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

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 September 30, 2009

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  
(State of incorporation)

38-3041398  
(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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No  [NOT APPLICABLE]

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 October 30, 2009.

Common Stock, \$.10 par value 85,112,754  
(Class) (Number of shares)

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OMEGA HEALTHCARE INVESTORS, INC.  
FORM 10-Q  
September 30, 2009

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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)

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Real estate properties		
Land and buildings	\$ 1,385,625	\$ 1,372,012
Less accumulated depreciation	(284,782)	(251,854)
Real estate properties – net	1,100,843	1,120,158
Mortgage notes receivable – net	100,531	100,821
	1,201,374	1,220,979
Other investments – net	29,440	29,864
	1,230,814	1,250,843
Assets held for sale – net	887	150
Total investments	1,231,701	1,250,993
Cash and cash equivalents	646	209
Restricted cash	6,678	6,294
Accounts receivable – net	81,274	75,037
Other assets	12,145	18,613
Operating assets for owned and operated properties	3,949	13,321
Total assets	\$ 1,336,393	\$ 1,364,467
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Revolving line of credit	\$ 9,000	\$ 63,500
Unsecured borrowings – net	484,685	484,697
Accrued expenses and other liabilities	27,106	25,420
Operating liabilities for owned and operated properties	1,449	2,862
Total liabilities	522,240	576,479
Stockholders' equity:		
Preferred stock issued and outstanding – 4,340 shares Series D with an aggregate liquidation preference of \$108,488	108,488	108,488
Common stock \$.10 par value authorized – 200,000 shares issued and outstanding – 84,904 shares as of September 30, 2009 and 82,382 as of December 31, 2008	8,490	8,238
Common stock – additional paid-in-capital	1,095,578	1,054,157
Cumulative net earnings	506,149	440,277
Cumulative dividends paid	(904,552)	(823,172)
Total stockholders' equity	814,153	787,988
Total liabilities and stockholders' equity	\$ 1,336,393	\$ 1,364,467

See notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<b>Revenues</b>				
Rental income	\$ 41,226	\$ 37,265	\$ 123,626	\$ 115,052
Mortgage interest income	2,915	3,007	8,686	6,536
Other investment income – net	694	313	1,844	1,531
Miscellaneous	160	73	364	2,140
Nursing home revenues of owned and operated assets	4,758	19,341	13,545	19,341
Total operating revenues	49,753	59,999	148,065	144,600
<b>Expenses</b>				
Depreciation and amortization	11,093	10,076	33,014	29,185
General and administrative	2,675	2,925	8,920	8,990
Impairment loss on real estate properties	89	170	159	1,684
Provision for uncollectible accounts receivable	-	-	-	4,268
Nursing home expenses of owned and operated assets	4,899	20,833	15,750	20,833
Total operating expenses	18,756	34,004	57,843	64,960
<b>Income before other income and expense</b>	<b>30,997</b>	<b>25,995</b>	<b>90,222</b>	<b>79,640</b>
<b>Other income (expense):</b>				
Interest income	2	74	19	197
Interest expense	(9,171)	(9,375)	(26,656)	(28,805)
Interest – amortization of deferred financing and refinancing costs	(690)	(500)	(2,216)	(1,500)
Litigation settlements	-	-	4,527	526
Total other expense	(9,859)	(9,801)	(24,326)	(29,582)
<b>Income before gain (loss) on assets sold</b>	<b>21,138</b>	<b>16,194</b>	<b>65,896</b>	<b>50,058</b>
Gain (loss) on assets sold – net	-	11,806	(24)	11,852
<b>Income from continuing operations before income taxes</b>	<b>21,138</b>	<b>28,000</b>	<b>65,872</b>	<b>61,910</b>
Income taxes	-	72	-	72
<b>Income from continuing operations</b>	<b>21,138</b>	<b>28,072</b>	<b>65,872</b>	<b>61,982</b>
Discontinued operations	-	-	-	446
<b>Net income</b>	<b>21,138</b>	<b>28,072</b>	<b>65,872</b>	<b>62,428</b>
Preferred stock dividends	(2,271)	(2,480)	(6,814)	(7,442)
<b>Net income available to common</b>	<b>\$ 18,867</b>	<b>\$ 25,592</b>	<b>\$ 59,058</b>	<b>\$ 54,986</b>
<b>Income per common share available to common shareholders:</b>				
<b>Basic:</b>				
Income from continuing operations	\$ 0.23	\$ 0.33	\$ 0.71	\$ 0.75
Net income	\$ 0.23	\$ 0.33	\$ 0.71	\$ 0.76
<b>Diluted:</b>				
Income from continuing operations	\$ 0.22	\$ 0.33	\$ 0.71	\$ 0.75
Net income	\$ 0.22	\$ 0.33	\$ 0.71	\$ 0.76
Dividends declared and paid per common share	\$ 0.30	\$ 0.30	\$ 0.90	\$ 0.89
Weighted-average shares outstanding, basic	83,740	76,590	82,903	72,737
Weighted-average shares outstanding, diluted	83,858	76,702	83,004	72,829
<b>Components of other comprehensive income:</b>				
Net income	\$ 21,138	\$ 28,072	\$ 65,872	\$ 62,428
Total comprehensive income	\$ 21,138	\$ 28,072	\$ 65,872	\$ 62,428

See notes to consolidated financial statements.

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

	<u>Preferred Stock</u>	<u>Common Stock Par Value</u>	<u>Additional Paid-in Capital</u>	<u>Cumulative Net Earnings</u>	<u>Cumulative Dividends</u>	<u>Total</u>
Balance at December 31, 2008 (82,382 common shares)	\$ 108,488	\$ 8,238	\$ 1,054,157	\$ 440,277	\$ (823,172)	\$ 787,988
Issuance of common stock:						
Grant of restricted stock (10 shares at \$15.790 per share)	—	1	(1)	—	—	—
Amortization of restricted stock	—	—	1,430	—	—	1,430
Dividend reinvestment plan (1,094 shares at \$15.631 per share)	—	109	16,964	—	—	17,073
Grant of stock as payment of directors fees (5 shares at an average of \$14.591 per share)	—	1	74	—	—	75
Equity Shelf Program (1,413 shares at \$17.165 per share, net of issuance costs)	—	141	22,954	—	—	23,095
Net income	—	—	—	65,872	—	65,872
Common dividends paid (\$0.90 per share).	—	—	—	—	(74,566)	(74,566)
Preferred dividends paid (Series D of \$1.570 per share)	—	—	—	—	(6,814)	(6,814)
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(6,814)</u>	<u>(6,814)</u>
Balance at September 30, 2009 (84,904 common shares)	<u>\$ 108,488</u>	<u>\$ 8,490</u>	<u>\$ 1,095,578</u>	<u>\$ 506,149</u>	<u>\$ (904,552)</u>	<u>\$ 814,153</u>

See notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2009	2008
<b>Cash flows from operating activities</b>		
Net income	\$ 65,872	\$ 62,428
Adjustment to reconcile net income to cash provided by operating activities:		
Depreciation and amortization (including amounts in discontinued operations)	33,014	29,185
Impairment loss on real estate properties (including amounts in discontinued operations)	159	1,684
Uncollectible accounts receivable	—	4,268
Refinancing costs	526	—
Amortization of deferred financing costs	1,690	1,500
Loss (gain) on assets sold – net	24	(12,283)
Restricted stock amortization expense	1,439	1,577
Other	(129)	(296)
Change in operating assets and liabilities:		
Accounts receivable, net	219	663
Straight-line rent	(6,987)	(7,959)
Lease inducement	532	(3,259)
Tax liabilities	—	(73)
Other operating assets and liabilities	10,117	(3,988)
Operating assets and liabilities for owned and operated properties	7,959	(13,303)
Net cash provided by operating activities	<u>114,435</u>	<u>60,144</u>
<b>Cash flows from investing activities</b>		
Acquisition of real estate	—	(93,235)
Placement of mortgage loans	—	(74,928)
Proceeds from sale of real estate investments	85	31,893
Capital improvements and funding of other investments	(14,640)	(13,194)
Proceeds from other investments	39,515	14,082
Investments in other investments	(39,075)	(23,570)
Collection of mortgage principal – net	403	681
Net cash used in investing activities	<u>(13,712)</u>	<u>(158,271)</u>
<b>Cash flows from financing activities</b>		
Proceeds from credit facility borrowings	138,500	303,800
Payments on credit facility borrowings	(193,000)	(317,800)
Payments of other long-term borrowings	—	(39,435)
Payment of financing related costs	(4,574)	—
Receipts from dividend reinvestment plan	17,073	30,506
Net proceeds from issuance of common stock	23,095	195,976
Payments from exercised options and taxes on restricted stock – net	—	(2,087)
Dividends paid	(81,380)	(71,022)
Net cash (used in) provided by financing activities	<u>(100,286)</u>	<u>99,938</u>
Increase in cash and cash equivalents	437	1,811
Cash and cash equivalents at beginning of period	209	1,979
Cash and cash equivalents at end of period	<u>\$ 646</u>	<u>\$ 3,790</u>
Interest paid during the period, net of amounts capitalized	<u>\$ 24,508</u>	<u>\$ 26,760</u>

See notes to consolidated financial statements.

**OMEGA HEALTHCARE INVESTORS, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**Unaudited**  
**September 30, 2009**

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

**Business 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. In July 2008, we assumed operating responsibilities for 15 of our facilities due to the bankruptcy of one of our former operator/tenants. In September 2008, we entered into an agreement to lease these facilities to a new operator/tenant. The new operator/tenant assumed operating responsibility for 13 of the 15 facilities effective September 1, 2008. We continue to be responsible for the two remaining facilities as of September 30, 2009 that are in the process of being transitioned to the new operator pending approval by state regulators. Substantially all depreciation expenses reflected in the consolidated statements of income relate to the ownership of our investment in real estate.

**Basis of Presentation**

The accompanying unaudited consolidated financial statements for Omega Healthcare Investors, Inc. (“Omega” or the “Company”) 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 generally accepted accounting principles (“GAAP”) in the United States for complete financial statements. In our opinion, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. We have evaluated all subsequent events through November 5, 2009, the date the financial statements were issued. 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 Omega, all direct and indirect wholly owned subsidiaries; as well as TC Healthcare I, LLC. (“TC Healthcare”), an entity and interim operator created to operate the 15 facilities we assumed as a result of the bankruptcy of one of our former tenant/operators. We consolidate the financial results of TC Healthcare into our financial statements based on the applicable consolidation accounting literature. We include the operating results and assets and liabilities of these facilities for the period of time that TC Healthcare was responsible for the operations of the facilities. Thirteen of these facilities were transitioned from TC Healthcare to a new tenant/operator on September 1, 2008, however, TC Healthcare continues to be responsible for two remaining facilities as of September 30, 2009 that are in the process of being transitioned to the new operator/tenant pending approval by state regulators. The operating revenues and expenses and related operating assets and liabilities of the two remaining owned and operated facilities are shown on a gross basis in our Consolidated Statements of Income and Consolidated Balance Sheets, respectively. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

**Reclassifications**

Certain amounts in the prior year have been reclassified to reflect the results of discontinued operations. See Note 11 – Discontinued Operations for a discussion of discontinued operations. Such reclassifications have no effect on previously reported earnings or equity.

**Accounts Receivable**

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

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

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
	(in thousands)	
Contractual receivables	\$ 2,382	\$ 2,358
Straight-line receivables	50,524	43,636
Lease inducements	30,029	30,561
Allowance	(1,661)	(1,518)
Accounts receivable – net	<u>\$ 81,274</u>	<u>\$ 75,037</u>

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

Accounts receivable from owned and operated assets consist of amounts due from Medicare and Medicaid programs, other government programs, managed care health plans, commercial insurance companies and individual patients. Amounts recorded include estimated provisions for loss related to uncollectible accounts and disputed items. For additional information, see Note 3 – Owned and Operated Assets.

**Implementation of New Accounting Pronouncements*****Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities***

In June 2008, the FASB issued guidance on Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities. In this new guidance, the FASB concluded that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends or dividend equivalents that participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that shall be included in the two-class method of computing basic and diluted EPS. The guidance does not address awards that contain rights to forfeitable dividends. We adopted this standard on January 1, 2009, and retrospectively adjusted basic EPS data for all periods presented to reflect the two-class method of computing EPS. The impact of the adoption of this guidance on earnings per share was less than \$0.01 per share for the periods presented.



***Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly***

In April 2009, the FASB issued guidance on Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This new guidance provides additional guidance for estimating fair value in accordance with Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This new guidance also includes guidance on identifying circumstances that indicate a transaction is not orderly. It emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. We adopted the standard in the second quarter of 2009 and determined that the adoption had no material effect on our financial position or results of operations.

