

OMEGA HEALTHCARE INVESTORS INC  
Form 10-Q  
August 05, 2013

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

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FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-11316

OMEGA HEALTHCARE  
INVESTORS, INC.

(Exact name of Registrant as specified in its charter)

Maryland

38-3041398

(State of incorporation)

(IRS Employer  
Identification No.)

200 International Circle, Suite 3500, Hunt Valley, MD 21030

(Address of principal executive offices)

(410) 427-1700

(Telephone number, including area code)

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

Yes

No

**Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).**

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Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated

filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

**Indicate the number of shares outstanding of each of the issuer’s classes of common stock as of July 29, 2013.**

Common Stock, \$.10 par value  
(Class)

117,155,264  
(Number of shares)

OMEGA HEALTHCARE INVESTORS, INC.  
FORM 10-Q  
June 30, 2013

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## PART I – FINANCIAL INFORMATION

## Item 1 - Financial Statements

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

|  | June 30,<br>2013<br>(Unaudited) | December<br>31,<br>2012 |
|--|---------------------------------|-------------------------|
| <b>ASSETS</b>  |                                 |                         |
| Real estate properties   |                                 |                         |
| Land and buildings   | \$3,051,363                     | \$3,038,553             |
| Less accumulated depreciation  | (643,514 )                      | (580,373 )              |
| Real estate properties – net   | 2,407,849                       | 2,458,180               |
| Mortgage notes receivable – net  | 241,254                         | 238,621                 |
|  | 2,649,103                       | 2,696,801               |
| Other investments – net  | 74,646                          | 47,339                  |
|  | 2,723,749                       | 2,744,140               |
| Assets held for sale – net   | 1,020                           | 1,020                   |
| Total investments  | 2,724,769                       | 2,745,160               |
| Cash and cash equivalents  | 7,039                           | 1,711                   |
| Restricted cash  | 40,127                          | 36,660                  |
| Accounts receivable – net  | 138,059                         | 125,180                 |
| Other assets   | 69,802                          | 73,294                  |
| Total assets   | \$2,979,796                     | \$2,982,005             |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |                                 |                         |
| Revolving line of credit   | \$5,000                         | \$158,000               |
| Term loan  | 200,000                         | 100,000                 |
| Secured borrowings   | 301,526                         | 366,538                 |
| Unsecured borrowings – net   | 1,200,139                       | 1,200,394               |
| Accrued expenses and other liabilities   | 135,835                         | 145,744                 |
| Total liabilities  | 1,842,500                       | 1,970,676               |
| Stockholders' equity:  |                                 |                         |
| Common stock \$.10 par value 200,000 shares authorized — 117,152 shares as of June 30, 2013 and 112,393 as of December 31, 2012 issued and outstanding | 11,715                          | 11,239                  |
| Common stock – additional paid-in capital  | 1,807,201                       | 1,664,855               |
| Cumulative net earnings  | 841,306                         | 754,128                 |
| Cumulative dividends paid  | (1,522,926)                     | (1,418,893)             |
| Total stockholders' equity   | 1,137,296                       | 1,011,329               |
| Total liabilities and stockholders' equity   | \$2,979,796                     | \$2,982,005             |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(in thousands, except per share amounts)

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2013                           | 2012      | 2013                         | 2012      |
| <b>Revenue</b>  |                                |           |                              |           |
| Rental income   | \$93,069                       | \$75,228  | \$186,178                    | \$151,203 |
| Mortgage interest income  | 7,435                          | 7,404     | 14,781                       | 14,740    |
| Other investment income – net   | 1,860                          | 1,165     | 3,166                        | 2,295     |
| Miscellaneous   | 151                            | 28        | 151                          | 102       |
| Total operating revenues  | 102,515                        | 83,825    | 204,276                      | 168,340   |
| <b>Expenses</b>   |                                |           |                              |           |
| Depreciation and amortization   | 32,225                         | 27,199    | 64,184                       | 54,346    |
| General and administrative  | 5,483                          | 4,954     | 10,680                       | 10,480    |
| Acquisition costs   | 9                              | 98        | 143                          | 203       |
| Impairment loss on real estate properties                             | -                              | -         | -                            | 272       |
| Provisions for uncollectible mortgages, notes and accounts receivable | 65                             | -         | 65                           | -         |
| Total operating expenses  | 37,782                         | 32,251    | 75,072                       | 65,301    |
| Income before other income and expense                                | 64,733                         | 51,574    | 129,204                      | 103,039   |
| <b>Other income (expense)</b>   |                                |           |                              |           |
| Interest income   | 14                             | 9         | 17                           | 16        |
| Interest expense  | (24,952 )                      | (24,009 ) | (50,624 )                    | (46,976 ) |
| Interest – amortization of deferred financing costs                   | (698 )                         | (668 )    | (1,380 )                     | (1,297 )  |
| Interest – refinancing gain (costs)                                   | 11,112                         | 1,698     | 11,112                       | (5,410 )  |
| Total other expense   | (14,524 )                      | (22,970 ) | (40,875 )                    | (53,667 ) |
| Income before gain on assets sold                                     | 50,209                         | 28,604    | 88,329                       | 49,372    |
| (Loss) gain on assets sold – net                                      | (1,151 )                       | 1,968     | (1,151 )                     | 7,284     |
| Net income available to common stockholders                           | \$49,058                       | \$30,572  | \$87,178                     | \$56,656  |
| <b>Income per common share available to common shareholders:</b>      |                                |           |                              |           |
| <b>Basic:</b>   |                                |           |                              |           |
| Net income  | \$0.42                         | \$0.29    | \$0.76                       | \$0.54    |
| <b>Diluted:</b>   |                                |           |                              |           |
| Net income  | \$0.42                         | \$0.29    | \$0.76                       | \$0.54    |
| Dividends declared and paid per common share                          | \$0.46                         | \$0.42    | \$0.91                       | \$0.83    |
| Weighted-average shares outstanding, basic                            | 116,199                        | 105,717   | 114,491                      | 104,736   |
| Weighted-average shares outstanding, diluted                          | 117,022                        | 106,033   | 115,273                      | 105,023   |

See notes to consolidated financial statements.

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

|  | Common<br>Stock Par<br>Value | Additional<br>Paid-in Capital | Cumulative<br>Net<br>Earnings | Cumulative<br>Dividends | Total       |
|--|------------------------------|-------------------------------|-------------------------------|-------------------------|-------------|
| Balance at December 31, 2012 (112,393<br>common shares)                                      | \$11,239                     | \$ 1,664,855                  | \$754,128                     | \$(1,418,893)           | \$1,011,329 |
| Issuance of common stock:  |                              |                               |                               |                         |             |
| Grant of restricted stock to company<br>directors (15 shares at \$30.33 per share)           | 2                            | (2 )                          | —                             | —                       | —           |
| Amortization of restricted stock   | —                            | 2,883                         | —                             | —                       | 2,883       |
| Dividend reinvestment plan (1,462 shares<br>at \$28.46 per share)                            | 146                          | 41,442                        | —                             | —                       | 41,588      |
| Grant of stock as payment of directors fees<br>(3 shares at an average of \$32.17 per share) | —                            | 87                            | —                             | —                       | 87          |
| Equity Shelf Program (3,279 shares at<br>\$30.69 per share, net of issuance costs)           | 328                          | 97,936                        | —                             | —                       | 98,264      |
| Net income   | —                            | —                             | 87,178                        | —                       | 87,178      |
| Common dividends (\$0.91 per share)  | —                            | —                             | —                             | (104,033 )              | (104,033 )  |
| Balance at June 30, 2013 (117,152<br>common shares)  | \$11,715                     | \$ 1,807,201                  | \$841,306                     | \$(1,522,926)           | \$1,137,296 |

See notes to consolidated financial statements.



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

|   | Six Months Ended<br>June 30, |            |
|---|------------------------------|------------|
|   | 2013                         | 2012       |
| Cash flows from operating activities  |                              |            |
| Net income  | \$87,178                     | \$56,656   |
| Adjustment to reconcile net income to cash provided by operating activities:  |                              |            |
| Depreciation and amortization   | 64,184                       | 54,346     |
| Impairment on real estate properties  | —                            | 272        |
| Provision for uncollectible mortgages, notes and accounts receivable          | 65                           | —          |
| Amortization of deferred financing and debt extinguishment (gain)/costs       | (9,732 )                     | 6,707      |
| Restricted stock amortization expense   | 2,924                        | 2,971      |
| Loss (gain) on assets sold – net  | 1,151                        | (7,284 )   |
| Amortization of acquired in-place leases - net                                | (2,503 )                     | (2,852 )   |
| Other   | —                            | (75 )      |
| Change in operating assets and liabilities – net of amounts assumed/acquired: |                              |            |
| Accounts receivable, net  | 147                          | 370        |
| Straight-line rent  | (13,702 )                    | (13,120 )  |
| Lease inducement  | 1,685                        | 1,684      |
| Effective yield receivable on mortgage notes                                  | (1,074 )                     | (1,113 )   |
| Other operating assets and liabilities  | (8,995 )                     | (4,138 )   |
| Net cash provided by operating activities                                     | 121,328                      | 94,424     |
| Cash flows from investing activities  |                              |            |
| Acquisition of real estate – net of liabilities assumed and escrows acquired  | —                            | (26,922 )  |
| Placement of mortgage loans   | (2,869 )                     | (4,955 )   |
| Proceeds from sale of real estate investments                                 | 2,288                        | 22,006     |
| Capital improvements to real estate investments                               | (17,307 )                    | (14,207 )  |
| Proceeds from other investments   | 2,942                        | 10,040     |
| Investments in other investments  | (30,248 )                    | (3,558 )   |
| Collection of mortgage principal  | 237                          | 243        |
| Net cash used in investing activities   | (44,957 )                    | (17,353 )  |
| Cash flows from financing activities  |                              |            |
| Proceeds from credit facility borrowings                                      | 201,000                      | 92,000     |
| Payments on credit facility borrowings  | (254,000 )                   | (362,500 ) |
| Receipts of other long-term borrowings  | 59,355                       | 400,000    |
| Payments of other long-term borrowings  | (112,208 )                   | (188,674 ) |
| Payments of financing related costs   | (1,032 )                     | (12,920 )  |
| Receipts from dividend reinvestment plan                                      | 41,588                       | 68,976     |
| Net proceeds from issuance of common stock                                    | 98,264                       | 15,574     |
| Dividends paid  | (104,010 )                   | (87,017 )  |
| Net cash used in financing activities   | (71,043 )                    | (74,561 )  |
| Increase in cash and cash equivalents   | 5,328                        | 2,510      |

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|   |          |          |
|---|----------|----------|
| Cash and cash equivalents at beginning of period            | 1,711    | 351      |
| Cash and cash equivalents at end of period                  | \$7,039  | \$2,861  |
| Interest paid during the period, net of amounts capitalized | \$51,397 | \$46,323 |

See notes to consolidated financial statements.

