held on or about May 22, 2003, must be received by us for inclusion in the Proxy Statement and form of proxy relating to that meeting. No business other than that stated in the notice shall be transacted at any meeting without the unanimous written consent of all stockholders present at the meeting pursuant to our Bylaws.

EXPENSES OF SOLICITATION

The total cost of this solicitation will be borne by us. In addition to use of the mails, proxies may be solicited by our directors, officers and regular employees of Omega personally and by telephone, telex or facsimile. We may reimburse persons holding shares in their own names or in the names of the nominees for expenses such persons incur in obtaining instructions from beneficial owners of such shares. We have also engaged Georgeson & Company Inc. to solicit proxies for a fee not to exceed $7,500, plus out-of-pocket expenses.

AVAILABLE INFORMATION REGARDING RIGHTS OFFERING AND OMEGA

These proxy materials relate solely to the solicitation of proxies in connection with the meeting of stockholders and are not an offer to sell Omega common stock or rights. The rights offering is made pursuant to and described in the separate rights offering prospectus accompanying these proxy materials. Stockholders are urged to read the prospectus regarding the proposed rights offering because it contains important information. The information in these proxy materials may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Factors that could cause actual results to differ materially from those described in the forward-looking statements can be found in the accompanying rights offering prospectus. ***Completing the proxy to vote your shares at the stockholders meeting does NOT exercise your subscription rights in the rights offering. To exercise your subscription rights, you must complete and return the Subscription Agreement in accordance with the instructions included therein and in the accompanying rights offering prospectus.***

We are subject to the informational requirements of the Exchange Act. Pursuant to the requirements of the Exchange Act, we file annual, quarterly and special reports with the Securities and Exchange Commission. These documents are also filed electronically through the Securities and Exchange Commission's Electronic Data Gathering, Analysis and Retrieval system, and may be accessed at the Securities and Exchange Commission's internet website, which is located at http://www.sec.gov. You may read and copy any reports, statements or other information that we file with the Securities and Exchange Commission at the Securities and Exchange Commission's public reference room at 450 Fifth Street, Washington, D.C. 20549. Please call the Securities and Exchange Commission at 1-800-SEC-0330 for further information on the public reference room.

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OTHER MATTERS

The Board of Directors knows of no other business to be presented at the Special Meeting, but if other matters do properly come before the Special Meeting, it is intended that the persons named in the proxy will vote on said matters in accordance with their best judgment.

C. TAYLOR PICKETT
Chief Executive Officer

January 25, 2002
Timonium, Maryland

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OMEGA HEALTHCARE INVESTORS, INC.
INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Omega Healthcare Investors, Inc.

We have audited the accompanying consolidated balance sheets of Omega Healthcare Investors, Inc. and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2000. Our audit also included the financial statement schedules listed in the Index on page F-1. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

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

/s/ Ernst & Young LLP

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

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OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATED BALANCE SHEETS
(In Thousands)

	December 31,	
	2000	**1999**
ASSETS		
Real estate properties		
Land and buildings at cost	$ 710,542	$ 746,915
Less accumulated depreciation	(89,870)	(67,929)
Real estate properties net	620,672	678,986
Mortgage notes receivable net	206,710	213,617
	827,382	892,603

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

See accompanying notes.

OMEGA HEALTHCARE INVESTORS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands, Except Per Share Amounts)

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

	Year Ended December 31,		
Weighted Average Shares Outstanding, Diluted	20,052	19,877	20,041
Other comprehensive income (loss):			
Unrealized Gain (Loss) on Omega Worldwide, Inc	$ (2,580)	$ 1,789	$ 761
Total comprehensive (loss) income	$ (52,137)	$ 21,460	$ 76,970

See accompanying notes.

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

	Common Stock Par Value	Additional Paid-in Capital	Preferred Stock	Cumulative Net Earnings
Balance at December 31, 1997 (19,475 shares)	$ 1,947	$ 439,214	$ 57,500	$ 136,225
Issuance of common stock:				
Grant of restricted stock (3 shares at an average of $38.112 per share) and amortization of deferred stock compensation		42		
Dividend Reinvestment Plan (58 shares)	6	1,826		
Conversion of debentures, net of issue costs (522 shares)	52	13,810		
Stock options exercised (151 shares)	15	3,780		
Acquisition of real estate (8 shares)	1	282		
Stock option loans from directors, officers and employees				
Shares purchased and retired (156 shares)	(15)	(4,515)		
Issuance of preferred stock		(2,000)	50,000	
Net earnings for 1998				76,209
Distribution of common shares of Omega Worldwide, Inc.				
Common dividends paid ($2.68 per share)				
Preferred dividends paid (Series A of $2.313 per share and Series B of $1.078 per share)				
Unrealized Gain on Omega Worldwide, Inc.				
Balance at December 31, 1998 (20,057 shares)	2,006	452,439	107,500	212,434
Issuance of common stock:				
Grant of restricted stock (1 share at an average of $29.709 per share) and amortization of deferred stock compensation		270		
Dividend Reinvestment Plan (113 shares)	11	2,370		
Acquisition of real estate (8 shares)	1	301		
Payments on stock option loans from directors, officers and employees				
Shares purchased and retired (320 shares)	(30)	(8,076)		

	Common Stock Par Value	Additional Paid-in Capital	Preferred Stock	Cumulative Net Earnings
Net earnings for 1999				19,671
Common dividends paid ($2.80 per share)				
Preferred dividends paid (Series A of $2.313 per share and Series B of $2.156 per share)				
Unrealized Gain on Omega Worldwide, Inc.				
Balance at December 31, 1999 (19,877 shares)	1,988	447,304	107,500	232,105
Issuance of common stock:				
Grant of restricted stock (187 shares at an average of $6.378 per share) and amortization of deferred stock compensation	19	1,179		
Dividend Reinvestment Plan (74 shares)	7	487		
Shares surrendered for stock option loan cancellation (100 shares)	(10)	(579)		
Issuance of preferred stock		(9,839)	100,000	
Net loss for 2000				(49,557)
Common dividends paid ($1.000 per share)				
Preferred dividends paid and/or declared (Series A of $2.313 per share, Series B of $2.156 per share and Series C of $0.25 per share)				
Unrealized Gain on Omega Worldwide, Inc.				
Balance at December 31, 2000 (20,038 shares)	$ 2,004	$ 438,552	$ 207,500	$ 182,548

See accompanying notes.

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

	Cumulative Dividends	Unamortized Restricted Stock Awards	Stock Option Loans	Accumulated Other Comprehensive Income
Balance at December 31, 1997 (19,475 shares)	$ (165,824)	$ (841)		
Issuance of common stock:				
Grant of restricted stock (3 shares at an average of $38.112 per share) and amortization of deferred stock compensation		380		
Dividend Reinvestment Plan (58 shares)				
Conversion of debentures, net of issue costs (522 shares)				
Stock options exercised (151 shares)				
Acquisition of real estate (8 shares)				
Stock option loans from directors, officers and employees			$ (2,863)	
Shares purchased and retired (156 shares)				
Issuance of preferred stock				

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

See accompanying notes.

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

	Year Ended December 31,		
	2000	1999	1998
		(In thousands)	
Operating activities			
Net (loss) earnings	$ (49,557)	$ 19,671	$ 76,209
Adjustment to reconcile net (loss) earnings to cash provided by operating activities:			
Depreciation and amortization	23,265	24,211	21,543
Provision for impairment	61,690	19,500	6,800
Provision for loss on notes and mortgages receivable	15,257		
(Gain)/loss on assets sold net	(9,989)	10,507	(2,798)
Gain on distribution of Omega Worldwide			(30,240)
Other	3,283	3,538	2,179
Net change in accounts receivable for Owned & Operated assets net	(20,442)	(9,588)	
Net change in accounts payable for Owned & Operated assets	4,674	3,962	
Net change in other Owned & Operated assets and liabilities	(8,709)	8,040	
Net change in operating assets and liabilities	20	(5,529)	(3,980)
Net cash provided by operating activities	19,492	74,312	69,713
Cash flows from financing activities			
Proceeds of revolving lines of credit net	19,041	43,600	64,700
Proceeds from unsecured note offering			125,000
Payments of long-term borrowings	(122,418)	(1,078)	(612)
Receipts from Dividend Reinvestment Plan	495	2,381	1,832
Dividends paid	(29,646)	(65,287)	(61,168)
Proceeds from preferred stock offering	100,000		50,000
Costs of raising capital	(9,839)		(3,290)
Purchase of Company common stock		(8,106)	(3,545)
Deferred financing costs paid	(5,071)		
Other		(957)	356
Net cash (used in) provided by financing activities	(47,438)	(29,447)	173,273
Cash flow from investing activities			
Acquisition of real estate		(79,844)	(157,474)
Placement of mortgage loans		(22,987)	(125,850)
Proceeds from sale of real estate investments net	35,792	18,198	37,771
Net proceeds from sale of Omega Worldwide shares			16,938
Fundings of other investments net	(6,815)	(14,714)	(17,488)
Collection of mortgage principal	2,036	54,749	3,748
Other		1,961	746
Net cash provided by (used in) investing activities	31,013	(42,637)	(241,609)
Increase in cash and cash equivalents	3,067	2,228	1,377
Cash and cash equivalents at beginning of year	4,105	1,877	500
Cash and cash equivalents at end of year	$ 7,172	$ 4,105	$ 1,877

See accompanying notes.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Consolidation

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

Real Estate Investments

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

Owned & Operated Assets and Assets Held for Sale

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

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

Impairment of Assets

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

Loan Impairment Policy

When management identifies an indication of potential loan impairment, such as non-payment under the loan documents or impairment of the underlying collateral, the loan is written down to the present value of the expected future cash flows. In cases where expected future cash flows cannot be estimated, the loan is written down to the fair value of that collateral.

Cash Equivalents

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

Accounts Receivable Owned and Operated Assets

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

Investments in Equity Securities

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

Deferred Financing Costs

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

Non-Compete Agreements and Goodwill

Non-compete agreements and the excess of the purchase price over the value of tangible net assets acquired (i.e., goodwill) are amortized on a straight-line basis over periods ranging from five to ten

years. Non-compete agreements, which have cost of $4,982,000 became fully amortized and were eliminated in 1999 by a charge to accumulated amortization. Due to the diminished value of the related real estate assets, management has determined that the goodwill is entirely impaired and has written off the balance of $2,356,000 in 2000. Accumulated amortization was $-0- and $3,363,000 at December 31, 2000 and 1999, respectively.

Revenue Recognition

Rental income and mortgage interest income is recognized as earned over the terms of the related master leases and mortgage notes, respectively. Such income includes periodic increases based on pre-determined formulas (i.e. such as increases in the Consumer Price Index) as defined in the master leases and mortgage loan agreements. Reserves are taken against earned revenues from leases and mortgages when collection of amounts due become questionable or when negotiations for restructurings of troubled operators lead to lower expectations regarding ultimate collection. When collection is uncertain, lease revenues are recorded as received, after taking into account application of security deposits. Interest income on impaired mortgage loans is recognized as received after taking into account application of security deposits.

Nursing home revenues from owned and operated assets (primarily Medicare, Medicaid and other third party insurance) are recognized as patient services are provided.

Federal and State Income Taxes

As a qualified real estate investment trust, the Company will not be subject to Federal income taxes on its income, and no provisions for Federal income taxes have been made. To the extent that we have foreclosure income from our owned and operated assets we will incur federal tax at a rate of 35%. To date our owned and operated assets have generated losses, and therefore, no provision for federal income tax is necessary. The reported amounts of the Company's assets and liabilities as of December 31, 2000 are less than the tax basis of assets by approximately $21 million.

