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

FORM 10-K

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

For the fiscal year ended December 31, 2010.

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

For the transition period from to

Commission file number 1-11316

OMEGA HEALTHCARE INVESTORS, INC.

(Exact Name of Registrant as Specified in its Charter)

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

Registrant's telephone number, including area code: 410-427-1700
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange onWhich Registered
Common Stock, $.10 Par Value	New York Stock Exchange
8.375% Series D Cumulative Redeemable Preferred Stock, $1 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None.

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

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

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

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

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

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

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

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

The aggregate market value of the common stock of the registrant held by non-affiliates was $1,883,185,760. The aggregate market value was computed using the $19.93 closing price per share for such stock on the New York Stock Exchange on June 30, 2010.

As of February 22, 2011 there were 100,018,140 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the registrant's 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission not later than 120 days after December 31, 2010, is incorporated by reference in Part III herein.

OMEGA HEALTHCARE INVESTORS, INC.
2010 FORM 10-K ANNUAL REPORT

TABLE OF CONTENTS

PART I

PART II

PART III

PART IV

Item 1 - Business

Overview; Recent Events

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

On November 17, 2009, we entered into a purchase agreement with CapitalSource Inc. ("CapitalSource"), pursuant to which we agreed to purchase certain CapitalSource subsidiaries owning 80 long-term care facilities and an option to purchase certain other CapitalSource subsidiaries owning an additional 63 long-term care facilities. Our acquisition of the CapitalSource subsidiaries pursuant to the terms of the purchase agreement was conducted in three separate closings: (i) on December 22, 2009, we acquired CapitalSource subsidiaries owning 40 long-term care facilities and an option to acquire an additional 63 facilities for an aggregate purchase price of approximately $296 million; (ii) on June 9, 2010, we acquired CapitalSource subsidiaries owning 63 long-term care facilities for an aggregate purchase price of approximately $293 million; and (iii) on June 29, 2010, we acquired CapitalSource subsidiaries owning 40 long-term care facilities for an aggregate purchase price of approximately $271 million.

As of December 31, 2010, our portfolio of investments consisted of 400 healthcare facilities located in 35 states and operated by 50 third-party operators. We use the term "operator" to refer to our tenants and mortgagees and their affiliates who manage and/or operate our properties. This portfolio was made up of:

- 371 SNFs, 10 ALFs and five specialty facilities;
- fixed rate mortgages on 13 long-term healthcare facilities; and
- one closed SNF held-for-sale.

As of December 31, 2010, our gross investments in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $2.5 billion. In addition, we held miscellaneous investments of approximately $28.7 million at December 31, 2010, consisting primarily of secured loans to third-party operators of our facilities.

Our filings with the Securities and Exchange Commission ("SEC"), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports are accessible free of charge on our website at www.omegahealthcare.com.

Summary of Financial Information

The following table summarizes our revenues by asset category for 2010, 2009 and 2008. (See Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations, Note 3 – Properties and Note 5 – Mortgage Notes Receivable).

Revenues by Asset Category
(in thousands)

	Year Ended December 31,		
	2010	2009	2008
Core assets:			
Lease rental income	$ 232,772	$ 164,468	$ 155,765
Mortgage interest income	10,391	11,601	9,562
Total core asset revenues	243,163	176,069	165,327
Other asset revenue	3,936	2,502	2,031
Miscellaneous income	3,886	437	2,234
Total revenue before owned and operated assets	250,985	179,008	169,592
Owned and operated asset revenue	7,336	18,430	24,170
Total revenue	$ 258,321	$ 197,438	$ 193,762

The following table summarizes our real estate assets by asset category as of December 31, 2010 and 2009.

Assets by Category
(in thousands)

	As of December 31,	
	2010	2009
Core assets:		
Leased assets	$ 2,366,856	$ 1,669,843
Mortgaged assets	108,557	100,223
Total core assets	2,475,413	1,770,066
Other assets	28,735	32,800
Total real estate assets before held for sale assets	2,504,148	1,802,866
Held for sale assets	670	877
Total real estate assets	$ 2,504,818	$ 1,803,743

Description of the Business

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

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

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

We prefer to invest in equity ownership of properties. Due to regulatory, tax or other considerations, we may pursue alternative investment structures. The following summarizes our primary investment structures. The average annualized yields described below reflect existing contractual arrangements. However, due to the nature of the long-term care industry, we cannot assure you that the operators of our facilities will meet their payment obligations in full or when due. Therefore, the annualized yields as of January 1, 2011, set forth below, are not necessarily indicative of future yields, which may be lower.

Purchase/Leaseback. In a purchase/leaseback transaction, we purchase a property from an operator and lease it back to the operator over a term typically ranging from 5 to 15 years, plus renewal options. Our leases generally provide for minimum annual rentals that are subject to annual formula increases based on factors such as increases in the Consumer Price Index ("CPI"). At January 1, 2011, our average annualized yield from leases was approximately 10.7%.

Fixed-Rate Mortgage. Our mortgages typically have a fixed interest rate for the mortgage term and are secured by first mortgage liens on the underlying real estate and personal property of the mortgagor. At January 1, 2011, our average annualized yield on these investments was approximately 11.9%.

The table set forth in "Item 2 – Properties" contains information regarding our properties and investments as of December 31, 2010.

Borrowing Policies. We have historically sought to maintain an annualized total debt-to-EBITDA ratio in the range of 4 to 5 times. We periodically review and modify this policy in light of prevailing market conditions. We generally attempt to match the maturity of our indebtedness with the maturity of our investment assets and employ long-term, fixed-rate debt to the extent practicable in view of market conditions in existence from time to time.

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

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

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

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

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

Our officers and directors may change any of these policies without a vote of our stockholders.

In the opinion of our management, our properties are adequately covered by insurance.

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

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

Taxation

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

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

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

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

Requirements for Qualification. The Code defines a REIT as a corporation, trust or association: (1) which is managed by one or more trustees or directors; (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest; (3) which would be taxable as a domestic corporation, but for Sections 856 through 859 of the Code; (4) which is neither a financial institution nor an insurance company subject to the provisions of the Code; (5) the beneficial ownership of which is held by 100 or more persons; (6) during the last half year of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities); and (7) which meets certain other tests, described below, regarding the nature of its income and assets and the amount of its annual distributions to stockholders. The Code provides that conditions (1) to (4) inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. For purposes of conditions (5) and (6), pension funds and certain other tax-exempt entities are treated as individuals, subject to a “look-through” exception in the case of condition (6).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In July 2008, we assumed operating responsibilities for the 15 properties due to the bankruptcy of Haven Eldercare, LLC ("Haven facilities"), one of our operators/tenants, as described in "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Portfolio and Other Developments." In September 2008, we entered into an agreement to lease these facilities to a new operator/tenant. Effective September 1, 2008, the new operator/tenant assumed operating responsibility for 13 of the 15 facilities and, as of December 31, 2009, we held only two properties for which we retained operating responsibility. During 2010, the state regulatory process was completed and the requirements necessary to transfer the final two properties to the new operator/tenant were met. As a result, as of December 31, 2010, we no longer have any operating responsibility with respect to properties that we previously foreclosed upon. As we have previously disclosed, we made an election on our 2008 federal income tax return to treat the Haven facilities as foreclosure properties and, under the REIT foreclosure rules, generally we had to dispose of these properties prior to the close of our 2011 tax year, which condition has been met. Accordingly, all of the income from operating the Haven facilities was qualifying income for the 75% and 95% gross income tests, but we were subject to corporate income tax at the highest rate on the net income, if any, generated from operating the Haven properties.

Since the year 2000, the definition of foreclosure property has included any "qualified health care property," as defined in Code Section 856(e)(6) acquired by us as the result of the termination or expiration of a lease of such property. We have from time to time operated qualified healthcare facilities acquired in this manner for up to two years (or longer if an extension was granted). However, we do not currently own any property with respect to which we have made foreclosure property elections other than the remaining Haven properties discussed in the prior paragraph. Properties that we had taken back in a foreclosure or bankruptcy and operated for our own account were treated as foreclosure properties for income tax purposes, pursuant to Code Section 856(e). Gross income from foreclosure properties was classified as "good income" for purposes of the annual REIT income tests upon making the election on the tax return. Once made, the income was classified as "good" for a period of three years, or until the properties were no longer operated for our own account. In all cases of foreclosure property, we utilized an independent contractor to conduct day-to-day operations to maintain REIT status. In certain cases, we operated these facilities through a taxable REIT subsidiary. For those properties operated through the taxable REIT subsidiary, we utilized an eligible independent contractor to conduct day-to-day operations to maintain REIT status. As a result of the foregoing, we do not believe that our participation in the operation of nursing homes increased the risk that we would fail to qualify as a REIT. Through our 2010 taxable year, we had not paid any tax on our foreclosure property because those properties had been producing losses. We cannot predict whether, in the future, our income from foreclosure property will be significant and whether we could be required to pay a significant amount of tax on that income.

Hedging Transactions. From time to time, we may enter into hedging transactions with respect to one or more of our assets or liabilities. Our hedging activities may include entering into interest rate swaps, caps and floors, options to purchase these items and futures and forward contracts. To the extent that we enter into an interest rate swap or cap contract, option, futures contract, forward rate agreement, or any similar financial instrument to hedge our indebtedness incurred to acquire or carry "real estate assets," any periodic income or gain from the disposition of that contract should be qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. Accordingly, our income and gain from our interest rate swap agreements generally is qualifying income for purposes of the 95% gross income test, but not the 75% gross income test. To the extent that we hedge with other types of financial instruments, or in other situations, it is not entirely clear how the income from those transactions will be treated for purposes of the gross income tests. We have structured and intend to continue to structure any hedging transactions in a manner that does not jeopardize our status as a REIT. For tax years beginning after 2004, we were no longer required to include income from hedging transactions in gross income (i.e., not included in either the numerator or the denominator) for purposes of the 95% gross income test and we are no longer required to include in gross income (i.e., not included in either the numerator or the denominator) for purposes of the 75% gross income test any gross income from any hedging transaction entered into after July 30, 2008. We did not engage in hedge transactions in 2008, 2009 or 2010.

TRS Income. A TRS may earn income that would not be qualifying income if earned directly by the parent REIT. Both the subsidiary and the REIT must jointly elect to treat the subsidiary as a TRS. A corporation of which a TRS directly or indirectly owns more than 35% of the voting power or value of the stock will automatically be treated as a TRS. Overall, no more than 25% (20% prior to 2009) of the value of a REIT's assets may consist of securities of one or more TRSs. However, a TRS does not include a corporation which directly or indirectly (i) operates or manages a health care (or lodging) facility, or (ii) provides to any other person (under a franchise, license, or otherwise) rights to any brand name under which a health care (or lodging) facility is operated. Beginning in 2009, however, a TRS will be able to own or lease a health care facility provided that the facility is operated and managed by an "eligible independent contractor." A TRS will pay income tax at regular corporate rates on any income that it earns. In addition, the new rules limit the deductibility of interest paid or accrued by a TRS to its parent REIT to assure that the TRS is subject to an appropriate level of corporate taxation. The rules also impose a 100% excise tax on transactions between a TRS and its parent REIT or the REIT's operators that are not conducted on an arm's-length basis. As stated above, we do not lease any of our facilities to any of our TRSs.

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

Resolution of Related Party Tenant Issue. In the fourth quarter of 2006, we determined that, due to certain provisions of the Series B preferred stock issued to us by Advocat, Inc. ("Advocat") in 2000 in connection with a restructuring, Advocat may have been considered to be a "related party tenant" under the rules applicable to REITs. As a result, we (1) took steps in 2006 to restructure our relationship with Advocat and ownership of Advocat securities in order to avoid having the rent received from Advocat classified as received from a "related party tenant" in taxable years after 2006, and (2) submitted a request to the IRS on December 15, 2006, that in the event that rental income received by us from Advocat would not be qualifying income for purposes of the REIT gross income tests, such failure during taxable years prior to 2007 was due to reasonable cause. During 2007, we entered into a closing agreement with the IRS covering all affected taxable periods prior to 2007, which stated that our failure to meet the 95% gross income tests as a result of the Advocat rental income being considered to be received from a "related party tenant" was due to reasonable cause. In connection with reaching this agreement with the IRS, we paid to the IRS penalty income taxes and interest totaling approximately $5.6 million for the tax years 2002 through 2006. We had previously accrued $5.6 million of income tax liabilities as of December 31, 2006. Based on our execution of the closing agreement with the IRS and the restructuring of our relationship with Advocat, we believe that we have fully resolved all tax issues relating to rental income received from Advocat prior to 2007 and have been advised by tax counsel that we will not receive any non-qualifying related party tenant income from Advocat in 2007 and future fiscal years. Accordingly, we do not expect to incur tax expense associated with related party tenant income in the periods commencing January 1, 2007.

Asset Tests. At the close of each quarter of our taxable year, we must also satisfy the following tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets (including (i) our allocable share of real estate assets held by partnerships in which we own an interest and (ii) stock or debt instruments held for less than one year purchased with the proceeds of a stock offering or long-term (at least five years) debt offering of our company), cash, cash items and government securities. Second, of our investments not included in the 75% asset class, the value of our interest in any one issuer's securities may not exceed 5% of the value of our total assets. Third, we may not own more than 10% of the voting power or value of any one issuer's outstanding securities. Fourth, no more than 25% (20% prior to 2009) of the value of our total assets may consist of the securities of one or more TRSs. Fifth, no more than 25% of the value of our total assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries and other assets that are not qualifying assets for purposes of the 75% asset test.

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

We may own up to 100% of the stock of one or more TRSs. However, overall, no more than 25% (20% prior to 2009) of the value of our assets may consist of securities of one or more TRSs, and no more than 25% of the value of our assets may consist of the securities of TRSs and other non-TRS taxable subsidiaries (including stock in non-REIT C corporations) and other assets that are not qualifying assets for purposes of the 75% asset test. If the outstanding principal balance of a mortgage loan exceeds the fair market value of the real property securing the loan, a portion of such loan likely will not be a qualifying real estate asset for purposes of the 75% test. The nonqualifying portion of that mortgage loan will be equal to the portion of the loan amount that exceeds the value of the associated real property. As discussed under the 75% gross income test (see above), the IRS recently provided relief from re-testing certain mortgage loans held by a REIT that have been modified as a result of the current distressed market conditions with respect to real property. At present, we do not hold any mortgage loans that have been modified, which would require us to take advantage of these rules for special relief.

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

For our tax years beginning after 2004, subject to certain de minimis exceptions, we may avoid REIT disqualification in the event of certain failures under the asset tests, provided that (i) we file a schedule with a description of each asset that caused the failure, (ii) the failure was due to reasonable cause and not willful neglect, (iii) we dispose of the assets within 6 months after the last day of the quarter in which the identification of the failure occurred (or the requirements of the rules are otherwise met within such period) and (iv) we pay a tax on the failure equal to the greater of (A) $50,000 per failure and (B) the product of the net income generated by the assets that caused the failure for the period beginning on the date of the failure and ending on the date we dispose of the asset (or otherwise satisfy the requirements) multiplied by the highest applicable corporate tax rate.

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

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

- 85% of our REIT ordinary income for such year;
- 95% of our REIT capital gain income for such year; and
- any undistributed taxable income from prior periods.

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

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

Reasonable Cause Savings Clause. We may avoid disqualification in the event of a failure to meet certain requirements for REIT qualification if the failures are due to reasonable cause and not willful neglect, and if the REIT pays a penalty of $50,000 for each such failure. This reasonable cause safe harbor is not available for failures to meet the 95% and 75% gross income tests, the rules with respect to ownership of securities of more than 10% of a single issuer and the new rules provided for failures of the asset tests.

Failure to Qualify. If we fail to qualify as a REIT in any taxable year, and the reasonable cause relief provisions do not apply, we will be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify will not be deductible, and our failure to qualify as a REIT would reduce the cash available for distribution by us to our stockholders. In addition, if we fail to qualify as a REIT, all distributions to stockholders will be taxable as ordinary income, to the extent of current and accumulated earnings and profits, and, subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless entitled to relief under specific statutory provisions, we would also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to such statutory relief. Failure to qualify could result in our incurring indebtedness or liquidating investments to pay the resulting taxes.

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

In the case of a REIT that is a partner in a partnership, such REIT is treated as owning its proportionate share of the assets of the partnership and as earning its allocable share of the gross income of the partnership for purposes of the applicable REIT qualification tests. Thus, our proportionate share of the assets, liabilities, and items of income of any partnership, joint venture, or limited liability company that is treated as a partnership for federal income tax purposes in which we own an interest, directly.

Recent Developments Regarding Government Regulation and Reimbursement

Healthcare Reform. The Patient Protection and Affordable Care Act and accompanying Healthcare and Education Affordability and Reconciliation Act of 2010 (the "Healthcare Reform Law") were signed into law in March 2010. This legislation represents the most comprehensive change to healthcare benefits since the inception of the Medicare program in 1965 and will affect reimbursement for governmental programs, private insurance and employee welfare benefit plans in various ways. Some changes under the Healthcare Reform Law have already occurred, such as changes to pre-existing condition requirements and coverage of dependents. Other changes, including taxes on so-called "Cadillac" health plans, will be implemented over the next eight years. We expect significant rule making and regulations under the Healthcare Reform Law to be promulgated during that time.

The attorneys general for several states, as well as other individuals and organizations, have challenged the constitutionality of certain provisions of the Healthcare Reform Law, including the requirement that each individual carry health insurance. On January 31, 2011, a Florida District Court ruled that the entire Healthcare Reform Law is unconstitutional. Other courts have ruled in favor of the law or have only struck down certain provisions of the law. These cases are under appeal, and others are in process. We cannot predict the ultimate outcome of any of the litigation. Further, various Congressional leaders have indicated a desire to revisit some or all of the health care reform law during 2011. While the Senate voted against repealing the whole Healthcare Reform Law, there are a number of bills that have been introduced, which seek to repeal or change certain provisions of the law. Because of these challenges, we cannot predict whether any or all of the legislation will be overturned, repealed or modified.

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

Reimbursement. The recent downturn in the U.S. economy has resulted in significant cost-cutting at both the federal and state levels. These cost-cutting measures, together with the implementation of changes in reimbursement rates under the Healthcare Reform Law, could result in a significant reduction of reimbursement rates to our operators under both the Medicare and Medicaid programs. We currently believe that our operator coverage ratios are adequate and that our operators can absorb moderate reimbursement rate reductions and still meet their obligations to us. However, significant limits on the scopes of services reimbursed and on reimbursement rates could have a material adverse effect on our operators' results of operations and financial condition, which could adversely affect our operators' ability to meet their obligations to us.

Medicaid. Current market and economic conditions, as well as the implementation of rules under the Healthcare Reform Law, will likely have a significant impact on state budgets and healthcare spending. Fiscal conditions have continued to deteriorate, and many states are experiencing significant budget gaps.

The downturn in the U.S. economy has negatively affected state budgets, which may put pressure on states to decrease reimbursement rates for our operators with the goal of decreasing state expenditures under their state Medicaid programs. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. We anticipate that Medicaid enrollment could begin to increase, as the Healthcare Reform Law allows states to increase the number of people who are eligible for Medicaid beginning in 2010 and simplifies enrollment in this program. Since our operators' profit margins on Medicaid patients are generally relatively low, substantial reductions in Medicaid reimbursement and an increase in the number of Medicaid patients could adversely affect our operators' results of operations and financial conditions, which in turn could negatively impact us.

The American Recovery and Reinvestment Act of 2009 (the "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. Further, the ARRA funding is currently scheduled to end on June 30, 2011. Many states are concerned that the lack of funds will have a negative impact on their budgets.

Medicare. On July 22, 2010, the CMS published a notice with comment period on Medicare's prospective payment system for SNFs for federal fiscal year 2011. The notice with comment period includes an increase in payments to nursing homes equal to $524 million or 1.7%. The impact of the changes among our operators may vary, depending in part on the characteristics of the patient populations of the individual facilities.

In 2009, the CMS finalized a revised case-mix classification system, the RUG-IV, and planned implementation for fiscal year 2010. However, the Healthcare Reform Law delayed implementation of RUG-IV back one year to October 1, 2011. The Medicare and Medicaid Extenders Act of 2010 repealed the provision in the Healthcare Reform Law and provided that RUG-IV would be implemented immediately and applied retroactively to October 1, 2010. 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 our operators is unknown.

Under the Healthcare Reform Law, beginning in fiscal year 2012, the SNF market basket will be reduced by a productivity adjustment equal to the ten-year rolling average of changes in "annual economy-wide private non-farm business multifactor productivity" as projected by the Secretary of Health and Human Services. This could result in significant cuts to Medicare reimbursement, thereby negatively impacting our operators.

The Medicare Improvements for Patients and Providers Act of 2008 (the "MIPPA") became law on July 15, 2008, and made a variety of changes to Medicare, some of which may affect SNFs. For instance, the MIPPA extended the therapy cap exceptions process through December 31, 2009. The Healthcare Reform Law extended the therapy cap exceptions process through December 31, 2010, and the Medicare and Medicaid Extenders Act of 2010 further extended the therapy cap exceptions process through December 31, 2011. 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 for SNFs, although the caps apply in most other instances involving patients in SNFs or long-term care facilities who receive therapy services covered under Medicare Part B. Congress implemented a temporary therapy cap exceptions process, which permits medically necessary therapy services to exceed the payment limits. Expiration of the therapy cap exceptions process in the future could have a material adverse effect on our operators' financial condition and operations, which could adversely impact their ability to meet their obligations to us.

Quality of Care Initiatives. The CMS has implemented a number of initiatives focused on the quality of care provided by nursing homes that could affect our operators. For instance, in December 2008, the CMS released quality ratings for all of the nursing homes that participate in Medicare or Medicaid. Facility rankings, ranging from five stars ("much above average") to one star ("much below average") are updated on a monthly basis. The Healthcare Reform Law includes a requirement that the Government Accounting Office conduct a study of this ranking system, the results of which cannot be predicted. In the event any of our operators does not maintain or receive the same or superior ranking as its 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.

Office of the Inspector General Activities. The Office of Inspector General's (the "OIG") Work Plan for fiscal year 2011, which describes projects that the OIG plans to address during the fiscal year, includes a number of projects related to nursing homes. While we cannot predict the results of the OIG's activities, they could result in further scrutiny and/or oversight of nursing homes.

Fraud and Abuse Laws and Regulations. There are various extremely complex civil and criminal federal and state laws governing a wide array of referrals, relationships and arrangements and prohibiting fraud by healthcare providers. Many of these laws raise issues that have not been clearly interpreted. Governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. The federal anti-kickback statute is a criminal statute that prohibits the knowing and willful offer, payment, solicitation or receipt of any remuneration in return for, to induce or to arrange for the referral of individuals for any item or service payable by a federal or state healthcare program. There is also a civil analogue. States also have enacted similar statutes covering Medicaid payments and some states have broader statutes. Some enforcement efforts have targeted relationships between SNFs and ancillary providers, relationships between SNFs and referral sources for SNFs and relationships between SNFs and facilities for which the SNFs serve as referral sources. The federal self-referral law, commonly known as the "Stark Law," is a civil statute that prohibits certain referrals by physicians to entities providing "designated health services" if these physicians have financial relationships with the entities. Some of the services provided in SNFs are classified as designated health services. There are also criminal provisions that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, as well as failing to refund overpayments or improper payments. Violation of the anti-kickback statute or Stark Law may form the basis for a False Claims Act violation. In addition, the federal False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, these so-called "whistleblower" suits have become more frequent. The violation of any of these laws or regulations by an operator may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid and all other federal and state healthcare programs. Such fines or penalties could jeopardize that operator's ability to make lease or mortgage payments to us or to continue operating its facility.

Privacy Laws. Our operators are subject to federal, state and local laws and regulations designed to protect confidentiality and security of patient health information, including the privacy and security provisions in the federal Health Insurance Portability and Accountability Act of 1996 and the corresponding regulations promulgated, known as HIPAA. HIPAA was amended by the American Recovery and Reinvestment Act of 2009, known as the Stimulus Bill, to increase penalties for HIPAA violations, imposing stricter requirements on healthcare providers, in most cases requiring notification if there is a breach of an individual's protected health information, including public announcements if the breach affects a significant number of individuals and expanding possibilities for enforcement. Our operators may have to expend significant funds to secure the health information they hold, including upgrading their computer systems. If our operators are found in violation of HIPAA, such operators may be required to pay large penalties. Compliance with public notification requirements in the event of a breach could cause reputational harm to their business. Obligations to pay large penalties or tarnishing of reputations could adversely affect the ability of our operators to pay their obligations to us.

Licensing, Certification and Other Laws and Regulations. Our operators and facilities are subject to regulatory and licensing requirements of federal, state and local authorities and are periodically surveyed by these authorities. Failure to obtain licensure or loss or suspension of licensure would prevent a facility from operating and result in ineligibility for reimbursement until the necessary licenses are obtained or reinstated. In such event, our revenues from these facilities could be reduced or eliminated for an extended period of time or permanently.

In addition, licensing and Medicare and Medicaid laws require operators of nursing homes and ALFs to comply with extensive standards governing operations. Federal and state agencies administering those laws regularly inspect such facilities and investigate complaints. Our operators and their managers receive notices of observed violations and deficiencies from time to time, and sanctions have been imposed from time to time on facilities operated by them. If our operators are unable to cure deficiencies, which have been identified or which are identified in the future, sanctions, including possible loss of license and/or right to receive reimbursement, may be imposed. If imposed, such sanctions may adversely affect our operators' revenues, potentially jeopardizing their ability to meet their obligations to us.

Additional federal, state and local laws affect how our operators conduct their operations, including federal and state laws designed to protect the confidentiality and security of patient health information, laws protecting consumers against deceptive practices, and laws generally affecting our operators' management of property and equipment and how our operators conduct their operations (including laws and regulations involving: fire, health and safety; quality of services, care and food service; residents' rights, including abuse and neglect laws; and the health standards set by the federal Occupational Safety and Health Administration). We are unable to predict the effect that potential changes in these requirements could have on the revenues of our operators, and thus their ability to meet their obligations to us.

Legislative and Regulatory Developments. Each year, legislative proposals are introduced or proposed in Congress and in some state legislatures that would result in major changes in the healthcare system, either nationally or at the state level. We are unable to predict accurately whether any proposals will be adopted, or if adopted, what effect, if any, these proposals would have on our operators or our business.