OMEGA HEALTHCARE INVESTORS, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
Unaudited  
June 30, 2013

NOTE 1 – BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Business Overview

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

Basis of Presentation

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

Our consolidated financial statements include the accounts of (i) Omega, (ii) all direct and indirect wholly owned subsidiaries of Omega, and (iii) TC Healthcare, a variable interest entity (“VIE”) that we consolidate as the primary beneficiary. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

Accounts Receivable

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

On a quarterly basis, we review our accounts receivable to determine their collectability. The determination of collectability of these assets requires significant judgment and is affected by several factors relating to the credit

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

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

|                                      | June 30,<br>2013 | December 31,<br>2012 |
|--------------------------------------|------------------|----------------------|
|                                      | (in thousands)   |                      |
| Contractual receivables              | \$ 3,757         | \$ 3,963             |
| Effective yield interest receivables | 4,650            | 3,576                |
| Straight-line receivables            | 112,610          | 98,973               |
| Lease inducements                    | 17,622           | 19,307               |
| Allowance                            | (580 )           | (639 )               |
| Accounts receivable – net            | \$ 138,059       | \$ 125,180           |

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

#### NOTE 2 – PROPERTIES AND INVESTMENTS

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

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

#### Leased Property

Our leased real estate properties, represented by 417 SNFs, 16 assisted living facilities (“ALFs”) and 11 specialty facilities at June 30, 2013, are leased under provisions of single or master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three methods depending on specific provisions of each lease as follows: (i) a specific annual percentage increase over the prior year’s rent, generally 2.5%; (ii) an increase based on the change in pre-determined formulas from year to year (i.e., such as increases in the Consumer Price Index (“CPI”)); or (iii) specific dollar increases over prior years. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

The facilities acquired in 2012 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operations reflect the impact of the transactions as if they occurred on January 1, 2012. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisitions have been made. The following pro forma information is not indicative of future operations.

|   | Pro Forma  |          |                              |           |
|---|--|----------|------------------------------|-----------|
|   | Three Months Ended<br>June 30,                     |          | Six Months Ended<br>June 30, |           |
|   | 2013   | 2012     | 2013                         | 2012      |
|   | (in thousands, except per share amount, unaudited) |          |                              |           |
| Revenues  | \$102,515  | \$97,331 | \$204,276                    | \$195,352 |
| Net income available to common stockholders               | \$49,058   | \$36,178 | \$87,178                     | \$67,868  |
| Earnings per share – diluted:                             |  |          |                              |           |
| Net income available to common stockholders – as reported | \$0.42   | \$0.29   | \$0.76                       | \$0.54    |
| Net income available to common stockholders – pro forma   | \$0.42   | \$0.34   | \$0.76                       | \$0.65    |

#### **Assets Sold or Assets Held for Sale**

##### *Assets Sold*

In the three-month period ended June 30, 2013, we sold one facility in Texas for total cash proceeds of \$2.2 million, resulting in a \$1.2 million loss. Also, in April 2013, we sold a parcel of undeveloped land to a third party for approximately \$0.1 million.

##### *Assets Held for Sale*

At June 30, 2013, we had two SNFs and one parcel of land classified as held-for-sale with an aggregate net book value of approximately \$1.0 million.

##### *Mortgage Notes Receivables*

Our mortgage notes receivables relate to 14 fixed-rate mortgages on 33 long-term care facilities. The mortgage notes are secured by first mortgage liens on the borrowers' underlying real estate and personal property. The mortgage notes receivable relate to facilities located in five (5) states, which are operated by five (5) independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding loans. As of June 30, 2013, none of our mortgages were in default or in foreclosure proceedings. Where appropriate, the mortgage properties are generally cross-collateralized with the master lease agreement with the same operator.

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



## NOTE 3 – OTHER INVESTMENTS

A summary of our other investments is as follows:

|   | June 30,<br>2013 | December 31,<br>2012 |
|---|------------------|----------------------|
|   | (in thousands)   |                      |
| Other Investment note due 2015                | \$ 2,418         | \$ 2,518             |
| Other Investment notes due 2021 - 2023        | 12,061           | 9,775                |
| Other Investment note due 2013                | 559              | 1,018                |
| Other Investment note due 2014                | 438              | 812                  |
| \$28.0 Million Other Investment note due 2017 | 25,250           | 26,500               |
| \$6.0 Million Other Investment note due 2013  | 5,439            | 3,450                |
| Other Investment note due 2013                | -                | 261                  |
| \$1.3 Million Other Investment note due 2017  | 965              | 425                  |
| \$25.0 Million Other Investment note due 2017 | 24,936           | -                    |
| Notes receivable, gross(1)                    | 72,066           | 44,759               |
| Allowance for loss on notes receivable        | (1,977 )         | (1,977 )             |
| Notes receivable, net                         | 70,089           | 42,782               |
| Marketable securities and other               | 4,557            | 4,557                |
| Total other investments                       | \$ 74,646        | \$ 47,339            |

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

## \$25 million Other Investment note due 2017

On May 2, 2013, we invested \$24.9 million in a mezzanine loan with a third party. The loan bears interest at 12% per annum and matures in December 2017.

## NOTE 4 – CONCENTRATION OF RISK

As of June 30, 2013, our portfolio of real estate investments consisted of 480 healthcare facilities, located in 34 states and operated by 47 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately \$3.3 billion at June 30, 2013, with approximately 99% of our real estate investments related to long-term care facilities. Our portfolio is made up of 417 SNFs, 16 ALFs, 11 specialty facilities, fixed rate mortgages on 33 SNFs and three SNFs that are closed/held-for-sale. At June 30, 2013, we also held miscellaneous investments of approximately \$74.6 million, consisting primarily of secured loans to third-party operators of our facilities.

At June 30, 2013, we had investments with two operators and/or managers that exceeded 10% of our total investment: (i) Genesis Healthcare (“Genesis”) (11%), and (ii) CommuniCare Health Services, Inc. (“CommuniCare”) (10%). The three states in which we had our highest concentration of investments were Florida (18%), Ohio (11%) and Indiana (10%) at June 30, 2013.

For the three-month period ended June 30, 2013, our revenues from operations totaled \$102.5 million, of which approximately \$13.8 million were from Genesis (13%) and \$11.1 million were from CommuniCare (11%). No other



operator generated more than 10% of our revenues from operations for the three-month period ended June 30, 2013.

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For the six-month period ended June 30, 2013, our revenues from operations totaled \$204.3 million, of which approximately \$27.6 million were from Genesis (14%) and \$22.2 million were from CommuniCare (11%). No other operator generated more than 10% of our revenues from operations for the six-month period ended June 30, 2013.

#### NOTE 5 – DIVIDENDS

##### Common dividends

On July 16, 2013, the Board of Directors declared a common stock dividend of \$0.47 per share, increasing the quarterly common dividend by \$0.01 per share over the prior quarter. The common dividends are to be paid August 15, 2013 to common stockholders of record on July 31, 2013.

On April 16, 2013, the Board of Directors declared a common stock dividend of \$0.46 per share, increasing the quarterly common dividend by \$0.01 per share over the prior quarter, which was paid May 15, 2013 to common stockholders of record on April 30, 2013.

On January 16, 2013, the Board of Directors declared a common stock dividend of \$0.45 per share, increasing the quarterly common dividend by \$0.01 per share over the prior quarter, which was paid February 15, 2013 to common stockholders of record on January 31, 2013.

#### NOTE 6 – TAXES

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

Subject to the limitation under the REIT asset test rules, we are permitted to own up to 100% of the stock of one or more taxable REIT subsidiaries (“TRSs”). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. As of June 30, 2013, the TRS had a net operating loss carry-forward of \$1.1 million. The loss carry-forward is fully reserved with a valuation allowance as of June 30, 2013.

#### NOTE 7 – STOCK-BASED COMPENSATION

On June 6, 2013, at our Company’s Annual Meeting, our stockholders approved the 2013 Stock Incentive Plan (the “2013 Plan”), which amended and restated the Company’s 2004 Stock Incentive Plan. The 2013 Plan is a comprehensive incentive compensation plan that allows for various types of equity-based compensation, including restricted stock units (including performance-based restricted stock units), stock awards, deferred restricted stock units, incentive stock options, non-qualified stock options, stock appreciation rights, dividend equivalent rights and certain cash-based awards (including performance-based cash awards). The 2013 Plan increased the number of shares reserved for issuance for compensation purposes by 3,000,000.

The following is a summary of our stock-based compensation expense for the three- and six- month periods ended June 30, 2013 and 2012, respectively:

|                                  | Three Months Ended |         | Six Months Ended |         |
|----------------------------------|--------------------|---------|------------------|---------|
|                                  | June 30,           |         | June 30,         |         |
|                                  | 2013               | 2012    | 2013             | 2012    |
|                                  | (in thousands)     |         |                  |         |
| Stock-based compensation expense | \$1,472            | \$1,486 | \$2,924          | \$2,971 |

#### Stock Awards

Effective January 2011, we granted 428,503 shares of restricted stock and 496,977 performance restricted stock units (“PRSUs”) to six employees. In each of January 2012 and 2013, we granted an additional 124,244 PRSUs to six employees.

#### Restricted Stock Awards

The restricted stock awards vest 100% on December 31, 2013, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. As of June 30, 2013, no shares of restricted stock have vested under these restricted stock awards.

#### Performance Restricted Stock Units

Effective January 1, 2011, we awarded three types of PRSUs to the six employees: (i) 124,244 annual total shareholder return (“TSR”) PRSUs for the year ended December 31, 2011 (“2011 Annual TSR PRSUs”); (ii) 279,550 multi-year absolute TSR PRSUs and (iii) 93,183 multi-year relative TSR PRSUs. On January 1, 2012 and 2013, we awarded to the six employees 124,244 annual TSR PRSUs for the year ended December 31, 2012 and 2013 (the “2012 Annual TSR PRSUs” and the “2013 Annual TSR PRSUs”).