***Interim Disclosures about Fair Value of Financial Instruments***

In April 2009, the FASB issued guidance on Interim Disclosures about Fair Value of Financial Instruments. This new guidance amends rules for Disclosures about Fair Value of Financial Instruments, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This new guidance also amends Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Under this guidance, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by the guidance. We adopted the new guidance in the second quarter of 2009 and such disclosures are provided in Note 9 – Financial Instruments.

***Fair Value Measurements***

On January 1, 2008, we adopted new guidance for Fair Value Measurements. This new guidance defines fair value, establishes a methodology for measuring fair value and expands the required disclosure for fair value measurements. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The guidance applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. The standard applies prospectively to new fair value measurements performed after the required effective dates, which are as follows: (i) on January 1, 2008, the standard applied to our measurements of the fair values of financial instruments and recurring fair value measurements of non-financial assets and liabilities; and (ii) on January 1, 2009, the standard applied to all remaining fair value measurements, including non-recurring measurements of non-financial assets and liabilities such as measurement of potential impairments of goodwill, other intangible assets and other long-lived assets. It also applies to fair value measurements of non-financial assets acquired and liabilities assumed in business combinations. We evaluated the guidance and determined that the adoption had no impact on our consolidated financial statements.

**Revised Business Combinations**

On December 4, 2007, the FASB issued revised guidance on Business Combinations. The new guidance will significantly change the accounting for and reporting of business combination transactions. The guidance requires companies to recognize, with certain exception, 100 percent of the fair value of the assets acquired, liabilities assumed and non-controlling interest in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control; measure acquirer shares issued as consideration for a business combination at fair value on the date of the acquisition; recognize contingent consideration arrangements at their acquisition date fair value, with subsequent change in fair value generally reflected in earnings; recognition of reacquisition loss and gain contingencies at their acquisition date fair value; and expense as incurred, acquisition related transaction costs. The guidance is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. We adopted the guidance on January 1, 2009, which will impact the accounting only for acquisitions occurring prospectively.

**Subsequent Events**

In the second quarter of 2009, we adopted FASB new guidance on Subsequent Events. The new guidance establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The adoption did not have a material impact on our financial statements.

**NOTE 2 – PROPERTIES**

In the ordinary course of our business activities, we periodically evaluate investment opportunities and extend credit to customers. We also regularly engage in lease and loan extensions and modifications. Additionally, we actively monitor and manage our investment portfolio with the objectives of improving credit quality and increasing investment returns. In connection with 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 be included on the consolidated balance sheet at the lower of cost or estimated fair value (see Note 3– Owned and Operated Assets).

**Leased Property**

Our leased real estate properties, represented by 226 SNFs, seven assisted living facilities (“ALFs”), two rehabilitation hospitals and two independent living facilities (“ILFs”) at September 30, 2009, are leased under provisions of single leases and master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of 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.

**Assets Sold or Held for Sale**

***Assets Sold***

On April 24, 2009, we sold our held-for-sale SNF in Iowa for approximately \$0.1 million resulting in a loss of approximately \$24 thousand.

***Held for Sale***

At September 30, 2009, we had two SNFs classified as held-for-sale with a net book value of approximately \$0.9 million.

**Mortgage Notes Receivable**

Mortgage notes receivable relate to 15 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 four (4) states, operated by four (4) independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding loans. As of September 30, 2009, none of our mortgages were in default or in foreclosure proceedings. The mortgage properties are cross-collateralized with the master lease agreement.

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

**NOTE 3 – OWNED AND OPERATED ASSETS**

At September 30, 2009, we owned and operated two facilities with a total of 275 operating beds that were previously recovered from a bankrupt operator/tenant.

Since November 2007, affiliates of Haven Healthcare (“Haven”), one of our operators/lessees/mortgagors, operated under Chapter 11 bankruptcy protection. Commencing in February 2008, the assets of the Haven facilities were marketed for sale via an auction process to be conducted through proceedings established by the bankruptcy court. The auction process failed to produce a qualified buyer. As a result, and pursuant to our rights as ordered by the bankruptcy court, Haven moved the bankruptcy court to authorize us to credit bid certain of the indebtedness that it owed to us in exchange for taking ownership of and transitioning certain of its assets to a new entity in which we have a substantial ownership interest, all of which was approved by the bankruptcy court on July 4, 2008. Effective as of July 7, 2008, we took ownership and/or possession of 15 facilities previously operated by Haven and TC Healthcare, a new entity and an interim operator, in which we have a substantial economic interest, began operating these facilities on our behalf through an independent contractor.

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

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Effective September 1, 2008, we completed the operational transfer of 12 SNFs and one ALF to affiliates of Formation, in accordance with the terms of the MTA. The 13 facilities are located in Connecticut (5), Rhode Island (4), New Hampshire (3) and Massachusetts (1). As part of the transaction, Genesis Healthcare ("Genesis") has entered into a long-term management agreement with Formation to oversee the day-to-day operations of each of these facilities. The two remaining facilities in Vermont, which are currently being operated by TC Healthcare, will transfer to Formation/Genesis upon the appropriate regulatory approvals expected sometime in the near future. Our consolidated financial statements include the financial position and results of operations of TC Healthcare from July 7, 2008 to September 30, 2009. As of September 30, 2009, our gross investment in land and buildings for the two properties operated by TC Healthcare was approximately \$14.7 million.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands)			
Nursing home revenues	\$ 4,758	\$ 19,341	\$ 13,545	\$ 19,341
Nursing home expenses	4,899	20,833	15,750	20,833
Loss from nursing home operations	<u>\$ (141)</u>	<u>\$ (1,492)</u>	<u>\$ (2,205)</u>	<u>\$ (1,492)</u>

**NOTE 4 – CONCENTRATION OF RISK**

As of September 30, 2009, our portfolio of investments consisted of 256 healthcare facilities, located in 28 states and operated by 25 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately \$1.5 billion at September 30, 2009, with approximately 99% of our real estate investments related to long-term care facilities. This portfolio is made up of 226 SNFs, seven ALFs, two rehabilitation hospitals, two ILFs, fixed rate mortgages on 15 SNFs, two SNFs that are owned and operated and two SNFs that are currently held for sale. At September 30, 2009, we also held miscellaneous investments of approximately \$29.4 million, consisting primarily of secured loans to third-party operators of our facilities.

At September 30, 2009, approximately 24% of our real estate investments were operated by two public companies: Sun Healthcare Group, Inc ("Sun") (14%) and Advocat Inc. ("Advocat") (10%). Our largest private company operators (by investment) were CommuniCare Health Services ("CommuniCare") (21%) and Signature Holding II, LLC ("Signature") (10%). No other operator represents more than 9% of our investments. The three states in which we had our highest concentration of investments were Ohio (22%), Florida (12%) and Pennsylvania (10%) at September 30, 2009.

For the three-month period ended September 30, 2009, our revenues from operations totaled \$49.8 million, of which approximately \$8.8 million were from CommuniCare (18%), \$7.7 million from Sun (16%) and \$5.7 million from Advocat (11%). Our owned and operated assets generated \$4.8 million (10%) of revenue in September 30, 2009. No other operator generated more than 9% of our revenues from operations for the three-month period ended September 30, 2009.

For the nine-month period ended September 30, 2009, our revenues from operations totaled \$148.1 million, of which approximately \$26.4 million were from CommuniCare (18%), \$23.1 million from Sun (16%) and \$16.6 million from Advocat (11%). Our owned and operated assets generated \$13.5 million (9%) of revenue in September 30, 2009. No other operator generated more than 9% of our revenues from operations for the nine-month period ended September 30, 2009.

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Sun and Advocat are subject to the reporting requirements of the SEC and are required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited interim financial information. Sun and Advocat's filings with the SEC can be found at the SEC's website at [www.sec.gov](http://www.sec.gov). We are providing this data for information purposes only, and you are encouraged to obtain Sun's and Advocat's publicly available filings from the SEC.

## **NOTE 5 – DIVIDENDS**

### **Common Dividends**

On October 20, 2009, the Board of Directors declared a common stock dividend of \$0.30 per share, to be paid November 16, 2009 to common stockholders of record on November 2, 2009.

On July 15, 2009, the Board of Directors declared a common stock dividend of \$0.30 per share that was paid August 17, 2009 to common stockholders of record on July 31, 2009.

On April 15, 2009, the Board of Directors declared a common stock dividend of \$0.30 per share that was paid May 15, 2009 to common stockholders of record on April 30, 2009.

On January 15, 2009, the Board of Directors declared a common stock dividend of \$0.30 per share that was paid on February 17, 2009 to common stockholders of record on January 30, 2009.

### **Series D Preferred Dividends**

On October 20, 2009, the Board of Directors declared the regular quarterly dividends for the 8.375% Series D Cumulative Redeemable Preferred Stock ("Series D Preferred Stock") to stockholders of record on November 2, 2009. The stockholders of record of the Series D Preferred Stock on November 2, 2009 will be paid dividends in the amount of \$0.52344 per preferred share on November 16, 2009. The liquidation preference for our Series D Preferred Stock is \$25.00 per share. Regular quarterly preferred dividends for the Series D Preferred Stock represent dividends for the period August 1, 2009 through October 30, 2009.

On July 15, 2009, the Board of Directors declared regular quarterly dividends of approximately \$0.52344 per preferred share on the Series D Preferred Stock that were paid August 17, 2009 to preferred stockholders of record on July 31, 2009.

On April 15, 2009, the Board of Directors declared regular quarterly dividends of approximately \$0.52344 per preferred share on the Series D Preferred Stock that were paid May 15, 2009 to preferred stockholders of record on April 30, 2009.

On January 15, 2009, the Board of Directors declared regular quarterly dividends of approximately \$0.52344 per preferred share on the Series D Preferred Stock that were paid February 17, 2009 to preferred stockholders of record on January 30, 2009.

## **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.

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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 subsidiary ("TRSs"). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The TRS had a net operating loss carry-forward as of September 30, 2009 of \$1.1 million. The loss carry-forward was fully reserved with a valuation allowance due to uncertainties regarding realization.

**NOTE 7 – STOCK-BASED COMPENSATION**

The following is a summary of our stock based compensation expense for the three- and nine- month periods ended September 30, 2009 and 2008, respectively:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(in thousands)			
Restricted stock expense	\$ 480	\$ 526	\$ 1,439	\$ 1,577

**2007 Stock Awards**

In May 2007, we granted 286,908 shares of restricted stock and 247,992 performance restricted stock units ("PRSU") to five executive officers under the 2004 Plan Stock Incentive Plan.

***Restricted Stock Award***

The restricted stock awards vests one-seventh on December 31, 2007 and two-sevenths on December 31, 2008, December 31, 2009, and December 31, 2010, respectively, subject to continued employment on the vesting date (as defined in the agreements filed with the SEC on May 8, 2007). As of September 30, 2009, 122,961 shares of restricted stock have vested under the restricted stock award.

***Performance Restricted Stock Units***

We awarded two types of PRSUs (annual and cliff vesting awards) to the five executives. One half of the PRSU awards vest annually in equal increments on December 31, 2008, December 31, 2009, and December 31, 2010, respectively. The other half of the PRSU awards cliff vest on December 31, 2010. Vesting on both types of awards requires achievement of total shareholder return (as defined in the agreements filed with the SEC on May 8, 2007).

The following table summarizes our total unrecognized compensation cost associated with the restricted stock awards and PRSUs awarded in May 2007 as of September 30, 2009:

	<u>Shares/ Units</u>	<u>Grant Date Fair Value Per Unit/ Share</u>	<u>Total Compensation Cost</u>	<u>Weighted Average Period of Expense Recognition (in months)</u>	<u>Unrecognized Compensation Cost</u>
		(in thousands, except share and per share amounts)			
Restricted stock	286,908	\$ 17.06	\$ 4,895	44	\$ 1,669
2008 Annual performance restricted stock units	41,332	8.78	363	20	-
2009 Annual performance restricted stock units	41,332	8.25	341	32	32
2010 Annual performance restricted stock units	41,332	8.14	336	44	114
3 year cliff vest performance restricted stock units	123,996	6.17	765	44	261
Total	<u>534,900</u>		<u>\$ 6,700</u>		<u>\$ 2,076</u>

As of September 30, 2009, we had 23,664 stock options and 20,401 shares of restricted stock outstanding to directors. The stock options were fully vested as of January 1, 2007 and the restricted shares are scheduled to vest over the next three years. As of September 30, 2009, the unrecognized compensation cost associated with the directors is approximately \$0.2 million.

## NOTE 8 – FINANCING ACTIVITIES AND BORROWING ARRANGEMENTS

### Bank Credit Agreements

On June 30, 2009, we entered into a new \$200 million revolving senior secured credit facility (the "New Credit Facility"). The New Credit Facility is being provided by Bank of America, N.A., Deutsche Bank Trust Company Americas, UBS Loan Finance LLC and General Electric Capital Corporation pursuant to a Credit Agreement, dated as of June 30, 2009 (the "New Credit Agreement"), among the Omega subsidiaries named therein ("Borrowers"), the lenders named therein, and Bank of America, N.A., as administrative agent. At September 30, 2009, we had \$9.0 million outstanding under the New Credit Facility and no letters of credit outstanding, leaving availability of \$191.0 million. The \$9.0 million of outstanding borrowings had a blended interest rate of 6% at September 30, 2009, and is currently priced at LIBOR plus 400 basis points. The New Credit Facility will be used for acquisitions and general corporate purposes.