Executive Officers of Our Company

As of February 22, 2011, the executive officers of our company were as follows:

C. Taylor Pickett (49) is our Chief Executive Officer and has served in this capacity since June 2001. Mr. Pickett is also a Director and has served in this capacity since May 30, 2002. Mr. Pickett's term as a Director expires in 2011. From January 1998 to June 2001, Mr. Pickett served as the Executive Vice President and Chief Financial Officer of Integrated Health Services, Inc., a public company specializing in post-acute healthcare services; and from May 1997 to December 1997, Mr. Pickett served as Executive Vice President of Mergers and Acquisitions of Integrated Health Services, Inc. From January 1996 to May 1997, Mr. Pickett served as the President of Symphony Health Services, Inc.

Daniel J. Booth (47) is our Chief Operating Officer and has served in this capacity since October 2001. From 1993 to October 2001, Mr. Booth served as a member of the management team of Integrated Health Services, Inc., most recently serving as Senior Vice President, Finance. Prior to joining Integrated Health Services, Inc., Mr. Booth served as a Vice President in the Healthcare Lending Division of Maryland National Bank (now Bank of America).

R. Lee Crabill, Jr. (57) is our Senior Vice President of Operations and has served in this capacity since July 2001. From 1997 to 2000, Mr. Crabill served as a Senior Vice President of Operations at Mariner Post-Acute Network, Inc. Prior to joining Mariner Post-Acute Network, Inc., Mr. Crabill served as an Executive Vice President of Operations at Beverly Enterprises, Inc.

Robert O. Stephenson (47) is our Chief Financial Officer and has served in this capacity since August 2001. From 1996 to July 2001, Mr. Stephenson served as the Senior Vice President and Treasurer of Integrated Health Services, Inc. Prior to joining Integrated Health Services, Inc., Mr. Stephenson held various positions at CSX Intermodal, Inc., Martin Marietta Corporation and Electronic Data Systems.

Michael D. Ritz (42) is our Chief Accounting Officer and has served in this capacity since February 2007. From April 2005 to February 2007, Mr. Ritz served as the Vice President, Accounting & Assistant Corporate Controller of Newell Rubbermaid Inc., and from August 2002 to April 2005, Mr. Ritz served as the Director, Financial Reporting of Newell Rubbermaid Inc. From July 2001 through August 2002, Mr. Ritz served as the Director of Accounting and Controller of Novavax Inc.

As of December 31, 2010, we had 24 full-time employees, including the five executive officers listed above.

Item 1A - Risk Factors

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

Risks Related to the Operators of Our Facilities

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

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

We are exposed to the risk that our operators may not be able to meet their lease, mortgage and other obligations to us or other third parties, which could result in their bankruptcy or insolvency. Further, the current economic climate that exists in the United States serves to heighten and increase this risk. Although our lease agreements and loan agreements typically provide us with the right to terminate the agreement, evict an operator, foreclose on our collateral, demand immediate payment and exercise other remedies, title 11 of the United States Code, as amended and supplemented (the "Bankruptcy Code"), would limit or, at a minimum, delay our ability to collect unpaid pre-bankruptcy rents and mortgage payments and to pursue other remedies against a bankrupt operator.

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

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

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

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

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

- *Medicare and Medicaid*. A significant portion of our SNF and nursing home operators' revenue is derived from governmentally-funded reimbursement programs, primarily Medicare and Medicaid. Failure to maintain certification in these programs would result in a loss of funding from such programs. See the risk factor entitled "Our operators depend on reimbursement from governmental and other third party payors and reimbursement rates from such payors may be reduced" for further discussion.

- *Licensing and Certification*. Our operators and facilities are subject to regulatory and licensing requirements of federal, state and local authorities and are periodically surveyed by these authorities. Failure to obtain licensure or loss or suspension of licensure would prevent a facility from operating and result in ineligibility for reimbursement until the necessary licenses are obtained or reinstated. In such event, our revenues from these facilities could be reduced or eliminated for an extended period of time or permanently. In addition, licensing and Medicare and Medicaid laws require operators of nursing homes and assisted living facilities to comply with extensive standards governing operations. Federal and state agencies administering those laws regularly inspect such facilities and investigate complaints. Our operators and their managers receive notices of observed violations and deficiencies from time to time, and sanctions have been imposed from time to time on facilities operated by them, including possible loss of license and/or right to receive reimbursement. If our operators are unable to cure deficiencies, which have been identified or which are identified in the future, sanctions may be imposed. If imposed, the resulting sanctions may adversely affect our operators' revenues, potentially jeopardizing their ability to meet their obligations to us.

- *Fraud and Abuse Laws and Regulations* . There are various extremely complex civil and criminal federal and state laws governing a wide array of referrals, relationships and arrangements and prohibiting fraud by healthcare providers. Many of these laws raise issues that have not been clearly interpreted. Governments are devoting increasing attention and resources to anti-fraud initiatives against healthcare providers. The federal anti-kickback statute is a criminal statute that prohibits the knowing and willful offer, payment, solicitation or receipt of any remuneration in return for, to induce, or to arrange for the referral of individuals for any item or service payable by a federal or state healthcare program. There is also a civil analogue. States also have enacted similar statutes covering Medicaid payments and some states have broader statutes. Some enforcement efforts have targeted relationships between SNFs and ancillary providers, relationships between SNFs and referral sources for SNFs and relationships between SNFs and facilities for which the SNFs serve as referral sources. The federal self-referral law, commonly known as the "Stark Law," is a civil statute that prohibits certain referrals by physicians to entities providing "designated health services" if these physicians have financial relationships with the entities. Some of the services provided in SNFs are classified as designated health services. There are also criminal provisions that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, as well as failing to refund overpayments or improper payments. Violation of the anti-kickback statute or Stark Law may form the basis for a False Claims Act violation. In addition, the federal False Claims Act allows a private individual with knowledge of fraud to bring a claim on behalf of the federal government and earn a percentage of the federal government's recovery. Because of these incentives, these so-called "whistleblower" suits have become more frequent. The violation of any of these laws or regulations by an operator may result in the imposition of fines or other penalties, including exclusion from Medicare, Medicaid, and all other federal and state healthcare programs. Such fines or penalties could jeopardize that operator's ability to make lease or mortgage payments to us or to continue operating its facility.

- *Privacy Laws.* Our operators are subject to federal, state and local laws and regulations designed to protect confidentiality and security of patient health information, including the privacy and security provisions in the federal Health Insurance Portability and Accountability Act of 1996 and the corresponding regulations promulgated, known as HIPAA. HIPAA was amended by the American Recovery and Reinvestment Act of 2009, known as the Stimulus Bill, to increase penalties for HIPAA violations. These changes include the imposition of stricter requirements on healthcare providers, requiring notifications in most cases if there is a breach of an individual's protected health information (including public announcements if the breach affects a significant number of individuals) and the expansion of possibilities for enforcement. Our operators may have to expend significant funds to secure the health information they hold, including upgrading their computer systems. If our operators are found in violation of HIPAA, such operators may be required to pay large penalties. Compliance with public notification requirements in the event of a breach could cause reputational harm to their business. Obligations to pay large penalties or tarnishing of reputation could adversely affect the ability of our operators to pay their obligations to us.

- *Other Laws*. Other federal, state and local laws and regulations that impact how our operators conduct their operations include: (i) laws protecting consumers against deceptive practices; (ii) laws generally affecting our operators' management of property and equipment and how our operators generally conduct their operations, such as fire, health and safety laws; (iii) laws affecting assisted living facilities mandating quality of services and care, including food services; and (iv) resident rights (including abuse and neglect laws) and health standards set by the federal Occupational Safety and Health Administration. We cannot predict the effect that the additional costs of complying with these laws may have on the revenues of our operators, and thus their ability to meet their obligations to us.

- *Legislative and Regulatory Developments*. Each year, legislative and regulatory proposals are introduced at the federal and state levels that would result in major changes in the healthcare system. We cannot accurately predict whether any proposals will be adopted, and if adopted, what effect (if any) these proposals would have on our operators, and as a result, our business.

Provisions of the newly enacted Healthcare Reform Law require certain changes to reimbursement and studies of reimbursement policies that may adversely affect payments to skilled nursing facilities.

Several provisions of the Healthcare Reform Law will affect Medicare payments to skilled nursing facilities, or SNFs:

- Beginning with fiscal year 2012, payments to SNFs will be subject to a productivity adjustment factor, which may reduce the market basket (cost of living) update, and which may result in a decrease of payments from the prior year.

- The Secretary of the Department of Health and Human Services, or the Secretary, is required to develop plans for implementation of a value-based purchasing program for SNFs, taking into account quality and efficiency, the reporting, collection and validation of quality data, methods for public disclosure of performance information, and the structure of value-based payment adjustments.

- By January 1, 2013, the Secretary is required to implement a pilot program to test the effect of bundling payments for acute care (hospitals and physicians) with payments for post acute care (SNFs, home health agencies, inpatient rehabilitation facilities, and long term care hospitals). The Centers for Medicare and Medicaid Services, or CMS, which implements the Medicare Program, would make one payment to cover hospitalization and care for 30 days after discharge for certain diagnoses. If the patient is readmitted to the hospital within 30 days of discharge, CMS could decide to reduce payment. The providers would be responsible for allocating payments.

- The Secretary is required to submit to Congress by January 1, 2012 a report on whether it is appropriate or not to apply health care acquired conditions payment policy to SNFs. Such a policy, if adopted, could reduce payments to SNFs if residents acquire certain conditions during their care.

- For cost reports submitted for cost reporting periods beginning on or after March 2010, nursing facilities will be required to disclose wages and benefits for staff (itemized by role) that provide direct care to residents.

The Healthcare Reform Law could result in decreases in payments to our operators or otherwise adversely affect the financial condition of our operators.

The Healthcare Reform Law imposes additional requirements on skilled nursing facilities regarding compliance and disclosure.

By March 2013, SNFs are required to implement a compliance and ethics program that is effective in preventing and detecting criminal, civil and administrative violations and in promoting quality of care. SNFs will be required to implement a quality assurance and performance improvement program within one (1) year following promulgation of guidance by the CMS. SNFs will be required to provide additional information for the CMS Nursing Home Compare website regarding staffing as well as summary information regarding the number of criminal violations by a facility or its employees committed within the facility, and specification of those that were crimes of abuse, neglect, criminal sexual abuse or other violations or crimes resulting in serious bodily injury, and, in addition, the number of civil monetary penalties imposed on the facility, its employees, contractors and other agents, to further the ability of consumers to compare nursing homes. If our operators fall short in their compliance and ethics programs and quality assurance and performance improvement programs, or if the information they provide to the CMS for the Nursing Home Compare website reveals significant shortcomings, their reputations and ability to attract residents could be adversely affected.

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

Changes in the reimbursement rate or methods of payment from third-party payors, including the Medicare and Medicaid programs, or the implementation of other measures to reduce reimbursements for services provided by our operators has in the past, and could in the future, result in a substantial reduction in our operators' revenues and operating margins. Additionally, net revenue realizable under third-party payor agreements can change after examination and retroactive adjustment by payors during the claims settlement processes or as a result of post-payment audits. Payors may disallow requests for reimbursement based on determinations that certain costs are not reimbursable or reasonable or because additional documentation is necessary or because certain services were not covered or were not medically necessary. There also continue to be new legislative and regulatory proposals that could impose further limitations on government and private payments to healthcare providers. In some cases, states have enacted or are considering enacting measures designed to reduce their Medicaid expenditures and to make changes to private healthcare insurance. We cannot assure you that adequate reimbursement levels will continue to be available for the services provided by our operators, which are currently being reimbursed by Medicare, Medicaid or private third-party payors. We currently believe that our operator coverage ratios are strong and that our operators can absorb moderate reimbursement rate reductions and still meet their financial obligations to us. However, significant limits on the scope of services reimbursed and on reimbursement rates could have a material adverse effect on our operators' liquidity, financial condition and results of operations, which could cause the revenues of our operators to decline and jeopardize their ability to meet their obligations to us.

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

The downturn in the U.S. economy has negatively affected state budgets, which may put pressure on states to decrease reimbursement rates for our operators with the goal of decreasing state expenditures under their state Medicaid programs. The need to control Medicaid expenditures may be exacerbated by the potential for increased enrollment in Medicaid due to unemployment and declines in family incomes. These potential reductions could be compounded by the potential for federal cost-cutting efforts that could lead to reductions in reimbursement to our operators under both the Medicare and Medicaid programs. Potential reductions in Medicare and Medicaid reimbursement to our operators could reduce the cash flow of our operators and their ability to make rent or mortgage payments to us. Since the profit margins on Medicaid patients are generally relatively low, more than modest reductions in Medicaid reimbursement could place some operators in financial distress, which in turn could adversely affect us.

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

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

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

Despite the fact that the U.S. economy has started to recover from the recent economic recession, the rate of recovery has been much slower than anticipated. The United States is continuing to experience the effects of the recession, resulting in continued concerns regarding the adverse impact caused by inflation, deflation, increased unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, the U.S. mortgage market, a distressed real estate market, market volatility and weakened business and consumer confidence. This difficult operating environment could have an adverse impact on the ability of our operators to maintain occupancy rates, which could harm their financial condition. Any sustained period of increased payment delinquencies, foreclosures or losses by our operators under our leases and loans could adversely affect our income from investments in our portfolio.

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

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

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

As is typical in the long-term healthcare industry, our operators are often subject to claims for damages relating to the services that they provide. We can give no assurance that the insurance coverage maintained by our operators will cover all claims made against them or continue to be available at a reasonable cost, if at all. In some states, insurance coverage for the risk of punitive damages arising from professional liability and general liability claims and/or litigation may not, in certain cases, be available to operators due to state law prohibitions or limitations of availability. As a result, our operators operating in these states may be liable for punitive damage awards that are either not covered or are in excess of their insurance policy limits. TC Healthcare, the entity that has operated these facilities on our behalf through an independent contractor on an interim basis, may be named as a defendant in professional liability claims related to the properties that were transitioned from Haven Eldercare, LLC ("Haven facilities") as described in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations –Portfolio and Other Developments.

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

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

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

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

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

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

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

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

At December 31, 2010, approximately 16% of our real estate investments were operated by two public companies: Sun Healthcare Group, Inc. ("Sun") (9%) and Advocat Inc. ("Advocat") (6%). Our largest private company operators and/or managers (by investment) were CommuniCare Health Services ("CommuniCare") (13%), Airamid Health Management, LLC through its subsidiaries ("Airamid") (11%) and Signature Holding II, LLC (9%). No other operator represents more than 6% of our investments.

For the year ended December 31, 2010, our revenues from operations totaled $258.3 million, of which approximately $35.7 million were from CommuniCare (14%), $31.9 million from Sun (12%) and $22.1 million from Advocat (9%). No other operator generated more than 9% of our revenues from operations for the year ended December 31, 2010. In addition, our owned and operated assets generated $7.3 million (3%) of revenue in 2010. Facilities acquired from CapitalSource are only included in our revenues from the date of acquisition.

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

Risks Related to Us and Our Operations

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

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

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

Current economic conditions, the availability and cost of credit, turmoil in the mortgage market and depressed real estate markets have contributed to increased volatility and diminished expectations for real estate markets and the economy as a whole. While the capital markets have recently shown signs of improvement, the sustainability of an economic recovery is uncertain and additional levels of market disruption and volatility could impact our ability to secure third-party borrowings or refinance our existing debt in the future.

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

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

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

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

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

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

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

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

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

Our December 2009 and June 2010 acquisitions of certain CapitalSource subsidiaries has significantly increased the number of long-term care facilities in our investment portfolio and the number of states in which we own facilities. We cannot assure you that we will be able to adapt our management, administrative, accounting and operational systems to integrate and manage the facilities we have acquired and those that we may acquire under our existing cost structure in a timely manner. Our failure to timely integrate and manage the acquisition of the CapitalSource subsidiaries and future acquisitions or developments could have a material adverse effect on our results of operations and financial condition.

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

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

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

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

Our assets may be subject to impairment charges.

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

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

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

Our indebtedness could adversely affect our financial condition.

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

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

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

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

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

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

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

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

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

Our real estate investments are relatively illiquid.

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

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

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

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

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

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

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

We and several of our wholly-owned subsidiaries were named as defendants in professional liability and general liability claims related to our owned and operated facilities prior to 2005. Other third-party managers responsible for the day-to-day operations of these facilities were also named as defendants in these claims. In these suits, patients of certain previously owned and operated facilities have alleged significant damages, including punitive damages, against the defendants. Although all of these prior suits have been settled, we or our affiliates could be named as defendants in similar suits related to our owned and operated assets resulting from the transition of the Haven facilities as described in Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations –Portfolio and Other Developments. There can be no assurance that we would be successful in our defense of such potential matters or in asserting our claims against various managers of the subject facilities or that the amount of any settlement or judgment would be substantially covered by insurance or that any punitive damages will be covered by insurance.

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

Our articles of incorporation and bylaws contain various procedural and other requirements which could make it difficult for stockholders to effect certain corporate actions. Our Board of Directors is divided into three classes and the members of our Board of Directors are elected for terms that are staggered. Our Board of Directors also has the authority to issue additional shares of preferred stock and to fix the preferences, rights and limitations of the preferred stock without stockholder approval. These provisions could discourage unsolicited acquisition proposals or make it more difficult for a third party to gain control of us, which could adversely affect the market price of our securities and/or result in the delay, deferral or prevention of a change in control or other transactions that could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Stock

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

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

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

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

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

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

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

- the issuance and exercise of options to purchase our common stock or other equity awards under remuneration plans. We may also issue equity to our employees in lieu of cash bonuses or to our directors in lieu of director's fees;
- the issuance of shares pursuant to our dividend reinvestment and direct stock purchase plan;
- the issuance of debt securities exchangeable for our common stock;
- the exercise of warrants we may issue in the future;
- lenders sometimes ask for warrants or other rights to acquire shares in connection with providing financing, and we cannot assure you that our lenders will not request such rights; and
- the sales of securities convertible into our common stock could dilute the interests of existing common stockholders.

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

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

Holders of our outstanding preferred stock have liquidation and other rights that are senior to the rights of the holders of our common stock.

As of the date of this filing, 4,339,500 shares of our 8.375% Series D cumulative redeemable preferred stock ("Series D Preferred Stock") were issued and outstanding. We have called all of the issued and outstanding Series D Preferred Stock for redemption on March 7, 2011. However, our Board of Directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock.

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

In recent years, numerous legislative, judicial and administrative changes have been made in the provisions of the federal income tax laws that have or could impact the income tax consequences in an adverse manner of owning our stock. Changes are likely to continue to occur in the future, and we cannot assure you that any of these changes will not adversely affect our stockholder's stock. Any of these changes could have an adverse effect on an investment in our stock or on its market value or resale potential. Stockholders are urged to consult with their own tax advisor with respect to the impact that past legislative, regulatory or administrative changes or potential legislation may have on their investment in our stock.

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

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

Item 1B – Unresolved Staff Comments

None.

Item 2 - Properties

At December 31, 2010, our real estate investments included long-term care facilities and rehabilitation hospital investments, either in the form of purchased facilities that are leased to operators or other affiliates, mortgages on facilities that are operated by the mortgagors or their affiliates and facilities subject to leasehold interests. The facilities are located in 35 states and are operated by 50 operators. We use the term "operator" to refer to our tenants and mortgagees and their affiliates who manage and/or operate our properties. In some cases, our tenants and mortgagees contract with a healthcare operator to operate the facilities. The following table summarizes our property investments as of December 31, 2010:

Investment Structure/Operator	Number of Operating Beds	Number of Facilities	Occupancy Percentage[1]	Gross Investment (in thousands)
Leased Facilities[2]				
Airamid Health Management, LLC.	4,535	38	87	$ 263,560
CommuniCare Health Services, Inc	3,609	28	85	245,074
Sun Healthcare Group, Inc.	4,574	40	69	226,483
Signature Holdings II, LLC.	3,384	32	87	222,771
Gulf Coast Master Tenant I, LLC.	2,160	17	88	146,636
Formation Capital, LLC.	1,894	16	86	146,027
Advocat, Inc.	3,960	36	86	144,595
Guardian LTC Management Inc.	1,681	23	90	125,971
La Vie Care Management	1,996	17	88	117,654
Nexion Health Inc	2,146	20	75	85,538
Essex Healthcare Corporation	1,229	13	85	83,587
TenInOne Acquisition Group, LLC	1,516	10	79	80,718
Swain/Herzog	1,008	9	85	56,143
Sava Senior Care, LLC.	640	4	65	40,729
Mark Ide Limited Liability Company	833	9	77	33,871
Infinia Properties of Arizona, LLC	444	6	86	33,137
Hoosier Enterprises Inc.	632	7	68	32,059
Pinon Management, Inc.	492	6	94	28,326
Waters (The) of Williamsport, LLC	540	6	75	22,035
StoneGate Senior Care LP	646	6	77	21,781
Fundamental Long Term Care Holding, LLC	381	3	92	20,927
Rest haven Nursing Center Inc.	166	1	95	14,400
Daybreak Venture, LLC	317	3	68	12,670
Health Systems of Oklahoma LLC.	407	3	63	12,470
Washington N&R	239	2	75	12,152
Genesis HealthCare Corporation	124	1	90	10,931
Care Initiatives, Inc	188	1	84	10,347
Adcare Health Systems	300	2	93	10,000
Ensign Group, Inc.	271	3	92	9,656
Lakeland Investors, LLC	274	1	89	9,625
Southwest LTC	260	2	62	8,428
Laurel	239	2	65	7,585
Hickory Creek Healthcare Foundation	138	2	78	7,250
Prestige Care, Inc	90	1	95	6,757
Community Eldercare Services, LLC.	100	1	73	6,746
Longwood Management Corporation.	185	2	92	6,448
Crowne Management, LLC	172	1	81	6,351
Elite Senior Living, Inc	105	1	65	5,893
Emeritus Corporation	52	1	86	5,674
Murphy Healthcare III, LTC	181	2	55	5,139
Country Villa Claremont Healthcare Center, Inc	99	1	90	4,546
HMS Holdings at Texarkana, LLC	123	1	65	3,931
Generations Healthcare, Inc	60	1	78	3,007
Universal Health Care/King, Inc	113	1	88	2,572
Health and Hospital Corporation	128	1	65	2,550
Sam Jewel [3]	214	2	-	2,153
Diamond Care Vida Encantada, LLC	102	1	67	1,953
	42,947	386	82	2,366,856
Assets Held for Sale				
Closed Facility	-	1	-	670
	-	1	-	670
Fixed - Rate Mortgages[4]				
CommuniCare Health Services, Inc	1,064	8	87	76,505
Meridian	240	3	89	15,900

Parthenon Healthcare, Inc	251	2	78	11,396
Ciena Healthcare [5]	-	-	-	4,756
	1,555	13	86	108,557
Total	44,502	400	83	$ 2,476,083

(1) Represents the most recent data provided by our operators.

(2) Certain of our lease agreements contain purchase options that permit the lessees to purchase the underlying properties from us.

(3) We have not received occupancy information from the tenant.

(4) In general, many of our mortgages contain prepayment provisions that permit prepayment of the outstanding principal amounts thereunder.

(5) The mortgage relates to two properties for which we have provided construction to permanent mortgage financing. Both facilities are currently under construction.

The following table presents the concentration of our facilities by state as of December 31, 2010:

	Number of Facilities	Number of Operating Beds	Gross Investment (in thousands)	% of Gross Investment
Florida	86	10,197	$ 596,831	24.1
Ohio	50	5,540	355,664	14.4
Pennsylvania	25	2,286	174,051	7.0
Texas	31	3,952	160,281	6.5
Tennessee	16	2,296	114,329	4.6
Maryland	10	1,319	98,557	4.0
Colorado	11	1,202	70,823	2.9
Indiana	18	1,591	69,670	2.8
Kentucky	15	1,210	63,609	2.6
West Virginia	10	1,151	59,982	2.4
North Carolina	11	1,337	59,578	2.4
Alabama	11	1,325	57,630	2.3
Massachusetts	8	896	57,010	2.3
Louisiana	14	1,478	55,343	2.2
Mississippi	6	609	52,417	2.1
Arkansas	12	1,189	47,313	1.9
Rhode Island	4	558	43,516	1.8
California Georgia	12	1,018	39,302	1.6
Connecticut	5	472	36,786	1.5
Arizona	6	444	33,137	1.3
Georgia	4	618	27,940	1.1
New Hampshire	3	216	23,066	0.9
Idaho	4	377	22,679	0.9
Iowa	3	359	21,202	0.9
Nevada	3	381	20,927	0.8
Wisconsin	3	317	18,553	0.8
Washington	2	194	17,473	0.7
Vermont	2	275	15,357	0.6
Oklahoma	5	621	14,623	0.6
Illinois	4	446	14,406	0.6
Missouri	2	239	12,152	0.5
New Mexico	2	221	7,153	0.3
Alaska	1	90	6,757	0.3
Michigan [1]	0	0	4,756	0.2
Kansas	1	78	3,210	0.1
Total	400	44,502	$ 2,476,083	100.00

(1) The mortgage relates to two properties for which we have provided construction to permanent mortgage financing. Both facilities are currently under construction.

Geographically Diverse Property Portfolio. Our portfolio of properties is broadly diversified by geographic location. Our portfolio includes healthcare facilities located in 35 states. In addition, the majority of our 2010 rental and mortgage income was derived from facilities in states that require state approval for development and expansion of healthcare facilities. We believe that such state approvals may limit competition for our operators and enhance the value of our properties.

Large Number of Tenants. Our facilities are operated by 50 different public and private healthcare providers. Except for CommuniCare (13%), Airamid Health Management, LLC through its subsidiaries (“Airamid”) (11%), Signature (9%) and Sun (9%) which together hold approximately 42% of our portfolio (by investment), no other single tenant holds greater than 6% of our portfolio (by investment).

Significant Number of Long-term Leases and Mortgage Loans. At December 31, 2010, approximately 77% of our leases and mortgages had primary terms that expire in 2014 or later. The majority of our leased real estate properties are leased under provisions of master lease agreements. We also lease facilities under single facility leases. The initial terms of both types of leases typically range from 5 to 15 years, plus renewal options.

Encumbered Assets. As of December 31, 2010, we had no borrowings outstanding under our $320 million revolving senior secured credit facility, which is provided by Bank of America, N.A., and certain other lenders. The revolving credit facility is secured by a perfected first priority lien on certain real properties and all improvements, fixtures, equipment and other personal property relating thereto of certain of our subsidiaries that are party to the revolving credit facility as borrowers, and by an assignment of leases, rents, sale/refinance proceeds and other proceeds flowing from the real properties securing the revolving credit facility. The gross investment value in these facilities is approximately $420.6 million. In addition, we had $201.3 million aggregate principal amount of other secured indebtedness, which was secured by 40 of our facilities with an aggregate gross investment value of $313.3 million.