#### Annual TSR PRSUs

The number of shares earned under the annual TSR PRSUs depends generally on the level of achievement of TSR for the year. The annual TSR PRSUs vest on December 31 of the year, subject to continued employment on the vesting date and subject to certain exceptions for certain qualifying terminations of employment or a change in control of the Company. The 2011 Annual TSR PRSUs were forfeited because the required TSR for 2011 was not achieved. The performance requirement for the 2012 Annual TSR PRSUs was achieved and the 124,244 shares vested and were distributed to the employees at December 31, 2012. As of June 30, 2013, the 2013 annual TSR PRSUs have not been earned.

#### Multi-year Absolute TSR PRSUs

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



## Multi-year Relative TSR PRSUs

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

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

As of June 30, 2013, none of the PRSUs are vested or earned.

The following table summarizes our total unrecognized compensation cost as of June 30, 2013 associated with outstanding restricted stock and PRSU awards to employees:

|                               | Shares/<br>Units | Grant Date<br>Average Fair<br>Value Per<br>Unit/ Share | Total<br>Compensation<br>Cost<br>(in millions) | Weighted<br>Average<br>Period of<br>Expense<br>Recognition<br>(in months) | Unrecognized<br>Compensation<br>Cost<br>(in millions) |
|-------------------------------|------------------|--|--|---|---|
| Restricted stock              | 428,503          | \$ 22.44   | \$ 9.6   | 36  | \$ 1.6  |
| 2013 Annual PRSUs             | 124,244          | \$ 8.92  | 1.1  | 12  | 0.6   |
| Multi-year absolute TSR PRSUs | 279,550          | \$ 11.06   | 3.1  | 44  | 0.9   |
| Multi-year relative TSR PRSUs | 93,183           | \$ 12.26   | 1.1  | 44  | 0.3   |
| Total                         | 925,480          | \$ 14.93   | \$ 14.9  |   | \$ 3.4  |

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

## Director Restricted Stock Grants

As of June 30, 2013, we had 43,457 shares of restricted stock outstanding to directors. The directors' restricted shares are scheduled to vest over the next three years. As of June 30, 2013, the unrecognized compensation cost associated with outstanding director restricted stock grants is approximately \$0.6 million.

## NOTE 8 – FINANCING ACTIVITIES AND BORROWING ARRANGEMENTS

## Secured and Unsecured Borrowings

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

|   | Maturity | Current<br>Rate |   | June 30,<br>2013 | December 31,<br>2012 |
|---|----------|-----------------|---|------------------|----------------------|
| (in thousands)                                      |          |                 |   |                  |                      |
| Secured borrowings:                                 |          |                 |   |                  |                      |
|   | 2036 -   |                 |   |                  |                      |
| HUD Berkadia mortgages assumed June 2010            | 2040     | -               |   | \$ —             | \$ 62,921            |
| HUD Capital Funding mortgages assumed June 2010 (1) | 2040 -   |                 |   |                  |                      |
|   | 2045     | 4.85            | % | 129,773          | 130,887              |
|   | 2036 -   |                 |   |                  |                      |
| HUD mortgages assumed October 2011 (1)              | 2040     | 4.87            | % | 31,571           | 31,991               |
| HUD mortgages assumed December 2011(1)              | 2044     | 3.06            | % | 59,166           | 58,884               |
|   | 2031 -   |                 |   |                  |                      |
| HUD mortgages assumed December 2012(1)              | 2045     | 5.50            | % | 81,016           | 81,855               |
| Total secured borrowings                            |          |                 |   | 301,526          | 366,538              |
| Unsecured borrowings:                               |          |                 |   |                  |                      |
| Revolving line of credit                            | 2016     | 1.69            | % | \$ 5,000         | \$ 158,000           |
| Term Loan   | 2017     | 1.94            | % | 200,000          | 100,000              |
|   |          |                 |   | 205,000          | 258,000              |
| 2020 Notes  | 2020     | 7.50            | % | 200,000          | 200,000              |
| 2022 Notes  | 2022     | 6.75            | % | 575,000          | 575,000              |
| 2024 Notes  | 2024     | 5.875           | % | 400,000          | 400,000              |
| Subordinated debt                                   | 2021     | 9.00            | % | 20,969           | 21,049               |
|   |          |                 |   | 1,195,969        | 1,196,049            |
| Premium - net                                       |          |                 |   | 4,170            | 4,345                |
| Total unsecured borrowings                          |          |                 |   | 1,405,139        | 1,458,394            |
| Totals – net  |          |                 |   | \$ 1,706,665     | \$ 1,824,932         |

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

Certain of our other secured and unsecured borrowings are subject to customary affirmative and negative covenants, including financial covenants. As of December 31, 2012 and June 30, 2013, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

## Bank Credit Agreements

We have a \$700 million unsecured credit facility that we entered into on December 6, 2012, comprised of a \$500 million unsecured revolving credit facility (the “2012 Revolving Credit Facility”) and a \$200 million unsecured, term loan (the “2012 Term Loan Facility” and, together with the 2012 Revolving Credit Facility, collectively, the “2012 Credit Facilities”).

The 2012 Credit Facilities include an “accordion feature” that permits us to expand our borrowing capacity thereunder by a combined \$300 million, to a total of \$1 billion.

At June 30, 2013, we had \$5.0 million outstanding under the 2012 Revolving Credit Facility, and no letters of credit outstanding, leaving availability of \$495 million. The 2012 Revolving Credit Facility matures on December 6, 2016, with an option by us to extend the maturity one additional year. The 2012 Revolving Credit Facility is priced at LIBOR plus an applicable percentage (beginning at 150 basis points, with a range of 100 to 190 basis points) based on our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings, plus a facility fee based on the same ratings (initially 30 basis points, with a range of 15 to 45 basis points).

At June 30, 2013, the full \$200 million was outstanding under the 2012 Term Loan Facility. The 2012 Term Loan Facility is also priced at LIBOR plus an applicable percentage (beginning at 175 basis points, with a range of 110 to 230 basis points) based our ratings from Standard & Poor's, Moody's and/or Fitch Ratings. The 2012 Term Loan Facility matures on December 6, 2017.

#### HUD Loans Payoff

On May 31, 2013, we paid approximately \$51.0 million to retire 11 mortgages guaranteed by U.S. Department of Housing and Urban Development ("HUD") that were assumed in connection with our acquisition of certain subsidiaries of CapitalSource in June 2010. The retirement of the 11 HUD mortgages resulted in a net gain of approximately \$11.1 million. The net gain included the write-off of approximately \$11.3 million related to the premium for recording the debt at fair value at the time of the transaction offset by a prepayment fee of approximately \$0.2 million.

#### HUD Mortgage Debt Refinancing

On March 26, 2013, we refinanced existing HUD mortgage debt on 12 properties in Arkansas for approximately \$59.4 million including closing costs that were added to the outstanding balance. The annual interest rate for the refinanced debt decreased from 5.55% to approximately 3.06%, with the term of the refinanced mortgages remaining unchanged. For the three months ended March 31, 2013, we paid off a total of \$58.9 million, including routine principal payments on the 12 Arkansas mortgage debts.

#### \$250 Million Equity Shelf Program

On March 18, 2013, we entered into separate Equity Distribution Agreements (collectively, the "2013 Agreements") to sell shares of our common stock having an aggregate gross sales price of up to \$250 million (the "2013 ESP") with several financial institutions, each as a sales agent and/or principal (collectively, the "Managers"). Under the terms of the 2013 Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to \$250 million. Sales of the shares will be made by means of ordinary brokers' transactions on the New York Stock Exchange at market prices, or as otherwise agreed with the applicable Manager. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable 2013 Agreement. We are not obligated to sell and the Managers are not obligated to buy or sell any shares under the 2013 Agreements. No assurance can be given that we will sell any shares under the 2013 Agreements, or, if we do, as to the price or amount of shares that we sell, or the dates when such sales will take place.

For the three months ended June 30, 2013, we sold 0.8 million shares under the 2013 ESP, at an average price of \$35.74 per share, generating gross proceeds of approximately \$30.0 million, before \$0.6 million of commissions. For the six months ended June 30, 2013, we sold approximately 2.3 million shares under the 2013 ESP, at an average price of \$31.72 per share, generating gross proceeds of approximately \$72.8 million, before \$1.5 million of commissions.

#### Termination of \$245 Million Equity Shelf Program

On March 18, 2013, we terminated our \$245 million Equity Shelf Program (the "2012 ESP") that we entered into with several financial institutions on June 19, 2012. For the three months ended March 31, 2013, we issued approximately 1.0 million shares under the 2012 ESP at an average price of \$28.29 per share, generating gross proceeds of approximately \$27.8 million, before \$0.6 million of commissions.



Since inception of the 2012 ESP, we have sold a total of 3.6 million shares of common stock generating total gross proceeds of \$91.4 million under the program, before \$1.9 million of commissions. As a result of the termination of the 2012 ESP, no additional shares were issued under the 2012 ESP.

## Dividend Reinvestment and Common Stock Purchase Plan

For the three-month period ended June 30, 2013, approximately 0.1 million shares of our common stock at an average price of \$35.89 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$5.3 million. For the six-month period ended June 30, 2013, approximately 1.5 million shares of our common stock at an average price of \$28.46 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$41.6 million.

## NOTE 9 – FINANCIAL INSTRUMENTS

At June 30, 2013 and December 31, 2012, the carrying amounts and fair values of our financial instruments were as follows:

|                                 | June 30, 2013      |               | December 31, 2012  |               |
|---------------------------------|--------------------|---------------|--------------------|---------------|
|                                 | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
|                                 | (in thousands)     |               |                    |               |
| Assets:                         |                    |               |                    |               |
| Cash and cash equivalents       | \$ 7,039           | \$ 7,039      | \$ 1,711           | \$ 1,711      |
| Restricted cash                 | 40,127             | 40,127        | 36,660             | 36,660        |
| Mortgage notes receivable – net | 241,254            | 239,346       | 238,621            | 235,705       |
| Other investments – net         | 74,646             | 71,596        | 47,339             | 44,077        |
| Totals                          | \$ 363,066         | \$ 358,108    | \$ 324,331         | \$ 318,153    |
| Liabilities:                    |                    |               |                    |               |
| Revolving line of credit        | \$ 5,000           | \$ 5,000      | \$ 158,000         | \$ 158,000    |
| Term loan                       | 200,000            | 200,000       | 100,000            | 100,000       |
| 7.50% Notes due 2020 – net      | 197,718            | 228,267       | 197,546            | 252,363       |
| 6.75% Notes due 2022 – net      | 581,452            | 648,030       | 581,799            | 724,240       |
| 5.875% Notes due 2024 – net     | 400,000            | 424,311       | 400,000            | 441,761       |
| HUD debt                        | 301,526            | 304,041       | 366,538            | 433,803       |
| Subordinated debt               | 20,969             | 25,118        | 21,049             | 27,896        |
| Totals                          | \$ 1,706,665       | \$ 1,834,767  | \$ 1,824,932       | \$ 2,138,063  |

Fair value estimates are subjective in nature and are dependent on a number of important assumptions, including estimates of future cash flows, risks, discount rates and relevant comparable market information associated with each financial instrument (see Note 2 – Summary of Significant Accounting Policies in our 2012 Annual Report on Form 10-K). The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts.