The New Credit Facility replaces our previous \$255 million senior secured credit facility (the "Prior Credit Facility"), that was terminated on June 30, 2009. The New Credit Facility matures on June 30, 2012, and includes an "accordion feature" that permits us to expand our borrowing capacity to \$300 million in certain circumstances during the first two years.

In the second quarter of 2009, we recorded a one-time, non-cash charge of approximately \$0.5 million relating to the write-off of unamortized deferred financing costs associated with the replacement of the Prior Credit Facility. At September 30, 2009, we incurred approximately \$4.6 million in deferred financing cost related to establishing the New Credit Facility.

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The interest rates per annum applicable to the New Credit Facility are the reserve-adjusted LIBOR Rate, with a floor of 200 basis points (the "Eurodollar Rate"), plus the applicable margin (as defined below) or, at our option, the base rate, which will be the highest of (i) the rate of interest publicly announced by the administrative agent as its prime rate in effect, (ii) the federal funds effective rate from time to time plus 0.50% and (iii) the Eurodollar Rate for a Eurodollar Loan with an interest period of one month plus 1.25%, in each case, plus the applicable margin. The applicable margin with respect to the New Credit Facility is determined in accordance with a performance grid based on our consolidated leverage ratio. The applicable margin may range from 4.75% to 3.7% in the case of Eurodollar Rate advances, from 3.5% to 2.5% in the case of base rate advances, and from 4.75% to 3.75% in the case of letter of credit fees. The default rate on the New Credit Facility is 3.00% above the interest rate otherwise applicable to base rate loans. We are also obligated to pay a commitment fee of 0.50% on the unused portion of our New Credit Facility. In certain circumstances set forth in the New Credit Agreement, we may prepay the New Credit Facility at any time in whole or in part without fees or penalty.

Omega and its subsidiaries that are not Borrowers under the New Credit Facility guarantee the obligations of our Borrower subsidiaries under the New Credit Facility. All obligations under the New Credit Facility and the related guarantees are secured by a perfected first priority lien on certain real properties and all improvements, fixtures, equipment and other personal property relating thereto of the Borrower subsidiaries under the New Credit Facility, and an assignment of leases, rents, sale/refinance proceeds and other proceeds flowing from the real properties.

The New Credit Facility contains customary affirmative and negative covenants, including, without limitations, limitations on investments; limitations on liens; limitations on mergers, consolidations, and transfers of assets; limitations on sales of assets; limitations on transactions with affiliates; and limitations on our transfer of ownership and management. In addition, the New Credit Facility contains financial covenants including, without limitation, with respect to maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum distributions. As of September 30, 2009, we were in compliance with all affirmative and negative covenants, including financial covenants.

### **Equity Shelf Program**

On June 12, 2009, we entered into separate Equity Distribution Agreements (collectively, the "Equity Distribution Agreements") with each of UBS Securities LLC, Deutsche Bank Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, each as sales agents and/or principal (the "Managers"). Under the terms of the Equity Distribution 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 \$100,000,000 (the "Equity Shelf Program"). Sales of the shares, if any, 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, as sales agent, under the applicable Equity Distribution Agreement. During the three months ended September 30, 2009, 1,412,135 shares of our common stock were issued through the Equity Shelf Program for net proceeds of approximately \$23.1 million, net of \$0.5 million of commissions.

### **Amendment to Charter to Increase Authorized Common Stock**

On May 28, 2009, we amended our Articles of Incorporation to increase the number of authorized shares of our common stock from 100,000,000 to 200,000,000 shares. The Board of Directors previously approved the amendment, subject to stockholder approval, and the amendment was approved by our stockholders at the Annual Meeting of Stockholders held on May 21, 2009.

### **Dividend Reinvestment and Common Stock Purchase Plan**

We have a Dividend Reinvestment and Common Stock Purchase Plan (the "DRSPP") that allows for the reinvestment of dividends and the optional purchase of our common stock. Effective May 15, 2009, we reinstated the optional cash purchase component of our DRSPP, which we had temporarily suspended in October 2008.



For the nine month period ended September 30, 2009, we issued 1.1 million shares of common stock for approximately \$17.1 million in net proceeds.

**NOTE 9 - FINANCIAL INSTRUMENTS**

At September 30, 2009 and December 31, 2008, the carrying amounts and fair values of our financial instruments were as follows:

	September 30, 2009		December 31, 2008	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
<b>Assets:</b>				
Cash and cash equivalents	\$ 646	\$ 646	\$ 209	\$ 209
Restricted cash	6,678	6,678	6,294	6,294
Mortgage notes receivable – net	100,531	98,460	100,821	93,892
Other investments	29,440	27,017	29,864	25,343
Totals	<u>\$ 137,295</u>	<u>\$ 132,801</u>	<u>\$ 137,188</u>	<u>\$ 125,738</u>
<b>Liabilities:</b>				
Revolving lines of credit	\$ 9,000	\$ 9,000	\$ 63,500	\$ 59,550
7.00% Notes due 2014	310,000	309,547	310,000	268,712
7.00% Notes due 2016	175,000	167,116	175,000	137,285
(Discount)/Premium on 7.00% Notes – net	(315)	(218)	(303)	(37)
Totals	<u>\$ 493,685</u>	<u>\$ 485,445</u>	<u>\$ 548,197</u>	<u>\$ 465,510</u>

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 of our 2008 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. Accordingly, the estimates presented above are not necessarily indicative of the amounts we would realize in a current market exchange.

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

- Cash and cash equivalents: The carrying amount of cash and cash equivalents and restricted cash reported in the balance sheet approximates fair value because of the short maturity of these instruments (i.e., less than 90 days).
- Mortgage notes receivable: The fair values of the mortgage notes receivables are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings.
- Other investments: Other investments are primarily comprised of: (i) notes receivable; and (ii) an investment in redeemable non-convertible preferred security of an unconsolidated business accounted for using the cost method of accounting under APB No. 18. The fair values of notes receivable are estimated using a discounted cash flow analysis, using interest rates being offered for similar loans to borrowers with similar credit ratings. The fair value of the investment in the unconsolidated business is estimated using discounted cash flow and volatility assumptions or, if available, quoted market value.

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

**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.

In 1999, we filed suit against a former tenant seeking damages based on claims of breach of contract. The defendants denied the allegations made in the lawsuit. In June 2008, we were awarded damages in a jury trial. The case was then settled prior to appeal. In settlement of our claim against the defendants, we agreed in January 2009 to accept a lump sum cash payment of \$6.8 million. The cash proceeds were offset by related expenses incurred of \$2.3 million, resulting in a net gain of \$4.5 million paid in January 2009. We recorded this gain during the first quarter of 2009.

**NOTE 11 – DISCONTINUED OPERATIONS**

The presentation of the net operating results of facilities classified as discontinued operations for all periods presented.

The following table summarizes the results of discontinued operations for facilities sold or held-for-sale during the three- and nine- month periods ended September 30, 2009 and 2008, respectively.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(in thousands)			
<b>Revenues</b>				
Rental income	\$ —	\$ —	\$ —	\$ 15
<b>Expenses</b>	—	—	—	—
Income before gain on sale of assets	—	—	—	15
Gain on assets sold – net	—	—	—	431
<b>Discontinued operations</b>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 446</u>

For the nine months ended September 30, 2008, discontinued operations includes revenue of \$15,000 for one SNF located in California that was sold during the first quarter of 2008, generating a gain of \$0.4 million.

**NOTE 12– EARNINGS PER SHARE**

The computation of basic Earnings Per Share (“EPS”) is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the relevant period. Diluted EPS is computed using the treasury stock method, which is net income 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:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(in thousands, except per share amounts)			
<b>Numerator:</b>				
Income from continuing operations	\$ 21,138	\$ 28,072	\$ 65,872	\$ 61,982
Preferred stock dividends	(2,271)	(2,480)	(6,814)	(7,442)
Numerator for income available to common shareholders from continuing operations - basic and diluted	18,867	25,592	59,058	54,540
Discontinued operations	—	—	—	446
Numerator for net income available to common per share - basic and diluted	<u>\$ 18,867</u>	<u>\$ 25,592</u>	<u>\$ 59,058</u>	<u>\$ 54,986</u>
<b>Denominator:</b>				
Denominator for basic earnings per share	83,740	76,590	82,903	72,737
<b>Effect of dilutive securities:</b>				
Restricted stock	107	100	89	80
Stock option incremental shares	11	12	11	12
Deferred stock	—	—	1	—
Denominator for diluted earnings per share	<u>83,858</u>	<u>76,702</u>	<u>83,004</u>	<u>72,829</u>
<b>Earnings per share – basic:</b>				
Income available to common shareholders from continuing operations	\$ 0.23	\$ 0.33	\$ 0.71	\$ 0.75
Discontinued operations	—	—	—	0.01
Net income – basic	<u>\$ 0.23</u>	<u>\$ 0.33</u>	<u>\$ 0.71</u>	<u>\$ 0.76</u>
<b>Earnings per share – diluted:</b>				
Income available to common shareholders from continuing operations	\$ 0.22	\$ 0.33	\$ 0.71	\$ 0.75
Discontinued operations	—	—	—	0.01
Net income – diluted	<u>\$ 0.22</u>	<u>\$ 0.33</u>	<u>\$ 0.71</u>	<u>\$ 0.76</u>

## 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. This document contains forward-looking statements within the meaning of the federal securities laws, including statements regarding potential financings and potential future changes in reimbursement. 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, 2008 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 manage, re-lease or sell any owned and operated facilities;
- (vi) the availability and cost of capital;
- (vii) our ability to maintain our credit ratings;
- (viii) competition in the financing of healthcare facilities;
- (ix) regulatory and other changes in the healthcare sector;
- (x) the effect of economic and market conditions generally and, particularly, in the healthcare industry;
- (xi) changes in the financial position of our operators;
- (xii) changes in interest rates;
- (xiii) the amount and yield of any additional investments;
- (xiv) changes in tax laws and regulations affecting real estate investment trusts;
- (xv) our ability to maintain our status as a real estate investment trust;
- (xvi) changes in our credit ratings and the ratings of our debt and preferred securities;
- (xvii) the potential impact of a general economic slowdown on governmental budgets and healthcare reimbursement expenditures; and
- (xviii) the effect of the recent financial crisis and severe tightening in the global credit markets.

## 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. In July 2008, we assumed operating responsibilities for 15 of our facilities due to the bankruptcy of one of our former operator/tenants. In September 2008, we entered into an agreement to lease these facilities to a new operator/tenant. The new operator/tenant assumed operating responsibility for 13 of the 15 facilities effective September 1, 2008. We continue to be responsible for the two remaining facilities as of September 30, 2009 that are in the process of being transitioned to the new tenant/operator pending approval by state regulators.

Our consolidated financial statements include the accounts of Omega, all direct and indirect wholly owned subsidiaries as well as TC Healthcare I, LLC (“TC Healthcare”), a new entity and interim operator created to operate the 15 facilities we assumed as a result of the bankruptcy of one of our former tenant/operators. We consolidate the financial results of TC Healthcare into our financial statements based on the applicable consolidation accounting literature. We include the operating results and assets and liabilities of these facilities for the period of time that TC Healthcare was responsible for the operations of the facilities. Thirteen of these facilities were transitioned from TC Healthcare to a new tenant/operator on September 1, 2008; however, TC Healthcare continues to be responsible for two remaining facilities as of September 30, 2009 that are in the process of being transitioned to the new operator/tenant pending approval by state regulators. The operating revenues and expenses and related operating assets and liabilities of the two remaining owned and operated facilities are shown on a gross basis in our Consolidated Statements of Income and Consolidated Balance Sheets, respectively. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

Our portfolio of investments at September 30, 2009, consisted of 256 healthcare facilities, located in 28 states and operated by 25 third-party operators. Our gross investment in these facilities totaled approximately \$1.5 billion at September 30, 2009, with 99% of our real estate investments related to long-term healthcare facilities. This portfolio is made up of (i) 226 SNFs, (ii) seven assisted living facilities (“ALFs”), (iii) two rehabilitation hospitals owned and leased to third parties, (iv) two independent living facilities (“ILFs”), (v) fixed rate mortgages on 15 SNFs, (vi) two SNFs that are owned and operated and (vii) two SNFs that are currently held for sale. At September 30, 2009, we also held other investments of approximately \$29.4 million, consisting primarily of secured loans to third-party operators of our facilities.