Item 3 - Legal Proceedings

On January 7, 2010, LCT SE Texas Holdings, L.L.C. (“LCT”), an affiliate of Mariner Health Care and the lessee of four facilities located in the Houston area (the “LCT Facilities”), filed a petition in the District Court of Harris County, Texas (No. 2010-01120) against four landlord entities (the “CSE Entities”), the member interests of which we purchased as part of the December 2009 CapitalSource acquisition. The petition relates to a right of first refusal (“ROFR”) under the master lease between LCT and the CSE Entities. The petition alleges, among other things, that (i) the notice of the acquisition of the member’s interests of the CSE Entities was not proper under the ROFR provision in the master lease, (ii) the purchase price allocated to the member’s interests of the CSE Entities (or the LCT Facilities) pursuant to the CapitalSource Purchase Agreement and specified in the notice to LCT of its ROFR, if any, was not a bona fide offer, did not represent “true market value” and failed to trigger the ROFR and (iii) we tortiously interfered with LCT’s right to exercise the ROFR. The petition seeks a declaratory adjudication with respect to the identified claims above, a claim for specific performance permitting LCT to exercise its ROFR and unspecified actual and punitive damages relating to the alleged breach of the master lease by the CSE Entities and tortious interference by us. We believe that the litigation is defensible. In addition, under the CapitalSource Purchase Agreement and related transaction documents, CapitalSource has agreed to indemnify us for any losses, including reasonable legal expenses, incurred by us in connection with this litigation.

Item 4 - [Removed and Reserved]

PART II

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

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

2010				2009			
Quarter	High	Low	Dividends Per Share	Quarter	High	Low	Dividends Per Share
First	$ 21.100	$ 17.000	$ 0.32	First	$ 16.420	$ 11.150	$ 0.30
Second	21.270	17.500	0.32	Second	17.400	13.560	0.30
Third	23.370	19.370	0.36	Third	19.010	14.510	0.30
Fourth	23.950	20.350	0.37	Fourth	20.080	14.390	0.30
			$ 1.37				$ 1.20

The closing price for our common stock on the New York Stock Exchange on February 22, 2011 was $22.32 per share. As of February 22, 2011 there were 100,018,140 shares of common stock outstanding with 2,901 registered holders.

The following table provides information about all equity awards under our company's 2004 Stock Incentive Plan, 2000 Stock Incentive Plan.

Equity Compensation Plan Information

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	(b) Weighted-average exercise price of outstanding options, warrants and rights (2)	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a) (3)
Equity compensation plans approved by security holders	123,996	$ —	2,278,175
Equity compensation plans not approved by security holders	—	—	—
Total	123,996	$ —	2,278,175

(1) Reflects 123,996 shares issuable in respect of the 3 year cliff performance restricted stock units that vested on December 31, 2010. Does not include shares in respect of equity awards granted in January 2011.
(2) No exercise price is payable with respect to the performance restricted stock rights.
(3) Reflects shares of Common Stock remaining available for future issuance under our 2000 and 2004 Stock Incentive Plans.

Issuer Purchases of Equity Securities

During the fourth quarter of 2010, 93,928 shares of our common stock were purchased from employees to pay the withholding taxes associated with vesting of restricted stock.

Common Stock

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number (or Approximate Dollar Value) of Shares that May be Purchased Under these Plans or Programs
October 1, 2010 to October 31, 2010	-	$ -	-	$ -
November 1, 2010 to November 30, 2010	-	-	-	-
December 1, 2010 to December 31, 2010	93,928	22.44	-	-
Total	93,928	$ 22.44	-	$ -

(1) Represents shares purchased from employees to pay the withholding taxes related to the vesting of restricted stock.

Item 6 - Selected Financial Data

The following table sets forth our selected financial data and operating data for our company on a historical basis. The following data should be read in conjunction with our audited consolidated financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere herein. Our historical operating results may not be comparable to our future operating results. The comparability of our selected financial data is significantly affected by our CapitalSource acquisitions in 2009 and 2010. See "Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Portfolio and Other Developments – CapitalSource Transaction."

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except per share amounts)				
Operating Data					
Revenues from core operations	$ 250,985	$ 179,008	$ 169,592	$ 159,558	$ 135,513
Revenues from nursing home operations	7,336	18,430	24,170	-	-
Total revenues	$ 258,321	$ 197,438	$ 193,762	$ 159,558	$ 135,513
Income from continuing operations	$ 58,436	$ 82,111	$ 77,691	$ 67,598	$ 55,905
Net income available to common stockholders	49,350	73,025	70,551	59,451	45,774
Per share amounts:					
Income from continuing operations:					
Basic	$ 0.52	$ 0.87	$ 0.93	$ 0.88	$ 0.78
Diluted	0.52	0.87	0.93	0.88	0.78
Net income available to common:					
Basic	$ 0.52	$ 0.87	$ 0.94	$ 0.90	$ 0.78
Diluted	0.52	0.87	0.94	0.90	0.78
Dividends, Common Stock[1]	$ 1.37	$ 1.20	$ 1.19	$ 1.08	$ 0.96
Dividends, Series D Preferred[1]	2.09	2.09	2.09	2.09	2.09
Weighted-average common shares outstanding, basic	94,056	83,556	75,127	65,858	58,651
Weighted-average common shares outstanding, diluted	94,237	83,649	75,213	65,886	58,745

	As of December 31,				
	2010	2009	2008	2007	2006
Balance Sheet Data					
Gross investments	$ 2,504,818	$ 1,803,743	$ 1,502,847	$ 1,322,964	$ 1,294,306
Total assets	2,304,007	1,655,033	1,364,467	1,182,287	1,175,370
Revolving line of credit	-	94,100	63,500	48,000	150,000
Other long-term borrowings	1,176,965	644,049	484,697	525,709	526,141
Stockholders' equity	1,004,066	865,227	787,988	586,127	465,454

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

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

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

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this document. 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 of this report;
(ii) uncertainties relating to the business operations of the operators of our assets, including those relating to reimbursement by third-party payors, regulatory matters and occupancy levels;
(iii) the ability of any operators in bankruptcy to reject unexpired lease obligations, modify the terms of our mortgages and impede our ability to collect unpaid rent or interest during the process of a bankruptcy proceeding and retain security deposits for the debtors' obligations;
(iv) our ability to sell closed or foreclosed assets on a timely basis and on terms that allow us to realize the carrying value of these assets;
(v) our ability to negotiate appropriate modifications to the terms of our credit facilities;
(vi) our ability to manage, re-lease or sell any owned and operated facilities;
(vii) the availability and cost of capital;
(viii) changes in our credit ratings and the ratings of our debt and preferred securities;
(ix) competition in the financing of healthcare facilities;
(x) regulatory and other changes in the healthcare sector;
(xi) the effect of economic and market conditions generally and, particularly, in the healthcare industry;
(xii) changes in the financial position of our operators;
(xiii) changes in interest rates;
(xiv) the amount and yield of any additional investments;
(xv) changes in tax laws and regulations affecting real estate investment trusts; and
(xvi) our ability to maintain our status as a real estate investment trust.

Overview

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

On July 7, 2008, through bankruptcy court proceedings, we took ownership and/or possession of 15 facilities that were previously operated by Haven Eldercare ("Haven"). Prior to July 7, 2008, we had (i) leased eight facilities to Haven under a master lease agreement and (ii) provided mortgage financing to a Haven entity for seven facilities that we had previously consolidated according to accounting rules regarding variable interest entities then in place. As a result of the bankruptcy court judgment, the mortgage on the seven facilities was retired in exchange for ownership of the facilities, and we were also awarded certain other operational assets of Haven. Accordingly, effective July 7, 2008, we were no longer required to consolidate the Haven entity for which we had provided the mortgage because all of the assets of the Haven entity were transferred to us, and we no longer had a variable interest in the Haven entity. In addition to receiving title to the seven facilities and certain other operational assets, on July 7, 2008, we assumed operating responsibility for the 15 Haven facilities. In July 2008, a new entity (TC Healthcare) was formed to operate these properties on our behalf through the use of an independent contractor. TC Healthcare's managing member and sole voting member, an individual with experience in operating these types of facilities, has no equity investment at risk and is unrelated to Omega. Omega and TC Healthcare entered into an agreement that required Omega to provide the working capital requirements for TC Healthcare and to absorb the operating losses of TC Healthcare. The agreement also provided Omega with the right to receive the economic benefits of the entity. TC Healthcare is a variable interest entity as the entity does not have sufficient equity investment at risk to support its operations without subordinated financial support. Additionally, Omega has the power to direct the activities of TC Healthcare as Omega has the unilateral right to replace the shareholder. Omega is deemed the primary beneficiary of TC Healthcare as Omega has the controlling economic interest in the entity, and therefore, Omega consolidated the operations of TC Healthcare.

Our consolidated financial statements include the accounts of (i) Omega, (ii) all direct and indirect wholly owned subsidiaries of Omega and (iii) TC Healthcare. We consolidate the financial results of TC Healthcare into our financial statements based on the applicable consolidation accounting literature. We include the operating results, 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. The two remaining facilities were transitioned to the new tenant/operator on June 1, 2010, upon approval by state regulators of the operating license transfer. The operating revenues and expenses and related operating assets and liabilities of the two facilities are shown on a gross basis in our Consolidated Statements of Income and Consolidated Balance Sheets, respectively. TC Healthcare is responsible for the collection of the accounts receivable earned and the liabilities incurred prior to the date of the transition to the new tenant/operator. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

Our portfolio of investments at December 31, 2010, consisted of 400 healthcare facilities (including one closed facility held for sale), located in 35 states and operated by 50 third-party operators. Our gross investment in these facilities totaled approximately $2.5 billion at December 31, 2010, with 99% of our real estate investments related to long-term healthcare facilities. This portfolio is made up of (i) 371 SNFs, (ii) 10 ALFs, (iii) five specialty facilities, (iv) fixed rate mortgages on 13 SNFs and (v) one SNF that is currently held for sale. At December 31, 2010 we also held other investments of approximately $28.7 million, consisting primarily of secured loans to third-party operators of our facilities.

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. Current market and economic conditions may have a significant impact on state budgets and health care spending. The states with the most significant projected budget deficits in which we own facilities and the percentage of our gross investments in such states as of December 31, 2010 are as follows: Alabama (2.3%), Arizona (1.3%), California (1.6%), Florida (24.1%), New Hampshire (0.9%) and Rhode Island (1.8%). These deficits, exacerbated by the potential for increased enrollment in Medicaid due to rising unemployment levels and declining family incomes, could cause states to reduce state expenditures under their respective state Medicaid programs by lowering reimbursement rates.

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

2010 and Recent Highlights

Acquisition and Other Investments

See "Portfolio and Other Developments" for a description of 2010 acquisitions and other investments.

7.5% Senior Notes due 2020

On February 9, 2010, we issued and sold $200 million aggregate principal amount of our 7.5% Senior Notes due 2020. The notes mature on February 15, 2020 and pay interest semi-annually on August 15th and February 15th.

On October 20, 2010, we commenced an offer to exchange $200 million aggregate principal amount of our 7.5% Senior Notes due 2020. See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below.

CapitalSource Mortgage Debt

On February 16, 2010, we used proceeds from the offering of our $200 million 7.5% Senior Notes due 2020 to repay the mortgage debt we assumed in connection with the December 22, 2009 CapitalSource closing. See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below.

$140 Million Equity Shelf Program

On June 25, 2010, we entered into separate equity distribution agreements to sell shares of our common stock having an aggregate gross sales price of up to $140,000,000 (the "2010 Equity Shelf Program") with each of BofA Merrill Lynch, Credit Agricole Securities (USA) Inc., Deutsche Bank Securities, Jefferies & Company, Inc., RBS Securities Inc., Stifel Nicolaus & Company, Incorporated and UBS Securities LLC, each as sales agents and/or principal. Under the terms of the equity distribution agreements, we may from time to time offer and sell shares of our common stock, having an aggregate gross sales price of up to $140,000,000 through or to the sales agents. We will pay each sales agent compensation from the sales of the shares equal to 2% of the gross sales price per share of shares sold through such sales agent under the applicable agreement. In 2010, we issued 3.1 million shares of our common stock through the 2010 Equity Shelf Program for approximately $65.4 million, net of $1.3 million of commissions.

1.0 Million Share Common Stock Issuance

On June 29, 2010, in connection with our acquisition of certain subsidiaries of CapitalSource, we issued approximately 1.0 million shares of our common stock to the selling stockholder. The closing price of the common stock was $19.80 per share.

6.75% Senior Notes due 2022

On October 4, 2010, we issued and sold $225 million aggregate principal amount of our 6.75% Senior Notes due 2022. The notes mature on October 15, 2022, and pay interest semi-annually on April 15th and October 15th, commencing on April 15, 2011.

On November 23, 2010, we issued and sold $350 million aggregate principal amount of our 6.75% Senior Notes due 2022. The notes issued on November 9, 2010 were of the same series as the notes issued on October 4, 2010. See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below.

GECC Loan Payoff

On October 6, 2010, we terminated our credit agreement with General Electric Capital Corporation ("GECC"), as Administrative Agent and a Lender, and the other financial institutions party thereto. The credit agreement previously provided us with a five-year $100 million term loan. In connection with the termination, we repaid the outstanding principal amount of the loan plus a prepayment premium of $3.0 million. As a result of the early repayment of the GECC credit agreement, we recorded a debt extinguishment charge of $5.2 million consisting of (i) a non-cash charge of approximately $2.2 million relating to the write-off of deferred financing costs and (ii) $3.0 million related to the prepayment premium for prepaying the debt. See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below.

Tender Offer and Consent Solicitation for 7% Senior Notes due 2014

On November 8, 2010, we commenced a tender offer to purchase for cash any and all of our outstanding $310 million aggregate principal amount of 7% Senior Notes due 2014 upon the terms and subject to the conditions set forth in the Offer to Purchase and Consent Solicitation Statement, dated November 8, 2010. Pursuant to the terms of the tender offer which expired on December 8, 2010, we purchased $264.7 million aggregate principal amount of the notes. On December 16, 2010, we redeemed the remaining $45.3 million aggregate principal amount of the notes at a redemption price of 102.333% of the principal amount thereof, plus accrued and unpaid interest up to the redemption date. See "Liquidity and Capital Resources – Financing Activities and Borrowing Arrangements" below.

Series D Preferred Stock Redemption

On February 3, 2011, we announced that we have called for redemption all of our outstanding shares of 8.375% Series D Cumulative Redeemable Preferred Stock.

The redemption date for the Series D Preferred Stock will be March 7, 2011, and the redemption price will be $25.00 per share of Series D Preferred Stock plus accrued and unpaid dividends up to and including the redemption date, for an aggregate redemption price of $25.21519 per share. On and after the redemption date, dividends on the shares of Series D Preferred Stock will cease to accrue, the Series D Preferred Stock will cease to be outstanding, and holders of the Series D Preferred Stock will have only the right to receive the redemption price. In connection with the redemption of the Series D Preferred Stock, we will write-off $3.4 million of preferred stock issuance costs that will reduce first quarter 2011 net income attributable to common stockholders by approximately $0.03 per common share.

Dividends

On January 14, 2011, the Board of Directors declared a common stock dividend of $0.37 per share, to be paid February 15, 2011 to common stockholders of record on January 31, 2011. On February 16, 2010, May 17, 2010, August 16, 2010 and November 15, 2010, we paid dividends to our common stockholders in the per share amounts of $0.32, $0.32, $0.36 and $0.37, for stockholders of record on January 29, 2010, April 30, 2010, July 30, 2010 and October 29, 2010, respectively.

On January 14, 2011, the Board of Directors declared regular quarterly dividends of approximately $0.52344 per preferred share on its 8.375% Series D cumulative redeemable preferred stock (the "Series D Preferred Stock"), that will be paid February 15, 2011 to preferred stockholders of record on January 31, 2011. 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 November 1, 2010 through January 31, 2011. We also paid regular quarterly dividends of approximately $0.52344 per preferred share on the Series D Preferred Stock in 2010.

Portfolio and Other Developments

The partial expiration of certain Medicare rate increases has had an adverse impact on the revenues of the operators of nursing home facilities and could negatively impacted some operators' ability to satisfy their monthly lease or debt payment to us. See Item 1 Business - Government Regulation and Reimbursement above for further discussion. In several instances, we hold security deposits that can be applied in the event of lease and loan defaults, subject to applicable limitations under bankruptcy law with respect to operators seeking protection under title 11 of the United States Code, 11 U.S.C. §§ 101-1532, as amended and supplemented, (the "Bankruptcy Code").

CapitalSource Transactions

First Closing

On December 22, 2009, we purchased CapitalSource entities owning 40 facilities for approximately $271.4 million and an option to purchase CapitalSource entities owning 63 additional facilities for $25.0 million. The consideration consisted of: (i) approximately $184.2 million in cash; (ii) 2,714,959 shares of Omega common stock and (iii) the assumption of approximately $59.4 million of 6.8% mortgage debt maturing on December 31, 2011. We valued the 2,714,959 shares of our common stock at approximately $52.8 million on December 22, 2009.

The 40 facilities represent 5,264 available beds located in 12 states, and are part of 15 in-place triple net leases among 12 operators. The 12 leases generate approximately $31 million of annualized revenue.

As of December 31, 2010, we allocated approximately $282.0 million to land ($22.5 million), building and site improvements ($241.9 million) and furniture and fixtures ($17.6 million). We allocated approximately $9.5 million to in-place above market leases assumed at the first closing and approximately $19.8 million to in-place below market leases assumed at the first closing. In 2010, net amortization associated with net in-place below market leases assumed at the first closing was approximately $1.4 million. We estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the December 22, 2009 acquisition as follows (in millions):

Less than 1 year	1-3 years	3-5 years	Thereafter
1.3	2.3	2.0	3.4

The fair value of the debt assumed approximated face value. We have not recorded goodwill in connection with this transaction.

HUD Portfolio Closing

On June 29, 2010, we purchased CapitalSource entities owning 40 facilities for approximately $271 million. We also paid approximately $15 million for escrow accounts transferred to us at closing. The 40 facilities are encumbered by approximately $182 million in long-term mortgage financing guaranteed by the U.S. Department of Housing and Urban Development ("HUD") and $20 million in subordinated notes. The following summarizes the consideration paid at closing:

- $65 million in cash;
- $202 million face value of assumed debt, which includes $20 million of 9.0% unsecured debt maturing in December 2021, $53 million of HUD debt at a 6.61% weighted average annual interest rate maturing between January 2036 and May 2040, and $129 million of new HUD Debt at a 4.85% annual interest rate maturing between January 2040 and January 2045; and
- 995 thousand shares of our common stock valued at approximately $19 million on June 29, 2010.

The 40 facilities represent 4,882 available beds located in two states, and are part of 13 in-place triple net leases among two operators. The 13 leases generate approximately $30 million of annualized revenue.

As of December 31, 2010, we allocated approximately $313.3 million to land ($32.3 million), building and site improvements ($264.1 million) and furniture and fixtures ($16.9 million). We allocated approximately $4.9 million to in-place above market leases assumed at the HUD portfolio closing and approximately $24.1 million to in-place below market leases assumed at the HUD portfolio closing. In 2010, net amortization associated with net in-place below market leases assumed at the HUD portfolio closing was approximately $1.9 million. We estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 29, 2010 acquisition as follows (in millions):

Less than 1 year	1-3 years	3-5 years	Thereafter
3.5	6.2	4.7	2.9

In addition, we recorded approximately $22.5 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. In 2010, we amortized approximately $0.7 million for the fair value adjustment. We estimate amortization will average approximately $1.3 million per year for the next five years. We have not recorded goodwill in connection with this transaction.

Option Exercise and Closing

On April 20, 2010, we provided notice of our intent to exercise our Option to acquire CapitalSource entities owning 63 facilities. On June 9, 2010, we completed our purchase of the 63 CapitalSource facilities for an aggregate purchase price of approximately $293 million in cash. The total purchase price including the purchase option deposit was $318 million.

The 63 facilities represent 6,607 available beds located in 19 states, and are part of 30 in-place triple net leases among 18 operators. The 30 leases generate approximately $34 million of annualized revenue.

As of December 31, 2010, we allocated approximately $328.9 million to land ($35.8 million), building and site improvements ($276.0 million) and furniture and fixtures ($17.1 million). We allocated approximately $8.2 million to in-place above market leases assumed and approximately $18.8 million to in-place below market leases assumed at the Option portfolio closing. In 2010, net amortization associated with net in-place below market leases assumed at the Option portfolio closing was approximately $0.7 million. We estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 9, 2010 acquisition as follows:

Less than 1 year	1-3 years	3-5 years	Thereafter
1.2	1.7	2.4	4.6

We have not recorded goodwill in connection with this transaction.

Results of Operations

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

Year Ended December 31, 2010 compared to Year Ended December 31, 2009

Operating Revenues

Our operating revenues for the year ended December 31, 2010, were $258.3 million, an increase of $60.9 million over the same period in 2009. Following is a description of certain of the changes in operating revenues for the year ended December 31, 2010:

- Rental income was $232.8 million, an increase of $68.3 million over the same period in 2009. The increase was primarily due to: (i) the CapitalSource acquisitions and (ii) the conversion of 4 facilities from our mortgage loan portfolio to leased properties portfolio. In February 2010, we took possession of 4 facilities through a deed-in-lieu of foreclosure process with one of our mortgagees. We have entered into a long-term lease with a third party tenant to operate these facilities.

- Mortgage interest income totaled $10.4 million, a decrease of $1.2 million over the same period in 2009. The decrease was primarily the result of the deed-in-lieu of foreclosure for one of our operators discussed above in rental income.

- Other investment income totaled $3.9 million, an increase of $1.4 million over the same period in 2009. The increase was primarily the result of the $1.2 million income received from two mortgage back certificate notes that were retired during the second quarter of 2010.

- Miscellaneous revenue was $3.9 million, an increase of $3.4 million over the same period in 2009. The increase was primarily due to a settlement with one of our prior operators in February 2010 for breach of contract related to failure to pay rent.

- Nursing home revenues of owned and operated assets was $7.3 million , a decrease of $11.1 million over the same period in 2009. The decrease was due to the deconsolidation of two owned and operated facilities effective June 1, 2010.

Operating Expenses

Operating expenses for the year ended December 31, 2010, were $109.4 million, an increase of approximately $27.8 million over the same period in 2009. Following is a description of certain of the changes in our operating expenses for the year ended December 31, 2010:

- Our depreciation and amortization expense was $84.6 million, compared to $44.7 million for the same period in 2009. The increase was primarily associated with the CapitalSource acquisitions.

- Our general and administrative expense, excluding stock-based compensation expense related to restricted stock units, was $12.8 million, compared to $9.8 million for the same period in 2009. The increase was primarily due to increased costs associated with the CapitalSource transaction, including payroll and payroll related expense, additional audit expense related to the HUD portfolio and taxes related to the acquisition.

- Our restricted stock-based compensation expense was $2.2 million, an increase of $0.3 million over the same period in 2009. The increase was primarily due to a modification to the vesting portion of performance targets for our 2009 performance restricted stock units.

- Nursing home expenses of owned and operated assets was $8.0 million, a decrease of $12.6 million over the same period in 2009. The decrease was due to the deconsolidation of two owned and operated facilities effective June 1, 2010.

Other Income (Expense)

For the year ended December 31, 2010, total other expenses were $90.5 million, an increase of approximately $56.0 million over the same period in 2009. The increase in interest expense of approximately $31.2 million was primarily due to an increase in borrowings outstanding, including debt assumed to finance the CapitalSource acquisitions. The increase also included (i) $1.3 million in amortization of deferred financing costs related to the additional debt issued to finance the CapitalSource acquisitions and (ii) $19.0 million in interest refinancing costs. The increase in refinancing related costs relate to the (i) write-off of $3.5 million during the second quarter of 2010 associated with the termination of our $200 million revolving senior secured credit facility compared to a write-off of $0.5 million of deferred costs associated with the termination of our $255 million credit facility in June 2009, (ii) write-off of $2.2 million during the fourth quarter of 2010 associated with the termination of our $100 million GECC loan and payment of a $3.0 million prepayment penalty premium, and (iii) penalty payment and costs of approximately $8.2 million and the write-off of approximately $2.6 million during the fourth quarter of 2010 associated with the tender offer and retirement of our outstanding $310 million 7% Senior Notes due 2014. In addition, during the first quarter of 2009, we received $4.5 million in cash for a legal settlement.

2010 Taxes

Because we qualify as a REIT, we generally are not subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. For tax year 2010, we made preferred and common dividend payments of $138.9 million to satisfy REIT requirements relating to qualifying income. We are permitted to own up to 100% of a taxable REIT subsidiary (“TRS”). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The TRS had a net operating loss carry-forward as of December 31, 2010 of $1.1 million. The loss carry-forward was fully reserved with a valuation allowance due to uncertainties regarding realization. We recorded interest and penalty charges associated with tax matters as income tax expense.

Income from Continuing Operations

Income from continuing operations for the year ended December 31, 2010 was $58.4 million compared to $82.1 million for the same period in 2009.

2010 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 year ended December 31, 2009 and 2010, no revenue or expense was generated from discontinued operations. For additional information, see Note 19 – Discontinued Operations.

Funds From Operations

Our funds from operations available to common stockholders (“FFO”), for the year ended December 31, 2010, was $134.0 million, compared to $117.0 million for the same period in 2009.

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.

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

The following table presents our FFO results for the years ended December 31, 2010 and 2009:

	Year Ended December 31, 2010	2009
	(in thousands)	
Net income available to common	$ 49,350	$ 73,025
Add back loss (deduct gain) from real estate dispositions	4	(753)
	49,354	72,272
Elimination of non-cash items included in net income:		
Depreciation and amortization	84,623	44,694
Funds from operations available to common stockholders	$ 133,977	$ 116,966

Year Ended December 31, 2009 compared to Year Ended December 31, 2008

Operating Revenues

Our operating revenues for the year ended December 31, 2009, were $197.4 million, an increase of $3.7 million over the same period in 2008. Following is a description of certain of the changes in operating revenues for the year ended December 31, 2009:

- Rental income was $164.5 million, an increase of $8.7 million over the same period in 2008. The increase was primarily due to: (i) additional rental income from the full year 2009 impact from acquisitions of (a) seven SNFs, one ALF and one rehabilitation hospital in April 2008, four SNFs, (b) one ALF and one ILF in September 2008 and (c) two SNFs in December 2008, which were all leased to existing operators and (ii) additional rental income from the acquisitions of 40 SNFs in December 2009 among 11 new operators and one existing operator.

- Mortgage interest income totaled $11.6 million, an increase of $2.0 million over the same period in 2008. The increase was primarily related to the full year effect of the mortgage financing of seven new facilities in April 2008.