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

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

**Mortgage notes receivable:** The fair values of the mortgage notes receivables are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings (Level 3).

Other investments: Other investments are primarily comprised of: (i) notes receivable and (ii) an investment in a redeemable non-convertible preferred security of an unconsolidated business accounted for using the cost method of accounting. The fair values of notes receivable are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings (Level 3). The fair value of the investment in the unconsolidated business is estimated using quoted market value and considers the terms of the underlying arrangement (Level 3).

Revolving line of credit: The fair value of our borrowings under variable rate agreements are estimated using an expected present value technique based on expected cash flows discounted using the current market rates (Level 2).

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

#### NOTE 10 – LITIGATION

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

#### NOTE 11 – EARNINGS PER SHARE

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

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

|   | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |          |
|---|--------------------------------|----------|------------------------------|----------|
|   | 2013                           | 2012     | 2013                         | 2012     |
| (in thousands, except per share amounts)                                      |                                |          |                              |          |
| Numerator:  |                                |          |                              |          |
| Net income  | \$49,058                       | \$30,572 | \$87,178                     | \$56,656 |
| Numerator for net income available to common per share -<br>basic and diluted | \$49,058                       | \$30,572 | \$87,178                     | \$56,656 |
| Denominator:  |                                |          |                              |          |
| Denominator for basic earnings per share                                      | 116,199                        | 105,717  | 114,491                      | 104,736  |
| Effect of dilutive securities:  |                                |          |                              |          |
| Restricted stock  | 786                            | 299      | 750                          | 270      |
| Deferred stock  | 37                             | 17       | 32                           | 17       |
| Denominator for diluted earnings per share                                    | 117,022                        | 106,033  | 115,273                      | 105,023  |
| Earnings per share – basic:   |                                |          |                              |          |
| Net income – basic  | \$0.42                         | \$0.29   | \$0.76                       | \$0.54   |
| Earnings per share – diluted:   |                                |          |                              |          |
| Net income – diluted  | \$0.42                         | \$0.29   | \$0.76                       | \$0.54   |

#### NOTE 12 – CONSOLIDATING FINANCIAL STATEMENTS

As of June 30, 2013, we had outstanding (i) \$200 million 7.5% Senior Notes due 2020, (ii) \$575 million 6.75% Senior Notes due 2022 and (iii) \$400 million 5.875% Senior Notes due 2024, which we collectively refer to as the Senior Notes. The Senior Notes are fully and unconditionally guaranteed, jointly and severally, by each of our subsidiaries that guarantee other indebtedness of Omega or any of the subsidiary guarantors. Any subsidiary that we properly designate as an “unrestricted subsidiary” under the indentures governing the Senior Notes will not provide guarantees of the Senior Notes.

As of and prior to March 31, 2010, the non-subsidiary guarantors were minor and insignificant. On June 29, 2010, we designated as “unrestricted subsidiaries” the 39 subsidiaries we acquired from CapitalSource subject to HUD indebtedness. During the fourth quarter of 2011, we designated as “unrestricted subsidiaries” 20 subsidiaries we acquired subject to HUD indebtedness, of which five (5) subsidiaries were removed in July 2012 due to the retirement of the HUD related mortgages. During the fourth quarter of 2012, we designated as “unrestricted subsidiaries” eight (8) subsidiaries we acquired subject to HUD indebtedness.

For the six months ended June 30, 2013 and 2012, the operating cash flow of the non-guarantor subsidiaries approximated net income of the non-guarantor subsidiaries, adjusted for depreciation and amortization expense. On March 26, 2013, the non-guarantor subsidiaries refinanced existing HUD mortgage debt on 12 properties in Arkansas for approximately \$59.4 million. The refinanced amount included \$58.9 million related to retiring the old HUD debt and \$0.5 million of closing costs that were added to the new (refinanced) HUD debt. On May 31, 2013, we retired 11 HUD mortgages of \$62.3 million (\$51.0 million related to the outstanding principal of the 11 HUD mortgages and \$11.3 million related to the unamortized premium for marking the debt to market on the date the debt was assumed and \$0.2 million in prepayment fees). In addition, the non-guarantor subsidiaries also made \$2.5 million of routine

principal payments during the six months ended June 30, 2013. For the six-month period ended June 30, 2012, the non-guarantor subsidiaries have not engaged in investing or financing activities other than the principal payment of \$2.0 million for the HUD mortgages on the facilities owned by the non-guarantor subsidiaries. All of the subsidiary and non-subsidiary guarantors of our outstanding senior notes are 100% owned by Omega.

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

OMEGA HEALTHCARE INVESTORS, INC.  
CONSOLIDATING BALANCE SHEETS

Unaudited

(in thousands, except per share amounts)

|   | June 30, 2013                        |                               |                        |              |
|---|--------------------------------------|-------------------------------|------------------------|--------------|
|   | Issuer &<br>Subsidiary<br>Guarantors | Non-Guarantor<br>Subsidiaries | Elimination<br>Company | Consolidated |
| <b>ASSETS</b>                               |                                      |                               |                        |              |
| Real estate properties                      |                                      |                               |                        |              |
| Land and buildings                          | \$2,479,752                          | \$ 571,611                    | \$-                    | \$ 3,051,363 |
| Less accumulated<br>depreciation            | (585,589 )                           | (57,925 )                     | -                      | (643,514 )   |
| Real estate properties –<br>net             | 1,894,163                            | 513,686                       | -                      | 2,407,849    |
| Mortgage notes receivable –<br>net          | 241,254                              | -                             | -                      | 241,254      |
|   | 2,135,417                            | 513,686                       | -                      | 2,649,103    |
| Other investments –<br>net                  | 74,646                               | -                             | -                      | 74,646       |
|   | 2,210,063                            | 513,686                       | -                      | 2,723,749    |
| Assets held for sale –<br>net               | 1,020                                | -                             | -                      | 1,020        |
| Total investments                           | 2,211,083                            | 513,686                       | -                      | 2,724,769    |
| Cash and cash<br>equivalents                | 7,039                                | -                             | -                      | 7,039        |
| Restricted cash                             | 6,677                                | 33,450                        | -                      | 40,127       |
| Accounts receivable –<br>net                | 129,141                              | 8,918                         | -                      | 138,059      |
| Investment in<br>affiliates                 | 222,047                              | -                             | (222,047 )             | -            |
| Other assets                                | 35,234                               | 34,568                        | -                      | 69,802       |
| Total assets                                | \$2,611,221                          | \$ 590,622                    | \$(222,047 )           | \$ 2,979,796 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                      |                               |                        |              |
| Revolving line of<br>credit                 | \$5,000                              | \$ -                          | \$-                    | \$ 5,000     |
| Term loan                                   | 200,000                              | -                             | -                      | 200,000      |
| Secured borrowings                          | -                                    | 301,526                       | -                      | 301,526      |

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|  |             |            |            |              |
|--|-------------|------------|------------|--------------|
| Unsecured borrowings – net                 | 1,179,170   | 20,969     | -          | 1,200,139    |
| Accrued expenses and other liabilities     | 89,755      | 46,080     | -          | 135,835      |
| Intercompany payable                       | -           | 181,624    | (181,624 ) | -            |
| Total liabilities                          | 1,473,925   | 550,199    | (181,624 ) | 1,842,500    |
| Stockholders’ equity:                      |             |            |            |              |
| Common stock                               | 11,715      | -          | -          | 11,715       |
| Common stock – additional paid-in capital  | 1,807,201   | -          | -          | 1,807,201    |
| Cumulative net earnings                    | 841,306     | 40,423     | (40,423 )  | 841,306      |
| Cumulative dividends paid                  | (1,522,926) | -          | -          | (1,522,926)  |
| Total stockholders’ equity                 | 1,137,296   | 40,423     | (40,423 )  | 1,137,296    |
| Total liabilities and stockholders’ equity | \$2,611,221 | \$ 590,622 | (222,047 ) | \$ 2,979,796 |



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

December 31, 2012

|   | Issuer &<br>Subsidiary<br>Guarantors | Non –<br>Guarantor<br>Subsidiaries | Elimination<br>Company | Consolidated |
|---|--------------------------------------|------------------------------------|------------------------|--------------|
| <b>ASSETS</b>                               |                                      |                                    |                        |              |
| Real estate properties                      |                                      |                                    |                        |              |
| Land and buildings                          | \$2,466,866                          | \$ 571,687                         | \$—                    | \$ 3,038,553 |
| Less accumulated depreciation               | (535,223 )                           | (45,150 )                          | —                      | (580,373 )   |
| Real estate properties – net                | 1,931,643                            | 526,537                            | —                      | 2,458,180    |
| Mortgage notes receivable – net             | 238,621                              | —                                  | —                      | 238,621      |
|   | 2,170,264                            | 526,537                            | —                      | 2,696,801    |
| Other investments – net                     | 47,339                               | —                                  | —                      | 47,339       |
|   | 2,217,603                            | 526,537                            | —                      | 2,744,140    |
| Assets held for sale – net                  | 1,020                                | —                                  | —                      | 1,020        |
| Total investments                           | 2,218,623                            | 526,537                            | —                      | 2,745,160    |
| Cash and cash equivalents                   | 1,711                                | —                                  | —                      | 1,711        |
| Restricted cash                             | 7,078                                | 29,582                             | —                      | 36,660       |
| Accounts receivable – net                   | 118,473                              | 6,707                              | —                      | 125,180      |
| Investment in affiliates                    | 163,610                              | —                                  | (163,610 )             | —            |
| Other assets                                | 38,224                               | 35,070                             | —                      | 73,294       |
| Total assets                                | \$2,547,719                          | \$ 597,896                         | (163,610 )             | \$ 2,982,005 |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |                                      |                                    |                        |              |
| Revolving line of credit                    | \$158,000                            | \$ —                               | \$—                    | \$ 158,000   |
| Term loan                                   | 100,000                              | —                                  | —                      | 100,000      |
| Secured borrowings                          | —                                    | 366,538                            | —                      | 366,538      |
| Unsecured borrowings – net                  | 1,179,345                            | 21,049                             | —                      | 1,200,394    |
| Accrued expenses and other liabilities      | 99,045                               | 46,699                             | —                      | 145,744      |
| Intercompany payable                        | —                                    | 143,158                            | (143,158 )             | —            |
| Total liabilities                           | 1,536,390                            | 577,444                            | (143,158 )             | 1,970,676    |
| Stockholders' equity:                       |                                      |                                    |                        |              |
| Common stock                                | 11,239                               | —                                  | —                      | 11,239       |
| Common stock – additional paid-in-capital   | 1,664,855                            | —                                  | —                      | 1,664,855    |
| Cumulative net earnings                     | 754,128                              | 20,452                             | (20,452 )              | 754,128      |
| Cumulative dividends paid                   | (1,418,893)                          | —                                  | —                      | (1,418,893 ) |
| Total stockholders' equity                  | 1,011,329                            | 20,452                             | (20,452 )              | 1,011,329    |
| Total liabilities and stockholders' equity  | \$2,547,719                          | \$ 597,896                         | \$(163,610 )           | \$ 2,982,005 |