Stock Based Compensation

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

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

Accounting Estimates

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

Risks and Uncertainties

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

NOTE 2 PROPERTIES

Leased Property

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

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

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

	December 31,	

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

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

Owned and Operated Property

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

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

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

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

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

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

2001	$ 4,318

2002	4,318
2003	4,318
2004	3,335
2005	2,221
Thereafter	855
	$ 19,365

Assets Sold or Held For Sale

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

1998, the Company completed sales of two groups of assets, yielding sales proceeds of $42.0 million. Gains realized in 1998 from the dispositions approximated $2.8 million.

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

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

Following is a summary of the impairment reserve:

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

NOTE 3 MORTGAGE NOTES RECEIVABLE

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

	2000	1999
	(In thousands)	
Gross mortgage notes unimpaired	$ 204,550	$ 213,617
Gross mortgage notes impaired	7,031	
Reserve for uncollectable loans	(4,871)	
Net mortgage notes at December 31	$ 206,710	$ 213,617

Mortgage notes receivable relate to 63 long-term care facilities. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in 13 states, operated by 12 independent healthcare operating companies.

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

During 2000, the Company determined that a certain mortgage loan was impaired and accordingly recorded an impairment provision of $4.9 million to reduce the carrying value of the mortgage loan to its net realizable value. No other activity has been reflected in such reserve during the three-year period ended December 31, 2000. The impaired mortgage was collateralized by three skilled nursing facilities, one of which was to be returned to us and included in a master lease with the same operator. The other two properties were to be sold, with the proceeds applied to the mortgage loan. The loan was written down to the sum of the value of the facility to be leased plus the estimated proceeds, net of cost to dispose, from the sale of the other two facilities. Income recognized on the mortgage was $745,000, $966,000, and $951,000 for the years ended December 31, 2000, 1999 and 1998, respectively. No income was recognized after the mortgage loan was impaired.

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

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

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

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

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

	December 31,	
	2000	1999

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

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

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

this reduced rate. On February 1, 2001, four facilities that were collateral for this mortgage were sold to a third-party, and the Company received a separate mortgage note in the amount of $4.5 million, which is secured by liens on the underlying real estate. The Company reduced the amount of the participating mortgage note by $4.5 million.

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

NOTE 4 OTHER INVESTMENTS

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

	At December 31,	
	2000	1999

	At December 31,	
Assets leased by United States Postal Service-net	$ 22,416	$ 22,672
Notes Receivable	24,550	27,548
Allowance for loss on notes receivable	(8,995)	(1,460)
Equity Securities of Omega Worldwide Inc	5,435	8,015
Equity Securities of Principal Healthcare Finance Limited	1,615	1,615
Equity Securities of Principal Healthcare Finance Trust	1,266	1,266
Other	6,955	15,804
Total Other Investments	$ 53,242	$ 75,460

NOTE 5 CONCENTRATION OF RISK

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

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

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

perform their obligations, the Company may be required to do so in order to maintain the value of its investments.

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

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

NOTE 6 LEASE AND MORTGAGE DEPOSITS

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

NOTE 7 BORROWING ARRANGEMENTS

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

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

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

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

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

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

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

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

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

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

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 FINANCIAL INSTRUMENTS

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

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

Fair value estimates are subjective in nature and are dependent on a number of important assumptions, including estimates of future cash flows, risks, discount rates and relevant comparable market information associated with each financial instrument (See Note 1 Risks and Uncertainties). The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented above are not necessarily indicative of the amounts the Company would realize in a current market exchange.

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

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

earnings or recognized in other comprehensive income until the hedge item is recognized in earnings. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

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

NOTE 9 RETIREMENT ARRANGEMENTS

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

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

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

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

NOTE 10 STOCKHOLDERS' EQUITY AND STOCK OPTIONS

Series C Preferred Stock

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

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

The Series C Preferred Stock will vote (on an "as converted" basis) together with our common stock on all matters submitted to stockholders. However, without the consent of our Board of Directors, no holder of Series C Preferred Stock may vote or convert shares of Series C Preferred Stock if the effect thereof would be to cause such holder to beneficially own more than 49.9% of the

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Company's Voting Securities. If dividends on the Series C Preferred Stock are in arrears for four quarters, the holders of the Series C Preferred Stock, voting separately as a class (and together with the holder of Series A and Series B preferred if and when dividends on such series are in arrears for six or more quarters and special class voting rights are in effect with respect to the Series A and Series B preferred), will be entitled to elect directors who, together with the other directors designated by the holders of Series C Preferred Stock, would constitute a majority of the Company's Board of Directors.

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

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

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

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

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

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

Series A and Series B Cumulative Preferred Stock

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

Stockholder Rights Plan

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

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

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

Stock Options and Stock Purchase Assistance Plan

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

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

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

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

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

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

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

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

The Black-Scholes options valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option

valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

NOTE 11 RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

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

NOTE 12 DIVIDENDS

In order to qualify as a real estate investment trust, the Company must, among other requirements, distribute at least 95% of its real estate investment trust taxable income to its

stockholders. Per share distributions by the Company were characterized in the following manner for income tax purposes:

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

	For the year ended December 31,		
	2000	1999	1998
		(In thousands)	
Increase (decrease) in cash from changes in operating assets and liabilities:			
Operating assets, including $517 and $2,896 transferred to held for sale in 1999 and 1998, respectively	$ 1,306	$ (568)	$ (8,183)
Accrued interest	(3,751)	589	(70)
Other liabilities	2,465	(5,550)	4,273

	For the year ended December 31,		
	$ 20	$ (5,529)	$ (3,980)
Other non-cash investing and financing transactions:			
Acquisition of real estate:			
Value of real estate acquired	$	$ 302	$ 283
Common stock issued		(302)	(283)
Common stock issued for conversion of debentures			13,862
Interest paid during the period	44,221	41,015	31,464

NOTE 14 LITIGATION

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

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

On June 21, 2000, the Company was named as a defendant in certain litigation brought against it by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that the Company has breached and/or anticipatorily breached a commercial contract. Mr. Dickerman is a partner of Madison

and is a guarantor of Madison's obligations to the Company. Madison claims damages as a result of the alleged breach of approximately $700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of $15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and the Company. The Company contends that Madison is in default under the contract in question. The Company believes that the litigation is meritless. The Company is defending vigorously and on December 5, 2000, filed counterclaims against Madison and the guarantors, including Mr. Dickerman, seeking repayment of approximately $8.5 million that Madison owes the Company.

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

NOTE 15 SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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

NOTE 16 SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following summarizes quarterly results of operations for the years ended

	March 31	June 30	September 30	December 31
	(In thousands, except per share)			
2000				
Revenues	$ 57,214	$ 70,448	$ 74,010	$ 74,121
(Loss) earnings before gain (loss) on assets sold	3,018	4,637	(64,984)	(2,217)
Net (loss) earnings available to common	610	12,680	(70,797)	(8,978)
(Loss) earnings before gain (loss) on assets sold per share:				
Basic (loss) earnings before gain (loss) on asset dispositions	$ 0.15	$ 0.23	$ (3.24)	$ (0.11)
Diluted (loss) earnings before gain (loss) on asset dispositions	0.15	0.23	(3.24)	(0.11)
Net (Loss) Earnings Available to Common per share:				
Basic net (loss) earnings	$ 0.03	$ 0.63	$ (3.53)	$ (0.45)
Diluted net (loss) earnings	0.03	0.63	(3.53)	(0.45)
Cash dividends paid on common stock	0.50		0.25	0.25

1999				
Revenues	$ 30,177	$ 30,914	$ 40,971	$ 46,067
(Loss) earnings before gain (loss) on assets sold	12,825	13,010	12,355	(8,012)
Net (loss) earnings available to common	10,417	10,602	9,947	(20,926)
(Loss) earnings before gain (loss) on assets sold per share:				
Basic (loss) earnings before gain (loss) on asset dispositions	$ 0.64	$ 0.66	$ 0.62	$ (0.40)
Diluted (loss) earnings before gain (loss) on asset dispositions	0.64	0.65	0.62	(0.40)
Net (Loss) Earnings Available to Common per share:				
Basic net (loss) earnings	$ 0.52	$ 0.53	$ 0.50	$ (1.05)
Diluted net (loss) earnings	0.52	0.53	0.50	(1.05)
Cash dividends paid on common stock	0.70	0.70	0.70	0.70

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

NOTE 17 CONSULTING AND SEVERANCE AGREEMENTS

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

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

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

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 18 SEGMENT INFORMATION

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

	For the year ended December 31, 2000			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
	(In Thousands)			

	For the year ended December 31, 2000			
Operating Revenues	$ 91,434	$ 175,559	$	$ 266,993
Operating Expenses		(178,975)		(178,975)
Net operating income	91,434	(3,416)		88,018
Adjustments to arrive at net income:				
Other revenues			8,800	8,800
Interest expense			(42,400)	(42,400)
Depreciation and amortization	(17,978)	(3,797)	(1,490)	(23,265)
General and administrative			(6,425)	(6,425)
Legal			(2,467)	(2,467)
State Taxes			(195)	(195)
Severance and consulting agreement costs			(4,665)	(4,665)
Provision for uncollectable mortgages and notes receivable	(4,871)		(10,386)	(15,257)
	(22,849)	(3,797)	(59,228)	(85,874)
Income before gain on assets sold and impairment charges	68,585	(7,213)	(59,228)	2,144
Provision for impairment	(1,939)	(57,395)	(2,356)	(61,690)
Gain on assets sold net	9,989			9,989
Preferred dividends			(16,928)	(16,928)
Net loss available to common	$ 76,635	$ (64,608)	$ (78,512)	$ (66,485)
Total Assets	$ 724,338	$ 159,105	$ 65,008	$ 948,451

	For the year ended December 31, 2000			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
	(In Thousands)			
Operating Revenues	$ 112,758	$ 26,223	$	$ 138,981
Operating Expenses		(25,173)		(25,173)
Net operating income	112,758	1,050		113,808
Adjustments to arrive at net income:				
Other revenues			9,148	9,148
Interest expense			(42,947)	(42,947)
Depreciation and amortization	(21,204)	(814)	(2,193)	(24,211)
General and administrative			(5,231)	(5,231)
Legal			(386)	(386)
State Taxes			(503)	(503)
Severance and consulting agreement costs				
Provision for uncollectable mortgages and notes receivable				
	(21,204)	(814)	(42,112)	(64,130)

	For the year ended December 31, 2000			
Income before gain on assets sold and impairment charges	91,554	236	(42,112)	49,678
Provision for impairment		(19,500)		(19,500)
Loss on assets sold net		(10,507)		(10,507)
Preferred dividends			(9,631)	(9,631)
Net loss available to common	$ 91,554	$ (29,771)	$ (51,743)	$ 10,040
Total Assets	$ 841,558	$ 106,050	$ 91,123	$ 1,038,731

	For the year ended December 31, 1998			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
	(In Thousands)			
Operating Revenues	$ 102,471	$	$	$ 102,471
Operating Expenses				
Net operating income	102,471			102,471
Adjustments to arrive at net income:				
Other revenues			6,843	6,843
Interest expense			(32,436)	(32,436)
Depreciation and amortization	(19,838)		(1,704)	(21,542)
General and administrative			(4,852)	(4,852)
Legal			(155)	(155)
State Taxes			(358)	(358)
Severance and consulting agreement costs				
Provision for uncollectable mortgages and notes receivable				
	(19,838)		(32,662)	(52,500)
Income before gain on assets sold and impairment charges	82,633		(32,662)	49,971
Provision for impairment		(6,800)		(6,800)
Gain on assets sold net	2,798			2,798
Gain on distribution of Omega Worldwide, Inc.			30,240	30,240
Preferred dividends			(8,194)	(8,194)
Net loss available to common	$ 85,431	$ (6,800)	$ (10,616)	$ 68,015
Total Assets	$ 936,414	$ 35,289	$ 65,504	$ 1,037,207

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

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

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

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

determined by GAAP as a measure of liquidity and is not necessarily indicative of cash available to fund cash needs.