- Other investment income totaled $2.5 million, an increase of $0.5 million over the same period in 2008. The increase was primarily due to an increase in Other investments compared to 2008.

- Miscellaneous revenue was $0.4 million, a decrease of $1.8 million over the same period in 2008. The decrease was primarily due to the payment of late fees and penalties in 2008 related to Haven's bankruptcy in 2008.

- Nursing home revenues of owned and operated assets was $18.4 million in 2009, a decrease of $5.7 million over the same period in 2008. The decrease was due to the timing of ownership of the facilities in 2009 compared to 2008. Refer to Item 7 Overview's discussion of the consolidation of TC Healthcare.

Operating Expenses

Operating expenses for the year ended December 31, 2009, were $81.6 million, a decrease of approximately $7.5 million over the same period in 2008. Following is a description of certain of the changes in operating expenses for the year ended December 31, 2009:

- Our depreciation and amortization expense was $44.7 million, compared to $39.9 million for the same period in 2008. The increase was due to (i) the full year 2009 impact from acquisitions of seven SNFs, one ALF and one rehabilitation hospital in April 2008, four SNFs, one ALF and one ILF in September 2008 and two SNFs in December 2008 and (ii) the acquisitions of 40 SNFs in December 2009.

- Our general and administrative expense, when excluding stock-based compensation expense related to restricted stock units, was $9.8 million, compared to $9.6 million for the same period in 2008.

- Our restricted stock-based compensation expense was $1.9 million, a decrease of $0.2 million over the same period in 2008. The decrease was primarily due to the timing of the scheduled vesting of the performance stock portion of the stock plan.

- In 2009, we recorded $1.6 million of acquisition cost related to expenses incurred in the due diligence for the acquisitions we made in the fourth quarter of 2009.

- In 2009, we recorded $0.2 million of impairment charge, compared to $5.6 million for the same period in 2008, primarily related to the timing of facility closures.

- In 2009, we recorded $2.8 million of provision for uncollectible accounts receivable associated with Formation. The provision consisted of (i) $1.8 million associated with lease incentives and (ii) $1.0 million in straight-line receivables. In 2008, we recorded $4.3 million of provision for uncollectible accounts receivable associated with Haven. The provision consisted of (i) $3.3 million associated with straight-line receivables and (ii) $1.0 million in pre-petition contractual receivables.

- Nursing home expenses of owned and operated assets was $20.6 million in 2009, a decrease of $7.0 million over the same period in 2008. The decrease was due to the timing of ownership of the facilities in 2009 compared to 2008. Refer to Item 7 Overview's discussion of the consolidation of TC Healthcare.

Other Income (Expense)

For the year ended December 31, 2009, our total other net expenses were $34.5 million compared to $39.0 million for the same period in 2008, a decrease of $4.5 million. The decrease was primarily due to: (i) a net increase of $4.0 million associated with cash received for a legal settlement in 2009 compared to the same period of 2008 and (ii) lower average outstanding borrowings and rates on credit facility, partially offset by (a) $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 and (b) $0.4 million interest expense incurred on the $159 million secured borrowings we entered into in December 2009.

2009 Taxes

Because we qualify as a REIT, we are generally not subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. For tax year 2009, preferred and common dividend payments of $109.2 million made throughout 2009 satisfy the 2009 REIT requirements relating to qualifying income. We are permitted to own up to 100% of a TRS. For the tax year 2009, we had one TRS that was taxable as a corporation and that paid federal, state and local income tax on its net income at the applicable corporate rates. The TRS had a net operating loss carry-forward as of December 31, 2009 of $1.1 million. The loss carry-forward was fully reserved with a valuation allowance due to uncertainties regarding realization. We recorded interest and penalty charges associated with tax matters as income tax expense.

Income from continuing operations

Income from continuing operations for the year ended December 31, 2009 was $82.1 million compared to $77.7 million for the same period in 2008. The increase in income from continuing operations was the result of the factors described above.

2009 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 year ended December 31, 2009, no revenue or expense was generated from discontinued operations.

For the year ended December 31, 2008, discontinued operations include the one month revenue of $15 thousand and a gain of $0.4 million on the sale of one SNF.

For additional information, see Note 19 – Discontinued Operations.

Funds From Operations

Our FFO available to common stockholders ("FFO"), for the year ended December 31, 2009, was $117.0 million, compared to $98.1 million for the same period in 2008.

The following table presents our FFO results for the years ended December 31, 2009 and 2008:

	Year Ended December 31,	
	2009	**2008**
	(in thousands)	
Net income available to common	$ 73,025	$ 70,551
Deduct gain from real estate dispositions [(1)]	(753)	(12,292)
	72,272	58,259
Elimination of non-cash items included in net income:		
Depreciation and amortization	44,694	39,890
Funds from operations available to common stockholders	$ 116,966	$ 98,149

(1) The deduction of the gain from real estate dispositions includes the facilities classified as discontinued operations in our consolidated financial statements. The gain deducted includes $0.0 million and $0.4 million gain related to facilities classified as discontinued operations for the year ended December 31, 2009 and 2008, respectively.

Liquidity and Capital Resources

At December 31, 2010, we had total assets of $2.3 billion, stockholders' equity of $1.0 billion and debt of $1.2 billion, with such debt representing approximately 54.0% of total capitalization.

The following table shows the amounts due in connection with the contractual obligations described below as of December 31, 2010.

Contractual Obligations	Payment due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
			(in thousands)		
Debt[1]	$ 1,150,891	$ 2,465	$ 5,346	$ 5,954	$ 1,137,126
Operating lease obligations[2]	2,694	295	616	650	1,133
Total	$ 1,153,585	$ 2,760	$ 5,962	$ 6,604	$ 1,138,259

(1) The $1.2 billion of debt outstanding includes $175 million aggregate principal amount of 7% Senior Notes due January 2016, $200 million aggregate principal amount of 7.5% Senior Notes due February 2020, $575 million aggregate principal amount of 6.75% Senior Notes due October 2022, $20 million of 9.0% subordinated debt maturing in December 2021, $53 million of HUD debt at a 6.61% weighted average annual interest rate maturing between January 2036 and May 2040, and $128 million of HUD Debt at a 4.85% annual interest rate and maturing between January 2040 and January 2045. See Note 9 to our consolidated financial statements.

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

Financing Activities and Borrowing Arrangements

2010 Credit Facility

On April 13, 2010, we entered into our new $320 million revolving senior secured credit facility (the “2010 Credit Facility”) and concurrently terminated our $200 million revolving senior secured credit facility (the “2009 Credit Facility”). The 2010 Credit Facility matures in four years, on April 13, 2014. The 2010 Credit Facility includes an “accordion feature” that permits us to expand our borrowing capacity to $420 million during our first three years. At March 31, 2010, deferred financing fees associated with the 2009 Credit Facility were $3.5 million. These fees were written-off in April 2010 upon termination of the 2009 Credit Facility.

In October 2010, we repaid outstanding borrowings under our 2010 Credit Facility using the proceeds of our $350 million note offering described below. At December 31, 2010, we had no amount outstanding under the 2010 Credit Facility and no letters of credit outstanding, leaving availability of $320.0 million. The 2010 Credit Facility is priced at LIBOR plus an applicable percentage (ranging from 325 basis points to 425 basis points) based on the consolidated leverage and is not subject to a LIBOR floor. Our applicable percentage above LIBOR is currently 350 basis points. The 2010 Credit Facility will be used for acquisitions and general corporate purposes.

At December 31, 2009, we had $94.1 million outstanding under the 2009 Credit Facility and no letters of credit outstanding, leaving availability of $105.9 million. The $94.1 million of outstanding borrowings had a blended interest rate of 6% at December 31, 2009, and was priced at LIBOR plus 400 basis points.

For the years ended December 31, 2010 and 2009, the weighted average interest rates were 4.32% and 2.91%, respectively.

The 2010 Credit Facility contains customary affirmative and negative covenants, including, among others, 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 2010 Credit Facility contains financial covenants including, without limitation, covenants with respect to maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum distributions. As of December 31, 2010, we were in compliance with all affirmative and negative covenants, including financial covenants.

GECC Loan Payoff

On October 6, 2010, we terminated our credit agreement with GECC, as Administrative Agent and a Lender, and the other financial institutions party. The credit agreement previously provided us with a five year $100 million term loan. In connection with the termination, we repaid the outstanding principal amount of the loan plus a prepayment premium of $3.0 million. As a result of the early repayment of the GECC credit agreement, we recorded a debt extinguishment charge of $5.2 million consisting of (i) a non-cash charge of approximately $2.2 million relating to the write-off of deferred financing costs and (ii) $3.0 million related to the prepayment premium for prepaying the debt.

CapitalSource Mortgage Debt Assumption

In connection with the December 22, 2009 CapitalSource closing, we assumed $59.4 million of 6.8% mortgage debt maturing on December 31, 2011 with a one year extension right. The mortgage debt was secured by 12 facilities per the terms of the mortgage debt agreement. On February 16, 2010, we used proceeds from the offering of our $200 million 7.5% Senior Notes due 2020 to repay the assumed mortgage debt.

Berkadia Mortgages Assumption

In connection with the June 29, 2010 CapitalSource closing, we assumed approximately $53.2 million in face value debt (the "Berkadia Mortgages"). The Berkadia Mortgages are composed of 11 different amortizing mortgage loans financed by HUD with maturity dates ranging from 2036 to 2040. They are fixed rate mortgages with stated interest rates ranging from 5.2% to 7.33% and a weighted average interest rate of 6.61%. On the date of acquisition, HUD mortgage rates were less than the stated interest rates of the mortgages assumed. We estimated the fair value of the Berkadia Mortgages on the date of acquisition to be approximately $66.9 million. The $13.7 million fair value adjustment will be amortized using the effective interest method over the term of the respective mortgages. In 2010, we amortized approximately $0.4 million of fair value adjustment related to these mortgages. We estimate amortizing approximately $0.8 million a year over the next five years.

Capital Funding Mortgages Assumption

In connection with the June 29, 2010 CapitalSource closing, we assumed approximately $128.8 million in face value debt (the "Capital Funding Mortgages"). The Capital Funding Mortgages represent an amortizing mortgage loan financed by HUD and secured by 29 separate facilities. The maturity dates for the mortgage amortization schedule range from 2040 to 2045. The mortgages are fixed rate mortgages with a stated interest rate of 4.85%. On the date of acquisition, HUD mortgage rates were less than the stated interest rates of the Capital Funding Mortgages. We estimated the fair value of the Capital Funding Mortgages on the date of acquisition to be approximately $136.2 million. The $7.4 million fair value adjustment will be amortized using the effective interest method over the term of the amortization schedules for each facility. In 2010, we amortized approximately $0.2 million of fair value adjustment related to these mortgages. We estimate amortizing approximately $0.4 million a year over the next five years.

Subordinated Debt Assumption

In connection with the June 29, 2010 CapitalSource closing, we assumed $20.0 million in face value debt from (the "Subordinated Debt"). The Subordinated Debt relates to five non-amortizing subordinated notes. The notes mature on December 31, 2021 and have a fixed stated interest rate of 9.0%. On the date of acquisition, the rates for the subordinated notes were less than the stated interest rates of the subordinated notes assumed. We estimated the fair value of the Subordinated Debt on the date of acquisition to be approximately $21.5 million. The $1.5 million fair value adjustment will be amortized using the effective interest method over the term of the subordinated notes. In 2010, we amortized approximately $0.1 million of fair value adjustment related to these mortgages. We estimate amortizing approximately $0.2 million a year over the next five years.

7.5% Senior Notes due 2020

On February 9, 2010, we issued and sold $200 million aggregate principal amount of 7.5% Senior Notes due 2020 (the "2020 Notes"). The 2020 Notes mature on February 15, 2020 and pay interest semi-annually on August 15th and February 15th.

We may redeem the 2020 Notes, in whole at any time or in part from time to time, at redemption prices of 103.75%, 102.5% and 101.25% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on February 15 of the years 2015, 2016 and 2017, respectively, and at a redemption price of 100% of the principal amount thereof on and after February 15, 2018, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until February 15, 2013 we may redeem up to 35% of the 2020 Notes with the net proceeds of one or more public equity offerings at a redemption price of 107.5% of the principal amount of the 2020 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

The 2020 Notes were sold at an issue price of 98.278% of the principal amount, resulting in gross proceeds of approximately $197 million. We used the net proceeds from the sale of the 2020 Notes, after discounts and expenses, to (i) repay outstanding borrowings of approximately $59 million of debt assumed in connection with our December 22, 2009 CapitalSource acquisition, (ii) repay outstanding borrowings under our 2009 Credit Facility, and (iii) for working capital and general corporate purposes, including the acquisition of healthcare-related properties such as the CapitalSource acquisitions. The 2020 Notes are guaranteed by substantially all of our subsidiaries as of the date of issuance. The entities we acquired on June 29, 2010 from CapitalSource which own 40 facilities (see "Completed HUD Portfolio Closing" in Note 2) and the entities created to effect the acquisition are not guarantors of our 2020 Notes, or our outstanding 2022 or 2016 Notes. As of December 31, 2010, our subsidiaries that are not guarantors of these Notes accounted for approximately $340.0 million of our total assets.

On October 20, 2010, we commenced an offer to exchange $200 million of our registered 7.5% Senior Notes due 2020 (the "Exchange Notes") for all of the existing 2020 Notes (the "Private Notes"). The exchange offer was conducted upon the terms and subject to the conditions set forth in our prospectus dated October 20, 2010, and the related letter of transmittal. The terms of the Exchange Notes are substantially identical to the terms of the Private Notes, including subsidiary guarantees, except that provisions relating to transfer restrictions, registration rights and additional interest do not apply to the Exchange Notes.

The exchange offer expired at 5:00 p.m., New York City time, on November 22, 2010. On November 22, 2010, U.S. Bank National Association, the exchange agent for the exchange offer, advised that all $200 million aggregate principal amount of outstanding 7.5% Senior Notes due 2020 were validly tendered and not withdrawn prior to the expiration of the exchange offer. All of the notes validly tendered and not withdrawn were accepted for exchange pursuant to the terms of the exchange offer.

$225 Million Senior Notes due 2022

On October 4, 2010, we issued and sold $225 million aggregate principal amount of our 6.75% Senior Notes due 2022 (the "Initial 2022 Notes"). The Initial 2022 Notes mature on October 15, 2022 and pay interest semi-annually on April 15th and October 15th, commencing April 15, 2011.

We may redeem the Initial 2022 Notes, in whole at any time or in part from time to time, at redemption prices of 103.375%, 102.25% and 101.125% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on October 15 of the years 2015, 2016 and 2017, respectively, and at a redemption price of 100% of the principal amount thereof on and after October 15, 2018, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until October 15, 2013 we may redeem up to 35% of the Initial 2022 Notes with the net proceeds of one or more public equity offerings at a redemption price of 106.75% of the principal amount of the Initial 2022 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

The Initial 2022 Notes were sold at an issue price of 98.984% of the principal amount, resulting in gross proceeds of approximately $223 million. We used the net proceeds from the sale of the Initial 2022 Notes, after discounts and expenses, to (i) pay off borrowings under the 2010 Credit Facility and (ii) for general corporate purposes. As of December 31, 2010, our subsidiaries that are not guarantors of these Initial 2022 Notes accounted for approximately $340.0 million of our total assets.

$350 Million Senior Notes due 2022

On November 23, 2010, we issued and sold $350 million aggregate principal amount of our 6.75% Senior Notes due 2022 (the "Additional 2022 Notes"). The Additional 2022 Notes are of the same series as, and thus have the same terms as, our Initial 2022 Notes.

The Additional Notes were sold at an issue price of 103% of their face value, before initial purchasers' discount, plus accrued interest from October 4, 2010, resulting in gross proceeds to us of approximately $364 million. We used the net proceeds from the sale of the Additional 2022 Notes (i) to fund our tender offer for our $310 million aggregate principal amount of 7% Senior Notes due 2014 (see "Tender Offer and Consent Solicitation for 7% Senior Notes due 2014" below), and (ii) for working capital and general corporate purposes. As of December 31, 2010, our subsidiaries that are not guarantors of these Additional 2022 Notes accounted for approximately $340.0 million of our total assets.

Tender Offer and Consent Solicitation for 7% Senior Notes due 2014

On November 8, 2010, we commenced a tender offer to purchase for cash any and all of our outstanding $310 million aggregate principal amount of 7% Senior Notes due 2014 (the "2014 Notes") upon the terms and subject to the conditions set forth in the Offer to Purchase and Consent Solicitation Statement, dated November 8, 2010. Pursuant to the terms of the tender offer which expired on December 8, 2010, we purchased $264.7 million aggregate principal amount of the 2014 Notes.

On December 16, 2010, we redeemed the remaining $45.3 million aggregate principal amount of the 2014 Notes at a redemption price of 102.333% of the principal amount thereof, plus accrued and unpaid interest on the 2014 Notes up to the redemption date. We used the net proceeds from our sale of the Additional 2022 Notes to pay the redemption price of the 2014 Notes. Upon redemption, the 2014 Notes, the indenture governing the 2014 Notes and the related guarantees were terminated.

1.0 Million Share Common Stock Issuance

In connection with the June 29, 2010 CapitalSource closing, we issued approximately 1.0 million shares of our common stock to the selling stockholder. The closing price of the common stock was $19.80 per share.

$140 Million Equity Shelf Program

On June 25, 2010, we entered into separate equity distribution agreements to sell shares of our common stock having an aggregate gross sales price of up to $140,000,000 (the “2010 ESP”) with each of BofA Merrill Lynch, Credit Agricole Securities (USA) Inc., Deutsche Bank Securities, Jefferies & Company, Inc., RBS Securities Inc., Stifel Nicolaus & Company, Incorporated and UBS Securities LLC, each as sales agents and/or principal (collectively, the “Managers”). Under the terms of the Agreements, we may from time to time offer and sell shares of our common stock, having an aggregate gross sales price of up to $140,000,000 through or to the Managers. We will pay each Manager compensation from the sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable Agreement. In 2010, we issued 3.1 million shares of our common stock through the 2010 ESP for approximately $65.4 million, net of $1.3 million of commissions.

$100 Million Equity Shelf Program

We issued a total of 5.2 million shares of common stock, generating a total of $97.6 million of net proceeds under our $100 million Equity Shelf Program, which was terminated in April of 2010.

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 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. In 2010, we paid dividends of $1.37 per share of common stock and $2.09 per share of preferred stock. In 2010, we paid a total of $138.9 million in dividends to common and preferred stockholders.

Common Dividends

On January 14, 2011, the Board of Directors declared a common stock dividend of $0.37 per share that was paid February 15, 2011 to common stockholders of record on January 31, 2011.

On October 14, 2010, the Board of Directors declared a common stock dividend of $0.37 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter. The common dividends were paid November 15, 2010 to common stockholders of record on October 29, 2010.

On July 15, 2010, the Board of Directors declared a common stock dividend of $0.36 per share, increasing the quarterly common dividend by $0.04 per share over the prior quarter. The common dividends were paid August 16, 2010 to common stockholders of record on July 30, 2010.

On April 15, 2010, the Board of Directors declared a common stock dividend of $0.32 per share that was paid May 17, 2010 to common stockholders of record on April 30, 2010.

On January 20, 2010, the Board of Directors declared a common stock dividend of $0.32 per share, increasing the quarterly common dividend by $0.02 per share over the prior quarter. The common dividends were paid on February 16, 2010 to common stockholders of record on January 29, 2010.

Series D Preferred Dividends

On January 14, 2011, the Board of Directors declared a regular quarterly dividend of approximately $0.52344 per share on our 8.375% Series D cumulative redeemable preferred stock (the "Series D Preferred Stock"), that was paid February 15, 2011 to stockholders of record on January 31, 2011.

On October 14, 2010, the Board of Directors declared a regular quarterly dividend of approximately $0.52344 per share on the Series D Preferred Stock that was paid November 15, 2010 to stockholders of record on October 29, 2010.

On July 15, 2010, the Board of Directors declared a regular quarterly dividend of approximately $0.52344 per share on the Series D Preferred Stock that was paid August 16, 2010 to stockholders of record on July 30, 2010.

On April 15, 2010, the Board of Directors declared a regular quarterly dividend of approximately $0.52344 per share on the Series D Preferred Stock that was paid May 17, 2010 to stockholders of record on April 30, 2010.

On January 20, 2010, the Board of Directors declared a regular quarterly dividend of approximately $0.52344 per share on the Series D Preferred Stock that was paid February 16, 2010 to stockholders of record on January 29, 2010.

Liquidity

We believe our liquidity and various sources of available capital, including cash from operations, our existing availability under our 2010 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 $6.9 million as of December 31, 2010, an increase of $4.8 million as compared to the balance at December 31, 2009. The following is a discussion of changes in cash and cash equivalents due to operating, investing and financing activities, which are presented in our Consolidated Statement of Cash Flows.

Operating Activities – Net cash flow from operating activities generated $157.6 million for the year ended December 31, 2010, as compared to $147.2 million for the same period in 2009, an increase of $10.4 million. The increase was primarily due to additional cash flow resulting from the CapitalSource acquisitions.

Investing Activities – Net cash flow from investing activities was an outflow of $394.8 million for year ended December 31, 2010, as compared to an outflow of $209.0 million for the same period in 2009. The increase in cash outflow from investing activities of $185.8 million relates primarily to (i) $343.2 million in real estate acquisitions in 2010 compared to $159.5 million in real estate acquisition and payment of $25.0 million for a purchase option acquired in 2009, (ii) $12.8 million increase in spending on capital improvement projects and (iii) $20.7 million in new mortgage loans.

Financing Activities – Net cash flow from financing activities was an inflow of $242.0 million for the year ended December 31, 2010, as compared to an inflow of $63.7 million for the same period in 2009. The increase in cash inflow from financing activities was primarily a result of: (i) net proceeds of $196.6 million of our 7.5% Senior Notes due 2020 issued in February 2010, net proceeds of $222.7 million of our 6.75% Senior Notes due 2022 issued in October 2010 and $360.5 million of our 6.75% Senior Notes due 2022 issued in November 2010, compared to $100 million GECC term loan issued 2009; (ii) an increase in net proceeds of $115.8 million from our common stock issued through our Equity Shelf Program in 2010 compared to 2009; and (iii) an increase in net proceeds from our dividend reinvestment proceeds of $33.3 million due to reinstatement of the optional cash purchase component of our Dividend Reinvestment and stock Purchase Plan in May 2009. Offsetting these increases were (i) approximately $470.5 million payment related to the (a) repayment of $59.4 million during the first quarter of 2010 of debt assumed as part of the December 22, 2009 CapitalSource acquisition, (b) tender offer payment of our outstanding $310 million Senior Notes due 2014 in November 2010 and (c) payoff of $100 million GECC term loan in October 2010; (ii) increase in dividend payments of $29.6 million due to an increase in the number of shares outstanding; and (iii) the net increase in payment of $24.4 million related to deferred financing costs and refinancing costs primarily associated with the (a) issuance of our $200 million 7.5% Senior Notes due 2020 in February 2010 and the 2010 Credit Facility in April 2010, (b) issuance of our $225 million 6.75% Senior Notes due 2022 in October 2010 and our $350 million 6.75% Senior Notes due 2022 in November 2010 and (c) prepayment penalty premium of $3.0 million for paying off $100 million GECC term loan prior to its maturity and approximately $7.7 million penalty payment associated with the tender offer of our outstanding $310 million Senior Notes due 2014.

Critical Accounting Policies and Estimates

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

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

Revenue Recognition

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

Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three methods depending on specific provisions of each lease as follows: (i) a specific annual increase over the prior year's rent, generally between 2.0% and 3.0%; (ii) an increase based on the change in pre-determined formulas from year to year (i.e., such as increases in the Consumer Price Index ("CPI")); or (iii) specific dollar increases over prior years. Revenue under lease arrangements with fixed and determinable increases is recognized over the term of the lease on a straight-line basis. The authoritative guidance does not provide for the recognition of contingent revenue until all possible contingencies have been eliminated. We consider the operating history of the lessee, the payment history, the general condition of the industry and various other factors when evaluating whether all possible contingencies have been eliminated. We do not include contingent rents as income until the contingencies are resolved.

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

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

Nursing home revenues of owned and operated assets consist of long-term care revenues, rehabilitation therapy services revenues, temporary medical staffing services revenues and other ancillary services revenues. The revenues are recognized as services are provided. Revenues are recorded net of provisions for discount arrangements with commercial payors and contractual allowances with third-party payors, primarily Medicare and Medicaid. Revenues realizable under third-party payor agreements are subject to change due to examination and retroactive adjustment. Estimated third-party payor settlements are recorded in the period the related services are rendered. The methods of making such estimates are reviewed periodically, and differences between the net amounts accrued and subsequent settlements or estimates of expected settlements are reflected in the current period results of operations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. For additional information, see Note 4 – Owned and Operated Assets.

Depreciation and Asset Impairment

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

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

For the years ended December 31, 2010, 2009, and 2008, we recognized impairment losses of $0.2 million, $0.2 million and $5.6 million, respectively, including amounts classified within discontinued operations. The impairments are primarily the result of closing facilities or updating the estimated proceeds we expect for the sale of closed facilities.

Loan Impairment

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

We account for impaired loans using (a) the cost-recovery method, and/or (b) the cash basis method. We generally utilize the cost recovery method for impaired loans for which impairment reserves were recorded. We utilize the cash basis method for impairment loans for which no impairment reserves were recorded because the net present value of the discounted cash flows and/or the underlying collateral supporting the loan were equal to or exceeded the book value of the loans. Under the cost recovery method, we apply cash received against the outstanding loan balance prior to recording interest income. Under the cash basis method, we apply cash received to interest income. As of December 31, 2010 and 2009, we had loan loss reserve totaling $2.2 million. In 2010, 2009 and 2008 we did not record provisions for loan losses or charge-offs related to our mortgage or note receivable portfolios. For additional information see Note 5 – Mortgage Notes Receivable and Note 6 – Other Investments.

Assets Held for Sale and Discontinued Operations

The operating results of specified real estate assets that have been sold, or otherwise qualify as held for disposition, are reflected as assets held for sale in our balance sheet. Assets that qualify as held for sale may also be considered as a discontinued operation if, (a) the operation and cash flows of the asset have been or will be eliminated from future operations and (b) we will not have significant involvement with the asset after its disposition. For assets that qualify as discontinued operations, we have reclassified the operations of those assets to discontinued operations in the consolidated statements of income for all periods presented and assets held for sale in the consolidated balance sheet for all periods presented.

We had one asset held for sale as of December 31, 2010 with a net book value of $0.7 million. The asset was not classified as discontinued operations.

We had two assets held for sale as of December 31, 2009 with a net book value of $0.9 million neither of which were classified as discontinued operations.