## OMEGA HEALTHCARE INVESTORS, INC.

## CONSOLIDATING STATEMENTS OF OPERATIONS

Unaudited

(in thousands, except per share amounts)

|  | Three Months Ended June 30, 2013    |                    |                       |             | Six Months Ended June 30, 2013 |                                     |                    |                       |             |              |
|--|-------------------------------------|--------------------|-----------------------|-------------|--------------------------------|-------------------------------------|--------------------|-----------------------|-------------|--------------|
|  | Issuer &<br>Subsidiary<br>Guarantor | Non –<br>Guarantor | Non –<br>Subsidiaries | Elimination | Consolidated                   | Issuer &<br>Subsidiary<br>Guarantor | Non –<br>Guarantor | Non –<br>Subsidiaries | Elimination | Consolidated |
|  |                                     |                    |                       |             |                                |                                     |                    |                       |             |              |
| Revenue  |                                     |                    |                       |             |                                |                                     |                    |                       |             |              |
| Rental income  | \$77,602                            | \$15,467           | \$-                   | \$93,069    | \$155,243                      | \$30,935                            | \$-                | \$186,178             |             |              |
| Mortgage interest income   | 7,435                               | -                  | -                     | 7,435       | 14,781                         | -                                   | -                  | 14,781                |             |              |
| Other investment income – net  | 1,860                               | -                  | -                     | 1,860       | 3,166                          | -                                   | -                  | 3,166                 |             |              |
| Miscellaneous  | 151                                 | -                  | -                     | 151         | 151                            | -                                   | -                  | 151                   |             |              |
| Total operating revenues   | 87,048                              | 15,467             | -                     | 102,515     | 173,341                        | 30,935                              | -                  | 204,276               |             |              |
| Expenses   |                                     |                    |                       |             |                                |                                     |                    |                       |             |              |
| Depreciation and amortization  | 25,834                              | 6,391              | -                     | 32,225      | 51,409                         | 12,775                              | -                  | 64,184                |             |              |
| General and administrative   | 5,400                               | 83                 | -                     | 5,483       | 10,482                         | 198                                 | -                  | 10,680                |             |              |
| Acquisition costs  | 9                                   | -                  | -                     | 9           | 143                            | -                                   | -                  | 143                   |             |              |
| Provision for uncollectible mortgages, notes and accounts receivable | 65                                  | -                  | -                     | 65          | 65                             | -                                   | -                  | 65                    |             |              |
| Total operating expenses   | 31,308                              | 6,474              | -                     | 37,782      | 62,099                         | 12,973                              | -                  | 75,072                |             |              |
| Income before other income and expense                               | 55,740                              | 8,993              | -                     | 64,733      | 111,242                        | 17,962                              | -                  | 129,204               |             |              |
| Other income (expense):  |                                     |                    |                       |             |                                |                                     |                    |                       |             |              |
| Interest income  | 6                                   | 8                  | -                     | 14          | 1                              | 16                                  | -                  | 17                    |             |              |
| Interest expense   | (20,736)                            | (4,216)            | -                     | (24,952)    | (41,510)                       | (9,114)                             | -                  | (50,624)              |             |              |
| Interest – amortization of deferred financing costs                  | (693)                               | (5)                | -                     | (698)       | (1,375)                        | (5)                                 | -                  | (1,380)               |             |              |
| Interest – refinancing gain (costs)                                  | -                                   | 11,112             | -                     | 11,112      | -                              | 11,112                              | -                  | 11,112                |             |              |
| Equity in earnings   | 15,892                              | -                  | (15,892)              | -           | 19,971                         | -                                   | (19,971)           | -                     |             |              |
| Total other expense  | (5,531)                             | 6,899              | (15,892)              | (14,524)    | (22,913)                       | 2,009                               | (19,971)           | (40,875)              |             |              |
| Income before gain on assets sold                                    | 50,209                              | 15,892             | (15,892)              | 50,209      | 88,329                         | 19,971                              | (19,971)           | 88,329                |             |              |
| Loss on assets sold – net  | (1,151)                             | -                  | -                     | (1,151)     | (1,151)                        | -                                   | -                  | (1,151)               |             |              |
| Net income available to common stockholders                          | \$49,058                            | \$15,892           | \$(15,892)            | \$49,058    | \$87,178                       | \$19,971                            | \$(19,971)         | \$87,178              |             |              |

OMEGA HEALTHCARE INVESTORS, INC.  
CONSOLIDATING STATEMENTS OF OPERATIONS

Unaudited

(in thousands, except per share amounts)

|   | Three Months Ended June 30, 2012    |                                    |                                 |              | Six Months Ended June 30, 2012      |                                    |                                 |              |
|---|-------------------------------------|------------------------------------|---------------------------------|--------------|-------------------------------------|------------------------------------|---------------------------------|--------------|
|   | Issuer &<br>Subsidiary<br>Guarantor | Non –<br>Guarantor<br>Subsidiaries | Non –<br>Elimination<br>Company | Consolidated | Issuer &<br>Subsidiary<br>Guarantor | Non –<br>Guarantor<br>Subsidiaries | Non –<br>Elimination<br>Company | Consolidated |
| Revenue   |                                     |                                    |                                 |              |                                     |                                    |                                 |              |
| Rental income                                       | \$63,216                            | \$12,012                           | \$-                             | \$75,228     | \$127,180                           | \$24,023                           | \$-                             | \$151,203    |
| Mortgage interest income                            | 7,404                               | -                                  | -                               | 7,404        | 14,740                              | -                                  | -                               | 14,740       |
| Other investment income – net                       | 1,165                               | -                                  | -                               | 1,165        | 2,295                               | -                                  | -                               | 2,295        |
| Miscellaneous                                       | 28                                  | -                                  | -                               | 28           | 102                                 | -                                  | -                               | 102          |
| Total operating revenues                            | 71,813                              | 12,012                             | -                               | 83,825       | 144,317                             | 24,023                             | -                               | 168,340      |
| Expenses  |                                     |                                    |                                 |              |                                     |                                    |                                 |              |
| Depreciation and amortization                       | 21,889                              | 5,310                              | -                               | 27,199       | 43,788                              | 10,558                             | -                               | 54,346       |
| General and administrative                          | 4,829                               | 125                                | -                               | 4,954        | 10,243                              | 237                                | -                               | 10,480       |
| Acquisition costs                                   | 98                                  | -                                  | -                               | 98           | 203                                 | -                                  | -                               | 203          |
| Impairment loss on real estate properties           | -                                   | -                                  | -                               | -            | 272                                 | -                                  | -                               | 272          |
| Total operating expenses                            | 26,816                              | 5,435                              | -                               | 32,251       | 54,506                              | 10,795                             | -                               | 65,301       |
| Income before other income and expense              | 44,997                              | 6,577                              | -                               | 51,574       | 89,811                              | 13,228                             | -                               | 103,039      |
| Other income (expense):                             |                                     |                                    |                                 |              |                                     |                                    |                                 |              |
| Interest income                                     | 2                                   | 7                                  | -                               | 9            | 2                                   | 14                                 | -                               | 16           |
| Interest expense                                    | (20,137)                            | (3,872)                            | -                               | (24,009)     | (39,244)                            | (7,732)                            | -                               | (46,976)     |
| Interest – amortization of deferred financing costs | (668)                               | -                                  | -                               | (668)        | (1,297)                             | -                                  | -                               | (1,297)      |
| Interest – refinancing gain (costs)                 | 1,698                               | -                                  | -                               | 1,698        | (5,410)                             | -                                  | -                               | (5,410)      |
| Equity in earnings                                  | 2,712                               | -                                  | (2,712)                         | -            | 5,510                               | -                                  | (5,510)                         | -            |
| Total other expense                                 | (16,393)                            | (3,865)                            | (2,712)                         | (22,970)     | (40,439)                            | (7,718)                            | (5,510)                         | (53,667)     |
| Income before gain on assets sold                   | 28,604                              | 2,712                              | (2,712)                         | 28,604       | 49,372                              | 5,510                              | (5,510)                         | 49,372       |
| Gain on assets sold – net                           | 1,968                               | -                                  | -                               | 1,968        | 7,284                               | -                                  | -                               | 7,284        |
| Net income available to common stockholders         | \$30,572                            | \$2,712                            | \$(2,712)                       | \$30,572     | \$56,656                            | \$5,510                            | \$(5,510)                       | \$56,656     |

Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations

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

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

- (i) those items discussed under “Risk Factors” in Item 1A to our annual report on Form 10-K for the year ended December 31, 2012, and in Part II, Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2013 and in Part II, Item 1A of this report;
- (ii) uncertainties relating to the business operations of the operators of our assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels;
- (iii) the ability of any operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages and impede our ability to collect unpaid rent or interest during the process of a bankruptcy proceeding and retain security deposits for the debtors’ obligations;
- (iv) our ability to sell closed or foreclosed assets on a timely basis and on terms that allow us to realize the carrying value of these assets;
  - (v) our ability to negotiate appropriate modifications to the terms of our credit facilities;
  - (vi) our ability to manage, re-lease or sell any owned and operated facilities;
  - (vii) the availability and cost of capital;
  - (viii) changes in our credit ratings and the ratings of our debt securities;
  - (ix) competition in the financing of healthcare facilities;
  - (x) regulatory and other changes in the healthcare sector;
  - (xi) the effect of economic and market conditions generally and, particularly, in the healthcare industry;
    - (xii) changes in the financial position of our operators;
    - (xiii) changes in interest rates;
    - (xiv) the amount and yield of any additional investments;
    - (xv) changes in tax laws and regulations affecting real estate investment trusts; and
    - (xvi) our ability to maintain our status as a real estate investment trust.