## 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, 2008.

## Recent Developments Regarding Government Regulation and Reimbursement

**Reimbursement.** The recent downturn in the U.S. economy and other factors could result in significant cost-cutting at both the federal and state levels, resulting in a reduction of reimbursement rates and levels to our operators under both the Medicare and Medicaid programs. In addition, Congress currently is considering options for health care reform legislation, and some of the options under consideration could result in decreases in payments to SNFs or otherwise diminish the financial condition of individual SNFs. These legislative options include potential changes in the reporting and measurement of quality, the setting of payment levels and the enforcement of the laws and rules governing federal health programs. It is currently uncertain which health care reform options, if any, will be enacted by Congress.

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

**Medicaid.** Current market and economic conditions will likely have a significant impact on state budgets and health care spending. Fiscal conditions have continued to deteriorate, and many states are experiencing significant budget gaps. As a result, despite increases in Federal funding, Medicaid spending from state funds is estimated to decline in both state fiscal years 2009 and 2010. The budget deficits are exacerbated by increased enrollment in Medicaid during 2009 and anticipated increased enrollment in fiscal year 2010. Since the profit margins on Medicaid patients are generally relatively low, substantial reductions in Medicaid reimbursement could adversely affect our operators' results of operations and financial condition, which in turn could negatively impact us.

The American Recovery and Reinvestment Act of 2009 ("ARRA"), which was signed into law on February 17, 2009, provides for enhanced federal Medicaid matching rates that may provide some relief to states. Because states have discretion with respect to their Medicaid programs, some states may address budget shortfalls outside of Medicaid by reallocating state funds that otherwise would have been spent on Medicaid expenditures. As a result, the impact of the ARRA Medicaid funding on our operators will depend on how states choose to use the funding.

In 2007 and early 2008, the Center for Medicare & Medicaid Services ("CMS") issued a number of Medicaid rules that have the potential to reduce the funding available under state Medicaid programs to reimburse long-term care providers. Several of these rules were rescinded on June 30, 2009, including rules related to specialized transportation to schools for children covered by Medicaid, outpatient hospital services and certain provisions related to targeted case management services. In addition, CMS proposed to delay until June 30, 2010 the enforcement of certain provisions of a regulation related to health care-related taxes. However, other regulatory provisions have been implemented, including a reduction in the maximum allowable health care-related taxes that states can impose on providers (reduced from 6 percent to 5.5 percent). This rule could result in lower taxes for providers, but also could result in less overall funding for state Medicaid programs by limiting the ability of states to fund the non-federal share of the Medicaid program. As a result, the operators of our properties could potentially experience reductions in Medicaid funding, which could adversely impact their ability to meet their obligations to us.

**Medicare.** On July 31, 2009, CMS announced a final rule on Medicare's prospective payment system for SNFs for fiscal year 2010. The final rule includes a reduction in payments to nursing homes equal to \$1.05 billion, or 3.3 percent, resulting from a recalibration of the case-mix indices. However, CMS estimates that the fiscal year 2010 market basket adjustment of 2.1 percent, or \$660 million, will offset the \$1.05 billion adjustment, resulting in an aggregate decrease in Medicare payments to SNFs during fiscal year 2010 of approximately \$360 million, or 1.1 percent. The changes may have different impacts on individual SNFs, depending in part on the characteristics of the patient populations of individual facilities. Our operators may receive reduced Medicare payments as a result of the final rule, which could have an adverse effect on their ability to satisfy their financial obligations. The 2010 fiscal year began on October 1, 2009 and ends on September 30, 2010.

In addition to the recalibration of the casemix indices and payment update, CMS finalized a revised case-mix classification system, the RUG-IV, and implementation schedule for fiscal year 2011. The change in case-mix classification methodology has the potential to impact reimbursement, although the ultimate impact of the RUG-IV classification model on reimbursement to the individual operators of our facilities is unknown.

The 2009 fiscal year ended on September 30, 2009. On August 8, 2008, CMS published a final rule on Medicare's prospective payment system for SNFs for fiscal year 2009. At the time, CMS estimated that these payment policies would increase aggregate Medicare payments to SNFs during fiscal year 2009 by \$780 million (compared to fiscal year 2008).

The Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA") became law on July 15, 2008 and made a variety of changes to Medicare, some of which may affect SNFs. For instance, MIPPA extended the therapy caps exceptions process through December 31, 2009. The therapy caps limit the physical therapy, speech-language therapy and occupational therapy services that a Medicare beneficiary can receive during a calendar year. These caps do not apply to therapy services covered under Medicare Part A in SNF, 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. MIPPA retroactively extended the therapy caps exceptions process through December 31, 2009. Expiration of the therapy caps 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.** 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 February 2008, CMS made publicly available on its website the names of all 136 nursing homes targeted in its Special Focus Facility program for underperforming nursing homes. CMS plans to update the list regularly. As another example, in December 2008, 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") will be updated on a monthly basis. In the event any of our operators do not maintain the same or superior levels of quality care as their competitors, patients could choose alternate facilities, which could adversely impact our operators' revenues. In addition, the reporting of such information could lead to future reimbursement policies that reward or penalize facilities on the basis of the reported quality of care parameters.

The Office of Inspector General ("OIG") of the Department of Health and Human Services also has carried out a number of projects focused on the quality of care provided by nursing homes. For example, in September 2008, the OIG released a report based on an analysis of data from CMS' Online Survey and Certification Reporting System ("OSCAR"), which contains the results of all state nursing home surveys. The report notes that over 91 percent of nursing homes surveyed were cited for deficiencies and complaints between 2005 and 2007. The most common deficiencies cited involved quality of care, resident assessments and quality of life. A greater percentage of for-profit nursing homes were cited than not-for-profit and government nursing homes. In addition, the OIG's Work Plan for fiscal year 2010, which describes projects that the OIG plans to address during the fiscal year, includes a number of projects related to nursing homes.

## **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, 2008. 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 2008 Annual Report on Form 10-K in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

### **Recent Accounting Pronouncements:**

#### ***Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities***

In June 2008, the FASB issued guidance on Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities . In this new guidance, the FASB concluded that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends or dividend equivalents that participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that shall be included in the two-class method of computing basic and diluted EPS. The guidance does not address awards that contain rights to forfeitable dividends. We adopted this standard on January 1, 2009, and retrospectively adjusted basic EPS data for all periods presented to reflect the two-class method of computing EPS. The impact of the adoption of this guidance on earnings per share was less than \$0.01 per share for the periods presented.

#### ***Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly***

In April 2009, the FASB issued guidance on Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This new guidance provides additional guidance for estimating fair value in accordance with Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This new guidance also includes guidance on identifying circumstances that indicate a transaction is not orderly. It emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique(s) used, the objective of a fair value measurement remains the same. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. We adopted the standard in the second quarter of 2009 and determined that the adoption had no material effect on our financial position or results of operations.



***Interim Disclosures about Fair Value of Financial Instruments***

In April 2009, the FASB issued guidance on Interim Disclosures about Fair Value of Financial Instruments. This new guidance amends rules for Disclosures about Fair Value of Financial Instruments, to require an entity to provide disclosures about fair value of financial instruments in interim financial information. This new guidance also amends, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. Under this guidance, a publicly traded company shall include disclosures about the fair value of its financial instruments whenever it issues summarized financial information for interim reporting periods. In addition, an entity shall disclose in the body or in the accompanying notes of its summarized financial information for interim reporting periods and in its financial statements for annual reporting periods the fair value of all financial instruments for which it is practicable to estimate that value, whether recognized or not recognized in the statement of financial position, as required by the guidance. We adopted the new guidance in the second quarter of 2009 and such disclosures are provided in Note 9 – Financial Instruments.

***Fair Value Measurements***

On January 1, 2008, we adopted new guidance for Fair Value Measurements. This new guidance defines fair value, establishes a methodology for measuring fair value and expands the required disclosure for fair value measurements. It emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The guidance applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those pronouncements that fair value is the relevant measurement attribute. Accordingly, this statement does not require any new fair value measurements. The standard applies prospectively to new fair value measurements performed after the required effective dates, which are as follows: (i) on January 1, 2008, the standard applied to our measurements of the fair values of financial instruments and recurring fair value measurements of non-financial assets and liabilities; and (ii) on January 1, 2009, the standard applied to all remaining fair value measurements, including non-recurring measurements of non-financial assets and liabilities such as measurement of potential impairments of goodwill, other intangible assets and other long-lived assets. It also applies to fair value measurements of non-financial assets acquired and liabilities assumed in business combinations. We evaluated the guidance and determined that the adoption had no impact on our consolidated financial statements.

***Revised Business Combinations***

On December 4, 2007, the FASB issued revised guidance on Business Combinations. The new guidance will significantly change the accounting for and reporting of business combination transactions. The guidance requires companies to recognize, with certain exception, 100 percent of the fair value of the assets acquired, liabilities assumed and non-controlling interest in acquisitions of less than a 100 percent controlling interest when the acquisition constitutes a change in control; measure acquirer shares issued as consideration for a business combination at fair value on the date of the acquisition; recognize contingent consideration arrangements at their acquisition date fair value, with subsequent change in fair value generally reflected in earnings; recognition of reacquisition loss and gain contingencies at their acquisition date fair value; and expense as incurred, acquisition related transaction costs. The guidance is effective for fiscal years beginning after December 15, 2008 and early adoption is prohibited. We adopted the guidance on January 1, 2009, which will impact the accounting only for acquisitions occurring prospectively.

***Subsequent Events***

In the second quarter of 2009, we adopted FASB new guidance on Subsequent Events. The new guidance establishes the accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The adoption did not have a material impact on our financial statements.

## 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 September 30, 2009 and 2008**

#### *Operating Revenues*

Our operating revenues for the three months ended September 30, 2009 totaled \$49.8 million, a decrease of \$10.2 million over the same period in 2008. The \$10.2 million decrease relates primarily to: (i) a decrease in nursing home revenue of owned and operated facilities of \$14.6 million; offset by (ii) an increase in rental income of \$4.0 million due to approximately \$60.0 million of new investments acquired in September and December of 2008. As of September 1, 2008, we completed the operational transfer to a third party operator of 13 of the 15 facilities that we had previously taken back in connection with the Haven bankruptcy, thereby reducing the number of owned and operated facilities from 15 facilities to 2 facilities.

#### *Operating Expenses*

Operating expenses for the three months ended September 30, 2009 totaled \$18.8 million, a decrease of approximately \$15.2 million over the same period in 2008. The decrease was primarily due to: (i) a decrease in nursing home expenses of owned and operated facilities of \$15.9 million reflecting the operational transfer of 13 of the 15 former Haven facilities as of September 1, 2008; offset by (ii) increase depreciation and amortization expense of \$1.0 million associated with the \$60.0 million of new investments acquired in September and December of 2008.

#### *Other Income (Expense)*

For the three months ended September 30, 2009, total other expenses were \$9.9 million, an increase of approximately \$0.1 million over the same period in 2008. The increase was primarily due to a \$0.2 million increase of deferred financing costs related to replacing the former \$255 million credit facility and a reduction of \$0.1 million of interest income on our overnight investment, offset by a decrease of \$0.2 million of interest expense due to decrease in borrowings outstanding and lower rates.

#### *Income from Continuing Operations*

Income from continuing operations for the three months ended September 30, 2009 was \$21.1 million compared to \$28.1 million for the same period in 2008. The decrease in income from continuing operations is the result of the factors described above.

#### *Discontinued Operations*

Discontinued operations generally relate to properties we disposed of or plan to dispose of and have no continuing involvement or cash flows with the operator. These assets are included in assets held for sale – net in our consolidated balance sheet prior to their sale/disposal. As of September 30, 2009 and September 30, 2008, we have no assets from discontinued operations.

For the three months ended September 30, 2009 and 2008, no revenue or expense was generated from discontinued operations.

**Nine Months Ended September 30, 2009 and 2008**

*Operating Revenues*

Our operating revenues for the nine months ended September 30, 2009 totaled \$148.1 million, an increase of \$3.5 million over the same period in 2008. The \$3.5 million increase relates primarily to: (i) additional rental income of \$8.6 million primarily due to acquisitions completed since March 2008, (ii) additional mortgage income of \$2.2 million associated with the mortgage financing of seven new facilities in April 2008; offset by (iii) a decrease of \$5.8 million nursing home revenues of owned and operated assets due to the timing of ownership and a decrease of \$1.8 million of miscellaneous revenue. As of September 1, 2008, we completed the operational transfer to a third party operator of 13 of the 15 facilities that we had previously taken back in connection with the Haven bankruptcy, thereby reducing the number of owned and operated facilities from 15 facilities to 2 facilities. In 2008, we received past due rent and late fees of approximately \$1.9 million.