	December 31,	
	2000	1999
	(In thousands)	
ASSETS		
Cash	$ 5,364	$
Accounts Receivable	30,030	9,588
Other Current Assets	5,098	60
Total Current Assets	40,492	9,648
Investment in leasehold	1,679	
Land and Buildings	130,601	60,810
Less Accumulated Depreciation	(17,680)	(814)

	December 31,	
Land and Buildings Net	112,921	59,996
TOTAL ASSETS	$ 155,092	$ 69,644
LIABILITIES		
Accounts Payable	$ 8,636	$ 3,962
Other Current Liabilities	6,108	8,101
Total Current Liabilities	14,744	12,063
TOTAL LIABILITIES	$ 14,744	$ 12,063

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

NOTE 19 EARNINGS PER SHARE

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

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

	Year Ended December 31,		
	2000	1999	1998
Net (loss) earnings per share basic:			

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

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

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

		Initial Cost to Company	Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period(6)				
Description(1)	Encumbrances	Buildings and Land Improvements	Improvements	Impairment	Buildings and Land Improvements Total	(7) Accumulated Depreciation	Date of Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statements is Computed
Sun Healthcare Group, Inc.:							1964-1995		
Alabama (LTC)		$ 23,584,957			$ 23,584,957	$ 2,549,186		March 31, 1997	33 years
California (LTC, RH)	(4)(5)	65,912,924			65,912,924	5,913,927		October 8, 1997	33 years
Florida (LTC)		10,796,688			10,796,688	1,166,963		March 31, 1997	33 years
Florida (LTC)		10,700,000			10,700,000	1,182,106		February 28, 1997	33 years
Idaho (LTC)		600,000			600,000	66,286		February 28, 1997	33 years
Illinois (LTC)		4,900,000			4,900,000	673,130		August 30, 1996	30 years
Illinois (LTC)		3,942,726			3,942,726	426,151		March 31, 1997	33 years
Indiana (LTC)		3,000,000			3,000,000	412,120		August 30, 1996	30 years
Louisiana (LTC)		4,602,574			4,602,574	497,470		March 31, 1997	33 years
Massachusetts (LTC)		8,300,000			8,300,000	916,961		February 28, 1997	33 years
North Carolina (LTC)	(4)	19,970,418			19,970,418	3,936,793		June 4, 1994	39 years
	(5)	2,739,021			2,739,021	250,496			33 years

					Gross Amount at Which Carried at Close of Period(6)				
North Carolina (LTC)								October 8, 1997	
Ohio (LTC)	(4)(5)	11,884,567			11,884,567	1,070,766		October 8, 1997	33 years
Tennessee (LTC)	(2)	7,942,374			7,942,374	1,569,783		September 30, 1994	30 years
Texas (LTC)		9,415,056			9,415,056	1,017,629		March 31, 1997	33 years
Washington (LTC)	(4)	5,900,000			5,900,000	650,949		March 31, 1997	33 years
West Virginia (LTC)	(4)(5)	24,793,444			24,793,444	2,196,026		October 8, 1997	33 years
		218,984,749			218,984,749	24,496,742			
Integrated Health Services, Inc.:							1979-1993		
Florida (LTC)	(5)	10,000,000			10,000,000	792,958		January 13, 1998	33 years
Florida (LTC)		29,000,000			29,000,000	2,361,040		March 31, 1998	33 years
Illinois (LTC)	(5)	14,700,000			14,700,000	1,221,821		January 13, 1998	33 years
New Hampshire (LTC)	(5)	5,800,000			5,800,000	495,564		January 13, 1998	33 years
Ohio (LTC)	(5)	16,000,000			16,000,000	1,268,733		March 31, 1998	33 years
Pennsylvania (LTC)	(5)	14,400,000			14,400,000	1,230,365		January 13, 1998	33 years
Pennsylvania (LTC)		5,500,000			5,500,000	436,127		March 31, 1998	33 years
Washington (LTC)		10,000,000			10,000,000	2,118,746		September 1, 1996	20 years
		105,400,000			105,400,000	9,925,354			
Advocat, Inc.:							1972-1994		
Alabama (LTC)	(4)	11,638,797	707,998		12,346,795	3,015,242		August 14, 1992	31.5 years
Arkansas (LTC)	(4)	37,887,832	1,473,599		39,361,431	9,842,102		August 14, 1992	31.5 years
Kentucky (LTC)	(4)	14,897,402	1,816,000		16,713,402	2,798,615		July 1, 1994	33 years
Ohio (LTC)	(4)	5,854,186			5,854,186	970,874		July 1, 1994	33 years
Tennessee (LTC)	(2)	9,542,121			9,542,121	2,449,079		August 14, 1992	31.5 years
West Virginia (LTC)	(4)	5,283,525	502,338		5,785,863	975,555		July 1, 1994	33 years
		85,103,863	4,499,935		89,603,798	20,051,467			

		Initial Cost to Company	Cost Capitalized Subsequent to Acquisition		Gross Amount at Which Carried at Close of Period(6)				
Description(1)	Encumbrances	Buildings and Land Improvements	Improvements	Impairment	Buildings and Land Improvements Total	(7) Accumulated Depreciation	Date of Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statements is Computed
							1980-1994		

					Gross Amount at Which Carried at Close of Period(6)				
Vencor Operating, Inc.:									
Arizona (LTC)		24,029,032	44,924	(6,603,745)	17,470,211	1,327,091		December 31, 1998	33 years
Indiana (LTC)		8,383,671	100,914	(1,820,624)	6,663,961	1,997,691		December 23, 1992	31.5 years
Texas (LTC)		27,141,483	84,323		27,225,806	3,165,920		December 1, 1993	39 years
		59,554,186	230,161	(8,424,369)	51,359,978	6,490,702			
Genesis Health Ventures, Inc.:									
Connecticut (LTC)		28,483,164	185,670	(4,787,084)	23,881,750	1,143,510		July 14, 1999	33 years
Massachusetts (LTC)		34,559,901	421,567	(10,506,822)	24,474,646	1,373,516		July 14, 1999	33 years
		63,043,065	607,237	(15,293,906)	48,356,396	2,517,026			
Alterra Healthcare Corporation:									
Colorado (AL)		2,583,440			2,583,440	115,241		June 14, 1999	33 years
Indiana (AL)		11,641,805			11,641,805	519,313		June 14, 1999	33 years
Kansas (AL)		3,418,670			3,418,670	152,499		June 14, 1999	33 years
Ohio (AL)		3,520,747			3,520,747	157,052		June 14, 1999	33 years
Oklahoma (AL)		3,177,993			3,177,993	141,763		June 14, 1999	33 years
Tennessee (AL)		4,068,652			4,068,652	181,493		June 14, 1999	33 years
Washington (AL)		5,673,693			5,673,693	253,090		June 14, 1999	33 years
		34,085,000			34,085,000	1,520,451			
Alden Management Services, Inc.:							1978		
Illinois (LTC)		31,000,000	305,756		31,305,756	6,378,152		September 30, 1994	30 years
Atrium Living Centers, Inc.:									
Indiana (LTC)		25,693,563	47,216	(12,846,628)	12,894,151	5,621,697		September 30, 1994	25 years
Indiana (LTC)		6,456,391	26,464	(2,773,242)	3,709,613	2,233,127		November 1, 1992	31.5 years
		32,149,954	73,680	(15,619,870)	16,603,764	7,854,824			
TLC Healthcare, Inc.:							1972-1996		
Illinois (LTC)	(5)	1,274,703			1,274,703	72,217		January 7, 1999	33 years
Illinois (LTC)	(5)	5,118,775			5,118,775	228,336		June 1, 1999	33 years
Ohio (LTC)	(5)	2,804,347			2,804,347	154,298		January 7, 1999	33 years
Texas (LTC)	(5)	4,942,000			4,942,000	220,451		June 30, 1999	33 years
Texas (LTC)	(5)	6,557,143			6,557,143	627,086		September 5, 1997	33 years
Texas (LTC)	(5)	2,442,858			2,442,858	198,479		March 4, 1998	33 years

					Gross Amount at Which Carried at Close of Period(6)				
		23,139,826			23,139,826	1,500,867			
USA Healthcare, Inc.:							1974-1997		
Iowa(LTC)		14,344,797	168,000		14,512,797	1,267,902		October 7, 1997	33 years
Iowa(LTC)		2,700,000			2,700,000	370,908		August 30, 1996	30 years
		17,044,797	168,000		17,212,797	1,638,810			

Description(1)	Encumbrances	Initial Cost to Company Buildings and Land Improvements	Cost Capitalized Subsequent to Acquisition Improvements	Impairment	Gross Amount at Which Carried at Close of Period(6) Buildings and Land Improvements Total	(7) Accumulated Depreciation	Date of Renovation	Date Acquired	Life on Which Depreciation in Latest Income Statements is Computed
Pinon Management, Inc.:									
Colorado (LTC)		14,170,968	109,931		14,280,899	817,633		December 31, 1998	33 years
Washington N & R, LLC.:									
Missouri (LTC)	(5)	12,152,174			12,152,174	690,758		January 7, 1999	33 years
Peak Medical of Idaho, Inc.:									
Idaho (LTC)	(5)	10,500,000			10,500,000	544,512		March 26, 1999	33 years
HQM of Floyd County, Inc.:									
Kentucky (LTC)	(5)	10,250,000			10,250,000	358,673		June 30, 1997	33 years
Safe Harbor Florida Health Care Properties, Inc.:							1984		
Florida (LTC)		8,150,000	866		8,150,866	1,384,872		September 13, 1993	39 years
Meadowbrook Healthcare of North Carolina:									
North Carolina (AL)	(3)	7,500,000		(1,939,476)	5,560,524	1,444,027		September 30, 1994	31.5 years
Liberty Assisted Living Center:									
Florida (AL)		5,994,730	760		5,995,490	1,464,958		September 30, 1994	27 years
Eldorado Care Center, Inc. & Magnolia Manor, Inc.:							1995-1998		
Illinois (LTC)		5,100,000			5,100,000	276,157		February 1, 1999	33 years
Kansas & Missouri, Inc.:									
Kansas (LTC)		2,500,000			2,500,000	513,922		September 30, 1994	30 years
		$ 745,823,312	$ 5,996,326	($ 41,277,621)	$ 710,542,017	$ 89,869,907			

	Gross Amount at Which Carried at Close of Period(6)

(1) All of the real estate included in this schedule are being used in either the operation of long-term care facilities (LTC), assisted living facilities (AL), or rehabilitation hospitals (RH) located in the states indicated.

(2) Certain of the real estate indicated are security for Industrial Development Revenue bonds totaling $8,375,000 at December 31, 2000.

(3) Certain of the real estate indicated are security for HUD loans totaling $5,218,497 at December 31, 2000.

(4) Certain of the real estate indicated are security for the Provident line of credit borrowings totaling $56,641,232 at December 31, 2000.

(5) Certain of the real estate indicated are security for the Fleet line of credit borrowings totaling $129,000,000 at December 31, 2000.

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

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

(7)	**1998**	**1999**	**2000**
Balance at beginning of period	$ 48,147,275	$ 56,385,853	$ 67,929,407
Additions during period:			
Provisions for depreciation	19,749,781	21,119,252	21,683,180
Dispositions/other	(11,511,203)	(9,575,698)	257,320
Balance at close of period	$ 56,385,853	$ 67,929,407	$ 89,869,907

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

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

(1) The mortgage loans included in this schedule represent first mortgages on facilities used in the delivery of long-term healthcare, such facilities are located in the states indicated.

(2) The aggregate cost for federal income tax purposes is equal to the carrying amount.