Overview

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

real estate and personal property of the mortgagor.

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Our portfolio of investments at June 30, 2013, consisted of 480 healthcare facilities (including three facilities that are closed/held for sale), located in 34 states and operated by 47 third-party operators. Our gross investment in these facilities totaled approximately \$3.3 billion at June 30, 2013, with 99% of our real estate investments related to long-term healthcare facilities. Our portfolio is made up of (i) 417 SNFs, (ii) 16 assisted living facilities (“ALFs”), (iii) 11 specialty facilities, (iv) fixed rate mortgages on 33 SNFs and (v) three SNFs that are closed/held for sale. At June 30, 2013, we also held other investments of approximately \$74.6 million, consisting primarily of secured loans to third-party operators of our facilities.

Our consolidated financial statements include the accounts of (i) Omega, (ii) all direct and indirect wholly owned subsidiaries of Omega and (iii) TC Healthcare, a variable interest entity (“VIE”) that we consolidate as the primary beneficiary. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

### Taxation

We have elected to be taxed as a Real Estate Investment Trust (“REIT”), under Sections 856 through 860 of the Internal Revenue Code (the “Code”), beginning with our taxable year ended December 31, 1992. We believe that we have been organized and operated in such a manner as to qualify for taxation as a REIT. We intend to continue to operate in a manner that will maintain our qualification as a REIT, but no assurance can be given that we have operated or will be able to continue to operate in a manner so as to qualify or remain qualified as a REIT. Under the Code, we generally are not subject to federal income tax on taxable income distributed to stockholders if certain distribution, income, asset and stockholder tests are met, including a requirement that we must generally distribute at least 90% of our annual taxable income, excluding any net capital gain, to stockholders. If we fail to qualify as a REIT in any taxable year, we may be subject to federal income taxes on our taxable income for that year and for the four years following the year during which qualification is lost, unless the Internal Revenue Service grants us relief under certain statutory provisions. Such an event could materially adversely affect our net income and net cash available for distribution to our stockholders. For further information, see “Taxation” in Item 1 of our annual report on Form 10-K for the year ended December 31, 2012.

### Government Regulation and Reimbursement

The following is a description of certain of the laws and regulations and reimbursement policies and programs affecting our business and the businesses conducted by our operators. The following description should be read in conjunction with the risk factors described under “Item 1A – Risk Factors.”

**Healthcare Reform.** The Patient Protection and Affordable Care Act and accompanying Healthcare and Education Affordability and Reconciliation Act of 2010 (the “Healthcare Reform Law”) were signed into law in March 2010. This legislation represents the most comprehensive change to healthcare benefits since the inception of the Medicare program in 1965 and will affect reimbursement for governmental programs, private insurance and employee welfare benefit plans in various ways. Significant rule making and regulation promulgated under the Healthcare Reform Law has already occurred, and we expect additional rules, regulations and interpretation that may materially affect the operations of our operators.

On June 28, 2012, the U.S. Supreme Court upheld all of the Healthcare Reform Law except for the requirement that states expand Medicaid beginning in 2014. However, the Healthcare Reform Law and the implementation thereof continue to receive challenge and scrutiny from Congress, state attorneys general and legislators, and private individuals and organizations. For example, several congressional bills and budget proposals have sought to repeal or

change certain provisions of the law.

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In addition, certain measures recently taken under the authority of, or in connection with, the Healthcare Reform Law may lead to additional modification and/or clarification in the future, including the following:

On January 3, 2013, a new federal Commission on Long-Term Care was established and tasked with developing a plan for the establishment, implementation and financing of a high-quality system to provide long-term care services.

The Healthcare Reform Law requires private health insurers that sell policies to individuals and small businesses to provide, starting in 2014, a set of “essential health benefits” in ten categories, including prescription drugs, rehabilitative and habilitative services, and chronic disease management. As required under the law, states define the essential health benefits. States are now submitting their essential health benefit packages to the Department of Health and Human Services (HHS). How these benefits are established will affect payments for long term care facilities.

The Healthcare Reform Law requires SNFs to implement a compliance and ethics program by March 23, 2013 that is effective in preventing and detecting criminal, civil and administrative violations and in promoting quality of care. HHS has not yet issued the proposed regulations to implement this law that were due in March 2012. It is unclear whether this provision of the law will be enforced until the regulations are issued.

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

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

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

**Medicaid.** State budgetary concerns, coupled with the implementation of rules under the Healthcare Reform Law, may result in significant changes in healthcare spending at the state level. Many states are currently focusing on the reduction of expenditures under their state Medicaid programs, which may result in a reduction in reimbursement rates for our operators. The need to control Medicaid expenditures may be exacerbated by the potential for increased



enrollment in Medicaid due to unemployment and declines in family incomes. Since our operators' profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement or an increase in the number of Medicaid patients could adversely affect our operators' results of operations and financial conditions, which in turn could negatively impact us.

The Healthcare Reform Law provided for Medicaid coverage to be expanded to all individuals under age 65 with incomes up to 133% of the federal poverty level, beginning January 1, 2014. The federal government will pay the entire cost for Medicaid coverage for newly eligible beneficiaries for 3 years (2014 through 2016). In 2017, the federal share declines to 95%; in 2018, to 94%; in 2019, to 93%; and in 2020 and subsequent years, to 90%. States may delay Medicaid expansion after 2014 but the federal payment rates will be less. However, on June 28, 2012, the Supreme Court ruled that states could not be required to expand Medicaid or risk losing federal funding of their existing Medicaid programs. Currently, 24 states and the District of Columbia have decided to expand Medicaid coverage as contemplated by the Healthcare Reform Law, with many of the remaining states involved in a variety of legislative proposals or discussions. The U.S. Department of Health and Human Services has stated that it will consider a limited number of premium assistance demonstration programs from states that want to privatize Medicaid expansion. States must provide a choice between at least two qualified health plans that offer very similar benefits as those required by the health insurance exchanges. Arkansas, Tennessee, and Indiana are exploring alternative solutions with CMS.

Medicare. For the federal fiscal year 2014, CMS proposes to increase SNF payment rates by 1.4% (2.3% market basket update minus adjustments), which amounts to an estimated \$500 million increase in payments to SNFs beginning October 1, 2013.

Provisions contained in the American Taxpayer Relief Act (ATRA) of 2012, known colloquially as the fiscal cliff deal, are designed to reduce Medicare payments to SNFs by an estimated \$600 million during 2012 to 2022. It also reduces payments for multiple procedures or therapies provided on the same day, which will result in approximately \$1.8 billion savings to Medicare over the next 10 years, which will impact SNFs as well. Under the ATRA, sequestration cuts impacting domestic and defense spending became effective March 1, 2013. Although Medicaid is exempted from the sequestration cuts, they include a 2% cut in payments to Medicare providers and suppliers, which will amount to an estimated \$11.3 billion in cuts in fiscal year 2013. We cannot predict whether Congress will take any action to change the automatic spending cuts under sequestration, nor how states will react to any changes at the federal level.

The Middle Class Tax Relief and Job Creation Act of 2012 was signed into law on February 22, 2012 and extended the Medicare Part B Outpatient Therapy Cap Exceptions Process through December 31, 2012. The statutory Medicare Part B outpatient cap for occupational therapy is \$1,900 for 2013, and the combined cap for physical therapy and speech therapy is also \$1,900 for 2013. These caps do not apply to therapy services covered under Medicare Part A for SNFs, although the caps apply in most other instances involving patients in SNFs or long-term care facilities who receive therapy services covered under Medicare Part B. Congress implemented a temporary therapy cap exceptions process, which permits medically necessary therapy services to exceed the payment limits. Expiration of the therapy cap exceptions process in the future could have a material adverse effect on our operators' financial condition and operations, which could adversely impact their ability to meet their obligations to us.

Quality of Care Initiatives. The CMS has implemented a number of initiatives focused on the quality of care provided by nursing homes that could affect our operators. For instance, in December 2008, the CMS released quality ratings for all of the nursing homes that participate in Medicare or Medicaid. Facility rankings, ranging from five stars ("much above average") to one star ("much below average") are updated on a monthly basis. SNFs are required to provide information for the CMS Nursing Home Compare website regarding staffing and quality measures. Based on this data and the results of state health inspections, SNFs are then rated based on the five-star rating system. We cannot predict what changes, if any, CMS will make to the rating system. It is possible that this or any other ranking system could lead to future reimbursement policies that reward or penalize facilities on the basis of the reported quality of care parameters.

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

Office of the Inspector General Activities. The Office of Inspector General's (OIG) Work Plan for government fiscal year 2013, which describes projects that the OIG plans to address during the fiscal year, includes a number of projects related to nursing homes. Reviews of Medicare Part A and Part B payments and services for SNFs will focus on the following: (1) adverse events in post-acute care; (2) Medicare requirements for quality of care; (3) verification of state agency identified deficiencies' corrections; (4) oversight of poorly performing SNFs; (5) use of atypical antipsychotic drugs; (6) hospitalizations of SNF residents; (7) questionable billing practices for Part B services; and (8) oversight of the accuracy and completeness of MDS data. Medicaid reviews will focus on communicable diseases and MDS data. The OIG plans to continue its efforts in addressing fraud and abuse. While we cannot predict the results of the OIG's activities, the projects could result in further scrutiny and/or oversight of nursing homes.