*Operating Expenses*

Operating expenses for the nine months ended September 30, 2009 totaled \$57.8 million, a decrease of approximately \$7.1 million over the same period in 2008. The decrease was primarily due to: (i) a decrease in nursing home expenses of owned and operated facilities of \$5.1 million reflecting the operational transfer of 13 of the 15 former Haven facilities as of September 1, 2008; (ii) a decrease in provision for uncollectible accounts receivable associated with Haven of \$4.3 million and (iii) a net change of \$1.5 million provision for impairment charge, offset by increased depreciation and amortization expense of \$3.8 million associated with new investments acquired or constructed since March 2008.

*Other Income (Expense)*

For the nine months ended September 30, 2009, total other expenses were \$24.3 million, as compared to \$29.6 million for the same period in 2008, a decrease of \$5.3 million. The decrease was due to: (i) lower average borrowings rates on our outstanding borrowings, and (ii) an increase of \$4.0 million associated with cash received for a legal settlement in 2009 compared to the same period of 2008, partially offset by \$0.5 million associated with the write-off of unamortized deferred financing costs related to replacing the former \$255 million credit facility during the second quarter of 2009.

*Income from Continuing Operations*

Income from continuing operations for the nine months ended September 30, 2009 was \$65.9 million compared to \$62.0 million for the same period in 2008. The increase in income from continuing operations is the result of the factors described above.

*Discontinued Operations*

Discontinued operations generally relate to properties we disposed of or plan to dispose of and have no continuing involvement or cash flows with the operator. These assets are included in assets held for sale – net in our consolidated balance sheet prior to their sale/disposal.

For the nine months ended September 30, 2009, no revenue or expense generated from discontinued operations. For the nine months ended September 30, 2008, discontinued operations includes revenue of \$15,000 for one SNF located in California that was sold during the first quarter of 2008, generating a gain of \$0.4 million.

**Funds From Operations**

Our funds from operations available to common stockholders ("FFO"), for the three months ended September 30, 2009, was \$30.0 million, compared to \$23.9 million, for the same period in 2008.

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. 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.

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 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. We offer this measure to assist the users of our financial statements in analyzing our financial performance; however, this is not a measure of financial performance under GAAP and 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 reconciles FFO to net income available to common stockholders, as determined under GAAP, for the three- and nine- months ended September 30, 2009 and 2008:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	(in thousands)			
<b>Net income available to common stockholders</b>	<b>\$ 18,867</b>	<b>\$ 25,592</b>	<b>\$ 59,058</b>	<b>\$ 54,986</b>
(Deduct gain) add back loss from real estate dispositions	—	(11,806)	24	(12,283)
Sub-total	18,867	13,786	59,082	42,703
Elimination of non-cash items included in net income:				
Depreciation and amortization	11,093	10,076	33,014	29,185
<b>Funds from operations available to common stockholders</b>	<b>\$ 29,960</b>	<b>\$ 23,862</b>	<b>\$ 92,096</b>	<b>\$ 71,888</b>

**Portfolio and Recent Developments**

In August 2009, we completed construction of a replacement facility in Texas. Annual rent is expected to be approximately \$0.7 million for this facility.

*Assets Sold*

On April 24, 2009, we sold our held-for-sale SNF in Iowa for approximately \$0.1 million resulting in a loss of approximately \$24 thousand.

At September 30, 2009, we had two SNFs classified as held-for-sale with a net book value of approximately \$0.9 million.

### Liquidity and Capital Resources

At September 30, 2009, we had total assets of \$1.3 billion, stockholders' equity of \$814.2 million and debt of \$493.7 million, which represents approximately 37.8% of our total capitalization.

The following table shows the amounts due in connection with the contractual obligations described below as of September 30, 2009.

	<b>Payments due by period</b>				
	<b>Total</b>	<b>Less than 1 year</b>	<b>1-3 years (in thousands)</b>	<b>3-5 years</b>	<b>More than 5 years</b>
Debt (1)	\$ 494,000	\$ -	\$ 9,000	\$ 310,000	\$ 175,000
Operating lease obligations(2)	3,052	286	595	628	1,543
<b>Total</b>	<b>\$ 497,052</b>	<b>\$ 286</b>	<b>\$ 9,595</b>	<b>\$ 310,628</b>	<b>\$ 176,543</b>

(1) The \$494.0 million includes \$310 million aggregate principal amount of 7% Senior Notes due April 2014, \$175 million aggregate principal amount of 7% Senior Notes due January 2016, and \$9.0 million in borrowings under the \$200 million revolving senior secured credit facility (the "New Credit Facility") that matures in June 30, 2012.

(2) Relates primarily to the lease at the corporate headquarters.

### Financing Activities and Borrowing Arrangements

#### Bank Credit Agreements

On June 30, 2009, we entered into a new \$200 million revolving senior secured credit facility (the "New Credit Facility"). The New Credit Facility is being provided by Bank of America, N.A., Deutsche Bank Trust Company Americas, UBS Loan Finance LLC and General Electric Capital Corporation pursuant to a Credit Agreement, dated as of June 30, 2009 (the "New Credit Agreement"), among the Omega subsidiaries named therein ("Borrowers"), the lenders named therein, and Bank of America, N.A., as administrative agent. At September 30, 2009, we had \$9.0 million outstanding under the New Credit Facility and no letters of credit outstanding, leaving availability of \$191.0 million. The \$9.0 million of outstanding borrowings had an interest rate of 6% at September 30, 2009, and is currently priced at LIBOR plus 400 basis points. The New Credit Facility will be used for acquisitions and general corporate purposes.

The New Credit Facility replaces our previous \$255 million senior secured credit facility (the "Prior Credit Facility"), that was terminated on June 30, 2009. The New Credit Facility matures on June 30, 2012, and includes an "accordion feature" that permits us to expand our borrowing capacity to \$300 million in certain circumstances during the first two years.

In the second quarter of 2009, we recorded a one-time, non-cash charge of approximately \$0.5 million relating to the write-off of unamortized deferred financing costs associated with the replacement of the Prior Credit Facility. At September 30, 2009, we incurred approximately \$4.6 million in deferred financing cost related to establishing the New Credit Facility.

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The interest rates per annum applicable to the New Credit Facility are the reserve-adjusted LIBOR Rate, with a floor of 200 basis points (the "Eurodollar Rate"), plus the applicable margin (as defined below) or, at our option, the base rate, which will be the highest of (i) the rate of interest publicly announced by the administrative agent as its prime rate in effect, (ii) the federal funds effective rate from time to time plus 0.50% and (iii) the Eurodollar Rate for a Eurodollar Loan with an interest period of one month plus 1.25%, in each case, plus the applicable margin. The applicable margin with respect to the New Credit Facility is determined in accordance with a performance grid based on our consolidated leverage ratio. The applicable margin may range from 4.75% to 3.7% in the case of Eurodollar Rate advances, from 3.5% to 2.5% in the case of base rate advances, and from 4.75% to 3.75% in the case of letter of credit fees. The default rate on the New Credit Facility is 3.00% above the interest rate otherwise applicable to base rate loans. We are also obligated to pay a commitment fee of 0.50% on the unused portion of our New Credit Facility. In certain circumstances set forth in the New Credit Agreement, we may prepay the New Credit Facility at any time in whole or in part without fees or penalty.

Omega and its subsidiaries that are not Borrowers under the New Credit Facility guarantee the obligations of our Borrower subsidiaries under the New Credit Facility. All obligations under the New Credit Facility and the related guarantees are secured by a perfected first priority lien on certain real properties and all improvements, fixtures, equipment and other personal property relating thereto of the Borrower subsidiaries under the New Credit Facility, and an assignment of leases, rents, sale/refinance proceeds and other proceeds flowing from the real properties.

The New Credit Facility contains customary affirmative and negative covenants, including, without limitations, limitations on investments; limitations on liens; limitations on mergers, consolidations, and transfers of assets; limitations on sales of assets; limitations on transactions with affiliates; and limitations on our transfer of ownership and management. In addition, the New Credit Facility contains financial covenants including, without limitation, with respect to maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum distributions. As of September 30, 2009, we were in compliance with all affirmative and negative covenants, including financial covenants.

*Equity Shelf Program*

On June 12, 2009, we entered into separate Equity Distribution Agreements (collectively, the "Equity Distribution Agreements") with each of UBS Securities LLC, Deutsche Bank Securities Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, each as sales agents and/or principal (the "Managers"). Under the terms of the Equity Distribution 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 \$100,000,000 (the "Equity Shelf Program"). Sales of the shares, if any, 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, as sales agent, under the applicable Equity Distribution Agreement. During the three months ended September 30, 2009, 1,412,135 shares of our common stock were issued through the Equity Shelf Program for net proceeds of \$23.1 million, net of \$0.5 million of commissions.

*Amendment to Charter to Increase Authorized Common Stock*

On May 28, 2009, we amended our Articles of Incorporation to increase the number of authorized shares of our common stock from 100,000,000 to 200,000,000 shares. The Board of Directors previously approved the amendment, subject to stockholder approval, and the amendment was approved by our stockholders at the Annual Meeting of Stockholders held on May 21, 2009.

*Dividend Reinvestment and Common Stock Purchase Plan*

We have a Dividend Reinvestment and Common Stock Purchase Plan (the "DRSPP") that allows for the reinvestment of dividends and the optional purchase of our common stock. Effective May 15, 2009, we reinstated the optional cash purchase component of our DRSPP, which we had temporarily suspended in October 2008.

For the nine month period ended September 30, 2009, we issued 1.1 million shares of common stock for approximately \$17.1 million in net proceeds.

### **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 New Credit Facility 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. The credit agreement defines FFO as net income (or loss) plus depreciation and amortization and shall be adjusted for charges related to: (i) restructuring our debt; (ii) redemption of preferred stock; (iii) litigation charges up to \$5.0 million; (iv) non-cash charges for accounts and notes receivable up to \$5.0 million; (v) non-cash compensation related expenses; (vi) non-cash impairment charges; and (vii) tax liabilities in an amount not to exceed \$8.0 million.

For the three- and nine- months ended September 30, 2009, we paid total dividends of \$27.3 million and \$81.4 million, respectively.

On October 20, 2009, the Board of Directors declared a common stock dividend of \$0.30 per share to be paid November 16, 2009 to common stockholders of record on November 2, 2009.

On October 20, 2009, the Board of Directors also declared the regular quarterly dividends for our 8.375% Series D Cumulative Redeemable Preferred Stock to stockholders of record on November 2, 2009. The stockholders of record of the Series D Preferred Stock on November 2, 2009 will be paid dividends in the amount of \$0.52344 per preferred share on November 16, 2009. The liquidation preference for our Series D Preferred Stock is \$25.00 per share.

### **Liquidity**

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

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

- normal recurring expenses;
- debt service payments;
- preferred stock dividends;
- 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. Current economic conditions reduced the availability of cost-effective capital in recent quarters, and accordingly our level of new investments has decreased. As economic conditions and capital markets stabilize, we look forward to funding new investments as conditions warrant. However, we cannot predict the timing or level of future investments.

Cash and cash equivalents totaled \$0.6 million as of September 30, 2009, an increase of \$0.4 million as compared to the balance at December 31, 2008. 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* – Net cash flow from operating activities generated \$114.4 million for the nine months ended September 30, 2009, as compared to \$60.1 million for the same period in 2008, an increase of \$54.3 million. The increase in operating cash is primarily due to (i) income from new investments made since March 2008, and (ii) in 2008, we used cash to operate the facilities we assumed as a result of the bankruptcy of one of our former tenant/operators.

*Investing Activities* – Net cash flow from investing activities was an outflow of \$13.7 million for the nine months ended September 30, 2009, as compared to an outflow of \$158.3 million for the same period in 2008. The decrease in cash outflow from investing activities relates primarily to the change in acquisition activities. During 2008, we acquired one facility for \$5.2 million in the first quarter, nine facilities for \$47.4 million in the second quarter and six facilities for \$40 million in the third quarter. In 2009, we have not acquired any facilities. We also originated a \$74.9 million mortgage loan with one of our operators in the second quarter of 2008. In 2009, proceeds from the sale of real estate investment decreased year-over-year by \$31.8 million. In addition, in 2009, other investments –net generated net cash compared to a use of cash for other investment –net in 2008.

*Financing Activities* – Net cash flow from financing activities was an outflow of \$100.3 million for the nine months ended September 30, 2009 as compared to an inflow of \$99.9 million for the same period in 2008. The \$200.2 million change in financing activities was primarily a result of: (i) an increase in net payments of \$1.1 million on our credit facilities and other borrowings in 2009 compared to our Prior Credit Facility and other borrowings in 2008, (ii) \$4.6 million in payments of deferred financing costs associated with the New Credit Facility in 2009, (iii) an increase in dividend payment of \$10.4 million due to the issuance of common stock, primarily during the second and third quarter of 2008, offset by (iv) a decrease in dividend reinvestment proceeds of \$13.4 million due to the temporary suspension of the optional cash purchase component of our DRSP in October 2008 and later reinstated in May 2009, (v) \$23.1 million net proceeds from our common stocks issued through the Equity Shelf Program and (vi) \$196.0 million net proceeds from the common stock offering in the second and third quarter of 2008.