Year Ended December 31,

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

(4)

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

(5)

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

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands)

	September 30, 2001	December 31, 2000
	(Unaudited)	(See Note)
ASSETS		
Real estate properties		
Land and buildings at cost	$ 701,370	$ 710,542
Less accumulated depreciation	(101,861)	(89,870)
Real estate properties net	599,509	620,672
Mortgage notes receivable net	185,861	206,710
	785,370	827,382
Other investments	47,818	53,242

	September 30, 2001	December 31, 2000
	833,188	880,624
Assets held for sale net	7,377	4,013
Total Investments	840,565	884,637
Cash and cash equivalents	14,145	7,172
Accounts receivable	6,881	10,497
Other assets	3,789	9,338
Operating assets for owned properties	45,885	36,807
Total Assets	$ 911,265	$ 948,451
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving lines of credit	$ 203,641	$ 185,641
Unsecured borrowings	199,641	225,000
Other long-term borrowings	22,755	24,161
Subordinated convertible debentures		16,590
Accrued expenses and other liabilities	16,708	18,002
Operating liabilities for owned properties	11,861	14,744
Total Liabilities	454,606	484,138
Preferred Stock	212,342	207,500
Common stock and additional paid-in capital	440,392	440,556
Cumulative net earnings	171,272	182,548
Cumulative dividends paid	(365,654)	(365,654)
Unamortized restricted stock awards	(202)	(607)
Accumulated other comprehensive loss	(1,491)	(30)
Total Stockholders' Equity	456,659	464,313
Total Liabilities and Stockholders' Equity	$ 911,265	$ 948,451

Note The balance sheet at December 31, 2000, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles in the United States for complete financial statements.

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In Thousands, Except Per Share Amounts)

	Three Months Ended September 30,	Nine Months Ended September 30,

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	2000	2001	2000
Revenues				
Rental income	$ 14,936	$ 15,503	$ 45,686	$ 49,652
Mortgage interest income	5,130	5,888	16,343	17,800
Other investment income net	1,374	534	3,640	4,277
Nursing home revenues of owned and operated assets	43,820	45,960	133,613	123,461
Miscellaneous	1,575	126	2,384	483
	66,835	68,011	201,666	195,673
Expenses				
Nursing home expenses of owned and operated assets	44,439	48,552	134,565	126,436
Depreciation and amortization	5,515	5,657	16,560	17,385
Interest	9,124	9,846	28,039	32,221
General and administrative	2,203	1,830	7,707	4,631
Legal	1,145	481	2,862	974
State taxes	126	15	339	241
Litigation settlement expense			10,000	
Provision for impairment		49,849	8,381	54,349
Provision for uncollectable accounts	19	12,100	700	12,100
Severance, moving and consulting agreement costs	4,300	4,665	4,766	4,665
Charges for derivative accounting	561		1,113	
	67,432	132,995	215,032	253,002
Loss before (loss) gain on assets sold and gain on early extinguishment of debt	(597)	(64,984)	(13,366)	(57,329)
(Loss) gain on assets sold net	(1,485)	(109)	(873)	10,342
Gain on early extinguishment of debt	226		2,963	
Net loss	(1,856)	(65,093)	(11,276)	(46,987)
Preferred stock dividends	(5,029)	(5,705)	(14,966)	(10,520)
Net loss available to common	$ (6,885)	$ (70,798)	$ (26,242)	$ (57,507)
Loss per common share:				
Net loss per share basic	$ (0.34)	$ (3.53)	$ (1.31)	$ (2.87)
Net loss per share diluted	$ (0.34)	$ (3.53)	$ (1.31)	$ (2.87)
Net loss per common share before gain on early extinguishment of debt:				
Net loss per share basic	$ (0.35)	$ (3.53)	$ (1.46)	$ (2.87)
Net loss per share diluted	$ (0.35)	$ (3.53)	$ (1.46)	$ (2.87)
Dividends declared and paid per common share	$	$ 0.25	$	$ 0.75
Weighted Average Shares Outstanding, Basic	20,071	20,064	20,032	20,058
Weighted Average Shares Outstanding, Diluted	20,071	20,064	20,032	20,058
Other comprehensive loss:				
Unrealized Loss on Omega Worldwide, Inc	$ (814)	$ (1,745)	$ (567)	$ (2,944)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Unrealized Loss on Hedging Contracts	$ (458)	$	$ (894)	$
Total comprehensive loss	$ (3,128)	$ (66,838)	$ (12,737)	$ (49,931)

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited

(In Thousands)

	Nine Months Ended September 30,	
	2001	**2000**
Operating activities		
Net loss	$ (11,276)	$ (46,987)
Adjustment to reconcile net loss to cash provided by operating activities:		
Depreciation and amortization	16,560	17,385
Provision for impairment	8,381	54,349
Provision for collection losses	700	12,100
Loss (Gain) on assets sold net	873	(10,342)
Gain on early extinguishment of debt	(2,963)	
Other	3,291	2,078
Net change in accounts receivable for Owned & Operated assets net	(8,120)	(17,087)
Net change in accounts payable for Owned & Operated assets	(3,776)	5,421
Net change in other Owned & Operated assets and liabilities	(97)	(12,723)
Net change in operating assets and liabilities	3,875	(3,383)
Net cash provided by operating activities	7,448	811
Cash flow from financing activities		
Proceeds of revolving lines of credit net	18,000	25,041
Payments of long-term borrowings	(43,355)	(121,447)
Receipts from Dividend Reinvestment Plan	29	430
Dividends paid		(22,253)
Proceeds from preferred stock offering		100,000
Deferred financing costs paid	(852)	(4,976)
Other	(45)	(9,339)
Net cash used in financing activities	(26,223)	(32,544)

Cash flow from investing activities

	Nine Months Ended September 30,	
Proceeds from sale of real estate investments net	1,514	35,793
Fundings of other investments net	1,444	(5,507)
Collection of mortgage principal	22,790	1,632
Net cash provided by investing activities	25,748	31,918
Increase in cash and cash equivalents	6,973	185
Cash and cash equivalents at beginning of period	7,172	4,105
Cash and cash equivalents at end of period	$ 14,145	$ 4,290

See notes to condensed consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

September 30, 2001

Note A Basis of Presentation

The accompanying unaudited condensed consolidated financial statements for Omega Healthcare Investors, Inc. (the "Company") have been prepared in accordance with generally accepted accounting principles in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals and impairment provisions to adjust the carrying value of assets) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the 2000 financial statements for consistency with the current presentation. Such reclassifications have no effect on previously reported earnings or equity. Operating results for the three-month and nine-month periods ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2000.

Note B Properties

In the ordinary course of its business activities, the Company periodically evaluates investment opportunities and extends credit to customers. It also regularly engages in lease and loan extensions and modifications. Additionally, the Company actively monitors and manages its investment portfolio with the objectives of improving credit quality and increasing returns. In connection with portfolio management, the Company engages in various collection and foreclosure activities.

When the Company acquires real estate pursuant to a foreclosure, lease termination or bankruptcy proceeding, and does not immediately re-lease the properties to new operators, the assets are included on the balance sheet as "real estate properties," and the value of such assets is reported at the lower of cost or fair value. (See "Owned and Operated Assets" below). Additionally, when a formal plan to sell real estate is adopted, the real estate is classified as "Assets Held for Sale," with the net carrying amount adjusted to the lower of cost or fair value, less cost of disposal.

Based on management's current review of the Company's portfolio, a provision for impairment on the value of assets held for sale of $8.4 million was recorded for the nine-month period ended September 30, 2001. This provision relates to additional properties that were added to Assets Held for Sale during the three-month period ended June 30, 2001 as a result of the foreclosure of assets leased by a defaulting customer during that quarter.

A summary of the number of properties by category for the quarter ended September 30, 2001 follows:

Facility Count	**Purchase / Leaseback**	**Mortgages**	**Owned & Operated**	**Total Healthcare Facilities**	**Held for Sale**	**Total**
Balance at June 30, 2001	129	57	63	249	9	258
Properties transferred to Held for Sale			(2)	(2)	2	
Properties transferred to Owned & Operated						
Properties Sold / Mortgages Paid			(1)	(1)	(1)	(2)
Properties Leased / Mortgages Placed						
Properties transferred to Purchase/Leaseback	2	(2)				
Balance at September 30, 2001	131	55	60	246	10	256
Gross Investment ($000's)						
Balance at June 30, 2001	$ 581,468	$ 180,768	$ 121,368	$ 883,604	$ 5,698	$ 889,302
Properties transferred to Held for Sale			(2,230)	(2,230)	2,230	
Properties transferred to Owned & Operated						
Properties Sold / Mortgages Paid			(3,404)	(3,404)	(149)	(3,553)
Properties Leased / Mortgages Placed		9,360		9,360		9,360
Properties transferred to Purchase / Leaseback	3,900	(3,900)				
Capex and other		(367)	268	(99)	(402)	(501)
Balance at September 30, 2001	$ 585,368	$ 185,861	$ 116,002	$ 887,231	$ 7,377	$ 894,608

Real Estate Dispositions

The Company disposed of two facilities during the three-month period ended September 30, 2001. One facility, located in Texas, had a total of 120 beds and was classified as Owned & Operated Assets. The Company recognized a loss on disposition of this facility of $1.5 million. The other facility, located in Indiana, was classified as Assets Held for Sale. The Company recognized a net gain on disposition of assets during the nine-month period ended September 30, 2000 of $10.3 million. The net gain was comprised of a $10.9 million gain on the sale of four facilities previously leased to Tenet Healthsystem Philadelphia, Inc., offset by a loss of $0.6 million on the sale of a 57 bed facility in Colorado.

Notes and Mortgages Receivable

Income on notes and mortgages that are impaired will be recognized as cash is received. During the nine-month period ended September 30, 2000 the Company recorded a charge of $12.1 million to provision for loss on mortgages ($4.9 million) and notes receivable ($7.2 million).

Owned and Operated Assets

The Company owns 60 facilities that were recovered from customers and are operated for the Company's own account. These facilities have 4,701 beds and are located in nine states. During the three-month period ended September 30, 2001, one of the Company's previously Owned and Operated facilities was sold and two were closed and reclassified to Assets Held for Sale.

The Company intends to operate these owned and operated assets for its own account until such time as these facilities' operations are stabilized and are re-leasable or saleable at lease rates or sale prices that maximize the value of these assets to the Company. As a result, these facilities and their respective operations are presented on a consolidated basis in the Company's financial statements. See Note J "Subsequent Events."

The revenues, expenses, assets and liabilities included in the Company's condensed consolidated financial statements which relate to such owned and operated assets are set forth in the table below. Nursing home revenues from these owned and operated assets are recognized as services are provided. The amounts shown in the condensed consolidated financial statements are not comparable, as the number of Owned and Operated facilities and the timing of the foreclosures and re-leasing activities have occurred at different times during the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2001	**2000**	**2001**	**2000**
	Unaudited (In Thousands)			
Revenues (1)				
Medicaid	$ 27,084	$ 29,176	$ 80,645	$ 75,535
Medicare	10,074	8,646	32,588	21,896
Private & Other	6,662	8,138	20,380	26,030
Total Revenues	43,820	45,960	133,613	123,461
Expenses				
Patient Care Expenses	30,917	28,782	93,638	78,885
Administration	7,246	13,171	21,423	30,613
Property & Related	3,092	3,084	9,052	7,955
Total Expenses	41,255	45,037	124,113	117,453
Contribution Margin	2,565	923	9,500	6,008
Management Fees	2,217	2,337	7,084	6,235
Rent	967	1,178	3,368	2,748
Net Operating Loss	$ (619)	$ (2,592)	$ (952)	$ (2,975)

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	September 30, 2001	December 31, 2000
	Unaudited (In Thousands)	
ASSETS		
Cash	$ 8,826	$ 5,364
Accounts Receivable Net	38,150	30,030
Other Current Assets	6,013	5,098
Total Current Assets	52,989	40,492
Investment in leasehold	1,722	1,679
Land and Buildings	116,002	130,601
Less Accumulated Depreciation	(17,043)	(17,680)
Land and Buildings Net	98,959	112,921
TOTAL ASSETS	$ 153,670	$ 155,092

	September 30, 2001	December 31, 2000
LIABILITIES		
Accounts Payable	$ 4,861	$ 8,636
Other Current Liabilities	6,967	6,108
Total Current Liabilities	11,828	14,744
TOTAL LIABILITIES	$ 11,828	$ 14,744

Assets Held for Sale

At September 30, 2001, the carrying value of assets held for sale totals $7.4 million (net of impairment reserves of $15.9 million). The Company intends to sell the remaining facilities as soon as practicable. There can be no assurance if or when such sales will be completed or whether such sales will be completed on terms that allow the Company to realize the carrying value of the assets.