For the year ended December 31, 2008, we had one asset held for sale with a net book value of $0.2 million. Discontinued operations includes revenue of $15 thousand and the gain of $0.4 million on the sale of one SNF.

Effects of Recently Issued Accounting Standards

In January 2010, the FASB issued guidance on fair value measurements and disclosures. This guidance specifies that a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number) related to Level 3 fair value measurements as part of a reconciliation of the beginning and ending balances. The guidance further clarifies the disclosure regarding the level of disaggregation and input and valuation techniques. The adoption of this guidance did not impact our financial position or results of operations.

In February 2010, the FASB issued guidance on subsequent events. This guidance eliminates the requirement to disclose the date through which subsequent events have been evaluated. The adoption of this guidance did not impact our financial position or results of operations.

In June 2009, the FASB issued guidance to significantly amend the consolidation guidance applicable to variable interest entities ("VIEs"). The consolidation model was modified to one based on control and economics, and replaces the current quantitative primary beneficiary analysis with a qualitative analysis. The primary beneficiary of a VIE will be the entity that has (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. If multiple unrelated parties share such power, as defined, no party will be required to consolidate the VIE. Further, the guidance requires continual reconsideration of the primary beneficiary of a VIE and adds an additional reconsideration event for determination of whether an entity is a VIE. The amendments also require expanded disclosures related to VIEs which are largely consistent with the disclosure framework currently applied by us. The new guidance was effective January 1, 2010 for us. The adoption of this guidance did not impact our financial position or results of operations.

Item 7A - Quantitative and Qualitative Disclosure about Market Risk

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

The following disclosures of estimated fair value of financial instruments are subjective in nature and are dependent on a number of important assumptions, including estimates of future cash flows, risks, discount rates and relevant comparable market information associated with each financial instrument. Readers are cautioned that many of the statements contained in these paragraphs are forward-looking and should be read in conjunction with our disclosures under the heading "Forward-looking Statements, Reimbursement Issues and Other Factors Affective Future Results"" set forth above. The use of different market assumptions and estimation methodologies may have a material effect on the reported estimated fair value amounts. Accordingly, the estimates presented below are not necessarily indicative of the amounts we would realize in a current market exchange.

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

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

Borrowings under variable rate agreements - Our variable rate debt as of December 31, 2010 includes our credit facility. The fair value of our borrowings under variable rate agreements is estimated using an expected present value technique based on expected cash flows discounted using the current credit-adjusted risk-free rate.

S*enior unsecured notes* - The fair value of the senior unsecured notes is estimated by discounting the future cash flows using the current borrowing rate available for the similar debt.

The market value of our long-term fixed rate borrowings and mortgages is subject to interest rate risks. Generally, the market value of fixed rate financial instruments will decrease as interest rates rise and increase as interest rates fall. The estimated fair value of our total long-term borrowings at December 31, 2010 was approximately $1.2 billion. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $82.3 million at December 31, 2010. The estimated fair value of our total long-term borrowings at December 31, 2009 was approximately $490.9 million. A one percent increase in interest rates would result in a decrease in the fair value of long-term borrowings by approximately $18.2 million at December 31, 2009.

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

Item 8 - Financial Statements and Supplementary Data

The consolidated financial statements and the report of Ernst & Young LLP, Independent Registered Public Accounting Firm, on such financial statements are filed as part of this report beginning on page F-1. The summary of unaudited quarterly results of operations for the years ended December 31, 2010 and 2009 is included in Note 17 to our audited consolidated financial statements, which is incorporated herein by reference in response to Item 302 of Regulation S-K.

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

None.

Item 9A - Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) are controls and other procedures 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 our Form 10-K as of and for the year ended December 31, 2010, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2010. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of December 31, 2010.

Management’s Report on Internal Control over Financial Reporting

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

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

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

In connection with the preparation of our Form 10-K, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In making that assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on management’s assessment, management believes that, as of December 31, 2010, our internal control over financial reporting was effective based on those criteria.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, we have included above a report of management's assessment of the design and effectiveness of our internal controls as part of this Annual Report on Form 10-K for the fiscal year ended December 31, 2010. Our independent registered public accounting firm also reported on the effectiveness of internal control over financial reporting. The independent registered public accounting firm's attestation report is included in our 2010 financial statements under the caption entitled "Report of Independent Registered Public Accounting Firm" and is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2010 identified in connection with the evaluation of our disclosure controls and procedures described above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART III

Item 10 – Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission pursuant to Regulation 14A.

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

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

Item 11 - Executive Compensation

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders, to be filed with the Securities and Exchange Commission ("SEC") pursuant to Regulation 14A.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

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

The information required by this item, if any, is incorporated herein by reference to our Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

Item 14 - Principal Accounting Fees and Services

The information required by this item is incorporated herein by reference to our Company's definitive proxy statement for the 2011 Annual Meeting of Stockholders, to be filed with the SEC pursuant to Regulation 14A.

PART IV

Item 15 - Exhibits and Financial Statement Schedules

(a)(1) Listing of Consolidated Financial Statements

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

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

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

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

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

Schedule III — Real Estate and Accumulated Depreciation.

Schedule IV — Mortgage Loans on Real Estate.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Omega Healthcare Investors, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedules listed in the Index at Item 15(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Omega Healthcare Investors, Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Omega Healthcare Investors Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 28, 2011

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

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

We have audited Omega Healthcare Investors, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Omega Healthcare Investors, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Omega Healthcare Investors, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria**.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Omega Healthcare Investors, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2010 and our report dated February 28, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 28, 2011

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

	December 31, 2010	December 31, 2009
ASSETS		
Real estate properties		
Land and buildings	$ 2,366,856	$ 1,669,843
Less accumulated depreciation	(380,995)	(296,441)
Real estate properties – net	1,985,861	1,373,402
Mortgage notes receivable – net	108,557	100,223
	2,094,418	1,473,625
Other investments – net	28,735	32,800
	2,123,153	1,506,425
Assets held for sale – net	670	877
Total investments	2,123,823	1,507,302
Cash and cash equivalents	6,921	2,170
Restricted cash	22,399	9,486
Accounts receivable – net	92,819	81,558
Other assets	57,172	50,778
Operating assets for owned and operated properties	873	3,739
Total assets	$ 2,304,007	$ 1,655,033
LIABILITIES AND STOCKHOLDERS' EQUITY		
Revolving line of credit	$ —	$ 94,100
Secured borrowings	201,296	159,354
Unsecured borrowings – net	975,669	484,695
Accrued expenses and other liabilities	121,859	49,895
Operating liabilities for owned and operated properties	1,117	1,762
Total liabilities	1,299,941	789,806
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 – 99,233 shares as of December 31, 2010 and 88,266 as of December 31, 2009	9,923	8,827
Common stock – additional paid-in-capital	1,376,131	1,157,931
Cumulative net earnings	580,824	522,388
Cumulative dividends paid	(1,071,300)	(932,407)
Total stockholders' equity	1,004,066	865,227
Total liabilities and stockholders' equity	$ 2,304,007	$ 1,655,033

See accompanying notes.

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

	Year Ended December 31,		
	2010	**2009**	**2008**
Revenues			
Rental income	$ 232,772	$ 164,468	$ 155,765
Mortgage interest income	10,391	11,601	9,562
Other investment income – net	3,936	2,502	2,031
Miscellaneous	3,886	437	2,234
Nursing home revenues of owned and operated assets	7,336	18,430	24,170
Total operating revenues	258,321	197,438	193,762
Expenses			
Depreciation and amortization	84,623	44,694	39,890
General and administrative	15,054	11,742	11,701
Acquisition costs	1,554	1,561	-
Impairment on real estate properties	155	159	5,584
Provisions for uncollectible mortgages, notes and accounts receivable	-	2,765	4,248
Nursing home expenses of owned and operated assets	7,998	20,632	27,601
Total operating expenses	109,384	81,553	89,024
Income before other income and expense	148,937	115,885	104,738
Other income (expense)			
Interest income	105	21	240
Interest expense	(67,340)	(36,077)	(37,745)
Interest – amortization of deferred financing costs	(3,780)	(2,472)	(2,001)
Interest – refinancing costs	(19,482)	(526)	-
Litigation settlements	-	4,527	526
Total other expense	(90,497)	(34,527)	(38,980)
Income before gain (loss) on assets sold, net	58,440	81,358	65,758
(Loss) gain on assets sold – net	(4)	753	11,861
Income from continuing operations before income taxes	**58,436**	**82,111**	**77,619**
Provision for income taxes	-	-	72
Income from continuing operations	**58,436**	**82,111**	**77,691**
Discontinued operations	-	-	446
Net income	**58,436**	**82,111**	**78,137**
Preferred stock dividends	(9,086)	(9,086)	(9,714)
Preferred stock repurchase gain	-	-	2,128
Net income available to common stockholders	**$ 49,350**	**$ 73,025**	**$ 70,551**
Income per common share available to common stockholders:			
Basic:			
Income from continuing operations	$ 0.52	$ 0.87	$ 0.93
Net income	$ 0.52	$ 0.87	$ 0.94
Diluted:			
Income from continuing operations	$ 0.52	$ 0.87	$ 0.93
Net income	$ 0.52	$ 0.87	$ 0.94
Dividends declared and paid per common share	$ 1.37	$ 1.20	$ 1.19
Weighted-average shares outstanding, basic	94,056	83,556	75,127
Weighted-average shares outstanding, diluted	94,237	83,649	75,213
Components of other comprehensive income:			
Net income	$ 58,436	$ 82,111	$ 78,137
Total comprehensive income	$ 58,436	$ 82,111	$ 78,137

See accompanying notes.

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

	Preferred Stock	Common Stock Par Value	Common Stock Additional Paid-in Capital	Cumulative Net Earnings	Cumulative Dividends Paid	Total
Balance at December 31, 2007 (68,114 common shares)	$ 118,488	$ 6,811	$ 825,925	$ 362,140	$ (727,237)	$ 586,127
Issuance of common stock:						
Grant of restricted stock (9 shares at $15.04 per share)	—	1	(1)	—	—	—
Amortization of restricted stock	—	—	2,103	—	—	2,103
Vesting of restricted stock (grants 272 shares)	—	27	(2,731)	—	—	(2,704)
Dividend reinvestment and stock purchase plan (2,068 shares at $16.50 per share)	—	206	33,866	—	—	34,072
Exercised options (5 shares at an average exercise price of $6.02 per share)	—	1	30	—	—	31
Grant of stock as payment of directors fees (8 shares at an average of $16.02 per share)	—	1	124	—	—	125
Equity offerings (5,900 shares at $16.93 per share)	—	591	98,202	—	—	98,793
Equity offerings (6,000 shares at $16.37 per share)	—	600	96,327	—	—	96,927
Preferred stock purchase (400 shares at $18.90 per share)	(10,000)	—	312	—	2,128	(7,560)
Net income	—	—	—	78,137	—	78,137
Common dividends paid ($1.19 per share).	—	—	—	—	(88,349)	(88,349)
Preferred dividends paid (Series D of $2.09 per share)	—	—	—	—	(9,714)	(9,714)
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 $15.79 per share)	—	1	(1)	—	—	—
Amortization of restricted stock	—	—	1,907	—	—	1,907
Vesting of restricted stock (grants 45 shares)	—	4	(722)	—	—	(718)
Dividend reinvestment and stock purchase plan (1,692 shares at $16.12 per share)	—	169	27,060	—	—	27,229
Exercised options (3 shares at an average exercise price of $6.12 per share)	—	1	18	—	—	19
Grant of stock as payment of directors fees (7 shares at an average of $15.25 per share)	—	1	99	—	—	100
Equity Shelf Program (1,413 shares at $17.17 per share, net of issuance costs)	—	141	22,879	—	—	23,020
Issuance of common stock for acquisition (2,715 shares at $19.45 per share)	—	272	52,534	—	—	52,806
Net income	—	—	—	82,111	—	82,111
Common dividends paid ($1.20 per share).	—	—	—	—	(100,149)	(100,149)
Preferred dividends paid (Series D of $2.09 per share)	—	—	—	—	(9,086)	(9,086)
Balance at December 31, 2009 (88,266 common shares)	108,488	8,827	1,157,931	522,388	(932,407)	865,227
Issuance of common stock:						
Grant of restricted stock (13 shares at $20.00 per share)	—	1	(1)	—	—	—
Amortization of restricted stock	—	—	2,180	—	—	2,180

Vesting of restricted stock (grants 112 shares)	—	11	(2,119)	—	—	(2,108)
Dividend reinvestment and stock purchase plan (2,961 shares at $20.45 per share)	—	296	60,215	—	—	60,511
Exercised options (15 shares at an average exercise price of $6.12 per share)	—	1	88	—	—	89
Grant of stock as payment of directors fees (7 shares at an average of $20.07 per share)	—	1	149	—	—	150
Equity Shelf Program (6,865 shares at $20.74 per share, net of issuance costs)	—	687	138,094	—	—	138,781
Issuance of common stock for acquisition (995 shares at $19.80 per share)	—	99	19,594	—	—	19,693
Net income	—	—	—	58,436	—	58,436
Common dividends paid ($1.37 per share).	—	—	—	—	(129,807)	(129,807)
Preferred dividends paid (Series D of $2.09 per share)	—	—	—	—	(9,086)	(9,086)
Balance at December 31, 2010 (99,233 common shares)	$ 108,488	$ 9,923	$ 1,376,131	$ 580,824	$ (1,071,300)	$ 1,004,066

See accompanying notes.

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

	Year Ended December 31,		
	2010	**2009**	**2008**
Cash flow from operating activities			
Net income	$ 58,436	$ 82,111	$ 78,137
Adjustment to reconcile net income to cash provided by operating activities:			
Depreciation and amortization	84,623	44,694	39,890
Impairment on real estate properties	155	159	5,584
Provisions for uncollectible mortgages, notes and accounts receivable	—	2,765	4,248
Income from accretion of marketable securities to redemption value	—	—	(207)
Amortization of deferred financing costs	3,780	2,472	2,001
Refinancing costs	19,482	526	—
Restricted stock amortization expense	2,211	1,918	2,103
Loss (gain) on assets sold – net	4	(753)	(12,292)
Amortization of acquired in-place leases – net	(3,968)	—	—
Other	(93)	(181)	(188)
Gain on sale of securities	(789)	—	—
Change in operating assets and liabilities – net of amounts assumed/acquired:			
Accounts receivable, net	(45)	(180)	681
Straight-line rent	(11,210)	(8,893)	(11,860)
Lease inducement	(6)	(213)	(2,596)
Income tax liabilities	—	—	(72)
Other operating assets and liabilities	2,762	14,316	(5,642)
Operating assets and liabilities for owned and operated properties	2,221	8,482	(10,459)
Net cash provided by operating activities	157,563	147,223	89,328
Cash flow from investing activities			
Acquisition of real estate – net of liabilities assumed and escrows acquired	(343,180)	(159,476)	(112,760)
Placement of mortgage loans	(20,657)	—	(74,928)
Proceeds from sale of real estate investments	81	862	31,902
Capital improvements and funding of other investments	(36,025)	(23,232)	(17,458)
Proceeds from other investments	21,324	42,038	16,510
Investments in other investments	(16,436)	(44,944)	(36,310)
Investment in purchase option	—	(25,000)	—
Collection of mortgage principal – net	78	748	5,945
Net cash used in investing activities	(394,815)	(209,004)	(187,099)
Cash flow from financing activities			
Proceeds from credit line borrowings	385,000	273,600	361,300
Payments of credit line borrowings	(479,100)	(243,000)	(345,800)
Receipts of other long-term borrowings	779,770	100,000	—
Payments of other long-term borrowings	(470,478)	—	(40,995)
Payment of financing related costs	(31,579)	(7,173)	—
Receipts from Dividend Reinvestment Plan – net	60,511	27,229	34,072
Payments for exercised options and restricted stock – net	(2,019)	(699)	(2,673)
Net proceeds from issuance of common stock	138,781	23,020	195,720
Dividends paid	(138,883)	(109,235)	(98,063)
Repurchase of preferred stock	—	—	(7,560)
Net cash provided by financing activities	242,003	63,742	96,001
Increase (decrease) in cash and cash equivalents	4,751	1,961	(1,770)
Cash and cash equivalents at beginning of year	2,170	209	1,979
Cash and cash equivalents at end of year	$ 6,921	$ 2,170	$ 209
Interest paid during the year, net of amounts capitalized	$ 60,290	$ 36,184	$ 38,016

Non-cash investing activities:

	Year Ended December 31,		
	2010	**2009**	**2008**
		(in thousands)	
Assumed debt obligations	$ 202,015	$ 59,354	$ —
Non-cash settlement of mortgage obligations	(12,395)	—	—
Non-cash acquisition of real estate properties	12,395	—	—
Stock consideration issued for acquisition	19,693	52,806	—
Total non-cash real estate acquisition related items	$ 221,708	$ 112,160	$ —

See accompanying notes.

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION

Organization

Omega Healthcare Investors, Inc. ("Omega" or the "Company"), a Maryland corporation, is a self-administered real estate investment trust ("REIT"). From the date that we commenced operations in 1992, we have invested primarily in income-producing healthcare facilities, which include long-term care nursing homes, assisted living facilities, independent living facilities and rehabilitation hospitals. In July 2008, we assumed operating responsibilities for 14 of our skilled nursing facilities ("SNFs") and one of our assisted living facilities ("ALFs") due to the bankruptcy of one of our operators/tenants, and a new entity (TC Healthcare) was formed to operate these properties on our behalf through the use of an independent contractor. 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. The two remaining facilities were transitioned to the new tenant/operator on June 1, 2010 upon approval by state regulators of the operating license transfer and as of such date, TC healthcare no longer operates these facilities.

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

Substantially all depreciation expenses reflected in the consolidated statements of income relate to the ownership of our investment in real estate. At December 31, 2010, we have investments in 400 healthcare facilities located throughout the United States, including one closed facility that is currently held for sale.

Consolidation

Our consolidated financial statements include the accounts of Omega and all direct and indirect wholly owned subsidiaries as well as variable interest entities ("VIEs") that we consolidate as we are the primary beneficiary. All inter-company accounts and transactions have been eliminated in consolidation of the financial statements.

We consolidate all VIEs for which we were/are the primary beneficiary. In June 2009, the FASB issued guidance to significantly amend the consolidation guidance applicable to variable interest entities. The consolidation model was modified to one based on control and economics, and replaces the current quantitative primary beneficiary analysis with a qualitative analysis. The primary beneficiary of a VIE will be the entity that has (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. If multiple unrelated parties share such power, as defined, no party will be required to consolidate the VIE. Further, the guidance requires continual reconsideration of the primary beneficiary of a VIE and adds an additional reconsideration event for determination of whether an entity is a VIE. The amendments also require expanded disclosures related to VIEs which are largely consistent with the disclosure framework currently applied by us. The new guidance was effective January 1, 2010 for us. The adoption of this guidance did not impact our financial position or results of operations.

On July 7, 2008, through bankruptcy court proceedings, we took ownership and/or possession of 15 facilities which were previously operated by Haven Eldercare ("Haven"). Prior to July 7, 2008, we had (i) leased eight facilities to Haven under a master lease agreement and (ii) provided mortgage financing to a Haven entity for seven facilities that we had previously consolidated according to accounting rules regarding variable interest entities then in place. As a result of the bankruptcy court judgment, the mortgage on the seven facilities was retired in exchange for ownership of the facilities, and we were also awarded certain other operational assets of Haven. Accordingly, effective July 7, 2008, we were no longer required to consolidate the Haven entity for which we had provided the mortgage because all of the assets of the Haven entity were transferred to us and we no longer had a variable interest in the Haven entity. In addition to receiving title to the seven facilities and certain other operational assets, on July 7, 2008, we assumed operating responsibility for the 15 Haven facilities. In July 2008, a new entity (TC Healthcare) was formed to operate these properties on our behalf through the use of an independent contractor. TC Healthcare's managing member and sole voting member, an individual with experience in operating these types of facilities, has no equity investment at risk and is unrelated to Omega. Omega and TC Healthcare entered into an agreement that required Omega to provide the working capital requirements for TC Healthcare and to absorb the operating losses of TC Healthcare. The agreement also provided Omega with the right to receive the economic benefits of the entity. TC Healthcare is a variable interest entity as the entity does not have sufficient equity investment at risk to support its operations without subordinated financial support. Additionally, Omega has the power to direct the activities of TC Healthcare as Omega has the unilateral right to replace the shareholder. Omega is deemed the primary beneficiary of TC Healthcare as Omega has the controlling economic interest in the entity and therefore, consolidated the operations of TC Healthcare. On September 1, 2008, thirteen of these facilities were transitioned from TC Healthcare to a new tenant/operator. The two remaining facilities were transitioned to the new tenant/operator on June 1, 2010 upon approval by state regulators of the operating license transfer and as of such date, TC healthcare no longer operates these facilities.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Estimates

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

Real Estate Investments and Depreciation

We allocate the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values. In making estimates of fair values for purposes of allocating purchase price, we utilize a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property and other market data. We also consider information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. All costs of significant improvements, renovations and replacements are capitalized. In addition, we capitalize leasehold improvements when certain criteria are met, including when we supervise construction and will own the improvement. Expenditures for maintenance and repairs are charged to operations as they are incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives ranging from 20 to 40 years for buildings and improvements and three to 10 years for furniture, fixtures and equipment. Leasehold interests are amortized over the shorter of useful life or term of the lease, with lives ranging from five to 15 years.

As of December 31, 2010 and 2009, we had identified conditional asset retirement obligations primarily related to the future removal and disposal of asbestos that is contained within certain of our real estate investment properties. The asbestos is appropriately contained, and we believe we are compliant with current environmental regulations. If these properties undergo major renovations or are demolished, certain environmental regulations are in place, which specify the manner in which asbestos must be handled and disposed. We are required to record the fair value of these conditional liabilities if they can be reasonably estimated. As of December 31, 2010 and 2009, sufficient information was not available to estimate our liability for conditional asset retirement obligations as the obligations to remove the asbestos from these properties have indeterminable settlement dates. As such, no liability for conditional asset retirement obligations was recorded on our accompanying consolidated balance sheets as of December 31, 2010 and 2009.

In-Place Leases

The fair value of in-place leases consists of the following components as applicable (1) the estimated cost to replace the leases, and (2) the above/below market cash flow of the leases, determined by comparing the projected cash flows of the leases in place to projected cash flows of comparable market-rate leases (referred to as Lease Intangibles). Lease Intangible assets and liabilities are classified as lease contracts above and below market value, respectively, and amortized on a straight-line basis as decreases and increases, respectively, to rental revenue over the remaining term of the underlying leases. Should a tenant terminate its lease, the unamortized portions of these costs are written off.

Owned and Operated Assets

Real estate properties that are operated pursuant to a foreclosure proceeding are included within "real estate properties" and are reported at the time of foreclosure at the lower of carrying cost or fair value.

Asset Impairment

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

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

For the years ended December 31, 2010, 2009 and 2008 we recognized impairment losses of $0.2 million, $0.2 million and $5.6 million, respectively, including amounts classified within discontinued operations. The impairments are primarily the result of closing facilities or updating the estimated proceeds we expect for the sale of closed facilities.

Loan Impairment

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

We currently account for impaired loans using (a) the cost-recovery method, and/or (b) the cash basis method. We generally utilize the cost recovery method for impaired loans for which impairment reserves were recorded. We utilize the cash basis method for impairment loans for which no impairment reserves were recorded because the net present value of the discounted cash flows expected under the loan and/or the underlying collateral supporting the loan were equal to or exceeded the book value of the loans. Under the cost recovery method, we apply cash received against the outstanding loan balance prior to recording interest income. Under the cash basis method, we apply cash received to interest income. As of December 31, 2010 and 2009, we had loan loss reserves totaling $2.2 million. In 2010, 2009 and 2008 we did not record provisions for loan losses or charge-offs related to our mortgage or note receivable portfolios. For additional information see Note 5 – Mortgage Notes Receivable and Note 6 – Other Investments.

Cash and Cash Equivalents

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

Restricted Cash

Restricted cash consists primarily of funds escrowed for tenants' security deposits required by us pursuant to certain contractual terms (see Note 8 – Lease and Mortgage Deposits).

Accounts Receivable

Accounts receivable includes: contractual receivables, straight-line rent receivables and lease inducements, net of an estimated provision for losses related to uncollectible and disputed accounts. Contractual receivables relate to the amounts currently owed to us under the terms of the lease agreement. 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 at the inception or renewal of the lease and will be amortized as a reduction of rental revenue over the non cancellable lease term. On a quarterly basis, we review 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 or existence of lease inducements, we generally provide an allowance for straight-line accounts receivable or the lease inducements when certain conditions or indicators of adverse collectability are present.

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

	December 31,	
	2010	2009
	(in thousands)	
Contractual receivables	$ 5,354	$ 2,818
Straight-line receivables	62,423	52,395
Lease inducements	29,026	29,020
Allowance	(3,984)	(2,675)
Accounts receivable – net	$ 92,819	$ 81,558

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.

In December 2009, we began discussions with Formation Capital ("Formation") regarding the potential modification of its lease agreement. The modification included removing the Connecticut facilities from the lease agreement, reducing annual rent and transitioning the Connecticut facilities to another operator. Although, we had not agreed to a revised lease as of December 31, 2009, we evaluated the recoverability of the straight-line rent and lease inducements associated with the Connecticut facilities and recorded a $2.8 million provision for uncollectible accounts associated with straight-line receivables and lease inducements. In addition, in 2009, we wrote-off $1.6 million of receivables that were previously fully reserved. During the first quarter of 2010, we amended the master lease with Formation based on the proposed terms.

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 4 – Owned and Operated Assets.

Comprehensive Income

Comprehensive income includes net income and all other non-owner changes in stockholders' equity during a period including unrealized gains and losses on equity securities classified as available-for-sale and unrealized fair value adjustments on certain derivative instruments.

Deferred Financing Costs

External costs incurred from placement of our debt are capitalized and amortized on a straight-line basis over the terms of the related borrowings which approximate the effective interest method. Amortization of financing costs totaling $3.8 million, $2.5 million and $2.0 million in 2010, 2009 and 2008, respectively, is classified as "interest - amortization of deferred financing costs" in our consolidated statements of income. When financings are terminated, unamortized amounts paid, as well as charges incurred for the termination, are expensed at the time the termination is made. Gains and losses from the extinguishment of debt are presented within income from continuing operations in the accompanying consolidated financial statements.