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

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

The interest rate charged on our New Credit Facility can vary based on the interest rate option we choose to utilize. The interest rates per annum applicable to the New Credit Facility are the reserve-adjusted LIBOR Rate, with a floor of 200 basis points (the “Eurodollar Rate”), plus the applicable margin (as defined below) or, at our option, the base rate, which will be the highest of (i) the rate of interest publicly announced by the administrative agent as its prime rate in effect, (ii) the federal funds effective rate from time to time plus 0.50% and (iii) the Eurodollar Rate for a Eurodollar Loan with an interest period of one month plus 1.25%, in each case, plus the applicable margin. The applicable margin with respect to the New Credit Facility is determined in accordance with a performance grid based on our consolidated leverage ratio. The applicable margin may range from 4.75% to 3.75% in the case of Eurodollar Rate advances, from 3.5% to 2.5% in the case of base rate advances, and from 4.75% to 3.75% in the case of letter of credit fees. As of September 30, 2009, the total amount of outstanding debt subject to interest rate fluctuations was \$9.0 million. A hypothetical 100 basis point change in short-term interest rates would result in an increase or decrease in interest expense of approximately \$0.1 million per year, assuming a consistent capital structure.

For additional information, refer to Item 7A as presented in our annual report on Form 10-K for the year ended December 31, 2008.

### **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 that are designed to provide reasonable assurance that the information that we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, 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 September 30, 2009. 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 September 30, 2009.

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 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, 2008 with the Securities and Exchange Commission on March 2, 2009, which sets forth our risk factors in Item 1A therein. We have not experienced any material changes from the risk factors previously described therein.

**Item 6 – Exhibits**

Exhibit No.	Description
10.1	Tenth Amendment to Consolidated Amended and Restated Master Lease dated as of September 8, 2009, by and between Sterling Acquisition Corp. and Diversicare Leasing Corp., together with the Seventh Amendment thereto dated October 24, 2008 and the Ninth Amendment thereto dated May 5, 2009.
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.

**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: November 5, 2009  
C. Taylor Pickett  
Chief Executive Officer

By: /S/ C. TAYLOR PICKETT

Date: November 5, 2009  
Robert O. Stephenson

By: /S/ ROBERT O. STEPHENSON  
Chief Financial Officer



SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

This Seventh Amendment to Consolidated Amended and Restated Master Lease (this "Amendment") is executed and delivered as of October 24, 2008 by and between STERLING ACQUISITION CORP., a Kentucky corporation ("Lessor"), the address of which is 9690 Deereco Road, Suite 100, Timonium, MD 21093, and DIVERSICARE LEASING CORP., a Tennessee corporation, the address of which is 1621 Galleria Boulevard, Brentwood, TN 37027.

RECITALS:

A. Lessee has executed and delivered to Lessor a Consolidated Amended and Restated Master Lease dated as of November 8, 2000, but effective as of October 1, 2000 (the "Master Lease"), as amended by a First Amendment to Consolidated Amended and Restated Master Lease dated as of September 30, 2001 (the "First Amendment"), a Second Amendment to Consolidated Amended and Restated Master Lease dated as of June 15, 2005 (the "Second Amendment"), a Third Amendment to Consolidated Amended and Restated Master Lease dated as of October 20, 2006 (the "Third Amendment"), a Fourth Amendment to Consolidated Amended and Restated Master Lease dated as of April 1, 2007 (the "Fourth Amendment"), a Fifth Amendment to Consolidated Amended and Restated Master Lease dated as of August 10, 2007 (the "Fifth Amendment"), and a Sixth Amendment to Consolidated Amended and Restated Master Lease dated as of March 14, 2008 (the "Sixth Amendment") (collectively, the "Existing Master Lease") pursuant to which Lessee leases from Lessor certain healthcare facilities.

B. Lessee and Lessor desire to amend certain terms used and set forth in the Sixth Amendment and to provide Lessor and Lessee with certain additional rights and options under the Sixth Amendment with respect to the Paris Facility described therein.

NOW THEREFORE, the parties agree as follows:

1. Definitions.

(a) Any capitalized term used but not defined in this Amendment will have the meaning assigned to such term in the Master Lease. From and after the date of this Amendment, each reference in the Existing Master Lease or the other Transaction Documents to the "Lease" or "Master Lease" means, as applicable, the Existing Master Lease as modified by this Amendment.

(b) The following definitions defined in Section 1(b) of the Sixth Amendment are hereby amended in their entirety and restated as follows:

"Maximum Funded Amount" means Seven Million Nine Hundred Thirty-Four Thousand Five Hundred Fifty-Five and No/100 Dollars (\$7,934,555.00).

"Paris Cash Flow": For any period, the sum of (a) Net Income of Lessee arising solely from the operation of the Paris Facility for the applicable period, and (b) the amounts deducted in computing Lessee's Net Income for the period for (i) the provision for self-insured, professional and general liability, (ii) depreciation, (iii) amortization, (iv) Paris Base Rent, (v) interest (including payments in the nature of interest under Capitalized Leases and interest on any Purchase Money Financing for personal property used in connection with the Paris Facility), (vi) income taxes (or, if greater, income tax actually paid during the period attributable to the Paris Facility), and (vii) management fees payable in connection with the Paris Facility, and less (c) an imputed management fee equal to five percent (5%) of Gross Revenues for the Paris Facility, and less (d) the Cash Cost of Self-Insured Professional and General Liability attributable to the Paris Facility. The Cash Cost of Self-Insured Professional and General Liability shall mean: For any period, the average total per bed cash expenditure associated with professional and general liability related settlements, judgments, legal fees or administration for skilled nursing facilities in the State of Texas as from time to time estimated and published by Aon Risk Consultants, or its successors, for the American Health Care Association, multiplied by the average number of occupied beds in the Paris Facility.

(c) The following new definitions are hereby added to Section 1(b) of the Sixth Amendment:

"Initial Rent Coverage Determination Date" shall mean the date that is the first day of the first calendar month immediately following the expiration of the first eighteen (18) months after the In Service Date.

"Rent Coverage Determination Date" shall mean and include the Initial Rent Coverage Determination Date and the first day of each successive calendar month thereafter.

2. Amendments to Certain Schedules Attached to the Sixth Amendment. Schedule 1, Construction Budget, attached to the Sixth Amendment is amended in its entirety and replaced with Schedule 1, Construction Budget, attached to this Amendment.

3. Amendments to Certain provisions of Existing Master Lease. Section 2 of the Sixth Amendment is hereby amended in its entirety and restated as follows:

"2. Paris Base Rent; Rent Reset; Termination Options; a "Texas Facility"; Delay.

(a) Paris Base Rent Commencement Date. Commencing as of the Paris Base Rent Commencement Date, Lessee shall pay the Paris Base Rent pursuant to the terms and conditions of Article III of the Master Lease. Notwithstanding the commencement of payment of the Paris Base Rent by Lessee, in the event that the construction of the Paris Facility has not been completed and the Maximum Funded amount has not been advanced by the Paris Rent Commencement Date, Lessor shall continue to make further advances of the Funded Amount, up to but not exceeding the Maximum Funded Amount, on or after the Paris Base Rent Commencement Date in accordance with the terms of this Amendment.

(b) Paris Base Rent Reset. If Lessee has not elected to terminate the Master Lease as to the Paris Facility pursuant to sub-section (c) below, and subject to sub-section (e), below, as soon as reasonably possible after the fifth anniversary of the Paris Base Rent Commencement Date, Lessor and Lessee shall calculate the Paris Formula Rent. If the Paris Formula Rent is greater than the Paris Scheduled Rent, then the Paris Base Rent shall be reset to the Paris Formula Rent effective as of the Paris Rent Reset Date.

(c) Lessee's Paris Termination Option. Subject to sub-section (e), below, pursuant to written notice ("Lessee's Paris Termination Notice") delivered by Lessee to Lessor not more than thirty (30) days prior to, nor later than, the fifth anniversary of the Paris Base Rent Commencement Date ("Lessee's Paris Termination Period"), Lessee may elect to terminate the Master Lease as to the Paris Facility only. After delivery of the Paris Termination Notice, this Lease shall be terminated as to the Paris Facility only, effective on the earlier of (i) a date set by written notice given by Lessor at least thirty (30) days prior to the effective date, and (ii) the first day of the sixth month after fifth anniversary of the Paris Base Rent Commencement Date (the "Lessee Paris Termination Date"). If Lessee's Paris Termination Notice is delivered, then Lessee shall have no further obligation to pay Paris Base Rent for periods from and after the Lessee Paris Termination Date.

(d) Lessor's Paris Termination Option. As soon as reasonably possible after the Initial Rent Coverage Determination Date and, subject to sub-section (e), below, each subsequent Rent Coverage Determination Date thereafter occurring up to but not later than the date that is thirty (30) days prior to the commencement of Lessee's Paris Termination Period, Lessor and Lessee shall calculate the Paris Cash Flow for the six (6) month period ending immediately prior to such Rent Coverage Determination Date. In the event that the average annual Paris Cash Flow as determined, on a rolling basis, for the six (6) month period ending immediately prior to any such Rent Coverage Determination Date is less than the Paris Base Rent multiplied by 1.2 (the "Minimum Rent Coverage"), then Lessor may elect to terminate the Master Lease as to the Paris Facility only. Such election shall be made by delivery of written notice ("Lessor's Paris Termination Notice") to Lessee not more than thirty (30) days after the determination by Lessor and Lessee of the Paris Cash Flow for the Rent Coverage Determination Date in question (but, as to the final such Rent Coverage Determination Date, prior to the commencement of Lessee's Paris Termination Period). Upon delivery of Lessor's Paris Termination Notice, the Master Lease shall be terminated as to the Paris Facility only, effective on the earlier of (i) a date set by written notice given by Lessor at least thirty (30) days prior to the effective date and (ii) the first day of the sixth calendar month after the date of Lessor's Paris Termination Notice ("Lessor's Paris Termination Date"). If Lessor's Paris Termination Notice is delivered, then Lessee shall have no further obligation to pay Paris Base Rent for periods from and after Lessor's Paris Termination Date.

(e) Elimination of Termination by Lessee or Lessor and Rent Reset. If for any Rent Coverage Determination Date occurring up to but not later than thirty (30) days prior to the commencement of Lessee's Paris Termination Period, the average annual Paris Cash Flow as determined, on a rolling basis, for the six (6) month period ending immediately prior to such Rent Coverage Determination Date is more than the Paris Base Rent multiplied by 1.3 (the "Maximum Rent Coverage") then: (i) the right of the Lessee to terminate the Master Lease as to the Paris Facility provided for in sub-section (c), above, shall automatically terminate and be of no further force and effect, (ii) the right of the Lessor to terminate the Master Lease provided for in sub-section (d), above, shall automatically terminate and be of no further force and effect, and (iii) the Paris Base Rent reset provisions set forth in sub-section (b), above, shall automatically terminate and be of no further force and effect. In such event, Lessee shall not have the right to elect to terminate the Master Lease on the fifth anniversary of the Paris Base Rent Commencement Date as provided in sub-section (e), above, Lessor shall no longer have the right to elect to terminate the Master Lease due to the failure of Lessee to achieve the Minimum Rent Coverage as provided in sub-section (d), above, and there shall be no resetting of the Paris Base Rent to the Paris Formula Rent after the fifth anniversary of the Paris Base Rent Commencement Date as provided in sub-section (b), above. Thereafter, the defined terms "Paris Formula Rent" and "Paris Rent Reset Date" and the provisions of sub-section (a)(4) of the defined term "Paris Base Rent" regarding adjustment of the Paris Base Rent to the Paris Formula Rent shall have no further force and effect and shall be deleted from Section 1 of the Sixth Amendment.

(f) Texas Facility. For all purposes under this Lease other than the calculation of Base Rent, the Paris Facility shall constitute a Texas Facility.

(g) Delay. In the event that Lessee is unable to obtain completion of the Paris Facility as described in Section 6(a) below by the Target Completion Date due to an Event of Force Majeure or Lessor Delay, then the Target Completion Date and the Paris Base Rent Commencement Date shall each be extended by one (1) day for each one (1) day of delay in the completion of the Paris Facility caused by such Event of Force Majeure or Lessor Delay. For purposes of this Amendment, the term "Lessor Delay" shall mean any delay in achieving completion of the Paris Facility as described in Section 6(a) below arising solely and directly as a result of:

(i) Lessor's failure to furnish any information or documents in accordance with this Amendment and the continuation of such failure after the receipt of written notice from Lessee to Lessor, to the extent such failure causes a delay in completion;

(ii) Lessor's failure or delay in giving approval or consent (or comments or corrections) where Lessor's approval or consent (or comments or corrections), as applicable, is required herein and has been requested in writing by Lessee, to the extent such failure or delay causes a delay in completion; and

(iii) Lessor's failure to perform or comply with its obligations under this Amendment and the continuation of such failure after the receipt of written notice from Lessee to Lessor, to the extent such failure causes a delay."