Note B Properties (Continued)

Segment Information

The following tables set forth the reconciliation of operating results and total assets for the Company's reportable segments for the three and nine-month periods ended September 30, 2001 and 2000.

	For the three months ended September 30, 2001			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
	(In Thousands)			
Operating Revenues	$ 20,066	$ 43,820	$	$ 63,886
Operating Expenses		(44,439)		(44,439)
Net operating income (loss)	20,066	(619)		19,447
Adjustments to arrive at net income (loss):				
Other revenues			2,949	2,949
Depreciation and amortization	(4,273)	(1,018)	(224)	(5,515)
Interest expense			(9,124)	(9,124)
General and administrative			(2,203)	(2,203)
Legal			(1,145)	(1,145)
State Taxes			(126)	(126)

	For the three months ended September 30, 2001			
Litigation settlement expense				
Provision for impairment				
Provision for uncollectable accounts	(19)			(19)
Severance, moving and consulting agreement costs			(4,300)	(4,300)
Charges for derivative accounting			(561)	(561)
	(4,292)	(1,018)	(14,734)	(20,044)
Income (loss) before net loss on assets sold and gain on early extinguishment of debt	15,774	(1,637)	(14,734)	(597)
Loss on assets sold net		(1,485)		(1,485)
Gain on early extinguishment of debt			226	226
Preferred dividends			(5,029)	(5,029)
Net income (loss) available to common	$ 15,774	$ (3,122)	$ (19,537)	$ (6,885)
Total Assets	$ 686,411	$ 161,047	$ 63,807	$ 911,265

	For the three months ended September 30, 2000			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
	(In Thousands)			
Operating Revenues	$ 21,391	$ 45,960	$	$ 67,351
Operating Expenses		(48,552)		(48,552)
Net operating income (loss)	21,391	(2,592)		18,799
Adjustments to arrive at net income (loss):				
Other revenues			660	660
Depreciation and amortization	(4,302)	(967)	(388)	(5,657)
Interest expense			(9,846)	(9,846)
General and administrative			(1,830)	(1,830)
Legal			(481)	(481)
State Taxes			(15)	(15)
Provision for impairment	(1,940)	(47,909)		(49,849)
Provision for uncollectable accounts	(12,100)			(12,100)
Severance and consulting agreement costs			(4,665)	(4,665)
	(18,342)	(48,876)	(16,565)	(83,783)

Income (loss) before net loss on assets sold	3,049	(51,468)	(16,565)	(64,984)
Loss on assets sold net	(109)			(109)
			(5,705)	(5,705)

Preferred dividends				
Net income (loss) available to common	$ 2,940	$ (51,468)	$ (22,270)	$ (70,798)
Total Assets	$ 719,848	$ 166,038	$ 78,803	$ 964,689

	For the nine months ended September 30, 2001			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated
	(In Thousands)			
Operating Revenues	$ 62,029	$ 133,613	$	$ 195,642
Operating Expenses		(134,565)		(134,565)
Net operating income (loss)	62,029	(952)		61,077
Adjustments to arrive at net income (loss):				
Other revenues			6,024	6,024
Depreciation and amortization	(12,941)	(2,950)	(669)	(16,560)
Interest expense			(28,039)	(28,039)
General and administrative			(7,707)	(7,707)
Legal			(2,862)	(2,862)
State Taxes			(339)	(339)
Litigation settlement expense			(10,000)	(10,000)
Provision for impairment			(8,381)	(8,381)
Provision for uncollectable accounts	(700)			(700)
Severance, moving and consulting agreement costs			(4,766)	(4,766)
Charges for derivative accounting			(1,113)	(1,113)
	(13,641)	(2,950)	(57,852)	(74,443)
Income (loss) before net loss on assets sold and gain on early extinguishment of debt	48,388	(3,902)	(57,852)	(13,366)
Loss on assets sold net		(873)		(873)
Gain on early extinguishment of debt			2,963	2,963
Preferred dividends			(14,966)	(14,966)
Net income (loss) available to common	$ 48,388	$ (4,775)	$ (69,855)	$ (26,242)
Total Assets	$ 686,411	$ 161,047	$ 63,807	$ 911,265

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	For the nine months ended September 30, 2000			
	Core Operations	Owned and Operated and Assets Held For Sale	Corporate and Other	Consolidated

	For the nine months ended September 30, 2000			
		(In Thousands)		
Operating Revenues	$ 67,452	$ 123,461	$	$ 190,913
Operating Expenses		(126,436)		(126,436)
Net operating income (loss)	67,452	(2,975)		64,477
Adjustments to arrive at net income (loss):				
Other revenues			4,760	4,760
Depreciation and amortization	(13,723)	(2,545)	(1,117)	(17,385)
Interest expense			(32,221)	(32,221)
General and administrative			(4,631)	(4,631)
Legal			(974)	(974)
State Taxes			(241)	(241)
Provision for impairment	(1,940)	(52,409)		(54,349)
Provision for uncollectable accounts	(12,100)			(12,100)
Severance and consulting agreement costs			(4,665)	(4,665)
	(27,763)	(54,954)	(39,089)	(121,806)
Income (loss) before gain on assets sold	39,689	(57,929)	(39,089)	(57,329)
Gain on assets sold net	10,342			10,342
Preferred dividends			(10,520)	(10,520)
Net income (loss) available to common	$ 50,031	$ (57,929)	$ (49,609)	$ (57,507)
Total Assets	$ 719,848	$ 166,038	$ 78,803	$ 964,689

Note C Concentration of Risk and Related Issues

As of September 30, 2001, the Company's portfolio of domestic investments consisted of 246 healthcare facilities, located in 29 states and operated by 32 third-party operators. The Company's gross investments in these facilities totaled $887.2 million at September 30, 2001. This portfolio is made up of 129 long-term healthcare facilities and 2 rehabilitation hospitals owned and leased to third parties, fixed rate, participating and convertible participating mortgages on 55 long-term healthcare facilities and 48 long-term healthcare facilities that were recovered from customers and are currently operated through third-party management contracts for the Company's own account. In addition, 12 facilities subject to third-party leasehold interests are included in Other Investments. The Company also holds miscellaneous investments and closed healthcare facilities held for sale of approximately $55.2 million at September 30, 2001, including $22.3 million related to two non-healthcare facilities leased by the United States Postal Service, a $7.7 million investment in Omega Worldwide, Inc., Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company and Principal Healthcare Finance Trust, an Australian Unit Trust, and $14.3 million of notes receivable**.**

Seven public companies operate approximately 73.7% of the Company's investments, including Sun Healthcare Group, Inc. (24.6%), Integrated Health Services, Inc. (18.1%, including 10.7% as the manager for and 50% owner of Lyric Health Care LLC), Advocat, Inc. (12.0%), Mariner Post-Acute

September 30, 2001

Note C Concentration of Risk and Related Issues (Continued)

Network (6.7%), Kindred Healthcare, Inc. (formerly known as Vencor Operating, Inc.) (5.7%), Alterra Healthcare Corporation (3.8%), and Genesis Health Ventures, Inc. (2.8%). Kindred and Genesis manage facilities for the Company's own account, included in Owned & Operated Assets. The two largest private operators represent 3.5% and 2.5%, respectively, of investments. No other operator represents more than 2.5% of investments. The three states in which the Company has its highest concentration of investments are Florida (16.0%), California (7.5%) and Illinois (7.5%).

Government Healthcare Regulation, Reimbursements and Industry Concentration Risks

Nearly all of the Company's properties are used as healthcare facilities, therefore, the Company is directly affected by the risk associated with the healthcare industry. The Company's lessees and mortgagors, as well as the facilities owned and operated for the Company's account, derive a substantial portion of their net operating revenues from third-party payers, including the Medicare and Medicaid programs. Such programs are highly regulated and subject to frequent and substantial changes. In addition, private payers, including managed care payers, are increasingly demanding discounted fee structures and the assumption by healthcare providers of all or a portion of the financial risk of operating a healthcare facility. Any changes in reimbursement policies that reduce reimbursement levels could adversely affect revenues of the Company's lessees and borrowers and thereby adversely affect those lessees' and borrowers' abilities to make their monthly lease or debt payments to the Company.

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

Real estate investments are relatively illiquid and, therefore, tend to limit the ability of the Company to vary its portfolio promptly in response to changes in economic or other conditions. Thus, if the operation of any of the Company's properties becomes unprofitable due to competition, age of improvements or other factors such that the lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be substantially less, particularly relative to the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses.

Potential Risks from Bankruptcies

Generally, the Company's lease arrangements with a single operator who operates more than one of the Company's facilities is designed pursuant to a single master lease (a "Master Lease" or collectively, the "Master Leases"). Although each lease or Master Lease provides that the Company may terminate the Master Lease upon the bankruptcy or insolvency of the tenant, the Bankruptcy

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Reform Act of 1978 ("Bankruptcy Code") provides that a trustee in a bankruptcy or reorganization proceeding under the Bankruptcy Code (or debtor-in-possession in a reorganization under the Bankruptcy Code) has the power and the option to assume or reject the unexpired lease obligations of a debtor-lessee. In the event that the unexpired lease is assumed on behalf of the debtor-lessee, all the rental obligations thereunder generally would be entitled to a priority over other unsecured claims. However, the court also has the power to modify a lease if a debtor-lessee in a reorganization were required to perform certain provisions of a lease that the court determined to be unduly burdensome. It is not possible at this time to determine whether or not a court would hold that any lease or Master Lease contains any such provisions. If a lease is rejected, the lessor has a general unsecured claim limited to any unpaid rent already due plus an amount equal to the rent reserved under the lease, without acceleration, for the greater of one year or 15% of the remaining term of such lease, not to exceed the rent obligation for three years.

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

The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment (such as real estate taxes and maintenance costs) are generally not reduced when circumstances cause a reduction in income from the investment. In order to protect its investments, the Company may take possession of a property or even become licensed as an operator, which might expose the Company to successorship liability to government programs or require the Company to indemnify subsequent operators to whom it might transfer the operating rights and licenses. Third party payors may also suspend payments to the Company following foreclosure until the Company receives the required licenses to operate the facilities. Should such events occur, the Company's income and cash flows from operations would be adversely affected.

Risks Related to Owned and Operated Assets

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

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

Recent Developments

In Note 15 to our Form 10-K for the year ended December 31, 2000, we announced continuing discussions with several of our lessees to resolve payment issues, including Alterra Healthcare Corp., Lyric Healthcare LLC, Alden Management Services, Inc. and TLC Healthcare Inc.

Alterra Healthcare Corp. has been making reduced payments of their monthly rent since March 2001. Monthly rent payments of $306,138 were not paid for March through June; $100,000 was paid in each of the July and August months; and $185,097 was paid each month from September through December. All shortfalls were funded from Alterra's security deposit. Accordingly, revenues were recognized on the full contractual rent of $306,138 per month. A term sheet has been executed with Alterra whereby we would take back two facilities, receive a fee of approximately $1.1 million, and monthly rent payments of $187,000 in 2002 increasing to $268,000 per month in 2003. However, final documentation of this agreement has not been completed. The total gross investment in the properties leased to Alterra is $34.1 million, including $6.2 million for the two facilities that are to be taken back. These two facilities will be leased to a new operator or marketed for sale.