Revenue Recognition

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

Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of three methods depending on specific provisions of each lease as follows: (i) a specific annual increase over the prior year's rent, generally between 2.0% and 3.0%; (ii) an increase based on the change in pre-determined formulas from year to year (i.e., such as increases in the Consumer Price Index ("CPI")); or (iii) specific dollar increases over prior years. Revenue under lease arrangements with fixed and determinable increases is recognized over the term of the lease on a straight-line basis. The authoritative guidance does not provide for the recognition of contingent revenue until all possible contingencies have been eliminated. We consider the operating history of the lessee, the payment history, the general condition of the industry and various other factors when evaluating whether all possible contingencies have been eliminated. We do not include contingent rents as income until the contingencies have been resolved.

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

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

Nursing home revenues of owned and operated assets consist of long-term care revenues, rehabilitation therapy services revenues, temporary medical staffing services revenues and other ancillary services revenues. The revenues are recognized as services are provided. Revenues are recorded net of provisions for discount arrangements with commercial payors and contractual allowances with third-party payors, primarily Medicare and Medicaid. Revenues realizable under third-party payor agreements are subject to change due to examination and retroactive adjustment. Estimated third-party payor settlements are recorded in the period the related services are rendered. The methods of making such estimates are reviewed periodically, and differences between the net amounts accrued and subsequent settlements or estimates of expected settlements are reflected in the current period results of operations. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. For additional information, see Note 4 – Owned and Operated Assets.

Assets Held for Sale and Discontinued Operations

The operating results of specified real estate assets that have been sold, or otherwise qualify as held for disposition, are reflected as assets held for sale in our consolidated balance sheets. Assets that qualify as held for sale may also be considered as a discontinued operation if, (a) the operation and cash flows of the asset have been or will be eliminated from future operations and (b) we will not have significant involvement with the asset after its disposition. For assets that qualify as discontinued operations, we have reclassified the operations of those assets to discontinued operations in the consolidated statements of income for all periods presented and assets held for sale in the consolidated balance sheets for all periods presented. We had one asset held for sale as of December 31, 2010 with a net book value of $0.7 million. The asset was not classified as discontinued operations. For additional information, see Note 19 – Discontinued Operations.

Derivative Instruments

From time to time we may use derivatives financial instruments to manage interest rates. These instruments include options, forwards, interest rate swaps, caps or floors or a combination thereof depending on the underlying exposure. We do not use derivatives for trading or speculative purposes. On the date we enter into a derivative, the derivative is designated as a hedge of the identified exposure. We measure the effectiveness of its hedging relationships both at the hedge inception and on an ongoing basis.

All derivatives are recognized on the balance sheet at fair value. Derivatives that are not hedges are adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or recognized in other comprehensive income until the hedge item is recognized in earnings. Gains and losses related to hedged transactions are deferred and recognized as interest expense in the period or periods that the underlying transaction occurs, expires or is otherwise terminated. The ineffective portion of a derivative's change in fair value will be immediately recognized in earnings.

For the year ended December 31, 2010, 2009 and 2008, we did not utilize derivative instruments.

Earnings Per Share

Basic earnings per common share ("EPS") is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the year. Diluted EPS reflects the potential dilution that could occur from shares issuable through stock-based compensation, including stock options and restricted stock. For additional information, see Note 18 – Earnings Per Share.

Income Taxes

We were organized to qualify for taxation as a REIT under Section 856 through 860 of the Internal Revenue Code. As long as we qualify as a REIT; we will not be subject to Federal income taxes on the REIT taxable income that we distributed to stockholders, subject to certain exceptions. In 2010, we paid preferred and common dividend payments of $138.9 million which satisfies the 2010 REIT requirements relating to qualifying income. We are permitted to own up to 100% of a taxable REIT subsidiary ("TRS"). Currently, we have one TRS that is taxable as a corporation and that pays federal, state and local income tax on its net income at the applicable corporate rates. The loss carry forward of $1.1 million was fully reserved with a valuation allowance due to uncertainties regarding realization. We record interest and penalty charges associated with tax matters as income tax. For additional information on income taxes, see Note 11 – Taxes.

Stock-Based Compensation

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 stockholders are considered participating securities that shall be included in the two-class method of computing basic 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.

Effects of Recently Issued Accounting Standards

In January 2010, the FASB issued guidance on fair value measurements and disclosures. This guidance specifies that a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition, a reporting entity should present separately information about purchases, sales, issuances and settlements (that is, on a gross basis rather than as one net number) related to Level 3 fair value measurements as part of a reconciliation of the beginning and ending balances. The guidance further clarifies the disclosure regarding the level of disaggregation and input and valuation techniques. The adoption of this guidance did not impact our financial position or results of operations.

In February 2010, the FASB issued guidance on subsequent events. This guidance eliminates the requirement to disclose the date through which subsequent events have been evaluated. The adoption of this guidance did not impact our financial position or results of operations.

Risks and Uncertainties

Our company is subject to certain risks and uncertainties affecting the healthcare industry as a result of healthcare legislation and growing regulation by federal, state and local governments. Additionally, we are subject to risks and uncertainties as a result of changes affecting operators of nursing home facilities due to the actions of governmental agencies and insurers to limit the growth in cost of healthcare services (see Note 7 – Concentration of Risk).

NOTE 3 - PROPERTIES

Leased Property

Our leased real estate properties, represented by 371 SNFs, 10 ALFs and five specialty facilities at December 31, 2010, are leased under provisions of single leases and master leases with initial terms typically ranging from 5 to 15 years, plus renewal options. Substantially all of the leases and master leases provide for minimum annual rentals that are typically subject to annual increases based upon fixed escalators or the lesser of a fixed amount or increases derived from changes in CPI. Under the terms of the leases, the lessee is responsible for all maintenance, repairs, taxes and insurance on the leased properties.

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

	December 31,	
	2010	**2009**
	(in thousands)	
Buildings	$ 2,011,028	$ 1,500,661
Site improvement and equipment	171,422	46,621
Land	184,406	122,561
	2,366,856	1,669,843
Less accumulated depreciation	(380,995)	(296,441)
Total	$ 1,985,861	$ 1,373,402

The future minimum estimated contractual rents due for the remainder of the initial terms of the leases are as follows at December 31, 2010:

	(in thousands)
2011	$ 255,032
2012	256,176
2013	256,851
2014	230,352
2015	232,438
Thereafter	895,318
Total	$ 2,126,167

Below is a summary of the significant transactions that occurred in 2009 and 2010.

143 Facility CapitalSource Acquisitions (2009 - 2010)

In November 2009, we entered into a securities purchase agreement (the "CapitalSource Purchase Agreement") with CapitalSource Inc. (NYSE: CSE) ("CapitalSource") and several of its affiliates, pursuant to which we agreed to purchase CapitalSource subsidiaries owning 80 long term care facilities, plus an option to purchase CapitalSource subsidiaries owning an additional 63 facilities (the "Option"), for approximately $858 million. We accounted for these acquisitions as business combinations. We incurred approximately $3.1 million in transaction costs for the transactions, of which $1.6 million was expensed during 2009 and $1.5 million was expensed in 2010.

First Closing

On December 22, 2009, we purchased CapitalSource entities owning 40 facilities for approximately $271.4 million and an option to purchase CapitalSource entities owning 63 additional facilities for $25.0 million. The consideration consisted of: (i) approximately $184.2 million in cash; (ii) 2,714,959 shares of Omega common stock and (iii) the assumption of approximately $59.4 million of 6.8% mortgage debt maturing on December 31, 2011. We valued the 2,714,959 shares of our common stock at approximately $52.8 million on December 22, 2009.

The 40 facilities represent 5,264 available beds located in 12 states, and are part of 15 in-place triple net leases among 12 operators. The 12 leases generate approximately $31 million of annualized revenue.

As of December 31, 2010, we allocated approximately $282.0 million to land ($22.5 million), building and site improvements ($241.9 million) and furniture and fixtures ($17.6 million). We allocated approximately $9.5 million to in-place above market leases assumed at the first closing and approximately $19.8 million to in-place below market leases assumed at the first closing. In 2010, net amortization associated with net in-place below market leases assumed at the first closing was approximately $1.4 million. We estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the December 22, 2009 acquisition as follows (in millions):

Less than 1 year	1-3 years	3-5 years	Thereafter
1.3	2.3	2.0	3.4

The fair value of the debt assumed approximated face value. We have not recorded goodwill in connection with this transaction.

HUD Portfolio Closing

On June 29, 2010, we purchased CapitalSource entities owning 40 facilities for approximately $271 million. We also paid approximately $15 million for escrow accounts transferred to us at closing. The 40 facilities are encumbered by approximately $182 million in long-term mortgage financing guaranteed by the U.S. Department of Housing and Urban Development ("HUD") and $20 million in subordinated notes. The following summarizes the consideration paid at closing:

- $65 million in cash;
- $202 million face value of assumed debt, which includes $20 million of 9.0% unsecured debt maturing in December 2021, $53 million of HUD debt at a 6.61% weighted average annual interest rate maturing between January 2036 and May 2040, and $129 million of new HUD Debt at a 4.85% annual interest rate maturing between January 2040 and January 2045; and
- 995 thousand shares of our common stock valued at approximately $19 million on June 29, 2010.

The 40 facilities represent 4,882 available beds located in two states, and are part of 13 in-place triple net leases among two operators. The 13 leases generate approximately $30 million of annualized revenue.

As of December 31, 2010, we allocated approximately $313.3 million to land ($32.3 million), building and site improvements ($264.1 million) and furniture and fixtures ($16.9 million). We allocated approximately $4.9 million to in-place above market leases assumed and approximately $24.1 million to in-place below market leases assumed at the HUD portfolio closing. In 2010, net amortization associated with net in-place below market leases assumed at the HUD portfolio closing was approximately $1.9 million. We estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 29, 2010 acquisition as follows (in millions):

Less than 1 year	1-3 years	3-5 years	Thereafter
3.5	6.2	4.7	2.9

In addition, we recorded approximately $22.5 million of fair value adjustment related to the above market debt assumed based on the terms of comparable debt. In 2010, we amortized approximately $0.7 million for the fair value adjustment. We estimate amortization will average approximately $1.3 million per year for the next five years. We have not recorded goodwill in connection with this transaction.

Option Exercise and Closing

On April 20, 2010, we provided notice of our intent to exercise our Option to acquire CapitalSource entities owning 63 facilities. On June 9, 2010, we completed our purchase of the 63 CapitalSource facilities for an aggregate purchase price of approximately $293 million in cash. The total purchase price including the purchase option deposit was $318 million.

The 63 facilities represent 6,607 available beds located in 19 states, and are part of 30 in-place triple net leases among 18 operators. The 30 leases generate approximately $34 million of annualized revenue.

As of December 31, 2010, we allocated approximately $328.9 million to land ($35.8 million), building and site improvements ($276.0 million) and furniture and fixtures ($17.1 million). We allocated approximately $8.2 million to in-place above market leases assumed and approximately $18.8 million to in-place below market leases assumed at the Option portfolio closing. In 2010, net amortization associated with net in-place below market leases assumed at the Option portfolio closing was approximately $0.7 million. We estimate the net impact to revenue of amortizing the assumed net in-place below market leases associated with the June 9, 2010 acquisition as follows:

Less than 1 year	1-3 years	3-5 years	Thereafter
1.2	1.7	2.4	4.6

We have not recorded goodwill in connection with this transaction.

The facilities acquired from CapitalSource on December 22, 2009, June 9, 2010 and June 29, 2010 are included in our results of operations from the date of acquisition. The following unaudited pro forma results of operation reflect each of the CapitalSource transactions as if they occurred on January 1, 2009. In the opinion of management, all significant necessary adjustments to reflect the effect of the acquisition have been made. The following pro forma information is not indicative of future operations.

	Pro Forma Year Ended December 31,	
	2010	2009
	(in thousands, except per share amount, unaudited)	
Revenues	$ 290,078	$ 296,984
Net income available to common stockholders	56,249	93,826
Earnings per share – diluted:		
Net income available to common stockholders – as reported	$ 0.52	$ 0.87
Net income available to common stockholders – pro forma	$ 0.59	$ 1.07

The revenue recorded pertaining to the CapitalSource acquisitions for the years ended December 31, 2009 and 2010 was $0.7 million and $69.9 million, respectively.

Connecticut Properties

In January 2011, upon our request a complaint was filed by the State of Connecticut, Commissioner of Social Services, the Superior Court, Judicial District of Hartford, Connecticut appointing a receiver to oversee our four Connecticut SNFs. The facilities were leased and operated by affiliates of Formation and were managed by Genesis.

The receiver is responsible for operating the facilities and funding all operational expenses incurred after the appointment of the receiver. It is anticipated that the receiver will establish a bidding process and procedure for the leasehold interests that are the subject of the receivership action, and it is anticipated that the receiver will coordinate with us in respect of the bidding process and the ultimate transition of the facilities to a new operator via the sale of the leasehold interests. It is, however, possible that the receiver will recommend the closure of one or more of these facilities. At December 31, 2010, we had a net investment of approximately $26 million in these four facilities. We have performed an analysis of undiscounted cash flows and estimate that the undiscounted cash flow will exceed the net book value.

The remaining eleven Formation facilities continue to be leased by Formation under the existing master lease, and managed by Genesis.

2008 Acquisitions

On December 31, 2008, we purchased two (2) SNFs from an unrelated third party for $19.5 million and leased those facilities to an existing operator, Formation. The facilities were added to Formation's existing master lease and will increase cash rent by $2.4 million annually starting in 2009. The $19.5 million was allocated to land, building and personal property of $18.7 million and $0.8 million, respectively.

In September 2008, we purchased four (4) SNFs, one (1) ALF and one (1) independent living facility ("ILF") for $40.0 million from subsidiaries of an existing tenant, and leased those facilities back to the tenant. The facilities were added to the tenant's existing master lease and will increase cash rent by $4.0 million annually. The $40.0 million acquisition price was allocated $2.4 million to land, $35.4 million to building and $2.2 million to personal property.

In April 2008, we purchased seven (7) SNFs, one (1) ALF and one rehab hospital for $47.4 million from an unrelated third party and leased the facilities to an existing tenant of ours. The facilities were added to the tenant's existing master lease and will increase cash rent by $4.7 million annually. The $47.4 million acquisition price was allocated $6.6 million to land, $38.9 million to building and $1.9 million to personal property.

In January 2008, we purchased one (1) SNF for $5.2 million from an unrelated third party and leased the facility to an existing tenant of ours. The facility was added to the tenant's existing master lease and increased cash rent by $0.5 million annually. The $5.2 million acquisition price was allocated $0.4 million to land, $4.5 million to building and $0.3 million to personal property.

In January 2008, we purchased from GE Capital a $39.0 million first mortgage loan on seven (7) facilities operated by Haven due October 2012. Prior to the acquisition of this first mortgage, we had a $22.8 million second mortgage on these facilities. In July 2008, we acquired these properties from Haven through a credit bid with the United States Bankruptcy Court. These facilities were part of the Haven's chapter 11 proceeding being jointly administered in the United States Bankruptcy Court for the District of Connecticut, New Haven Division that began in November 2007. We consolidated the Haven entity which owned these facilities into our financial statements in accordance with guidance for consolidating variable interest entities because we determined that the Haven entity was a VIE and that we were the primary beneficiary, see Note 1 – Organization and Basis of Presentation for additional information. In 2007, the Haven facilities represented approximately 8% of our operating revenue.

2008 Asset Sales

On July 1, 2008, we sold two rehabilitation hospitals in California for approximately $29.0 million resulting in a gain of approximately $12.3 million.

NOTE 4 – OWNED AND OPERATED ASSETS

On June 1, 2010, the remaining two owned and operated facilities were transitioned to a third party operator/tenant and are now part of a master lease agreement with Formation. As a result of the transition to Formation, we no longer operate any owned and operated facilities, effective June 1, 2010.

Since November 2007, affiliates of 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 July 7, 2008, we took ownership and/or possession of 15 facilities previously operated by Haven. 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 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.

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 were operated by TC Healthcare until May 31, 2010, have been transferred to Formation/Genesis. Our consolidated financial statements include the results of operations of Vermont facilities from July 7, 2008 to May 31, 2010.

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.

	For Year Ended December 31,		
	2010 [1]	2009	2008
	(in thousands)		
Nursing home revenues	$ 7,336	$ 18,430	$ 24,170
Nursing home expenses	7,998	20,632	27,601
Loss from nursing home operations	$ (662)	$ (2,202)	$ (3,431)

(1) The 2010 includes revenues and expenses for two facilities from January 1, 2010 through May 31, 2010.

NOTE 5 - MORTGAGE NOTES RECEIVABLE

As of December 31, 2010, mortgage notes receivable relate to four fixed-rate mortgages on 13 long-term care facilities and two construction mortgages on two facilities currently under construction. 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 states, operated by four independent healthcare operating companies. We monitor compliance with mortgages and when necessary have initiated collection, foreclosure and other proceedings with respect to certain outstanding loans.

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

	December 31,	
	2010	2009
	(in thousands)	
Ciena Construction Mortgage note; interest at 12.50%	$ 4,757	$ —
Mortgage note due 2014; monthly payment of $66,914, including interest at 11.00%	6,577	6,643
Mortgage note due 2022; monthly interest only payment of $649,907, at 11.00%	69,928	69,928
Mortgage note due 2010; monthly payment of $118,845, including interest at 11.50%	—	12,407
Mortgage note due 2016; monthly interest only payment of $116,993 at 11.50%	11,395	11,245
Mortgage note due 2030, interest at 10.00%	15,900	—
Total mortgages — net [1]	$ 108,557	$ 100,223

(1) Mortgage notes are shown net of allowances of $0.0 million in 2010 and 2009.

2010 Mortgage Note Activity

Meridian Secured Mortgage Note

In December 2010, we entered into a first mortgage loan with a new operator of Omega in the amount of $15.9 million on three SNFs, totaling 240 beds. All three facilities are located in Florida. The term of the mortgage is 20 years. The interest rate is 10%, with annual escalators of 2%.

Ciena Construction Mortgage Loan

In August 2010, we agreed to a Construction Mortgage Loan for an aggregate of $5.6 million to affiliates of Ciena Health Care Management Inc. for the purpose of constructing a new SNF in Michigan. The loan is an interest only loan and bears interest at an annual rate of 12.5% and matures on the 10th anniversary of the completion of construction of the facility. As of December 31, 2010, we funded approximately $4.2 million for the construction of the 120 bed facility.

In November 2010, we agreed to a second Construction Mortgage Loan for an aggregate of $5.3 million to affiliates of Ciena Health Care Management Inc. for constructing a new SNF in Michigan. The loan terms are the same as the first construction loan above. As of December 31, 2010, we funded approximately $0.6 million for the construction of the 113 bed facility.

Purchase of Mortgage Backed Certificate Securities

In March 2010, we purchased, in the open market, two series of mortgage backed certificates with a face value of $14 million for approximately $12.9 million. The securities yield, including the amortization of the discount, was approximately 10% annually. The certificates were part of a $250 million trust that was secured by 65 SNFs owned by CapitalSource, 63 of which we acquired on June 9, 2010 as part of the Option closing. On June 21, 2010, these mortgage back certificates were retired at par for approximately $14.0 million, generating a gain of approximately $0.8 million which is included in Other Investment Income – net in the accompanying consolidated statement of income.

Communicare Mortgage Amendment

In October 2010, we agreed to extend the term of a mortgage note from April 30, 2018 to April 30, 2022. The original agreement allowed for the extension of the term and increased the interest rate during the extended term to 13.75%.

2009 Mortgage Note Activity

In late 2009, we began discussions with a mortgagee regarding final payment of the $12.4 million balance due on a mortgage that relates to four facilities and that matured February 28, 2010. The mortgagee was current on all interest and other obligations. Through these discussions, we determined that the mortgagee was not likely to raise the capital necessary to repay the mortgage. We evaluated the mortgage for impairment due to the mortgagee's likely inability to repay the amount due. Our evaluation indicated that although the loan was impaired, no impairment reserve was required because the collateral supporting the loan exceeded the net mortgage balance due to us. In February 2010, the mortgagee surrendered ownership of the properties to us in exchange for the payment of the mortgage note due. We have leased these facilities to an existing operator.

NOTE 6 - OTHER INVESTMENTS

A summary of our other investments is as follows:

	December 31,	
	2010	**2009**
	(in thousands)	
Notes receivable, net	$ 24,178	$ 28,243
Marketable securities and other	4,557	4,557
Total other investments	$ 28,735	$ 32,800

At December 31, 2010, we had 7 notes receivable, with maturities ranging from on demand to 2018. At December 31, 2009, we had 10 notes receivable, with maturities ranging from on demand to 2018. At December 31, 2010 and 2009, we had total reserves of approximately $2.2 million on two notes.

For the year ended December 31, 2010 and 2009, apart from the normal scheduled monthly loan payments, we had the following transactions that impacted our other investments:

2009 and 2010 Transactions

Nexion Health Inc. Cherry Creek Participation Loan Payoff

In October 2009, we entered into a loan agreement with Nexion for approximately $3.6 million for a 39.8% stake in a $9.1 million note, with a discount of $0.1 million off the face amount yielding 10.6%. The interest rate was at 6.5% and the note was paid off in September 2010.

Essex Note Payoff

In August 2009, we received approximately $2.2 million in proceeds on a loan payoff.

Formation Capital Note

In December 2009, we began discussions with Formation Capital regarding a modification to the lease agreement due to the continued operating weakness of the Connecticut facilities. The modification includes removing the Connecticut facilities from the lease agreement, reducing annual rent and transitioning the Connecticut facilities to another operator. The lease agreement and working capital agreement are cross defaulted. At December 31, 2009, we had not agreed to a revised lease. However, as a result of the potential modification of the lease and the potential for changes to the contractual payments required by the working capital loan agreements, we determined that the working capital notes were impaired. Although we considered the working capital notes impaired, no reserve for impairment was recorded. We expect full repayment of all balances due and accruing in the future relating to the working capital notes. In early 2010, we amended the master lease with Formation based on the proposed terms. The majority of the outstanding note balance for 2010 and 2009 relates to a working capital line of credit with Formation Capital which is secured by the accounts receivable and other collateral. The Formation notes are due December 31, 2011.

NOTE 7 - CONCENTRATION OF RISK

As of December 31, 2010, our portfolio of domestic investments consisted of 400 healthcare facilities, located in 35 states and operated by 50 third-party operators. Our gross investment in these facilities, net of impairments and before reserve for uncollectible loans, totaled approximately $2.5 billion at December 31, 2010, with approximately 99% of our real estate investments related to long-term care facilities. This portfolio is made up of 371 SNFs, 10 ALFs, five specialty facilities, fixed rate mortgages on 13 SNFS, and one closed SNF that is held for sale. At December 31, 2010, we also held miscellaneous investments of approximately $28.7 million, consisting primarily of secured loans to third-party operators of our facilities.

At December 31, 2010, we had two investments with operators that each exceed 10% of our total investments. CommuniCare Health Services (“CommuniCare”) (13%), and Airamid Health Management, LLC through its subsidiaries, (“Airamid”) (11%). The three states in which we had our highest concentration of investments were Florida (24%), Ohio (14%) and Pennsylvania (7%) at December 31, 2010.

For the year ended December 31, 2010, our revenues from operations totaled $258.3 million, of which approximately $35.7 million were from CommuniCare (14%), and $31.9 million from Sun Healthcare (12%). No other operator generated more than 10% of our revenues from operations for the year ended December 31, 2010.

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

NOTE 8 - LEASE AND MORTGAGE DEPOSITS

We obtain liquidity deposits and letters of credit from most operators pursuant to our lease and mortgage contracts with the operators. These generally represent the rental and mortgage interest for periods ranging from three to six months with respect to certain of our investments. At December 31, 2010, we held $9.3 million in such liquidity deposits and $30.5 million in letters of credit. The liquidity deposits may be applied in the event of lease and loan defaults, subject to applicable limitations under bankruptcy law with respect to operators filing under Chapter 11 of the United States Bankruptcy Code. Liquidity deposits are recorded as restricted cash on our consolidated balance sheets. Additional security for rental and mortgage interest revenue from operators is provided by covenants regarding minimum working capital and net worth, liens on accounts receivable and other operating assets of the operators, provisions for cross default, provisions for cross-collateralization and by corporate/personal guarantees.

NOTE 9 - BORROWING ARRANGEMENTS

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

	Maturity	Current Rate	December 31 2010	2009
			(in thousands)	
Secured borrowings:				
Revolving lines of credit	2014	4.01%	$ —	$ 94,100
GECC Term loan	2014	6.50%	—	100,000
CapitalSource mortgage	2011	6.80%	—	59,354
HUD Berkadia mortgages [1]	2036 - 2040	6.61%	66,128	—
HUD Capital Funding mortgage	2040 - 2045	4.85%	135,168	—
Total secured borrowings			201,296	159,354
Unsecured borrowings:				
2014 Notes	2014	7.0%	$ —	$ 310,000
2016 Notes	2016	7.0%	175,000	175,000
2020 Notes	2020	7.5%	200,000	—
2022 Notes	2022	6.75%	575,000	—
Subordinated debt	2021	9.0%	21,403	—
			971,403	485,000
Premium (Discount)			4,266	(305)
Total unsecured borrowings			975,669	484,695
Totals - net			$ 1,176,965	$ 738,149

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

Secured Borrowings

On April 13, 2010, we entered into our new $320 million revolving senior secured credit facility (the “2010 Credit Facility”) and concurrently terminated our $200 million revolving senior secured credit facility (the “2009 Credit Facility”). The 2010 Credit Facility matures in four years, on April 13, 2014. The 2010 Credit Facility includes an “accordion feature” that permits us to expand our borrowing capacity to $420 million during our first three years. At March 31, 2010, deferred financing fees associated with the 2009 Credit Facility were $3.5 million. These fees were written-off in April 2010 upon termination of the 2009 Credit Facility.

In October 2010, we repaid outstanding borrowings under our 2010 Credit Facility using the proceeds of our $350 million note offering described below. At December 31, 2010, we had no amount outstanding under the 2010 Credit Facility and no letters of credit outstanding, leaving availability of $320.0 million. The 2010 Credit Facility is priced at LIBOR plus an applicable percentage (ranging from 325 basis points to 425 basis points) based on the consolidated leverage and is not subject to a LIBOR floor. Our applicable percentage above LIBOR is currently 350 basis points. The 2010 Credit Facility will be used for acquisitions and general corporate purposes.

At December 31, 2009, we had $94.1 million outstanding under the 2009 Credit Facility and no letters of credit outstanding, leaving availability of $105.9 million. The $94.1 million of outstanding borrowings had a blended interest rate of 6% at December 31, 2009, and was priced at LIBOR plus 400 basis points.

For the years ended December 31, 2010 and 2009, the weighted average interest rates were 4.32% and 2.91%, respectively.