4. Representations and Warranties of Lessee. Lessee hereby represents and warrants to Lessor that (i) it has the right and power and is duly authorized to enter into this Amendment; and (ii) the execution of this Amendment does not and will not constitute a breach of any provision contained in any agreement or instrument to which Lessee is or may become a party or by which Lessee is or may be bound or affected.

5. Execution and Counterparts. This Amendment may be executed in any number of counterparts, each of which, when so executed and delivered, shall be deemed to be an original, but when taken together shall constitute one and the same Amendment.

6. Headings. Section headings used in this Amendment are for reference only and shall not affect the construction of the Amendment.

7. Enforceability. Except as expressly and specifically set forth herein, the Existing Master Lease remains unmodified and in full force and effect. In the event of any discrepancy between the Existing Master Lease and this Amendment, the terms and conditions of this Amendment will control and the Existing Master Lease is deemed amended to conform hereto.

[SIGNATURE PAGES AND ACKNOWLEDGEMENTS FOLLOW]

*Signature Page to*  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

LESSOR:

STERLING ACQUISITION CORP.,  
a Kentucky corporation

By: /s/ Taylor Pickett  
Name: Taylor Pickett  
Title: Chief Executive Officer

STATE OF MARYLAND )

COUNTY OF BALTIMORE )

This instrument was acknowledged before me on the 23rd day of October, 2008, by Taylor Pickett, the CEO of STERLING ACQUISITION CORP., a Kentucky corporation, on behalf of said company.

Judith A. Jacobs  
Notary Public, Baltimore County, MD  
My commission expires: May 12, 2012

Signature Page of 2

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*Signature Page to*  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

LESSEE:

DIVERSICARE LEASING CORP.,  
a Tennessee corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP and CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

This instrument was acknowledged before me on the 31st day of October, 2008, by Glynn Riddle, the EVP & CFO of DIVERSICARE LEASING CORP., a Tennessee corporation, on behalf of said company

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My commission expires: 1/24/2010



*Acknowledgment to*  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

The undersigned hereby consent to the transactions contemplated by this Seventh Amendment to Consolidated Amended and Restated Master Lease (the "Seventh Amendment"), ratify and affirm their respective Guaranties, Pledge Agreements, Security Agreements, Subordination Agreements and other Transaction Documents, and acknowledge and agree that the performance of the Master Lease and obligations described therein are secured by their Guaranties, Pledge Agreements, Security Agreement, Subordination Agreement and other Transaction Documents on the same terms and conditions in effect prior to this Seventh Amendment.

ADVOCAT, INC. a Delaware corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 31st day of October, 2008, by Glynn Riddle, who is EVP & CFO of ADVOCAT, INC. a Delaware corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

*Acknowledgment to*  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

DIVERSICARE MANAGEMENT SERVICES CO.,  
a Tennessee corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 31st day of October, 2008, by Glynn Riddle, who is EVP & CFO of DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

Acknowledgment to  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

ADVOCAT FINANCE INC.,  
a Delaware corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 31st day of October, 2008, by Glynn Riddle, who is EVP & CFO of ADVOCAT FINANCE INC., a Delaware corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

*Acknowledgment to*  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

STERLING HEALTH CARE  
MANAGEMENT, INC., a Kentucky corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 31st day of October, 2008, by Glynn Riddle, who is EVP & CFO of STERLING HEALTH CARE MANAGEMENT, INC., a Kentucky corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

*Acknowledgment to*  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

DIVERSICARE TEXAS I, LLC

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

DIVERSICARE BALLINGER, LLC  
DIVERSICARE DOCTORS, LLC  
DIVERSICARE ESTATES, LLC  
DIVERSICARE HUMBLE, LLC  
DIVERSICARE KATY, LLC  
DIVERSICARE NORMANDY TERRACE, LLC  
DIVERSICARE TREEMONT, LLC

BY: DIVERSICARE TEXAS I, LLC,  
its sole member

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 31st day of October, 2008, by Glynn Riddle, who is EVP & CFO of DIVERSICARE TEXAS I, LLC, on behalf of itself and as the sole member of each of DIVERSICARE BALLINGER, LLC, DIVERSICARE DOCTORS, LLC, DIVERSICARE ESTATES, LLC, DIVERSICARE HUMBLE, LLC, DIVERSICARE KATY, LLC, DIVERSICARE NORMANDY TERRACE, LLC, and DIVERSICARE TREEMONT, LLC, each a Delaware limited liability company, on behalf of the limited liability companies, who acknowledged the same to be his or her free act and deed and the free act and deed of the limited liability companies.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

*Exhibit and Schedules to*  
SEVENTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

SCHEDULE 1

Revised Construction Budget

[Attached]



NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

This Ninth Amendment to Consolidated Amended and Restated Master Lease (this "Amendment") is executed and delivered as of May 5, 2009 by and between STERLING ACQUISITION CORP., a Kentucky corporation ("Lessor"), the address of which is 9690 Deereco Road, Suite 100, Timonium, MD 21093, and DIVERSICARE LEASING CORP., a Tennessee corporation, the address of which is 1621 Galleria Boulevard, Brentwood, TN 37027.

RECITALS:

A. Lessee has executed and delivered to Lessor a Consolidated Amended and Restated Master Lease dated as of November 8, 2000, but effective as of October 1, 2000 (the "Master Lease"), as amended by a First Amendment to Consolidated Amended and Restated Master Lease dated as of September 30, 2001 (the "First Amendment"), a Second Amendment to Consolidated Amended and Restated Master Lease dated as of June 15, 2005 (the "Second Amendment"), a Third Amendment to Consolidated Amended and Restated Master Lease dated as of October 20, 2006 (the "Third Amendment"), a Fourth Amendment to Consolidated Amended and Restated Master Lease dated as of April 1, 2007 (the "Fourth Amendment"), a Fifth Amendment to Consolidated Amended and Restated Master Lease dated as of August 10, 2007 (the "Fifth Amendment"), a Sixth Amendment to Consolidated Amended and Restated Master Lease dated as of March 14, 2008 (the "Sixth Amendment"), a Seventh Amendment to Consolidated Amended and Restated Master Lease dated as of October 24, 2008, and an Eighth Amendment to Consolidated Amended and Restated Master Lease dated as of March 31, 2009 (collectively, the "Existing Master Lease") pursuant to which Lessee leases from Lessor certain healthcare facilities.

B. Lessee has requested that Lessor to make available to Lessee additional capital improvements funds in the amount of Five Million Dollars (\$5,000,000), and Lessor desires to do so on the terms and conditions of this Amendment.

NOW THEREFORE, the parties agree as follows:

1. Definitions. Any capitalized term used but not defined in this Amendment will have the meaning assigned to such term in the Master Lease. From and after the date of this Amendment, each reference in the Existing Master Lease or the other Transaction Documents to the "Lease" or "Master Lease" means, as applicable, the Existing Master Lease as modified by this Amendment.

2. Tenant Improvement Allowance. Pursuant to the Second Amendment, Lessor made available to Lessee an Improvement Allowance of Five Million Dollars (\$5,000,000). Pursuant to the Third Amendment, Lessor made an additional Improvement Allowance of Five Million Dollars (\$5,000,000) available to Lessee. Lessor hereby makes available to Lessee an additional improvement allowance equal to Five Million Dollars (\$5,000,000) to be used for certain capital improvements to the Facilities. Such additional improvement allowance shall be used only for completion of capital improvements to the Facilities which shall be approved and constructed in accordance with the terms and provisions of Paragraph 2 of the Second Amendment. The term "Capital Improvements" as and where used in Paragraph 2 of the Second Amendment shall be deemed to include such capital improvements. The additional improvement allowance shall be requested and disbursed in accordance with the provisions of Paragraph 3 of the Second Amendment. The term "Improvement Allowance", as and where used in Paragraph 3 of the Second Amendment, shall be deemed to include and refer to the additional improvement allowance provided for in this paragraph, except that such additional improvement allowance shall be available for Capital Improvements completed on or before December 31, 2010 and the final request for disbursement shall be no later than March 31, 2011. The annual Base Rent payable under the Existing Master Lease shall be increased by the Improvement Allowance Adjustment Amount for each disbursement of such additional improvement allowance as provided in Paragraph 4 of the Second Amendment. In the event Lessor fails to pay Lessee any installment request for the additional improvement allowance as provided in Paragraph 3 of the Second Amendment, Lessee shall have the rights and remedies provided in Paragraph 4 of the Second Amendment and the provisions of Paragraph 4 of the Second Amendment shall apply to Lessee's exercise of such rights and remedies.

3. Representations and Warranties of Lessee. Lessee hereby represents and warrants to Lessor that (i) it has the right and power and is duly authorized to enter into this Amendment; and (ii) the execution of this Amendment does not and will not constitute a breach of any provision contained in any agreement or instrument to which Lessee is or may become a party or by which Lessee is or may be bound or affected.

4. Expenses of Lender. Lessee shall pay all reasonable expenses of Lessor incurred in connection with this Amendment, including reasonable attorneys fees and expenses.

5. Execution and Counterparts. This Amendment may be executed in any number of counterparts, each of which, when so executed and delivered, shall be deemed to be an original, but when taken together shall constitute one and the same Amendment.

6. Headings. Section headings used in this Amendment are for reference only and shall not affect the construction of the Amendment.

7. Enforceability. Except as expressly and specifically set forth herein, the Existing Master Lease remains unmodified and in full force and effect. In the event of any discrepancy between the Existing Master Lease and this Amendment, the terms and conditions of this Amendment will control and the Existing Master Lease is deemed amended to conform hereto.

[SIGNATURE PAGES AND ACKNOWLEDGEMENTS FOLLOW]

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*Signature Page to*  
NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

LESSOR:

STERLING ACQUISITION CORP.,  
a Kentucky corporation

By: /s/ Daniel J. Booth  
Name: Daniel J. Booth  
Title: Chief Operating Officer

STATE OF MARYLAND )

COUNTY OF BALTIMORE )

This instrument was acknowledged before me on the 5th day of May, 2009, by Daniel J. Booth, the COO of STERLING ACQUISITION CORP., a Kentucky corporation, on behalf of said company.

Judith A. Jacobs  
Notary Public, Baltimore County, MD  
My commission expires: May 12, 2012

*Signature Page to*  
NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

LESSEE:

DIVERSICARE LEASING CORP.,  
a Tennessee corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP and CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

This instrument was acknowledged before me on the 5th day of May, 2009, by Glynn Riddle, the EVP & CFO of DIVERSICARE LEASING CORP., a Tennessee corporation, on behalf of said company

Brenda Wimsatt  
Notary Public, Tenn. County, Williamson  
My commission expires: 07/25/09

*Acknowledgment to*  
NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

The undersigned hereby consent to the transactions contemplated by this Ninth Amendment to Consolidated Amended and Restated Master Lease (this "Amendment"), ratify and affirm their respective Guaranties, Pledge Agreements, Security Agreements, Subordination Agreements and other Transaction Documents, and acknowledge and agree that the performance of the Master Lease and obligations described therein are secured by their Guaranties, Pledge Agreements, Security Agreement, Subordination Agreement and other Transaction Documents on the same terms and conditions in effect prior to this Amendment.

ADVOCAT, INC. a Delaware corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 5th day of May, 2009, by Glynn Riddle, who is EVP & CFO of ADVOCAT, INC. a Delaware corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Brenda Wimsatt  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 07/25/09

*Acknowledgment to*  
NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

DIVERSICARE MANAGEMENT SERVICES CO.,  
a Tennessee corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 5th day of May, 2009, by Glynn Riddle, who is EVP & CFO of DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Brenda Wimsatt  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 07/25/09

*Acknowledgment to*  
NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

ADVOCAT FINANCE INC.,  
a Delaware corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 5th day of May, 2009, by Glynn Riddle, who is EVP & CFO of ADVOCAT FINANCE INC., a Delaware corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Brenda Wimsatt  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 07/25/09

*Acknowledgment to*  
NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

STERLING HEALTH CARE  
MANAGEMENT, INC., a Kentucky corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 5th day of May, 2009, by Glynn Riddle, who is EVP & CFO of STERLING HEALTH CARE MANAGEMENT, INC., a Kentucky corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Brenda Wimsatt  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 07/25/09

*Acknowledgment to*  
NINTH AMENDMENT TO CONSOLIDATED  
AMENDED AND RESTATED MASTER LEASE

DIVERSICARE TEXAS I, LLC

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

DIVERSICARE BALLINGER, LLC  
DIVERSICARE DOCTORS, LLC  
DIVERSICARE ESTATES, LLC  
DIVERSICARE HUMBLE, LLC  
DIVERSICARE KATY, LLC  
DIVERSICARE NORMANDY TERRACE, LLC  
DIVERSICARE TREEMONT, LLC

BY: DIVERSICARE TEXAS I, LLC,  
its sole member

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 5th day of May, 2009, by Glynn Riddle, who is EVP & CFO of DIVERSICARE TEXAS I, LLC, on behalf of itself and as the sole member of each of DIVERSICARE BALLINGER, LLC, DIVERSICARE DOCTORS, LLC, DIVERSICARE ESTATES, LLC, DIVERSICARE HUMBLE, LLC, DIVERSICARE KATY, LLC, DIVERSICARE NORMANDY TERRACE, LLC, and DIVERSICARE TREEMONT, LLC, each a Delaware limited liability company, on behalf of the limited liability companies, who acknowledged the same to be his or her free act and deed and the free act and deed of the limited liability companies.