Integrated Health Services, Inc. filed for Chapter 11 bankruptcy protection in February 2000. With the exception of a small portion of prepetition interest (approximately $63,000), IHS paid its contractual mortgage interest from its bankruptcy filing in February 2000 until October 2001. In November 2001 IHS informed us it did not intending to pay future rent and mortgage interest due. We hold three mortgages on properties owned by IHS: a $37.5 million mortgage collateralized by seven facilities located in Florida and Texas; a $12 million mortgage, collateralized by two facilities located in

Georgia; and a $4.9 million mortgage collateralized by one facility located in Florida. Annual contractual interest income on each of the mortgages is approximately $3.96 million, $1.25 million and $0.55 million, respectively. We also have a lease with IHS for one property in the state of Washington, representing an investment of $10 million and annualized contractual revenue of $1.45 million. IHS rejected this lease on November 9, 2001.

We are currently negotiating with IHS to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators. Rent under the lease was paid for November, but no payments were made on the October mortgage interest due November 1. As of the date of this filing, no further payments have been made. Accordingly, no revenue was recorded for the mortgage for October through December. Current appraisals of the properties underlying the mortgage loans indicate collateral value in excess of the mortgage loan balances. Accordingly, we do not expect to record any reserves relative to these loans at this time.

We entered into a forbearance agreement with Lyric Healthcare LLC through August 31, 2001, whereby the Company received $541,266 of the $860,000 monthly rent due under the Lyric leases through November 2001. On November 7, we were notified by Lyric that we would no longer be receiving payments. As of the date of this filing Lyric had not made their December rent payments to us. Revenue has been recorded as received since April 2001. We will continue to record revenue in this manner until a resolution with Lyric is finalized. Discussions are continuing with Lyric to reach a permanent restructuring agreement or to transition the facilities to a new operator or operators. Our original investment in the ten facilities covered under the lease is $95.4 million, with annual contractual rent of $10.3 million.

On March 30, 2001, we announced that affiliates of Alden Management, Inc. were delinquent in paying their lease and escrow payments on the four facilities they lease from us. During the month of April, Alden resumed regularly scheduled lease payments to us, and began making payments on a schedule designed to bring their past due amounts current by August 2001. The facilities which Alden leases are located in the state of Illinois and derive approximately 90% of their revenues from Illinois Medicaid. Alden adhered to the schedule and was current with their rental payments to us through November. However, Alden has indicated to us that the State of Illinois has been behind in processing reimbursements under the Medicaid system.

In April 2001 we were informed by TLC Healthcare, Inc. that it could no longer meet its payroll and other operating obligations. We had leases and mortgages with TLC representing eight properties with 1,049 beds and an initial investment of $27.5 million. As a result of this action, one facility in Texas with an initial investment of $2.5 million was leased to a new operator, Lamar Healthcare, Inc. and four properties in Illinois, Indiana and Ohio, with an initial investment of $13.5 million, were taken back and placed under management agreements with Atrium Living Centers and Nexion Health Management, Inc. and are now operated for our own account and classified as Owned and Operated Assets. The remaining three properties, located in Texas, were closed and are being marketed for sale. These three facilities are classified as Assets Held for Sale and have been reduced to their fair value, less cost of disposal. Amounts due from TLC that were not collected were written off as bad debt expense during 2001.

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

Note D Dividends

On February 1, 2001, the Company announced the suspension of all common and preferred dividends. This action is intended to preserve cash to facilitate the Company's ability to obtain financing to fund its 2002 maturing indebtedness. Prior to recommencing the payment of dividends on the Company's Common stock, all accrued and unpaid dividends on the Company's Series A, B and C preferred stock must be paid in full. The Company has made sufficient distributions to satisfy the distribution requirements under the REIT rules to maintain its REIT status for 2000 and intends to satisfy such requirements under the REIT rules for 2001. The accumulated and unpaid dividends relating to all series of the preferred stock, excluding the November 15, 2000 Series C dividends described below, total $14.9 million as of September 30, 2001.

On March 30, 2001, the Company exercised its option to pay the accrued $4,666,667 Series C dividend from November 15, 2000 and the associated waiver fee by issuing 48,420 Series C preferred shares to Explorer on April 2, 2001, which are convertible into 774,722 shares of the Company's common stock at $6.25 per share. Such election resulted in an increase in the aggregate liquidation preference of Series C Preferred Stock as of April 2, 2001 to $104,842,000, including accrued dividends through that date.

During the nine-month period ended September 30, 2000 the Company paid dividends of $4.0 million on its 9.25% Series A Cumulative Preferred Stock and 8.625% Series B Cumulative Preferred Stock.

Note E Earnings Per Share

The computation of basic earnings per share is determined based on the weighted average number of common shares outstanding during the respective periods. Diluted earnings per share reflect the dilutive effect, if any, of stock options and, beginning in the third quarter of 2000, the assumed conversion of the Series C Preferred Stock.

Note F Omega Worldwide, Inc.

As of September 30, 2001 the Company holds a $4.9 million investment in Omega Worldwide, Inc. ("Worldwide"), represented by 1,163,000 shares of common stock and 260,000 shares of preferred stock. The Company also holds a $1.6 million investment in Principal Healthcare Finance Limited, an Isle of Jersey (United Kingdom) company, and a $1.3 million investment in Principal Healthcare Finance Trust, an Australian Unit Trust. The Company had guaranteed repayment of Worldwide borrowings pursuant to a revolving credit facility in exchange for an initial 1% fee and an annual facility fee of 25 basis points. The Company was required to provide collateral in the amount of $8.8 million related to the guarantee of Worldwide's obligations. Worldwide repaid all borrowings

under the revolving credit facility in June 2001. The Company's guarantee was terminated and the subject collateral was released.

Additionally, the Company had a Services Agreement with Worldwide that provided for the allocation of indirect costs incurred by the Company to Worldwide. The allocation of indirect costs has been based on the relationship of assets under the Company's management to the combined total of those assets and assets under Worldwide's management. Upon expiration of this agreement on June 30, 2000, the Company entered into a new agreement requiring quarterly payments from Worldwide of $37,500 for the use of offices and certain administrative and financial services provided by the Company. Upon the reduction of the Company's accounting staff, the Service Agreement was renegotiated again on November 1, 2000 requiring quarterly payments from Worldwide of $32,500. Costs allocated to Worldwide for the three-month and nine-month periods ended September 30, 2001 were $32,500 and $97,500, respectively, compared with ($19,000) and $370,000 for the same periods in 2000.

Note G Litigation

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

On June 21, 2000, the Company was named as a defendant in certain litigation brought against it by Madison/OHI Liquidity Investors, LLC ("Madison"), a customer that claims that the Company has breached and/or anticipatorily breached a commercial contract. Ronald M. Dickerman and Bryan Gordon are partners in Madison and limited guarantors of Madison's obligations to the Company. Madison claims damages as a result of the alleged breach of approximately $700,000. Madison seeks damages as a result of the claimed anticipatory breach in the amount of $15 million or, in the alternative, Madison seeks specific performance of the contract as modified by a course of conduct that Madison alleges developed between Madison and the Company. The Company contends that Madison is in default under the contract in question. The Company believes that the litigation is meritless. The Company continues to vigorously defend the case and has filed counterclaims against Madison and the guarantors, seeking repayment of approximately $9.4 million, excluding default interest, that Madison owes the Company. The Company's Motion for Summary Judgment seeking dismissal of Madison's anticipatory breach claim is scheduled for November 19, 2001. The trial in this matter is set for February 2002.

On December 29, 1998, Karrington Health, Inc. brought suit against the Company in the Franklin County, Ohio, Common Pleas Court (subsequently removed to the U.S. District Court for the Southern District of Ohio, Eastern Division) alleging that the Company repudiated and ultimately breached a financing contract to provide $95 million of financing for the development of 13 assisted living facilities. Karrington was seeking recovery of approximately $34 million in damages it alleged to have incurred as a result of the breach. On August 13, 2001, the Company paid Karrington $10 million to settle all

claims arising from the suit, but without admission of any liability or fault by the Company, which liability is expressly denied. Based on the settlement, the suit has been dismissed with prejudice. The settlement was recorded in the quarter ended June 30, 2001.

Note H Borrowing Arrangements

The Company has a $175 million secured revolving credit facility that expires on December 31, 2002. Borrowings under the facility bear interest at 2.5% to 3.25% over London Interbank Offered Rates ("LIBOR"), based on the Company's leverage ratio. Borrowings of approximately $129 million are outstanding at September 30, 2001. Investments with a gross book value of approximately $240 million are pledged as collateral for this credit facility.

The Company has a $75 million secured revolving credit facility that expires on March 31, 2002 as to $10 million and June 30, 2005 as to $65 million. Borrowings under the facility bear interest at 2.5% to 3.75% over LIBOR, based on the Company's leverage ratio and collateral assigned. Borrowings of approximately $74.6 million are outstanding at September 30, 2001. Real estate investments with a gross book value of approximately $95 million are pledged as collateral for this credit facility.

During the three-month and nine-month periods ended September 30, 2001, the Company repurchased $3.9 million and $25.4 million, respectively, of its 6.95% Notes maturing in June 2002. At September 30, 2001, $99.6 million of these notes remain outstanding.

As of September 30, 2001, the Company had an aggregate of $238.6 million of outstanding debt that matures in 2002, including $99.6 million of 6.95% Notes due June 2002 and $139 million on credit facilities expiring in 2002.

The recognition of $10 million of expense associated with the settlement of the lawsuit with Karrington Health, Inc. described in Note G above resulted in a violation of certain financial covenants in the loan agreements relating to the Company's secured credit facilities as of June 30, 2001. For the quarter ended June 30, 2001, we were not in compliance with the maximum leverage covenant ratio of funded indebtedness to earnings before interest, taxes, depreciation and amortization, or EBITDA, in each of our credit facilities. For the quarter ended September 30, 2001, we were not in compliance with the maximum leverage covenant and the minimum EBITDA to interest expense covenants in each of our credit facilities. The Company previously obtained a waiver from the lenders under both credit facilities through September 14, 2001. The lenders under the Company's $175 million secured credit facility have extended their waiver through December 13, 2001 and the lenders under our $75 million secured credit facility extended their waiver through December 15, 2001. These covenant violations have been waived pursuant to the agreements described below, but currently prevent the Company from drawing upon the otherwise remaining availability under both credit facilities until a permanent resolution is attained.

On December 21, 2001, we reached agreements with the lenders under both of our revolving credit facilities which include modifications and waivers to certain financial covenants including those with which we were not in compliance. In addition, certain other financial covenants will be either modified as eliminated going forward. As part of these agreements, the lenders extended their waivers through

February 28, 2002. The effectiveness of these agreements is subject to the completion of the rights offering and private placement to Explorer. Explorer has approved the amendments, and therefore the effectiveness of the amendments will satisfy the conditions to the rights offering and Explorer investment related to our credit facilities. See "The Rights Offering Closing Conditions."

These amendments to our credit facilities waive the covenant violations described above and will modify the following covenants effective as of the closing of the rights offering and the private placement to Explorer:

- The minimum tangible net worth covenant will be reduced from $445 million plus 50% of net proceeds from any equity issuances to $425 million (increasing to $435 million in the third quarter of 2002) plus 50% of proceeds from any equity issuances (after reflecting the rights offering and the private placement to Explorer).

- Minimum EBITDA / interest expense covenant will be increased from 200% to 225% beginning in the second quarter of 2002, 250% in the fourth quarter of 2002 and 275% thereafter.

- The requirement for no loss in a fiscal year beginning December 31, 2001 has been removed.