The 2010 Credit Facility contains customary affirmative and negative covenants, including, among others, 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 2010 Credit Facility contains financial covenants including, without limitation, covenants with respect to maximum leverage ratio, minimum fixed charge coverage ratio, minimum tangible net worth and maximum distributions. As of December 31, 2010, we were in compliance with all affirmative and negative covenants, including financial covenants.

GECC Loan Payoff

On October 6, 2010, we terminated our credit agreement with General Electric Capital Corporation ("GECC"), as Administrative Agent and a Lender, and the other financial institutions party. The credit agreement previously provided us with a five year $100 million term loan. In connection with the termination, we repaid the outstanding principal amount of the loan plus a prepayment premium of $3.0 million. As a result of the early repayment of the GECC credit agreement, we recorded a debt extinguishment charge of $5.2 million consisting of (i) a non-cash charge of approximately $2.2 million relating to the write-off of deferred financing costs and (ii) $3.0 million related to the prepayment premium for prepaying the debt.

CapitalSource Mortgage Debt Assumption

In connection with the December 22, 2009 CapitalSource closing, we assumed $59.4 million of 6.8% mortgage debt maturing on December 31, 2011 with a one year extension right. The mortgage debt was secured by 12 facilities per the terms of the mortgage debt agreement. On February 16, 2010, we used proceeds from the offering of our $200 million 7.5% Senior Notes due 2020 to repay the assumed mortgage debt.

Berkadia Mortgages Assumption

In connection with the June 29, 2010 CapitalSource closing, we assumed approximately $53.2 million in face value debt (the "Berkadia Mortgages"). The Berkadia Mortgages are composed of 11 different amortizing mortgage loans financed by HUD with maturity dates ranging from 2036 to 2040. They are fixed rate mortgages with stated interest rates ranging from 5.2% to 7.33% and a weighted average interest rate of 6.61%. On the date of acquisition, HUD mortgage rates were less than the stated interest rates of the mortgages assumed. We estimated the fair value of the Berkadia Mortgages on the date of acquisition to be approximately $66.9 million. The $13.7 million fair value adjustment will be amortized using the effective interest method over the term of the respective mortgages. In 2010, we amortized approximately $0.4 million of fair value adjustment related to these mortgages. We estimate amortizing approximately $0.8 million a year over the next five years.

Capital Funding Mortgages Assumption

In connection with the June 29, 2010 CapitalSource closing, we assumed approximately $128.8 million in face value debt (the "Capital Funding Mortgages"). The Capital Funding Mortgages represent an amortizing mortgage loan financed by HUD and secured by 29 separate facilities. The maturity dates for the mortgage amortization schedule range from 2040 to 2045. The mortgages are fixed rate mortgages with a stated interest rate of 4.85%. On the date of acquisition, HUD mortgage rates were less than the stated interest rates of the Capital Funding Mortgages. We estimated the fair value of the Capital Funding Mortgages on the date of acquisition to be approximately $136.2 million. The $7.4 million fair value adjustment will be amortized using the effective interest method over the term of the amortization schedules for each facility. In 2010, we amortized approximately $0.2 million of fair value adjustment related to these mortgages. We estimate amortizing approximately $0.4 million a year over the next five years.

Unsecured Borrowings

7.0% Senior Notes due 2016

We may redeem the 2016 Notes, in whole at any time or in part from time to time, at redemption prices of 103.50%, 102.33% and 101.17% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on January 15 of the years 2011, 2012 and 2013, respectively, and at a redemption price of 100% of the principal amount thereof on and after January 15, 2014, in each case, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

7.5% Senior Notes due 2020

On February 9, 2010, we issued and sold $200 million aggregate principal amount of 7.5% Senior Notes due 2020 (the "2020 Notes"). The 2020 Notes mature on February 15, 2020 and pay interest semi-annually on August 15th and February 15th.

We may redeem the 2020 Notes, in whole at any time or in part from time to time, at redemption prices of 103.75%, 102.5% and 101.25% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on February 15 of the years 2015, 2016 and 2017, respectively, and at a redemption price of 100% of the principal amount thereof on and after February 15, 2018, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until February 15, 2013 we may redeem up to 35% of the 2020 Notes with the net proceeds of one or more public equity offerings at a redemption price of 107.5% of the principal amount of the 2020 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

The 2020 Notes were sold at an issue price of 98.278% of the principal amount, resulting in gross proceeds of approximately $197 million. We used the net proceeds from the sale of the 2020 Notes, after discounts and expenses, to (i) repay outstanding borrowings of approximately $59 million of debt assumed in connection with our December 22, 2009 CapitalSource acquisition, (ii) repay outstanding borrowings under our 2009 Credit Facility, and (iii) for working capital and general corporate purposes, including the acquisition of healthcare-related properties such as the CapitalSource acquisitions. The 2020 Notes are guaranteed by substantially all of our subsidiaries as of the date of issuance. The entities we acquired on June 29, 2010 from CapitalSource which own 40 facilities (see "HUD Portfolio Closing" in Note 3) and the entities created to effect the acquisition are not guarantors of our 2020 Notes, or our outstanding 2022 or 2016 Notes. As of December 31, 2010, our subsidiaries that are not guarantors of these Notes accounted for approximately $340.0 million of our total assets.

On October 20, 2010, we commenced an offer to exchange $200 million of our registered 7.5% Senior Notes due 2020 (the "Exchange Notes") for all of the existing 2020 Notes (the "Private Notes"). The exchange offer was conducted upon the terms and subject to the conditions set forth in our prospectus dated October 20, 2010, and the related letter of transmittal. The terms of the Exchange Notes are substantially identical to the terms of the Private Notes, including subsidiary guarantees, except that provisions relating to transfer restrictions, registration rights and additional interest does not apply to the Exchange Notes.

The exchange offer expired at 5:00 p.m., New York City time, on November 22, 2010. On November 22, 2010, U.S. Bank National Association, the exchange agent for the exchange offer, advised that all $200 million aggregate principal amount of outstanding 7.5% Senior Notes due 2020 were validly tendered and not withdrawn prior to the expiration of the exchange offer. All of the notes validly tendered and not withdrawn were accepted for exchange pursuant to the terms of the exchange offer.

$225 Million Senior Notes due 2022

On October 4, 2010, we issued and sold $225 million aggregate principal amount of our 6.75% Senior Notes due 2022 (the "Initial 2022 Notes"). The Initial 2022 Notes mature on October 15, 2022 and pay interest semi-annually on April 15th and October 15th, commencing April 15, 2011.

We may redeem the Initial 2022 Notes, in whole at any time or in part from time to time, at redemption prices of 103.375%, 102.25% and 101.125% of the principal amount thereof if the redemption occurs during the 12-month periods beginning on October 15 of the years 2015, 2016 and 2017, respectively, and at a redemption price of 100% of the principal amount thereof on and after October 15, 2018, in each case, plus any accrued and unpaid interest to the redemption date. In addition, until October 15, 2013 we may redeem up to 35% of the Initial 2022 Notes with the net proceeds of one or more public equity offerings at a redemption price of 106.75% of the principal amount of the Initial 2022 Notes to be so redeemed, plus any accrued and unpaid interest to the redemption date. If we undergo a change of control, we may be required to offer to purchase the notes from holders at a purchase price equal to 101% of the principal amount plus accrued interest.

The Initial 2022 Notes were sold at an issue price of 98.984% of the principal amount, resulting in gross proceeds of approximately $223 million. We used the net proceeds from the sale of the Initial 2022 Notes, after discounts and expenses, to (i) pay off borrowings under the 2010 Credit Facility and (ii) for general corporate purposes. As of December 31, 2010, our subsidiaries that are not guarantors of these Initial 2022 Notes accounted for approximately $340.0 million of our total assets.

$350 Million Senior Notes due 2022

On November 23, 2010, we issued and sold $350 million aggregate principal amount of our 6.75% Senior Notes due 2022 (the "Additional 2022 Notes"). The Additional 2022 Notes are of the same series as, and thus have the same terms, as our Initial 2022 Notes.

The Additional 2022 Notes were sold at an issue price of 103% of their face value, before initial purchasers' discount, plus accrued interest from October 4, 2010, resulting in gross proceeds to us of approximately $364 million. We used the net proceeds from the sale of the Additional 2020 Notes (i) to fund our tender offer for our outstanding $310 million aggregate principal amount of 7% Senior Notes due 2014 (see "Tender Offer and Consent Solicitation for 7% Senior Notes due 2014" below), and (ii) for working capital and general corporate purposes. As of December 31, 2010, our subsidiaries that are not guarantors of these Additional 2022 Notes accounted for approximately $340.0 million of our total assets.

Certain of our other secured and unsecured borrowings are subject to customary affirmative and negative covenants, including financial covenants. As of December 31, 2010, we were in compliance with all affirmative and negative covenants, including financial covenants, for our secured and unsecured borrowings.

Subordinated Debt Assumption

In connection with the June 29, 2010 CapitalSource closing, we assumed $20.0 million in face value debt (the "Subordinated Debt"). The Subordinated Debt relates to five non-amortizing subordinated notes. The notes mature on December 31, 2021 and have a fixed stated interest rate of 9.0%. On the date of acquisition, the rates for the subordinated notes were less than the stated interest rates of the subordinated notes assumed. We estimated the fair value of the Subordinated Debt on the date of acquisition to be approximately $21.5 million. The $1.5 million fair value adjustment will be amortized using the effective interest method over the term of the subordinated notes. In 2010, we amortized approximately $0.1 million of fair value adjustment related to these mortgages. We estimate amortizing approximately $0.2 million a year over the next five years.

Tender Offer and Consent Solicitation for 7% Senior Notes due 2014

On November 8, 2010, we commenced a tender offer to purchase for cash any and all of our outstanding $310 million aggregate principal amount of 7% Senior Notes due 2014 (the "2014 Notes") upon the terms and subject to the conditions set forth in the Offer to Purchase and Consent Solicitation Statement, dated November 8, 2010. Pursuant to the terms of the tender offer which expired on December 8, 2010, we purchased $264.7 million aggregate principal amount of the 2014 Notes.

On December 16, 2010, we redeemed the remaining $45.3 million aggregate principal amount of the 2014 Notes at a redemption price of 102.333% of the principal amount thereof, plus accrued and unpaid interest on the 2014 Notes up to the redemption date. We used the net proceeds from our sale of the Additional 2022 Notes to pay the redemption price of the 2014 Notes. Upon redemption, the 2014 Notes, the indenture governing the 2014 Notes and the related guarantees were terminated.

The required principal payments, excluding the premium/discount on the 2022, 2020 and 2016 Notes, for each of the five years following December 31, 2010 and the aggregate due thereafter are set forth below:

	(in thousands)
2011	$ 2,465
2012	2,601
2013	2,745
2014	2,897
2015	3,057
Thereafter	1,137,126
Totals	$ 1,150,891

The following summarized the refinancing related costs:

	Year Ended December 31,		
	2010	2009	2008
	(in thousands)		
Write off of deferred finance cost due to refinancing	$ 8,231	$ 526	$ —
Prepayment and other costs associated with refinancing	11,251	—	—
Total debt extinguishment costs	$ 19,482	$ 526	$ —

NOTE 10 - FINANCIAL INSTRUMENTS

At December 31, 2010 and 2009, the carrying amounts and fair values of our financial instruments were as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:	(in thousands)			
Cash and cash equivalents	$ 6,921	$ 6,921	$ 2,170	$ 2,170
Restricted cash	22,399	22,399	9,486	9,486
Mortgage notes receivable – net	108,557	109,610	100,223	98,251
Other investments	28,735	25,317	32,800	29,725
Totals	$ 166,612	$ 164,247	$ 144,679	$ 139,632
Liabilities:				
Revolving lines of credit	$ —	$ —	$ 94,100	$ 94,100
6.50% GECC Term loan	—	—	100,000	100,000
6.80% CapitalSource Mortgage Note	—	—	59,354	59,354
7.00% Notes due 2014– net	—	—	310,673	315,196
7.00% Notes due 2016– net	174,221	187,079	174,022	175,710
7.50% Notes due 2020– net	196,857	212,837	—	—
6.75% Notes due 2022– net	583,188	576,019	—	—
HUD debt [1]	201,296	214,643	—	—
Subordinated debt [1]	21,403	23,248	—	—
Totals	$ 1,176,965	$ 1,213,826	$ 738,149	$ 744,360

(1) The carrying value of debt includes a fair value adjustment to reflect value of the debt assumed as part of the June 29, 2010 acquisition of the HUD portfolio.

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

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

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

- 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 market rates.

- 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 11 – TAXES

We were organized, have operated, and intend to continue to operate in a manner that enables us to qualify for taxation as a REIT under Sections 856 through 860 of the Internal Revenue Code. On a quarterly and annual basis we perform several analyses to test our compliance within the REIT taxation rules. In order to qualify as a REIT, we are required to: (i) distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (A) the sum of (a) 90% of our "REIT taxable income" (computed without regard to the dividends paid deduction and our net capital gain), and (b) 90% of the net income (after tax), if any, from foreclosure property, minus (B) the sum of certain items of non-cash income on an annual basis, (ii) ensure that at least 75% and 95%, respectively of our gross income is generated from qualifying sources that are described in the REIT tax law, (iii) ensure that at least 75% of our assets consist of qualifying assets, such as real property, mortgages, and other qualifying assets described in the REIT tax law, (iv) ensure that we do not own greater than 10% of the voting or value of any one security, (v) ensure that we do not own either debt or equity securities of another company that are in excess of 5% of our total assets and (vi) ensure that no more that 20% of our assets are invested in one or more taxable REIT subsidiaries. In addition to the income and asset tests, the REIT rules require that no less than 100 stockholders own shares or an interest in the REIT and that five or fewer individuals do not own (directly or indirectly) more than 50% of the shares or proportionate interest in the REIT. If we fail to qualify as a REIT in any tax year, we will be subject to federal income tax on our taxable income at regular corporate rates and may not be able to qualify as a REIT for the four subsequent years.

We are also subject to federal taxation of 100% of the derived net income if we sell or dispose of property, other than foreclosure property, that we held primarily for sale to customers in the ordinary course of a trade or business. We believe that we do not hold assets for sale to customers in the ordinary course of business and that none of the assets currently held for sale or that have been sold would be considered a prohibited transaction within the REIT taxation rules.

So long as we qualify as a REIT we generally will not be subject to Federal income taxes on the REIT taxable income that we distribute to stockholders, subject to certain exceptions. In 2010, we paid preferred and common dividend payments of $138.9 million which satisfies the 2010 REIT requirements relating to the distribution of our REIT Taxable Income. On a quarterly and annual basis we tested our compliance within the REIT taxation rules described above to ensure that we were in compliance with the rules.

In July 2008, we assumed operating responsibilities for the 15 Haven facilities due to the bankruptcy of one of our operators/tenants. In September 2008, we entered into an agreement to lease these facilities to a new operator/tenant. Effective September 1, 2008, the new operator/tenant assumed operating responsibility for 13 of the 15 facilities, and, as a result, we retained operating responsibility for two properties as of December 31, 2008. We were in the process of addressing state regulatory requirements necessary to transfer the final two properties to the new operator/tenant. We made an election on our 2008 federal income tax return to treat the Haven facilities as foreclosure properties. Because we acquired possession in connection with a foreclosure, the Haven facilities are eligible to be treated as foreclosure property until the end of 2011. On June 1, 2010, the two remaining facilities were transitioned to the new tenant/operator upon approval by state regulators of the operating license transfer and as of such date, TC healthcare no longer operates these facilities. So long as the Haven facilities qualify as foreclosure property, our gross income from the properties will be qualifying income for the 75% and 95% gross income tests, but we will generally be subject to corporate income tax at the highest rate on the net income from the properties. If one or more of the Haven facilities were to inadvertently fail to qualify as foreclosure property, we would likely recognize nonqualifying income from such property for purposes of the 75% and 95% gross income tests, which could cause us to fail to qualify as a REIT. In addition, any gain from a sale of such property could be subject to the 100% prohibited transactions tax. Since the year 2000, the definition of foreclosure property has included any “qualified health care property,” as defined in Code Section 856(e)(6) acquired by us as the result of the termination or expiration of a lease of such property. We have from time to time operated qualified healthcare facilities acquired in this manner for up to two years (or longer if an extension was granted), including the Haven properties mentioned in the previous paragraph. Properties that we had taken back in a foreclosure or bankruptcy and operated for our own account were treated as foreclosure properties for income tax purposes, pursuant to Internal Revenue Code Section 856(e). Gross income from foreclosure properties was classified as “good income” for purposes of the annual REIT income tests upon making the election on the tax return. Once made, the income was classified as “good” for a period of three years, or until the properties were no longer operated for our own account. In all cases of foreclosure property, we utilized an independent contractor to conduct day-to-day operations to maintain REIT status. In certain cases we operated these facilities through a taxable REIT subsidiary. For those properties operated through the taxable REIT subsidiary, we formed a new entity (TC Healthcare) on our behalf through the use of an eligible independent contractor to conduct day-to-day operations to maintain REIT status. As a result of the foregoing, we do not believe that our participation in the operation of nursing homes increased the risk that we would fail to qualify as a REIT. Through our 2010 taxable year, we had not paid any tax on our foreclosure property because those properties had been producing losses.

Subject to the limitation described above under the REIT asset test rules, we are permitted to own up to 100% of the stock of one or more 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 December 31, 2010 and 2009 of $1.1 million. The loss carry-forward was fully reserved at December 31, 2010 and 2009 with a valuation allowance due to uncertainties regarding realization. There is currently no activity in the TRS.

NOTE 12 - RETIREMENT ARRANGEMENTS

Our company has a 401(k) Profit Sharing Plan covering all eligible employees. Under this plan, employees are eligible to make contributions, and we, at our discretion, may match contributions and make a profit sharing contribution.

We have a deferred compensation plan which is an unfunded plan under which we can award units that result in participation in the dividends and future growth in the value of our common stock. As of December 31, 2010 we had $0.1 million in liabilities associated with the deferred compensation plan.

Amounts charged to operations with respect to these retirement arrangements totaled approximately $168,700, $156,600 and $151,500 in 2010, 2009 and 2008, respectively.

NOTE 13 – STOCKHOLDERS' EQUITY

Stockholders' Equity

1.0 Million Share Common Stock Issuance

In connection with the June 29, 2010 CapitalSource closing, we issued approximately 1.0 million shares of our common stock to the selling stockholder. The closing price of the common stock was $19.80 per share.

$140 Million Equity Shelf Program

On June 25, 2010, we entered into separate equity distribution agreements (the "Agreement") to sell shares of our common stock having an aggregate gross sales price of up to $140,000,000 (the "2010 ESP") with each of BofA Merrill Lynch, Credit Agricole Securities (USA) Inc., Deutsche Bank Securities, Jefferies & Company, Inc., RBS Securities Inc., Stifel Nicolaus & Company, Incorporated and UBS Securities LLC, each as sales agents and/or principal (collectively, the "Managers"). Under the terms of the Agreements, we may from time to time offer and sell shares of our common stock, having an aggregate gross sales price of up to $140,000,000 through or to the Managers. We will pay each Manager compensation from the sales of the shares equal to 2% of the gross sales price per share of shares sold through such Manager under the applicable Agreement. During the year ended December 31, 2010, we issued 3.1 million shares of our common stock through the 2010 ESP for approximately $65.4 million, net of $1.3 million of commissions. During the three months ended December 31, 2010, 76 thousand shares of our common stock were issued through the 2010 ESP for net proceeds of approximately $1.7 million, net of $35 thousand of commissions.

$100 Million 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 sold 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 were 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 paid each Manager compensation for sales of the shares equal to 2% of the gross sales price for shares sold through such Manager, as sales agent, under the applicable Equity Distribution Agreement. In 2009, 1.4 million shares of our common stock were issued through the Equity Shelf Program for net proceeds of approximately $23.7 million, net of $0.5 million of commissions. In 2010, we issued 3.8 million shares for approximately $73.9 million, net of $1.8 million of commissions.

We issued a total of 5.2 million shares of common stock, generating a total of $97.6 million of net proceeds under our $100 million Equity Shelf Program, which was terminated in April of 2010.

2.7 Million Share Common Stock Issuance

On December 22, 2009, we issued 2.7 million shares of our common stock as part of the consideration paid at the December 22, 2009 closing under our purchase agreement with CapitalSource. The closing price of our common stock on December 22, 2009 was $19.45 per share.

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.

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 year ended December 31, 2010, we issued 3.0 million shares of common stock for approximately $60.5 million in net proceeds. For the year ended December 31, 2009, we issued 1.7 million shares of common stock for approximately $27.2 million in net proceeds. For the year ended December 31, 2008, we issued 2.1 million shares of common stock for approximately $34.1 million in net proceeds.

NOTE 14 –STOCK-BASED COMPENSATION

We offer stock-based compensation to our employees that include stock options, restricted stock awards and performance share awards. Under the terms of our 2000 Stock Incentive Plan (the “2000 Plan”) and the 2004 Stock Incentive Plan (the “2004 Plan”), we reserved 3,500,000 shares and 3,000,000 shares of common stock, respectively.

Stock Options

The 2000 and 2004 Plan allows for the issuance of stock options to employees, directors and consultants at exercise price equal to the Company’s common stock price on the date of grant. The 2000 Plan and 2004 Plan do not allow for a reduction in the exercise price after the date of grant, nor does it allow for an option to be cancelled in exchange for an option with a lower exercise price per share. At December 31, 2010, there were no options outstanding under the 2000 Plan. We have not issued stock options to employees, directors or consultants since 2004.

Cash received from the exercise under all stock-based payment arrangements for the years ended 2010, 2009 and 2008 was $89,000, $19,000 and $0.1 million, respectively. Cash used to pay minimum tax withholdings for equity instruments granted under stock-based payment arrangements for the years ended December 31, 2010, 2009 and 2008, was $2.1 million, $0.7 million and $2.7 million, respectively.

Restricted Stock

Restricted stock awards are independent of stock option grants and are subject to forfeiture if the holder's service to us terminates prior to vesting. Prior to vesting, ownership of the shares cannot be transferred. The restricted stock has the same dividend and voting rights as the common stock. We expense the cost of these awards ratably over their vesting period.

In May 2007, we granted 286,908 shares of restricted stock to five executive officers under the 2004 Plan. The restricted stock award 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 December 31, 2010, all shares were vested.

In addition, in January of each year we grant restricted stock to directors as part of the director compensation. These shares vest ratably over a three year period.

The following table summarizes the activity in restricted stock for the years ended December 31, 2008, 2009 and 2010:

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Compensation Cost [1] (in millions)
Non-vested at December 31, 2007	261,417	$ 16.94	
Granted during 2008	8,500	15.04	$ 0.1
Vested during 2008	(89,475)	16.80	
Non-vested at December 31, 2008	180,442	$ 16.92	
Granted during 2009	11,900	15.79	$ 0.2
Vested during 2009	(89,968)	16.90	
Non-vested at December 31, 2009	102,374	$ 16.81	
Granted during 2010	15,500	20.00	$ 0.3
Vested during 2010	(91,607)	16.96	
Non-vested at December 31, 2010	26,267	$ 18.19	

(1) Total compensation cost to be recognized on the awards based on grant date fair value.

Performance Restricted Stock Units

Performance Restricted Stock Units ("PRSU") are subject to forfeiture if the employee terminates service prior to vesting. Prior to vesting, ownership of the shares cannot be transferred. The dividends on the PRSUs accumulate and if vested are paid. We expense the cost of these awards ratably over the employee's service period.

In May 2007, we awarded two types of PRSU (annual and cliff vesting awards) to our five executives totaling 247,992 shares. One half of the PRSU awards are eligible for annual vesting based on performance in equal increments on December 31, 2008, December 31, 2009, and December 31, 2010, respectively. The other half of the PRSU awards are eligible for cliff vesting 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. On March 29, 2010, the Compensation Committee of Omega's Board of Directors (the "Committee") determined that, based on the 26% Total Shareholder Return actually achieved for the twelve month period ended December 31, 2009 and in light of the challenging economic and capital market conditions that prevailed generally during 2009, it was appropriate to waive the vesting requirement solely with respect to the PRSUs that would have vested on December 31, 2009 had a cumulative, annualized Total Shareholder Return of 11% been achieved. As a result of the modification to the 2009 PRSUs, we recorded approximately $0.4 million of additional expense which was recorded during the first quarter of 2010 and accrued dividends of approximately $0.1 million related to this vesting. As of December 31, 2010, all shares have vested in respect of these PRUs. All vested shares were delivered to the executives.

We used a Monte Carlo model to estimate the fair value and derived service periods for PRSUs granted to the executives in May 2007. The following are some of the significant assumptions used in estimating the value of the awards:

Closing stock price on date of grant	$17.06
20-day-average stock price	$17.27
Risk-free interest rate at time of grant	4.6% to 5.1%
Expected volatility	24.0% to 29.4%

The following table summarizes the activity in PRSU for the years ended December 31, 2008, 2009 and 2010:

	Number of Shares	Weighted-Average Grant-Date Fair Value per Share	Compensation Cost [1] (in millions)
Non-vested at December 31, 2007	247,992	$ 7.28	
Granted during 2008	-	-	
Vested during 2008	-	-	
Non-vested at December 31, 2008	247,992	$ 7.28	
Granted during 2009	-	-	
Vested during 2009	-	-	
Non-vested at December 31, 2009	247,992	$ 7.28	
Granted during 2010	-	-	
Modification during 2010	-	1.48	$ 0.4
Vested during 2010	(247,992)	8.76	
Non-vested at December 31, 2010	-	$ -	

(1) Total compensation cost to be recognized on the awards was based on grant date fair value or the modification date fair value.

At December 31, 2010, all compensation cost has been recognized and no contractual term remained.

NOTE 15 - DIVIDENDS

Common Dividends

On January 14, 2011, the Board of Directors declared a common stock dividend of $0.37 per share, to be paid February 15, 2011 to common stockholders of record on January 31, 2011.

On October 14, 2010, the Board of Directors declared a common stock dividend of $0.37 per share, increasing the quarterly common dividend by $0.01 per share over the prior quarter. The common dividends are to be paid November 15, 2010 to common stockholders of record on October 29, 2010.

On July 15, 2010, the Board of Directors declared a common stock dividend of $0.36 per share, increasing the quarterly common dividend by $0.04, or 12.5%, per share over the prior quarter. The common dividends were paid August 16, 2010 to common stockholders of record on July 30, 2010.

On April 15, 2010, the Board of Directors declared a common stock dividend of $0.32 per share that was paid May 17, 2010 to common stockholders of record on April 30, 2010.

On January 20, 2010, the Board of Directors declared a common stock dividend of $0.32 per share, increasing the quarterly common dividend by $0.02 per share over the prior quarter. The common dividends were paid on February 16, 2010 to common stockholders of record on January 29, 2010.