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

The federal anti-kickback statute is a criminal statute that prohibits the knowing and willful offer, payment, solicitation or receipt of any remuneration in return for, to induce or to arrange for the referral of individuals for any item or service payable by a federal or state healthcare program. There is also a civil analogue. States also have enacted similar statutes covering Medicaid payments, and some states have broader statutes. Some enforcement efforts have targeted relationships between SNFs and ancillary providers, relationships between SNFs and referral sources for SNFs and relationships between SNFs and facilities for which the SNFs serve as referral sources. The federal self-referral law, commonly known as the "Stark Law," is a civil statute that prohibits a physician from making referrals to an entity for "designated health services" if the physician has a financial relationship with the entity. Some of the services provided in SNFs are classified as designated health services. There are also criminal provisions that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, as well as failing to refund overpayments or improper payments. Violation of the anti-kickback statute or Stark Law may form the basis for a federal False Claims Act violation. In addition, the federal False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, these so-called "whistleblower" suits have become more frequent. The violation of any of these laws or regulations by an operator may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid and all other federal and state healthcare programs.

Privacy. Our operators are subject to various federal, state and local laws and regulations designed to protect the confidentiality and security of patient health information, including the federal Health Insurance Portability and Accountability Act of 1996, as amended, and the corresponding regulations promulgated thereunder ("HIPAA"). On January 25, 2013, the Office for Civil Rights (OCR) issued a final rule modifying HIPAA which will require our operators to expend significant time and money to implement. Some of the new requirements include, among other things: making business associates subject to the HIPAA Privacy and Security Rules which will require new business associate agreements; changes in determining whether a breach of unsecured protected health information occurred; new requirements for the Notice of Privacy Practices; and decreasing the time to disclose protected health information and requiring disclosures to be electronic under certain conditions.

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

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

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

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

#### Critical Accounting Policies and Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP"), and a summary of our significant accounting policies is included in Note 2 – Summary of Significant Accounting Policies to our Annual Report on Form 10-K for the year ended December 31, 2012. Our preparation of the financial statements requires us to make estimates and assumptions about future events that affect the amounts reported in our financial statements and accompanying footnotes. Future events and their effects cannot be determined with absolute certainty. Therefore, the determination of estimates requires the exercise of judgment. Actual results inevitably will differ from those estimates, and such difference may be material to the consolidated financial statements. We have described our most critical accounting policies in our 2012 Annual Report on Form 10-K in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

#### Results of Operations

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

Three Months Ended June 30, 2013 and 2012

## Operating Revenues

Our operating revenues for the three months ended June 30, 2013, totaled \$102.5 million, an increase of \$18.7 million over the same period in 2012. The \$18.7 million increase was primarily the result of additional rental income associated with acquisitions made throughout 2012 and a lease amendment/extension with an operator. We recorded approximately \$13.5 million of rental revenue associated with the 2012 acquisitions during the second quarter of 2013. The 2012 acquisitions occurred on or after June 30, 2012, accordingly we recorded no rental revenue associated with the 2012 acquisition during the second quarter of 2012. In addition, on December 1, 2012, two of our operators combined. In connection with the combination, we entered into a new master lease covering all of the facilities previously leased to the two operators. The new master lease (i) increased contractual rent when compared to the combined contractual rent of the prior leases of the two operators, (ii) extended of the expiration date and (iii) included annual rent escalators. As a result of the new master lease, we recorded approximately \$2.9 million of additional rental revenue during the second quarter of 2013 compared to the same period in 2012 for the prior leases.

### Operating Expenses

Operating expenses for the three months ended June 30, 2013, totaled \$37.8 million, an increase of approximately \$5.5 million over the same period in 2012. The increase was primarily due to an increase of \$5.0 million of depreciation and amortization associated with acquisitions made throughout 2012 and an increase of \$0.5 million in general and administrative expense.

### Other Income (Expense)

For the three months ended June 30, 2013, total other expenses were \$14.5 million, a decrease of approximately \$8.4 million over the same period in 2012. The decrease was primarily the result of an increase of approximately \$0.9 million in interest expense due to an increase in borrowings outstanding, including debt assumed or incurred to finance 2012 acquisitions offset by a \$9.4 million decrease of refinancing costs over the same period in 2012. The \$11.1 million interest refinancing gain in 2013 was related to the write-off of the premium for above market value debt assumed on 11 HUD loans that we paid off in May 2013. The 2012 refinancing gain of \$1.7 million was related to the write-off of the premium for above market value debt assumed on four (4) HUD loans that were paid off during the second quarter of 2012.

### Six Months Ended June 30, 2013 and 2012

#### Operating Revenues

Our operating revenues for the six months ended June 30, 2013, totaled \$204.3 million, an increase of \$35.9 million over the same period in 2012. The \$35.9 million increase was primarily the result of: (i) additional \$35.0 million rental income associated with acquisitions made throughout 2012, (ii) a lease amendment/extension with an operator and (iii) a \$0.9 million increase in other investment income related to the new \$24.9 million investment in May 2013. We recorded approximately \$27.0 million of rental revenue associated with the 2012 acquisitions for the six-months ended June 30, 2013. The 2012 acquisitions occurred on or after June 30, 2012, accordingly we recorded no rental revenue associated with the 2012 acquisition for the six-months ended June 30, 2012. In addition, on December 1, 2012, two of our operators combined. In connection with the combination, we entered into a new master lease covering all of the facilities previously leased to the two operators. The new master lease (i) increased contractual rent when compared to the combined contractual rent of the prior leases of the two operators, (ii) extended of the expiration date and (iii) included annual rent escalators. As a result of the new master lease, the Company recorded approximately \$5.9 million of additional rental revenue for the six-months ended June 30, 2013 compared to the same period in 2012 for the prior leases.

#### Operating Expenses

Operating expenses for the six months ended June 30, 2013, totaled \$75.1 million, an increase of approximately \$9.8 million over the same period in 2012. The increase was primarily due to (i) an increase of \$9.8 million of depreciation and amortization associated with acquisitions made throughout 2012, (ii) an increase of \$0.2 million in general and administrative expense and (iii) an increase of \$0.1 million of provision for uncollectible straight line receivable, offset by a \$0.3 million impairment charge for two held-for-sale facilities that were sold in 2012.

#### Other Income (Expense)

For the six months ended June 30, 2013, total other expenses were \$40.9 million, a decrease of approximately \$12.8 million over the same period in 2012. The \$12.8 million decrease was primarily the result of a \$3.6 million increase in interest expense due to an increase in borrowings outstanding, including debt assumed or incurred to finance 2012 acquisitions, offset by a \$16.5 million decrease in interest refinancing costs. In the second quarter of 2013, we recorded \$11.1 million in interest refinancing gain associated with the write-off of the premium for above market value debt assumed on 11 HUD mortgage loans that we paid off in May 2013. During the first quarter of 2012, we recorded \$7.1 million in interest refinancing cost including prepayment penalties of approximately \$4.5 million, write-off of deferred costs of \$2.2 million and \$0.4 million of expenses associated with the tender offer and redemption of our outstanding \$175 million 7% 2016 Notes. This was partially offset by a \$1.7 million write-off of the premium for above market value debt assumed on four HUD loans that were paid off early during the second quarter of 2012.

#### Funds From Operations

Our funds from operations available to common stockholders ("FFO"), for the three months ended June 30, 2013, was \$82.4 million, compared to \$55.8 million, for the same period in 2012. Our FFO, for the six months ended June 30, 2013, was \$152.5 million, compared to \$104.0 million, for the same period in 2012.

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

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



The following table presents our FFO results for the three- and six- months periods ended June 30, 2013 and 2012:

|   | Three Months Ended |          | Six Months Ended |           |
|---|--------------------|----------|------------------|-----------|
|   | June 30,           |          | June 30,         |           |
|   | 2013               | 2012     | 2013             | 2012      |
|   | (in thousands)     |          |                  |           |
| Net income available to common stockholders               | \$49,058           | \$30,572 | \$87,178         | \$56,656  |
| Add back loss (deduct gain) from real estate dispositions | 1,151              | (1,968 ) | 1,151            | (7,284 )  |
| Sub-total   | 50,209             | 28,604   | 88,329           | 49,372    |
| Elimination of non-cash items included in net income:     |                    |          |                  |           |
| Depreciation and amortization                             | 32,225             | 27,199   | 64,184           | 54,346    |
| Add back impairments on real estate properties            | —                  | —        | —                | 272       |
| Funds from operations available to common stockholders    | \$82,434           | \$55,803 | \$152,513        | \$103,990 |

#### Portfolio and Recent Developments

During the first six months of 2013, we did not acquire any facilities.

#### Assets Sold

In the three-month period ended June 30, 2013, we sold one facility in Texas for total cash proceeds of \$2.2 million, resulting in a \$1.2 million loss. Also, in April 2013, we sold a parcel of undeveloped land to a third party for approximately \$0.1 million.

#### *Assets Held for Sale*

At June 30, 2013, we had two SNFs and one parcel of land classified as held-for-sale with an aggregate net book value of approximately \$1.0 million.

#### Liquidity and Capital Resources

At June 30, 2013, we had total assets of \$3.0 billion, stockholders' equity of \$1.1 billion and debt of \$1.7 billion, representing approximately 60.0% of total capitalization.

#### Financing Activities and Borrowing Arrangements

Certain of our other secured and unsecured borrowings are subject to customary affirmative and negative covenants, including financial covenants. As of December 31, 2012 and June 30, 2013, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

#### Bank Credit Agreements

We have a \$700 million unsecured credit facility that we entered into on December 6, 2012, comprised of a \$500 million unsecured revolving credit facility (the "2012 Revolving Credit Facility") and a \$200 million unsecured, term loan (the "2012 Term Loan Facility" and, together with the 2012 Revolving Credit Facility, collectively, the "2012 Credit Facilities").



The 2012 Credit Facilities include an “accordion feature” that permits us to expand our borrowing capacity thereunder by a combined \$300 million, to a total of \$1 billion.

At June 30, 2013, we had \$5.0 million outstanding under the 2012 Revolving Credit Facility, and no letters of credit outstanding, leaving availability of \$495 million. The 2012 Revolving Credit Facility matures on December 6, 2016, with an option by us to extend the maturity one additional year. The 2012 Revolving Credit Facility is priced at LIBOR plus an applicable percentage (beginning at 150 basis points, with a range of 100 to 190 basis points) based on our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings, plus a facility fee based on the same ratings (initially 30 basis points, with a range of 15 to 45 basis points).

At June 30, 2013, the full \$200 million was outstanding under the 2012 Term Loan Facility. The 2012 Term Loan Facility is also priced at LIBOR plus an applicable percentage (beginning at 175 basis points, with a range of 110 to 230 basis points) based on our ratings from Standard & Poor’s, Moody’s and/or Fitch Ratings. The 2012 Term Loan Facility matures on December 6, 2017.