- The maximum leverage ratio covenant has been reduced to 5.0 times EBITDA in the second quarter of 2002 and 4.75 times EBITDA thereafter.

In addition, adjusted EBITDA under the loan agreements has been redefined to exclude certain one-time charges including, but not limited to, the $10 million litigation settlement recognized in June 2001 and associated legal fees up to $1 million, up to $5 million for relocation of our corporate headquarters to Maryland, for which we recognized a charge of $4.3 million in September 2001.

As of the closing of the rights offering and the private placement to Explorer and the effectiveness of the amendments, we will be in compliance with all covenants under our credit facilities as amended.

As part of the amendment regarding our $75 million revolving credit facility we prepaid $10 million originally scheduled to mature in March 2002. This voluntary prepayment results in a permanent reduction in the total commitment, thereby reducing the credit facility to $65 million.

The agreement regarding our $175 million revolving credit facility includes a one-year extension in maturity from December 31, 2002 to December 31, 2003, and a reduction in the total commitment from $175 million to $160 million. Amounts up to $150 million may be drawn upon to repay the maturing 6.95% Notes due in June 2002.

At September 30, 2001 the Company would have had $14.5 million available under its secured revolving credit facilities if it were in compliance with the applicable financial covenants. Certain assets that served as collateral for one of the credit facilities were recovered from a customer during the June 30, 2001 quarter. These assets are no longer eligible to serve as collateral, resulting in reduced availability under the credit facility. The Company has the ability to replace this collateral and increase the availability under the line by up to an additional $18.1 million subject to compliance with the applicable financial covenants. (See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources)

Note I Effect of New Accounting Pronouncements

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

At September 30, 2001, the Company had two interest rate swaps with notional amounts of $32 million each, based on 30-day LIBOR. Under the terms of the first agreement, which expires in December 2001, the Company receives payments when LIBOR exceeds 6.35% and pays the counterparty when LIBOR is less than 6.35%. At September 30, 2001, 30-day LIBOR was 2.63%. This interest rate swap may be extended for an additional twelve months at the option of the counterparty and therefore does not qualify for hedge accounting under FASB No. 133. The fair value of this swap at January 1, and September 30, 2001 was a liability of $351,344 and $1,200,369, respectively. The liability at January 1 was recorded as a transition adjustment in other comprehensive income and is being amortized over the initial term of the swap. Such amortization for the three-month and nine-month periods ended September 30, 2001 of $87,836 and $263,508, respectively, together with the change in fair value of the swap of $472,544 and $849,025, respectively, is included in charges for derivative accounting in the Company's Condensed Consolidated Statement of Operations.

Under the second agreement, which expires December 31, 2002, the Company receives payments when LIBOR exceeds 4.89% and pays the counterparty when LIBOR is less than 4.89%. The fair value of this interest rate swap at September 30, 2001 was a liability of $805,928, which is included in other comprehensive income as required under FASB No. 133 for fully effective cash flow hedges.

The fair values of these interest rate swaps are included in accrued expenses and other liabilities in the Company's Condensed Consolidated Balance Sheet at September 30, 2001.

FASB 144 Accounting for the Impairment or Disposal of Long-Lived Assets

The Financial Accounting Standards Board recently issued SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* which is applicable to financial statements issued for fiscal years beginning after December 15, 2001. The Company expects to adopt the new pronouncement effective January 1, 2002. This pronouncement supersedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed.* The Company has not yet evaluated the impact of this pronouncement on its financial condition or results of operations.

Note J Subsequent Events

On October 30, 2001, the Company announced that it has reached an agreement with Explorer Holdings, L.P. ("Explorer") to facilitate Omega's ability to raise $50.0 million in new equity capital. Explorer has committed to invest approximately $22.8 million in a private placement and has agreed to "backstop" Omega's proposal to engage in a fixed price rights offering of Omega Common Stock to raise approximately $27.2 million from existing holders of Omega's Common Stock. Holders of Omega Common Stock (other than Explorer) will receive a non-transferable right to purchase at an exercise price of $2.92 per share, one full share of Omega Common Stock for every 2.15 shares of Omega Common Stock they hold as of the close of business on November 8, 2001 or such later date as the Registration Statement filed with the Securities and Exchange Commission to register the shares of Common Stock to be offered in the rights offering becomes effective. The Company intends to use the proceeds of the rights offering and Explorer's investment will be used to repay certain indebtedness maturing in 2002 and for general working capital purposes.

Explorer, which beneficially owns 1,048,420 shares of Omega's Series C Convertible Preferred Stock constituting approximately 45.5% of Omega's issued and outstanding Common Stock on an as converted basis, will not receive rights in the rights offering. Instead, the amount of Explorer's private placement is equal to Explorer's percentage interest in the aggregate amount of the proposed $50.0 million offering. In addition, to the extent the Company's stockholders do not fully exercise their rights to purchase Common Stock in the rights offering, Explorer has committed to invest an additional amount equal to the exercise price of the unexercised rights.

In exchange for its investment in the Company, Explorer will receive shares of the Company's Common Stock if stockholders have approved its issuance to Explorer at the closing of its investment. If the issuance of Common Stock to Explorer has not been approved by stockholders at the time of closing, Explorer will receive shares of a newly created series of non-voting convertible preferred stock which will automatically convert into Common Stock upon receipt of stockholder approval. Omega will call a special meeting of stockholders to seek approval of the issuance of Common Stock to Explorer among other matters.

The closing of the rights offering and Explorer's investment will occur simultaneously no later than 10 days following the expiration of the subscription period for the rights offering. The closing is subject to the fulfillment or waiver of customary closing conditions as well as the amendment of Omega's two secured bank credit facilities and permanent waiver of Omega's current non-compliance with certain covenants on terms acceptable to Omega and Explorer. There can be no assurance that the proposed offering will be consummated.

A registration statement relating to the rights and the underlying Common Stock to be offered in the rights offering has not yet been filed with the U.S. Securities and Exchange Commission ("SEC"). These securities, if registered, may not be sold nor may offers to buy be accepted prior to the time the proposed registration statement becomes effective.

On November 1, 2001 seventeen properties previously classified as Owned and Operated Assets were sold to Hickory Creek Foundation, Inc., subject to a mortgage provided by us in the amount of $10.5 million. The initial term of the mortgage is three years and the initial yield is 7.6%.

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OMEGA HEALTHCARE INVESTORS, INC.
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

PROXY

The undersigned hereby appoints C. Taylor Pickett and Robert O. Stephenson and each of them, as proxies, each with the power to appoint his substitute to represent and to vote as designated below, all the shares of common stock of Omega Healthcare Investors, Inc. ("Omega") held of record by the undersigned on January 24, 2002 at the Special Meeting of Stockholders to be held on February 18, 2002 or any adjournment thereof.

This Proxy when properly executed will be voted in the manner directed herein by the undersigned. If no specification is made, this Proxy will be voted **FOR**:

1. The issuance to Explorer Holdings, L.P. of shares of our common stock either in connection with Explorer's commitment to invest $23.56 million plus an amount equal to the aggregate subscription price of any shares of common stock not purchased in the rights offering by other stockholders or upon the conversion of shares of Series D preferred stock issued to Explorer in lieu of common stock if we close Explorer"s investment prior to receiving the stockholder approval sought pursuant to the proxy statement to issue common stock to Explorer, and any change of control that may result from such issuance.

2. An amendment to our Articles of Incorporation, which is our corporate charter, amending the terms of our Articles Supplementary for the Series C Convertible Preferred Stock by removing the provisions prohibiting Explorer from voting in excess of 49.9% of our common stock, by changing the number and manner in which holders of our Series C and Series D preferred stock can appoint directors if we fail to pay dividends for a specified period of time, by providing that the subscription price in the rights offering will not result in an adjustment to the conversion price of our Series C preferred stock and by making certain other technical changes to reflect the possible issuance of the Series D preferred stock.

3. The amendments to our Articles of Incorporation and our Bylaws to increase the size of the Board of Directors from nine to eleven members, and to provide that any future increase in the number of directors can be effected by an amendment to our Bylaws approved by our Board or our stockholders.

In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting and at any adjournment thereof.

(Continued, and to be marked, dated and signed, on the other side)

SEE REVERSE SIDE

-- FOLD AND DETACH HERE --

[X] (Please mark your votes as in this example.

The Directors recommend a vote "**FOR**" Proposals 1, 2 and 3.

	FOR	**AGAINST**	**ABSTAIN**
1. The issuance to Explorer Holdings, L.P. of shares of our common stock either in connection with Explorer's commitment to invest $23.56 million plus an amount equal to the aggregate subscription price of any shares of common stock not purchased in the rights offering by other stockholders or upon the conversion of shares of Series D preferred stock issued to Explorer in lieu of common stock if we close Explorer's investment prior to receiving the stockholder approval sought pursuant to the proxy statement to issue common stock to Explorer, and any change of control that may result from such issuance.	[ ]	[ ]	[ ]

	FOR	AGAINST	ABSTAIN
2. An amendment to our Articles of Incorporation, which is our corporate charter, amending the terms of our Articles Supplementary for the Series C Convertible Preferred Stock by removing the provisions prohibiting Explorer from voting in excess of 49.9% of our common stock, by changing the number and manner in which holders of our Series C and Series D preferred stock can appoint directors if we fail to pay dividends for a specified period of time, by providing that the subscription price in the rights offering will not result in an adjustment to the conversion price of our Series C preferred stock and by making certain other technical changes to reflect the possible issuance of the Series D preferred stock.	[ ]	[ ]	[ ]
3. The amendments to our Articles of Incorporation and our Bylaws to increase the size of the Board of Directors from nine to eleven members, and to provide that any future increase in the number of directors can be effected by an amendment to our Bylaws approved by our Board or our stockholders.	[ ]	[ ]	[ ]

NOTE: Please sign exactly as your name appears on this Proxy. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. If a corporation, please sign in full corporate name by President or other authorized officer. If a partnership, please sign in partnership name by authorized person.

Please check the box if you plan to attend the Special Meeting in person. [ ]

Completing this proxy does NOT exercise your subscription rights in the rights offering. To exercise your subscription rights, you must complete and return the [COLOR] Subscription Agreement in accordance with the instructions included therein and in the accompanying rights offering prospectus.

SIGNATURE(S) DATE

NOTE: Please sign exactly as your name appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, trustee or guardian, please give full title as such. This proxy will not be used if you attend the meeting in person and so request.

Appendix A

INVESTMENT AGREEMENT

INVESTMENT AGREEMENT (this "*Agreement*"), dated as of October 29, 2001, by and among Omega Healthcare Investors, Inc., a Maryland corporation (the "*Company*"), and Explorer Holdings, L.P., a Delaware limited partnership ("*Purchaser*").

I. *SHARE PURCHASE*

1.1 *Share Purchase.* (a) The Board of Directors of the Company has authorized the issuance and sale to Purchaser hereunder of that number of newly issued shares (the "*Shares*") of (i) Series D Preferred Stock of the Company, par value $1.00 per share (the "*Series D Preferred Stock*", having the designations, voting powers, preferences and relative, participating, optional and other special rights, qualifications, limitations and restrictions thereof, set forth in the Articles Supplementary attached hereto as *Exhibit A* (the "*Series D Articles Supplementary*"), or (ii) if the Company Stockholder Approval shall have been obtained on or prior to the Closing Date, Common Stock, in each case equal to the Share Amount. The "*Share Amount*" shall mean (i) in the case of Series D Preferred Stock, that number of shares of Series D Preferred Stock that would upon conversion on the date of issuance of the Series D Preferred result in the issuance of a number of shares of Common Stock equal to the quotient of (A) the difference between $50 million and the gross proceeds received by the Company from the sale of Common Stock in the Rights Offering (such difference, the "*Unsubscribed Purchase Amount*") divided by (B) the Rights Offering Exercise Price (as defined in *Exhibit G*) and (ii) in the case of Common Stock, that number of shares of Common Stock equal to the quotient of (A) the Unsubscribed Purchase Amount divided by (B) the Rights Offering Exercise Price.