Brenda Wimsatt  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 07/25/09





TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

This Tenth Amendment to Amended and Restated Master Lease (this "Amendment") is executed and delivered as of September 8, 2009 by and between STERLING ACQUISITION CORP., a Kentucky corporation ("Lessor"), the address of which is 9690 Deereco Road, Suite 100, Timonium, MD 21093, and DIVERSICARE LEASING CORP., a Tennessee corporation, the address of which is 1621 Galleria Boulevard, Brentwood, TN 37027.

RECITALS:

A. Lessee has executed and delivered to Lessor a Consolidated Amended and Restated Master Lease dated as of November 8, 2000, but effective as of October 1, 2000, as amended by a First Amendment to Consolidated Amended and Restated Master Lease dated as of September 30, 2001, a Second Amendment to Consolidated Amended and Restated Master Lease dated as of June 15, 2005, a Third Amendment to Consolidated Amended and Restated Master Lease dated as of October 20, 2006, a Fourth Amendment to Consolidated Amended and Restated Master Lease dated as of April 1, 2007, a Fifth Amendment to Consolidated Amended and Restated Master Lease dated as of August 10, 2007, a Sixth Amendment to Consolidated Amended and Restated Master Lease dated as of March 14, 2008 (the "Sixth Amendment"), a Seventh Amendment to Consolidated Amended and Restated Master Lease dated as of October 24, 2008, an Eighth Amendment to Consolidated Amended and Restated Master Lease dated as of March 31, 2009, and a Ninth Amendment to Consolidated Amended and Restated Master Lease dated as of May 5, 2009 (collectively, the "Existing Master Lease") pursuant to which Lessee leases from Lessor certain healthcare facilities.

B. Pursuant to the Sixth Amendment, Lessor and Lessee agreed to construct the Paris Facility on the Paris Land and for Lessee to lease the Paris Facility from Lessor pursuant to the Existing Master Lease.

C. Lessor and Lessee desire to confirm the Paris Base Rent Commencement Date and the Initial Paris Base Rent and to amend the Existing Master Lease to permit certain additional advances of the Funded Amount with respect to the Paris Facility after the Paris Base Rent Commencement date, all on the terms and conditions of this Amendment.

NOW THEREFORE, the parties agree as follows:

1. Definitions. Any capitalized term used but not defined in this Amendment will have the meaning assigned to such term in the Existing Master Lease.

2. Paris Base Rent Commencement Date. Lessor and Lessee hereby confirm that the Paris Base Rent Commencement Date is August 15, 2009.

3. Initial Paris Base Rent.

(a) Effective as of August 15, 2009, Lessor and Lessee hereby confirm that the Initial Paris Base Rent (which is an annual amount) is Five Hundred Seventy Five Thousand Six Hundred Thirty Three and 13/100 Dollars (\$575,633.13).

(b) Effective as of September 15, 2009, Lessor and Lessee hereby confirm that the Initial Paris Base Rent (which is an annual amount) will be increased to Six Hundred Seventy Two Thousand Three Hundred Twenty and 61/100 Dollars (\$672,320.61).

(c) Notwithstanding the provisions of Section 2(a) of the Sixth Amendment, but subject to all of the other terms and provisions of the Existing Master Lease, Lessor shall make advances of the Funded Amount after the Paris Base Rent Commencement Date with regard to: (1) services performed at, and goods delivered to, the Paris Facility prior to the Paris Base Rent Commencement Date, (2) delivery of the "as built" survey of the Paris Facility, (3) delivery of endorsements to Lessor's Owners Title Policy, (4) Lessor's legal fees and expenses, and (5) the State Surveyor Items (defined below); provided, however, that Lessee may, at its option, pay directly for items (2), (3), and (4). Any such advances of the Funded Amount shall result in an increase in the Initial Paris Base Rent effective as of the first day of the next month after each such advance pursuant to the formula contained in the Sixth Amendment. The amount of the Initial Paris Base Rent after all such advances have been made shall be used in calculating the Paris Base Rent for the 12 month period commencing on the first anniversary of the Paris Base Rent Commencement Date. Except as provided in this Section 3(c) of this Amendment, Lessor and Lessee hereby confirm that Lessor has no further obligation to make further advances of the Funded Amount on or after the date of this Amendment.

(d) As used in this Amendment, the "State Surveyor Items" mean (1) Sod hill at back of Paris Facility to stop erosion, (2) Three 2'x4' benches for main showers, and (3) two additional sidewalks, and (4) such other minor items as may be required by the State in connection with the initial licensing of the Paris Facility.

4. Certification by Lessee. Pursuant to Section 7(a)(ii) of the Sixth Amendment, Lessee hereby certifies to Lessor that, as of the date of this Certificate, no Event of Default exists under the Master Lease or any of the Transaction Documents, all representations and warranties set forth in the Master Lease and all of the other Transaction Documents are accurate and complete, and there are no actions, suits or proceedings pending, or to the knowledge of Lessee, threatened or involving (or that could involve) Lessee, the Paris Sublessee or all or any part of the Facilities and that could impair the Facilities or the ability of Lessee and the Paris Sublessee to perform under this Amendment or any of the other Transaction Documents.

5. Representations and Warranties of Lessee. Lessee hereby represents and warrants to Lessor that (i) it has the right and power and is duly authorized to enter into this Amendment; (ii) the execution of this Amendment does not and will not constitute a breach of any provision contained in any agreement or instrument to which Lessee is or may become a party or by which Lessee is or may be bound or affected; and (iii) the Paris Sublessee has acquired all Licenses needed to operate the Paris Facility for its Primary Intended Use.

6. Expenses of Lessor. Lessee shall pay all reasonable expenses of Lessor incurred in connection with this Amendment, including reasonable attorneys fees and expenses.

7. Execution and Counterparts. This Amendment may be executed in any number of counterparts, each of which, when so executed and delivered, shall be deemed to be an original, but when taken together shall constitute one and the same Amendment.

8. Headings. Section headings used in this Amendment are for reference only and shall not affect the construction of the Amendment.

9. Enforceability. Except as expressly and specifically set forth herein, the Existing Master Lease remains unmodified and in full force and effect. In the event of any discrepancy between the Existing Master Lease and this Amendment, the terms and conditions of this Amendment will control and the Existing Master Lease is deemed amended to conform hereto.

[SIGNATURE PAGES AND ACKNOWLEDGEMENTS FOLLOW]

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*Signature Page to*  
TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

LESSOR:

STERLING ACQUISITION CORP.,  
a Kentucky corporation

By: /s/ Daniel J. Booth  
Name: Daniel J. Booth  
Title: Chief Operating Officer

STATE OF MARYLAND     )

COUNTY OF BALTIMORE    )

This instrument was acknowledged before me on the 3rd day of September, 2009, by Daniel J. Booth, the COO of STERLING ACQUISITION CORP., a Kentucky corporation, on behalf of said company.

Judith A. Jacobs  
Notary Public, Baltimore County, MD  
My commission expires: May 12, 2012

Signature Page of 2

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*Signature Page to*  
TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

LESSEE:

DIVERSICARE LEASING CORP.,  
a Tennessee corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP and CFO

STATE OF TENNESSEE        )

COUNTY OF WILLIAMSON    )

This instrument was acknowledged before me on the 2nd day of September, 2009, by Glynn Riddle, the EVP & CFO of DIVERSICARE LEASING CORP., a Tennessee corporation, on behalf of said company

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My commission expires: 1/24/2010

*Acknowledgment to*  
TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

The undersigned hereby consent to the transactions contemplated by this Tenth Amendment to Consolidated Amended and Restated Master Lease (the "Tenth Amendment"), ratify and affirm their respective Guaranties, Pledge Agreements, Security Agreements, Subordination Agreements and other Transaction Documents, and acknowledge and agree that the performance of the Master Lease and obligations described therein are secured by their Guaranties, Pledge Agreements, Security Agreement, Subordination Agreement and other Transaction Documents on the same terms and conditions in effect prior to this Tenth Amendment.

ADVOCAT, INC. a Delaware corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE        )

COUNTY OF WILLIAMSON    )

The foregoing instrument was acknowledged before me this 2nd day of September, 2009, by Glynn Riddle, who is EVP & CFO of ADVOCAT, INC. a Delaware corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

*Acknowledgment to*  
TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

DIVERSICARE MANAGEMENT SERVICES CO.,  
a Tennessee corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE        )

COUNTY OF WILLIAMSON    )

The foregoing instrument was acknowledged before me this 2nd day of September, 2009, by Glynn Riddle, who is EVP & CFO of DIVERSICARE MANAGEMENT SERVICES CO., a Tennessee corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

*Acknowledgment to*  
TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

ADVOCAT FINANCE INC.,  
a Delaware corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE            )  
  
COUNTY OF WILLIAMSON        )

The foregoing instrument was acknowledged before me this 2nd day of September, 2009, by Glynn Riddle, who is EVP & CFO of ADVOCAT FINANCE INC., a Delaware corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010

*Acknowledgment to*  
TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

STERLING HEALTH CARE  
MANAGEMENT, INC., a Kentucky corporation

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE        )

COUNTY OF WILLIAMSON    )

The foregoing instrument was acknowledged before me this 2nd day of September, 2009, by Glynn Riddle, who is EVP & CFO of STERLING HEALTH CARE MANAGEMENT, INC., a Kentucky corporation, on behalf of the corporation, who acknowledged the same to be his or her free act and deed and the free act and deed of the corporation.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010



*Acknowledgment to*  
TENTH AMENDMENT TO  
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE

DIVERSICARE TEXAS I, LLC

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

DIVERSICARE BALLINGER, LLC  
DIVERSICARE DOCTORS, LLC  
DIVERSICARE ESTATES, LLC  
DIVERSICARE HUMBLE, LLC  
DIVERSICARE KATY, LLC  
DIVERSICARE NORMANDY TERRACE, LLC  
DIVERSICARE TREEMONT, LLC  
DIVERSICARE PARIS, LLC

BY: DIVERSICARE TEXAS I, LLC,  
its sole member

By: /s/ Glynn Riddle  
Name: Glynn Riddle  
Title: EVP & CFO

STATE OF TENNESSEE )

COUNTY OF WILLIAMSON )

The foregoing instrument was acknowledged before me this 2nd day of September, 2009, by Glynn Riddle, who is EVP & CFO of DIVERSICARE TEXAS I, LLC, on behalf of itself and as the sole member of each of DIVERSICARE BALLINGER, LLC, DIVERSICARE DOCTORS, LLC, DIVERSICARE ESTATES, LLC, DIVERSICARE HUMBLE, LLC, DIVERSICARE KATY, LLC, DIVERSICARE NORMANDY TERRACE, LLC, DIVERSICARE TREEMONT, LLC, and DIVERSICARE PARIS, LLC, each a Delaware limited liability company, on behalf of the limited liability companies, who acknowledged the same to be his or her free act and deed and the free act and deed of the limited liability companies.

Jacqueline S. Reed  
Notary Public, Tenn. County, Williamson  
My Commission Expires: 1/24/2010



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**RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER****Certification**

I, C. Taylor Pickett, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Omega Healthcare Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2009

/S/ C. TAYLOR PICKETT

Chief Executive Officer

C. Taylor Pickett

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**Exhibit 31.2**

**RULE 13a-14(a)/15d-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER**

**Certifications**

I, Robert O. Stephenson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Omega Healthcare Investors, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2009  
/S/ ROBERT O. STEPHENSON

Chief Financial Officer

Robert O. Stephenson

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**SECTION 1350 CERTIFICATION  
OF THE CHIEF EXECUTIVE OFFICER**

I, C. Taylor Pickett, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that to the best of my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2009

/S/C. TAYLOR PICKETT

C. Taylor Pickett  
Chief Executive Officer

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**SECTION 1350 CERTIFICATION  
OF THE CHIEF FINANCIAL OFFICER**

I, Robert O. Stephenson, hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, that, to the best of my knowledge:

(1) the Quarterly Report on Form 10-Q of the Company for the three months ended September 30, 2009 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 5, 2009

/S/ROBERT O. STEPHENSON

Robert O. Stephenson  
Chief Financial Officer

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