#### HUD Loans Payoff

On May 31, 2013, we paid approximately \$51.0 million to retire 11 mortgages guaranteed by HUD that were assumed in connection with our acquisition of certain subsidiaries of CapitalSource in June 2010. The retirement of the 11 HUD mortgages resulted in a net gain of approximately \$11.1 million. The net gain included the write-off of approximately \$11.3 million related to the premium for recording the debt at fair value at the time of the transaction offset by a prepayment fee of approximately \$0.2 million.

#### HUD Mortgage Debt Refinancing

On March 26, 2013, we refinanced existing HUD mortgage debt on 12 properties in Arkansas for approximately \$59.4 million including closing costs that were added to the outstanding balance. The annual interest rate for the refinanced debt decreased from 5.55% to approximately 3.06%, with the term of the refinanced mortgages remaining unchanged. For the three months ended March 31, 2013, we paid off a total of \$58.9 million, including routine principal payments on the 12 Arkansas mortgage debts.

#### \$250 Million Equity Shelf Program

On March 18, 2013, we entered into separate Equity Distribution Agreements (collectively, the “2013 Agreements”) to sell shares of our common stock having an aggregate gross sales price of up to \$250 million (the “2013 ESP”) with several financial institutions, each as a sales agent and/or principal (collectively, the “Managers”). Under the terms of the 2013 Agreements, we may sell shares of our common stock, from time to time, through or to the Managers having an aggregate gross sales price of up to \$250 million. Sales of the shares will be made by means of ordinary brokers’ transactions on the New York Stock Exchange at market prices, or as otherwise agreed with the applicable Manager. We will pay each Manager compensation for sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable 2013 Agreement. We are not obligated to sell and the Managers are not obligated to buy or sell any shares under the 2013 Agreements. No assurance can be given that we will sell any shares under the 2013 Agreements, or, if we do, as to the price or amount of shares that we sell, or the dates when such sales will take place.

For the three months ended June 30, 2013, we sold 0.8 million shares under the 2013 ESP, at an average price of \$35.74 per share, generating gross proceeds of approximately \$30.0 million, before \$0.6 million of commissions. For

the six months ended June 30, 2013, we sold approximately 2.3 million shares under the 2013 ESP, at an average price of \$31.72 per share, generating gross proceeds of approximately \$72.8 million, before \$1.5 million of commissions.

### Termination of \$245 Million Equity Shelf Program

Also on March 18, 2013, we terminated our \$245 million Equity Shelf Program (the “2012 ESP”) that we entered into with several financial institutions on June 19, 2012. For the three months ended March 31, 2013, we issued approximately 1.0 million shares under the 2012 ESP at an average price of \$28.29 per share, generating gross proceeds of approximately \$27.8 million, before \$0.6 million commissions.

Since inception of the 2012 ESP, we have sold a total of 3.6 million shares of common stock generating total gross proceeds of \$91.4 million under the program, before \$1.9 million of commissions. As a result of the termination of the 2012 ESP, no additional shares were issued under the 2012 ESP.

### Dividend Reinvestment and Common Stock Purchase Plan

For the three-month period ended June 30, 2013, approximately 0.1 million shares of our common stock at an average price of \$35.89 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$5.3 million. For the six-month period ended June 30, 2013, approximately 1.5 million shares of our common stock at average of \$28.46 per share were issued through our Dividend Reinvestment and Common Stock Purchase Program for net proceeds of approximately \$41.6 million.

### Dividends

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

In addition, our 2012 Credit Agreement has certain financial covenants that limit the distribution of dividends paid during a fiscal quarter to no more than 95% of our aggregate cumulative FFO as defined in the credit agreement, unless a greater distribution is required to maintain REIT status. Solely for purposes of the credit agreement, FFO is defined as net income (or loss) plus depreciation and amortization, adjusted to take into account our interests in unconsolidated partnerships and joint ventures, and further adjusted to exclude gains or losses resulting from: (i) restructuring our debt; (ii) sales of property; (iii) sales or redemptions of preferred stock; (iv) revenue or expenses related to owned and operated assets; (v) revenues or expenses related to FIN 46 consolidation requirements, (vi) cash litigation charges up to \$10.0 million over the term of the credit agreement; (vii) non-cash charges associated with the write-down of accounts due to straight-line rent; (viii) other non-cash charges for accounts and notes receivable up to \$20.0 million over the term of the credit agreement; (ix) certain non-cash compensation related expenses; (x) non-cash real property impairment charges; (xi) non-cash charges associated with the sale or settlement of derivative instruments; and (xii) charges related to acquisition deal-related costs.

For the three- and six- months ended June 30, 2013, we paid total dividends of \$53.4 million and \$104.0 million, respectively.

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On July 16, 2013, the Board of Directors declared a common stock dividend of \$0.47 per share, increasing the quarterly common dividend by \$0.01 per share over the previous quarter. The common dividends are to be paid August 15, 2013 to common stockholders of record on July 31, 2013.

## Liquidity

We believe our liquidity and various sources of available capital, including cash from operations, our existing availability under our 2012 Credit Facilities and expected proceeds from mortgage payoffs are adequate to finance operations, meet recurring debt service requirements and fund future investments through the next twelve months.

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

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

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

Cash and cash equivalents totaled \$7.0 million as of June 30, 2013, an increase of \$5.3 million as compared to the balance at December 31, 2012. The following is a discussion of changes in cash and cash equivalents due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows.

Operating Activities – Operating activities generated \$121.3 million of net cash flow for the six months ended June 30, 2013, as compared to \$94.4 million for the same period in 2012, an increase of \$26.9 million. The increase was primarily due to the additional cash flow from the facilities acquired and leased throughout 2012.

Investing Activities – Net cash flow from investing activities was an outflow of \$45.0 million for the six months ended June 30, 2013, as compared to an outflow of \$17.4 million for the same period in 2012. The \$27.6 million increase in cash outflow from investing activities relates primarily to (i) a net cash outflow of \$27.3 million from other investments – net in 2013 and (ii) an additional \$3.1 million of investments in capital improvements projects compared to the same period in 2012. Offsetting increases of the cash outflow were: (i) \$26.9 million in acquisitions, including a \$1.9 million purchase of land in the first quarter of 2012 and a \$25.1 million purchase of five SNFs in the second quarter of 2012; (ii) a decrease in net proceeds of \$19.7 million from the sale of real estate as compared to the same period in 2012; (iii) a net cash inflow of \$6.5 million from other investments – net in 2012 and iv) a net decrease of \$2.1 million investment in mortgage placement of loans compared to the same period in 2012.

*Financing Activities* – Net cash flow from financing activities was an outflow of \$71.0 million for the six months ended June 30, 2013 as compared to an outflow of \$74.6 million for the same period in 2012. The \$3.5 million decrease in cash outflow from financing activities was primarily a result of: (i) a net payment of \$53 million on the 2012 Credit Facility for the first six months of 2013 compared to \$270.5 million of net payments on the 2011 Credit Facility for the same period in 2012; (ii) a \$112.2 million HUD mortgages payoff including routine HUD debt principal payments for the first six months of 2013 compared to \$188.7 million payments including: (a) \$175.0 million tender offer and redemption payments for our outstanding \$175 million 2016 Notes, (b) \$11.7 million early retirement of four HUD mortgages and (c) \$2.0 million in routine HUD debt principal payments for the same period in 2012; (iii) \$59.4 million proceeds from HUD debt refinancing during the first quarter of 2013 compared to the issuance of our \$400 million 2024 Notes in March 2012; (iv) a decrease in net payment of \$11.9 million in refinancing costs for the first six months of 2013 compared to the same period of 2012 primarily associated with (a) the tender offer and redemption of our \$175 million 2016 Notes in the first quarter of 2012, (b) the issuance of our \$400 million 2024 Notes in the first quarter of 2012 and (c) prepayment penalty for the extinguishment of the HUD debt in the second quarter of 2012 and (v) a decrease in net proceeds of \$27.4 million from our dividend reinvestment plan for the first six months of 2013 compared to the same period in 2012. Offsetting these decreases were: (i) an increase in net proceeds of \$82.7 million from our common stock issued through our Equity Shelf Program for the first six months of 2013 compared to the same period in 2011 and (ii) an increase in dividend payments of \$17.0 million related to an increase in number of shares outstanding and an increase of \$0.08 per share in the dividends in the first six months of 2013 compared to the same period in 2012.

### Item 3 – Quantitative and Qualitative Disclosures about Market Risk

There have been no material changes in our primary market risk exposures or how those exposures are managed from the information disclosed under Item 7A of our annual report on Form 10-K for the year ended December 31, 2012.

### Item 4 – Controls and Procedures

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

In connection with the preparation of this Form 10-Q, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2013. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at a reasonable assurance level as of June 30, 2013.

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





PART II – OTHER INFORMATION

Item 1 – Legal Proceedings

See Note 10 – Litigation to the Consolidated Financial Statements in Part I, Item 1 hereto, which is hereby incorporated by reference in response to this item.

Item 1A – Risk Factors

We filed our Annual Report on Form 10-K for the year ended December 31, 2012, with the Securities and Exchange Commission on February 28, 2013, which sets forth our risk factors in Item 1A therein. We have not experienced any material changes from the risk factors previously described therein.

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Item 6–Exhibits

Exhibit No.

|         |  |
|---------|--|
| 10.1    | Omega Healthcare Investors, Inc. 2013 Stock Incentive Plan (incorporated by reference to Annex A to the Registrant’s Proxy Statement on Schedule 14A filed on April 22, 2013). |
| 10.2    | Form of Officer Deferred Performance Restricted Stock Unit Agreement.*   |
| 31.1    | Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer.   |
| 31.2    | Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.   |
| 32.1    | Section 1350 Certification of the Chief Executive Officer.   |
| 32.2    | Section 1350 Certification of the Chief Financial Officer.   |
| 101.INS | XBRL Instance Document.**  |
| 101.SCH | XBRL Taxonomy Extension Schema Document.**   |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.**   |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.**  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.**   |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.**  |

\* Exhibits that are filed herewith.

\*\*In accordance with Rule 406T of Regulation S-T, this XBRL-related information shall be deemed to be “furnished” and not “filed.”

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

OMEGA HEALTHCARE  
INVESTORS, INC.  
Registrant

Date: August 5, 2013 By: /S/ C. TAYLOR PICKETT  
C. Taylor Pickett  
Chief Executive Officer

Date: August 5, 2013 By: /S/ ROBERT O.  
STEPHENSON  
Robert O. Stephenson  
Chief Financial Officer