(b) At the Closing, the Company will issue and sell to Purchaser, and Purchaser will purchase from the Company, the Shares for an aggregate purchase price equal to the Unsubscribed Purchase Amount.

1.2 *Unsubscribed Purchase Amount.* The Unsubscribed Purchase Amount will be payable on the Closing Date in cash by bank wire transfer of immediately available funds to an account of the Company designated by the Company by written notice to Purchaser at least two Business Days prior to the Closing.

1.3 *Closing.* Subject to the satisfaction or waiver by Purchaser of the conditions set forth in Article V, the closing (the "*Closing*") of the purchase and sale of the Shares will take place at the offices of Jones, Day, Reavis & Pogue, 599 Lexington Avenue, New York, New York at 10:00 a.m. local time within the later of (i) ten Business Days after the expiration date of the Rights Offering (the "*Closing Date*") and (ii) the date of closing of the Rights Offering if it occurs.

1.4 *Closing Deliveries.* (a) At or prior to the Closing, Purchaser will deliver to the Company:

(i) the Unsubscribed Purchase Amount, in accordance with Section 1.2;

(ii) an Amended and Restated Stockholders Agreement in the form attached hereto as *Exhibit B* (the "*Stockholders Agreement*"), duly executed by Purchaser;

(iii) an Amended and Restated Registration Rights Agreement in the form attached hereto as *Exhibit C* (the "*Registration Rights Agreement*"), duly executed by Purchaser; and

(iv) a letter relating to the Advisory Agreement between the Company and The Hampstead Group, L.L.C. (the "*Advisory Agreement*"), in the form attached hereto as *Exhibit D* (the "*Advisory Letter*"), duly executed by The Hampstead Group, L.L.C.

(b) At or prior to the Closing, the Company will deliver to Purchaser:

(i) such number of validly issued stock certificates evidencing the Shares, registered in the name of Purchaser or its Affiliates, as Purchaser requests at least three Business Days prior to the Closing;

(ii) the Stockholders Agreement duly executed by the Company;

(iii) the Registration Rights Agreement duly executed by the Company;

(iv) the Advisory Letter, duly executed by the Company;

(v) the legal opinion of Powell, Goldstein, Frazer & Murphy LLP, counsel to the Company, addressed to Purchaser and dated as of the Closing Date, generally as to the matters set forth in Sections 2.1 (as to the Company only), 2.2, 2.3(a), 2.4 and 2.7(a)(i) and (ii);

(vi) the Bank Agreements; and

(vii) the amendment to the Company Rights Agreement, in the form attached hereto as *Exhibit E* (the "*Rights Amendment*"), duly executed by the Company and First Chicago Trust Company.

(c) At or prior to the Closing, the Company and Purchaser will deliver to each other such other supporting documents and certificates as the other party may reasonably request.

(d) At or prior to the Closing, if Series D Preferred Stock shall be issued on the Closing Date, the Series D Articles Supplementary shall have been filed and accepted for record by the appropriate Maryland governmental authority, and shall have become effective in accordance with the laws of the State of Maryland.

1.5 *Use of Proceeds.* The Company shall use the proceeds from the issuance and sale of the Shares and the Common Stock issued in the Rights Offering to pay indebtedness of the Company and for general working capital purposes.

II. *REPRESENTATIONS AND WARRANTIES OF THE COMPANY*

The Company hereby represents and warrants to Purchaser, except as set forth in the letter, dated the date hereof, from the Company to Purchaser specifically referencing this Agreement and delivered prior to or simultaneously with the execution of this Agreement and initialed by the parties hereto (the "*Company Disclosure Letter*"), as follows:

2.1 *Existence; Good Standing; Corporate Authority.* The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Maryland. The Company is duly licensed or qualified to do business as a foreign corporation and is in good standing under the laws of each state in which the character of the properties owned or leased by it or in which the transaction of its business makes such qualification necessary, except where the failure to be so qualified or to be in good standing would not have a Company Material Adverse Effect. The Company has all requisite corporate power and authority to own, operate and lease its properties and carry on its business as now conducted. The copies of the Company's Articles of Restatement, as amended (the "*Charter*") and bylaws delivered to Purchaser on the Closing Date are true, correct and complete. As used in this Agreement, the term "*Company Material Adverse Effect*" means any change, effect, event or condition that has had or could reasonably be expected to (i) have a material adverse effect on the business, results of operations or financial condition of the Company and its Subsidiaries, taken as a whole, or (ii) prevent or materially delay the Company's ability to consummate the transactions contemplated hereby; *provided, however*, that without waiving any representation, warranty or covenant in no event will any of the following constitute a Company Material Adverse Effect: (a) a change in the trading prices of any of the Company's securities, in and of itself; (b) effects, changes, events,

circumstances or conditions generally affecting the long-term care or real estate finance industries or arising from changes in general business or economic conditions, *provided* that the effect thereof is not materially disproportionate on the Company and its Subsidiaries than the effect on similarly situated companies; (c) effects, changes, events, circumstances or conditions directly attributable to out-of-pocket fees and expenses (including without limitation legal, accounting, investigatory, investment banking and other fees and expenses) incurred in connection with the transactions contemplated by the Transaction Documents; (d) any effects, changes, events, circumstances or conditions resulting from the announcement or pendency of any of the transactions provided for in the Transaction Documents; (e) any effects, changes, events, circumstances or conditions resulting from compliance by Purchaser or the Company with the terms of, or the taking of any actions specifically required to be taken in, the Transaction Documents; (f) the effect of the financial condition of any operator of any of the Company Properties described in Section 2.1 of the Company Disclosure Letter; (g) the effect of any operator of any of the Company Properties in bankruptcy proceedings as of the date hereof rejecting leases to Company Properties or Material Contacts; (h) the effect of any matters specifically disclosed in the Company Disclosure Letter; and (i) the effect of the closure of any of the securities exchanges on which the Company's securities are then traded for a period of not more than four consecutive trading days. As used in this Agreement, the term "*Subsidiary*" (i) when used with respect to any Person, means any corporation or other Person, whether incorporated or unincorporated, of which such Person directly or indirectly owns or controls more than 50% of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions and (ii) when used with respect to the Company, shall also include each of the following entities: (1) Bayside Street II, Inc., a Delaware corporation, (2) Bayside Alabama Healthcare Second, Inc., an Alabama corporation, (3) Bayside Arizona Healthcare Second, Inc., an Arizona corporation, and (4) Bayside Colorado Healthcare Second, Inc., a Colorado corporation.

2.2 *Authorization, Validity and Effect of Agreement.* The Company has the requisite corporate power and authority to execute and deliver this Agreement and all agreements and documents contemplated hereby to be executed and delivered by it. This Agreement and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all requisite corporate action. This Agreement, the Stockholders Agreement, the Registration Rights Agreement, the Bank Amendments, the Advisory Letter, the Series D Articles Supplementary and the Rights Amendment (collectively, the "*Transaction Documents*") have been (or, in the case of agreements to be delivered at the Closing, will be at the Closing) duly and validly executed and delivered by the Company and constitute (or, in the case of agreements to be delivered at the Closing, will constitute at the Closing) the valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, except that (i) such enforceability may be subject to applicable bankruptcy, insolvency or other similar laws now or hereinafter in effect affecting creditors' rights generally, (ii) the availability of the remedy of specific performance or injunctive or other forms of equitable relief may be subject to equitable defenses and would be subject to the discretion of the court before which any proceeding therefor may be brought, and (iii) rights to indemnification may be limited by public policy considerations.

2.3 *Capitalization; Rights Agreement.* (a) The authorized capital stock of the Company consists of 100,000,000 shares of the Company's common stock, par value $0.10 per share (the "*Common Stock*"), 2,300,000 shares of 9.25% Series A Preferred Stock, par value $1.00 per share (the "*Series A Preferred Stock*"), 2,000,000 shares of 8.625% Series B Preferred Stock, par value $1.00 per share (the "*Series B Preferred Stock*"), 2,000,000 shares of Series C Convertible Preferred Stock, par value $1.00 per share (the "*Series C Preferred Stock*"), and 100,000 shares of Series A Junior Participating Preferred Stock, par value $1.00 per share. As of the close of business on October 26, 2001 (the "*Measurement Date*"), (i) 20,076,024 shares of Common Stock were issued and outstanding, each of which was duly authorized, validly issued, fully paid and nonassessable and issued free of any preemptive rights, (ii) 2,300,000 shares of Series A Preferred Stock were issued and outstanding, each of which was duly

authorized, validly issued, fully paid and nonassessable and issued free of any preemptive rights, (iii) 2,000,000 shares of Series B Preferred Stock were issued and outstanding, each of which was duly authorized, validly issued, fully paid and nonassessable and issued free of any preemptive rights, and (iv) 1,048,420 shares of Series C Preferred Stock were issued and outstanding, each of which was duly authorized, validly issued, fully paid and nonassessable and issued free of any preemptive rights. Section 2.3 of the Company Disclosure Schedule sets forth (i) the number of shares of Common Stock reserved for issuance under the stock option plans listed in Section 2.3 of the Company Disclosure Letter (the "*Stock Option Plans*"), (ii) the aggregate number of shares of Common Stock underlying outstanding options under the Stock Option Plans as more particularly described in Section 2.3 of the Company Disclosure Letter (including the holders thereof, the expiration date, the exercise prices thereof and the dates of grant), and (iii) the aggregate number of Deferred Compensation Units issued and outstanding pursuant to the Company's 1993 Deferred Compensation Plan as of the close of business on October 26, 2001. Since the Measurement Date, no additional shares of capital stock of the Company have been issued and no other options, warrants or other rights to acquire shares of the Company's capital stock (collectively, the "*Rights To Acquire*") have been granted. Except as described in the second preceding sentence, the Company has no outstanding bonds, debentures, notes or other securities or obligations the holders of which have the right to vote or which are or were convertible into or exercisable for, voting securities, capital stock or other equity ownership interests in the Company. Except as set forth in Section 2.3 of the Company Disclosure Letter, there are not at the date of this Agreement any existing options, warrants, calls, subscriptions, convertible securities or other Rights To Acquire which obligate the Company or any of its Subsidiaries to issue, exchange, transfer or sell any shares of capital stock of the Company or any of its Subsidiaries other than shares of Common Stock issuable under the Stock Option Plans or awards granted pursuant thereto. There are no outstanding contractual or legal obligations of the Company or any of its Subsidiaries (x) to repurchase, redeem or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries, or (y) to vote or to dispose of any shares of the capital stock of any of its Subsidiaries. Except as contemplated by this Agreement or the transactions contemplated hereby, none of the Company or any of its Subsidiaries has any obligation to issue, transfer or sell any shares of the capital stock or other securities of the Company or any of its Subsidiaries.

(b) The Company has taken all necessary action so that neither the execution, delivery and performance of the Transaction Documents nor the consummation of the transactions contemplated hereby and thereby shall (i) cause Purchaser or any of its Affiliates to become an "Acquiring Person" or (ii) result in the occurrence of a "Triggering Event" or "Distribution Date" (as such terms are defined in the Company Rights Agreement, dated as of May 12, 1999, as amended on May 11, 2000 (the "*Company Rights Agreement*"), between the Company and First Chicago Trust Company, as rights agent). The board of directors of the Company (the "*Company Board*") has approved, and the Company has entered into, the Rights Amendment. Pursuant to the Rights Amendment, among other things, neither the execution, delivery and performance of the Transaction Documents nor the consummation of the transactions contemplated hereby or thereby will (x) result in the distribution of separate certificates representing Rights (as defined in the Company Rights Agreement), (y) cause the Rights to become exercisable, or (z) result in