Series D Preferred Dividends

On January 14, 2011, the Board of Directors declared regular quarterly dividends of approximately $0.52344 per preferred share on its 8.375% Series D cumulative redeemable preferred stock (the "Series D Preferred Stock"), that will be paid February 15, 2011 to preferred stockholders of record on January 31, 2011. 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 November 1, 2010 through January 31, 2011.

On October 14, 2010, the Board of Directors declared regular quarterly dividends of approximately $0.52344 per preferred share on the Series D Preferred Stock that were paid November 15, 2010 to preferred stockholders of record on October 29, 2010.

On July 15, 2010, 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 16, 2010 to preferred stockholders of record on July 30, 2010.

On April 15, 2010, 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 17, 2010 to preferred stockholders of record on April 30, 2010.

On January 20, 2010, 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 16, 2010 to preferred stockholders of record on January 29, 2010.

Per Share Distributions

Per share distributions by our company were characterized in the following manner for income tax purposes (unaudited):

	Year Ended December 31,		
	2010	2009	2008
Common			
Ordinary income	$ 0.777	$ 0.885	$ 0.987
Return of capital	0.593	0.315	0.203
Long-term capital gain	—	—	—
Total dividends paid	$ 1.370	$ 1.200	$ 1.190
Series D Preferred			
Ordinary income	$ 2.094	$ 2.094	$ 2.094
Return of capital	—	—	—
Long-term capital gain	—	—	—
Total dividends paid	$ 2.094	$ 2.094	$ 2.094

For additional information regarding dividends, see Note 9 – Borrowing Arrangements and Note 11 – Taxes.

NOTE 16 - LITIGATION

On January 7, 2010, LCT SE Texas Holdings, L.L.C. ("LCT"), an affiliate of Mariner Health Care and the lessee of four facilities located in the Houston area (the "LCT Facilities"), filed a petition in the District Court of Harris County, Texas (No. 2010-01120) against four landlord entities (the "CSE Entities"), the member interests of which we purchased as part of the December 2009 CapitalSource acquisition. The petition relates to a right of first refusal ("ROFR") under the master lease between LCT and the CSE Entities. The petition alleges, among other things, that (i) the notice of the acquisition of the member's interests of the CSE Entities was not proper under the ROFR provision in the master lease, (ii) the purchase price allocated to the member's interests of the CSE Entities (or the LCT Facilities) pursuant to the CapitalSource Purchase Agreement and specified in the notice to LCT of its ROFR, if any, was not a bona fide offer, did not represent "true market value", and failed to trigger the ROFR, and (iii) we tortiously interfered with LCT's right to exercise the ROFR. The petition seeks a declaratory adjudication with respect to the identified claims above, a claim for specific performance permitting LCT to exercise its ROFR, and unspecified actual and punitive damages relating to breach of the master lease by the CSE Entities and tortious interference against us. We believe that the litigation is defensible. In addition, under the CapitalSource Purchase Agreement and related transaction documents, CapitalSource has agreed to indemnify us for any losses, including reasonable legal expenses, incurred by us in connection with this litigation.

During the first quarter of 2010, we agreed to settle a lawsuit for approximately $3.7 million in cash with a prior tenant for breach of contract related to failure to pay rent owed to us. We recorded the settlement as miscellaneous income in the accompanying consolidated statements of income.

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 received in January 2009.

NOTE 17 - SUMMARY OF QUARTERLY RESULTS (UNAUDITED)

The following summarizes quarterly results of operations for the years ended December 31, 2010 and 2009.

	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
2010				
Revenues	$ 58,678	$ 58,805	$ 69,724	$ 71,114
Income from continuing operations	20,951	15,509	17,007	4,969
Discontinued operations	-	-	-	-
Net income	20,951	15,509	17,007	4,969
Net income available to common	18,680	13,237	14,736	2,697
Income from continuing operations per share:				
Basic income from continuing operations	$ 0.21	$ 0.14	$ 0.15	$ 0.03
Diluted income from continuing operations	$ 0.21	$ 0.14	$ 0.15	$ 0.03
Net income available to common per share:				
Basic net income	$ 0.21	$ 0.14	$ 0.15	$ 0.03
Diluted net income	$ 0.21	$ 0.14	$ 0.15	$ 0.03
Cash dividends paid on common stock	$ 0.32	$ 0.32	$ 0.36	$ 0.37
2009				
Revenues	$ 49,160	$ 49,152	$ 49,753	$ 49,373
Income from continuing operations	24,912	19,822	21,138	16,239
Discontinued operations	-	-	-	-
Net income	24,912	19,822	21,138	16,239
Net income available to common	22,641	17,550	18,867	13,967
Income from continuing operations per share:				
Basic income from continuing operations	$ 0.27	$ 0.21	$ 0.23	$ 0.16
Diluted income from continuing operations	$ 0.27	$ 0.21	$ 0.22	$ 0.16
Net income available to common per share:				
Basic net income	$ 0.27	$ 0.21	$ 0.23	$ 0.16
Diluted net income	$ 0.27	$ 0.21	$ 0.22	$ 0.16
Cash dividends paid on common stock	$ 0.30	$ 0.30	$ 0.30	$ 0.30

NOTE 18 - EARNINGS PER SHARE

The computation of basic 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:

	Year Ended December 31,		
	2010	2009	2008
	(in thousands, except per share amounts)		
Numerator:			
Income from continuing operations	$ 58,436	$ 82,111	$ 77,691
Preferred stock dividends	(9,086)	(9,086)	(9,714)
Preferred stock repurchase gain	-	-	2,128
Numerator for income available to common from continuing operations - basic and diluted	49,350	73,025	70,105
Discontinued operations	-	-	446
Numerator for net income available to common per share - basic and diluted	$ 49,350	$ 73,025	$ 70,551
Denominator:			
Denominator for basic earnings per share	94,056	83,556	75,127
Effect of dilutive securities:			
Restricted stock	171	82	75
Stock option incremental shares	3	10	11
Deferred stock	7	1	-
Denominator for diluted earnings per share	94,237	83,649	75,213
Earnings per share - basic:			
Income available to common from continuing operations	$ 0.52	$ 0.87	$ 0.93
Discontinued operations	-	-	0.01
Net income per share - basic	$ 0.52	$ 0.87	$ 0.94
Earnings per share - diluted:			
Income available to common from continuing operations	$ 0.52	$ 0.87	$ 0.93
Discontinued operations	-	-	0.01
Net income per share - diluted	$ 0.52	$ 0.87	$ 0.94

NOTE 19 – DISCONTINUED OPERATIONS

Accounting for the impairment or disposal of long-lived assets requires the presentation of the net operating results of facilities classified as discontinued operations for all periods presented. For the years ended December 31, 2010 and 2009, no revenue or expense was generated from discontinued operations. For the years ended December 31, 2008, discontinued operations included one month revenue of $15 thousand and a gain of $0.4 million on the sale of one SNF.

The following table summarizes the results of operations of the facilities sold or held- for- sale for the years ended December 31, 2010, 2009 and 2008, respectively.

	Year Ended December 31,		
	2010	2009	2008
		(in thousands)	
Revenues			
Rental income	$ —	$ —	$ 15
Income before gain on sale of assets	—	—	15
Gain on assets sold – net	—	—	431
Discontinued operations	$ —	$ —	$ 446

NOTE 20– CONSOLIDATING FINANCIAL STATEMENTS

As of December 31, 2010, we had outstanding (i) $200 million 7.50% Senior Notes due 2020, (ii) $175 million 7.00% Senior Notes due 2016 and (iii) $575 million 6.75% Senior Notes due 2022, which we collectively refer to as the senior notes. The senior notes are fully and unconditionally guaranteed, jointly and severally, by each of our subsidiaries that guarantee other indebtedness of Omega or any of the subsidiary guarantors. Any subsidiary that we properly designate as an “unrestricted subsidiary” under the indentures governing the senior notes will not provide guarantees of the senior notes. As of and prior to March 31, 2010, the non-subsidiary guarantors were minor and insignificant. On June 29, 2010, we designated as “unrestricted subsidiaries” the 39 subsidiaries acquired from CapitalSource at the HUD Portfolio Closing (see Note 3). For the year ended December 31, 2010, the operating cash flow of the non-guarantor subsidiaries approximated net income of the non-guarantor subsidiaries, adjusted for depreciation and amortization expense. The non-guarantor subsidiaries have not engaged in investing or financing activities since their acquisition on June 29, 2010, other than the principal payment of $1.1 million for the HUD mortgages. All of the subsidiary guarantors of our outstanding senior notes are 100 percent owned by Omega.

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

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

	December 31, 2010			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination Company	Consolidated
Land and buildings	$ 2,053,510	$ 313,346	$ —	$ 2,366,856
Less accumulated depreciation	(372,925)	(8,070)	—	(380,995)
Real estate properties – net	1,680,585	305,276	—	1,985,861
Mortgage notes receivable – net	108,557	—	—	108,557
	1,789,142	305,276	—	2,094,418
Other investments – net	28,735	—	—	28,735
	1,817,877	305,276	—	2,123,153
Assets held for sale – net	670	—	—	670
Total investments	1,818,547	305,276	—	2,123,823
Cash and cash equivalents	6,921	—	—	6,921
Restricted cash	9,279	13,120	—	22,399
Accounts receivable – net	91,729	1,090	—	92,819
Investment in affiliates	81,334	—	(81,334)	—
Other assets	36,653	20,519	—	57,172
Operating assets for owned and operated properties	873	—	—	873
Total assets	$ 2,045,336	$ 340,005	(81,334)	$ 2,304,007
LIABILITIES AND STOCKHOLDERS' EQUITY				
Revolving line of credit	$ —	$ —	$ —	$ —
Secured borrowings	—	201,296	—	201,296
Unsecured borrowings – net	954,266	21,403	—	975,669
Accrued expenses and other liabilities	85,887	35,972	—	121,859
Intercompany payable	—	78,806	(78,806)	—
Operating liabilities for owned and operated properties	1,117	—	—	1,117
Total liabilities	1,041,270	337,477	(78,806)	1,299,941
Stockholders' equity:				
Preferred stock	108,488	—	—	108,488
Common stock	9,923	—	—	9,923
Common stock – additional paid-in-capital	1,376,131	—	—	1,376,131
Cumulative net earnings	580,824	2,528	(2,528)	580,824
Cumulative dividends paid	(1,071,300)	—	—	(1,071,300)
Total stockholders' equity	1,004,066	2,528	(2,528)	1,004,066
Total liabilities and stockholders' equity	$ 2,045,336	$ 340,005	$ (81,334)	$ 2,304,007

OMEGA HEALTHCARE INVESTORS, INC.
CONSOLIDATING STATEMENT OF INCOME
(in thousands, except per share amounts)

	Year Ended December 31, 2010			
	Issuer & Subsidiary Guarantors	Non – Guarantor Subsidiaries	Elimination	Consolidated
Revenue				
Rental income	$ 215,992	$ 16,780	$ -	$ 232,772
Mortgage interest income	10,391	-	-	10,391
Other investment income – net	3,936	-	-	3,936
Miscellaneous	3,886	-	-	3,886
Nursing home revenues of owned and operated assets	7,336	-	-	7,336
Total operating revenues	241,541	16,780	-	258,321
Expenses				
Depreciation and amortization	76,553	8,070	-	84,623
General and administrative	14,744	310	-	15,054
Acquisition costs	1,554	-	-	1,554
Impairment loss on real estate properties	155	-	-	155
Nursing home expenses of owned and operated assets	7,998	-	-	7,998
Total operating expenses	101,004	8,380	-	109,384
Income before other income and expense	**140,537**	**8,400**	**-**	**148,937**
Other income (expense):				
Interest income	86	19	-	105
Interest expense	(61,449)	(5,891)	-	(67,340)
Interest – amortization of deferred financing and refinancing costs	(23,262)	-	-	(23,262)
Equity in earnings	2,528	-	(2,528)	-
Total other expense	(82,097)	(5,872)	(2,528)	(90,497)
Income before gain (loss) on assets sold	**58,440**	**2,528**	**(2,528)**	**58,440**
Loss on assets sold – net	**(4)**	**-**	**-**	**(4)**
Net income	**58,436**	**2,528**	**(2,528)**	**58,436**
Preferred stock dividends	(9,086)	-	-	(9,086)
Net income available to common	**$ 49,350**	**$ 2,528**	**$ (2,528)**	**$ 49,350**

NOTE 21 – SUBSEQUENT EVENT

We have reviewed subsequent events through the date of the filing of this Form 10-K. The following events occurred subsequent to December 31, 2010.

Grant of Restricted Stock

As of January 1, 2011, we issued 428,503 shares of restricted common stock to officers and employees, which are normally scheduled to vest on December 31, 2013. As of January 1, 2011, we granted performance restricted stock units to officers and employees representing the right to receive up to an aggregate of 372,735 shares of common stock, the actual number depending upon total shareholder return for the three-year period ending December 31, 2013, and scheduled to vest on December 31, 2014. Also as of January 1, 2011, we granted performance restricted stock units to officers and employees representing the right to receive up to an additional 124,245 shares of Company common stock, the actual number depending upon our total shareholder return for the one-year period ending December 31, 2011, and normally scheduled to vest on December 31, 2011.

Redemption of Series D Preferred Stock

On February 3, 2011, we announced that we have called for redemption all of the outstanding shares of its 8.375% Series D Cumulative Redeemable Preferred Stock.

The Redemption Date for the Series D Preferred Stock will be March 7, 2011, and the Redemption Price will be $25.00 per share of Series D Preferred Stock plus accrued and unpaid dividends up to and including the Redemption Date, for an aggregate Redemption Price of $25.21519 per share. On and after the Redemption Date, dividends on the shares of Series D Preferred Stock will cease to accrue, the Series D Preferred Stock will cease to be outstanding, and holders of the Series D Preferred Stock will have only the right to receive the Redemption Price. In connection with the redemption of the Series D Preferred Stock, we will write-off $3.4 million of preferred stock issuance costs that will reduce first quarter 2011 net income attributable to common stockholders by approximately $0.03 per common share.

SCHEDULE III REAL ESTATE AND ACCUMULATED DEPRECIATION
OMEGA HEALTHCARE INVESTORS, INC.
December 31, 2010

						(4)				
						Gross Amount at				
						Which Carried at				
		Initial Cost to	Cost Capitalized			Close of Period				Life on Which
		Company	Subsequent to			Buildings				Depreciation
		Buildings	Acquisition			and Land	(5)			in Latest
		and Land				Improvements	Accumulated	Date of	Date	Income Statements is
Description (1)	Encumbrances	Improvements	Improvements	Impairment	Other	Total	Depreciation	Construction	Acquired	Computed
Airamid Health Management, LLC.:										
Florida (LTC, AL)	(3)	248,788,479	-	-	-	248,788,479	8,304,386	1951-1999	2009-2010	20 years to 34 years
Pennsylvania (LTC)		14,771,867	-	-	-	14,771,867	718,402	1969	2009	26 years
Total Airamid		263,560,346	-	-	-	263,560,346	9,022,788			
CommuniCare Health Services:										
Ohio (LTC, AL, SH)		218,726,757	5,949,674	-	-	224,676,431	36,543,835	1927-2008	1998-2008	20 years to 39 years
Pennsylvania (LTC)		20,286,067	111,194	-	-	20,397,261	3,306,479	1950-1964	2005	39 years
Total CommuniCare		239,012,824	6,060,868	-	-	245,073,692	39,850,314			
Sun Healthcare Group, Inc.:										
Alabama (LTC)	(2)	23,584,956	4,244,861	-	-	27,829,817	9,587,002	1964-1974	1997	33 years
California (LTC)	(2)	15,618,263	26,652	-	-	15,644,915	5,922,234	1927-1972	1997	33 years
Colorado (LTC, ILF)	(2)	38,341,876	4,154,574	-	-	42,496,450	4,902,763	1963-1975	2006	39 years
Idaho (LTC)	(2)	21,705,266	974,012	-	-	22,679,278	5,148,829	1920-1988	1997-2006	33 years
Massachusetts (LTC)	(2)	39,018,142	1,985,718	(8,257,521)	-	32,746,339	11,321,710	1964-1992	1997-1999	33 years
North Carolina (LTC)	(2)	22,652,488	1,261,177	-	-	23,913,665	11,301,942	1964-1986	1994-1997	30 years to 33 years
Ohio (LTC)	(2)	11,653,451	20,246	-	-	11,673,697	4,501,742	1968-1983	1997	33 years
Tennessee (LTC)	(2)	7,905,139	37,234	-	-	7,942,373	4,061,956	1984-1985	1994	30 years
Washington (LTC)	(2)	10,000,000	1,798,844	-	-	11,798,844	8,037,455	1965	1995	20 years
West Virginia (LTC)	(2)	24,751,206	5,006,331	-	-	29,757,537	9,817,789	1961-1982	1997-1998	33 years
Total Sun		215,230,787	19,509,649	(8,257,521)	-	226,482,915	74,603,422			
Signature Holdings II LLC.:										
Alabama (LTC)		4,827,266	640,457	-	-	5,467,723	972,874	1966	2007	20 years
Florida (LTC)		110,896,405	2,274,527	-	-	113,170,932	18,215,158	1940-1991	1996-2010	28 years to 39 years
Georgia (LTC)		14,679,314	3,260,590	-	-	17,939,904	3,100,312	1964-1970	2007	20 years

Kentucky (LTC)		44,737,439	1,237,344	-	-	45,974,783	5,780,880	1964-1978	1999-2010	20 years to 33 years
Maryland (LTC)		28,629,686	-	-	-	28,629,686	782,008	1959-1985	2010	26 years to 30 years
Tennessee (LTC)		11,230,702	357,255	-	-	11,587,957	1,940,393	1982	2007	20 years
Total Signature Holdings II LLC		215,000,812	7,770,173	-	-	222,770,985	30,791,625			
Gulf Coast Master Tenant I, LLC.:										
Florida (LTC)	**(3)**	100,964,733	-	-	-	100,964,733	3,428,355	1933-1988	2009-2010	20 years to 34 years
Mississippi (LTC)	**(3)**	45,671,291	-	-	-	45,671,291	1,112,332	1962-1988	2009-2010	28 years to 42 years
Total Gulf Coast		146,636,024	-	-	-	146,636,024	4,540,687			
Formation Capital LLC.:										
Connecticut (LTC)		33,647,403	7,427,427	(4,958,643)	-	36,116,187	9,617,238	1965-1975	1999-2004	33 years to 39 years
Massachusetts (LTC)		7,190,685	338,053	-	-	7,528,738	945,586	1993	2006	39 years
New Hampshire (LTC, AL)		21,619,503	1,446,651	-	-	23,066,154	4,516,099	1963-1999	1998-2006	39 years
Rhode Island (LTC)		38,740,812	4,775,032	-	-	43,515,844	6,025,656	1965-1981	2006	39 years
Vermont (LTC)		14,145,776	1,211,687	-	-	15,357,463	2,566,664	1970-1971	2004	39 years
West Virginia (LTC)		19,526,000	916,702	-	-	20,442,702	1,893,780	1974-1986	2008	25 years
Total Formation		134,870,179	16,115,552	(4,958,643)	-	146,027,088	25,565,023			
Advocat, Inc.:										
Alabama (LTC)		11,588,534	6,392,567	-	-	17,981,101	7,811,104	1960-1982	1992	31.5 years
Arkansas (LTC)		36,023,409	8,809,828	(36,350)	-	44,796,887	22,747,342	1967-1988	1992	31.5 years
Florida (LTC)		1,050,000	1,920,000	(970,000)	-	2,000,000	558,027	1980	1992	31.5 years
Kentucky (LTC)		15,151,027	2,483,249	-	-	17,634,276	7,954,112	1948-1995	1994-1995	33 years
Ohio (LTC)		5,604,186	1,325,951	-	-	6,930,137	2,866,442	1974	1994	33 years
Tennessee (LTC)		9,542,121	-	-	-	9,542,121	5,383,312	1983	1992	31.5 years
Texas (LTC)		36,885,872	3,038,294	-	-	39,924,166	8,148,352	1964-2009	1997-2008	33 years to 39 years
West Virginia (LTC)		5,437,221	348,642	-	-	5,785,863	2,705,696	1982-1996	1994-1995	33 years
Total Advocat		121,282,370	24,318,531	(1,006,350)	-	144,594,551	58,174,387			
Guardian LTC Management, Inc.:										
Ohio (LTC)		6,548,435	-	-	-	6,548,435	961,590	1968-1970	2004	39 years
Pennsylvania (LTC, AL, ILF)		115,427,312	-	-	-	115,427,312	16,224,418	1942-2001	2004-2008	20 years to 39 years
West Virginia (LTC)		3,995,581	-	-	-	3,995,581	589,027	1961	2004	39 years
Total Guardian		125,971,328	-	-	-	125,971,328	17,775,035			
Other::										
Alabama (LTC)		6,351,175	-	-	-	6,351,175	280,239	1986	2010	20 years

Alaska (LTC)										
……..……		6,757,173	-	-	-	6,757,173	399,632	1987	2009	20 years
Arizona (LTC)									1998-	29 years to
……..……		34,318,095	5,423,110	(6,603,745)	-	33,137,460	7,233,992	1983-1985	2010	33 years
Arkansas (LTC)										
……..……..		2,515,996			-	2,515,996	101,409	1968	2010	20 years
California (LTC)									1997-	20 years to
…….	(2)	21,879,146	1,778,353	-	-	23,657,499	6,825,575	1950-1990	2010	33 years
Colorado (LTC)									1998-	20 years to
……..……..		28,044,216	282,109	-	-	28,326,325	5,599,740	1958-1973	2010	33 years
Florida (LTC, AL) ……...									1993-	24 years to
……..…….		102,717,317	1,891,512	-	-	104,608,829	19,215,686	1964-1999	2010	50 years
Georgia (LTC)										
……..……		10,000,000	-	-	-	10,000,000	1,881,352	1967-1971	1998	37.5 years
Illinois (LTC) …….....									1996-	30 years to
……..…..		13,961,501	444,484	-	-	14,405,985	5,592,955	1926-1990	1999	33 years
Indiana (LTC, AL)…….....…….									1992-	20 years to
…….		69,236,096	2,277,520	(1,843,400)	-	69,670,216	8,564,382	1967-1996	2010	38 years
Iowa (LTC) ……..									1997-	23 years to
……..……		19,116,936	2,084,807	-	-	21,201,743	4,178,095	1965-1983	2010	33 years
Kansas (LTC) …….										
……..……		3,210,020	-	-	-	3,210,020	107,451	1985	2010	20 years
Louisiana (LTC)									1997-	
…….	(2)	55,343,066	-	-	-	55,343,066	8,641,997	1957-1983	2006	33 years
Massachusetts (LTC)									2009-	
……..……..		16,735,385	-	-	-	16,735,385	631,119	1964-1974	2010	25 years
Mississippi (LTC)										
……..……..		6,745,613	-	-	-	6,745,613	457,308	1976	2009	20 years
Missouri (LTC)										
……..…….		12,301,560	-	(149,386)	-	12,152,174	4,187,415	1965-1989	1999	33 years
Nevada (LTC, SH)										26 years to
……..……..		20,926,776	-	-	-	20,926,776	1,051,110	1972-1978	2009	27 years
New Mexico (LTC)									2008-	
……..…….		7,097,600	55,800	-	-	7,153,400	910,415	1972-1989	2010	20 years
North Carolina (LTC)…….....…										25 years to
…….		35,664,603			-	35,664,603	972,619	1966-1987	2010	36 years
Ohio (LTC)									1999-	20 years to
……..……	(2)	94,838,908	4,419,823	-	-	99,258,731	14,595,029	1962-1998	2010	39 years
Oklahoma (LTC) …….....										
…….		14,622,535	-	-	-	14,622,535	561,766	1965-1993	2010	20 years
Pennsylvania (LTC)									1998-	20 years to
……..……..		23,454,376	-	-	-	23,454,376	5,987,248	1958-1977	2009	39 years
Tennessee (LTC)…….....									2009-	20 years to
…….		84,989,248	267,398	-	-	85,256,646	4,634,154	1958-1983	2010	30 years
Texas (LTC)									2001-	20 years to
……..……	(2)	114,859,119	5,497,875	-	-	120,356,994	15,338,344	1952-2010	2010	33 years
Washington (AL) …….....										
……..……		5,673,693	-	-	-	5,673,693	1,886,100	1999	1999	33 years
Wisconsin (LTC)									2009-	
……..……..		18,552,887	-	-	-	18,552,887	836,830	1964-1972	2010	20 years
Total Other…….....										
…….		829,913,040	24,422,791	(8,596,531)	-	845,739,300	120,671,962			
Total		2,291,477,710	98,197,564	(22,819,045)	-	2,366,856,229	380,995,243			

(1) The real estate included in this schedule is being used in either the operation of long-term care facilities (LTC), assisted living facilities (AL), independent living facilities (ILF)
or specialty hospitals (SH) located in the states indicated.

(2) Certain of the estate assets as indicated are security for the BAS Healthcare Financial Services line of credit which totaled $0 at December 31, 2010.

(3) Certain of the real estate indicated are security for the HUD loan borrowings totaling $201,296,039.64, including FMV of 20,404,807.00, at December 31, 2010.

	Year Ended December 31,		
(4)	**2008**	**2009**	**2010**
Balance at beginning of period	$1,274,721,518	$1,372,012,139	$1,669,842,724
Acquisitions	112,760,290	275,624,767	661,148,185
Impairment	(5,414,207)	-	-
Improvements	17,457,389	23,232,364	35,905,544
Disposals/other	(27,512,851)	(1,026,546)	(40,224)

Balance at close of period	$1,372,012,139	$1,669,842,724	$2,366,856,229

(5)	2008	2009	2010
Balance at beginning of period	$ 221,365,513	$ 251,853,570	$ 296,441,131
Provisions for depreciation	39,778,363	44,609,428	84,554,112
Dispositions/other	(9,290,306)	(21,867)	-
Balance at close of period	$ 251,853,570	$ 296,441,131	$ 380,995,243

The reported amount of our real estate at December 31, 2010 is greater than the tax basis of the real estate by approximately $63.4 million.

SCHEDULE IV MORTGAGE LOANS ON REAL ESTATE
OMEGA HEALTHCARE INVESTORS, INC.
December 31, 2010

Grouping	Description **(1)**	Interest Rate	Final Maturity Date	Periodic Payment Terms	Prior Liens	Face Amount of Mortgages	Carrying Amount of Mortgages **(3)** **(4)**	Principal Amount of Loans Subject to Delinquent Principal or Interest
1	Florida (2 LTC facilities)	11.50%	June 4, 2016	Interest payable monthly	None	12,590,000	11,395,423	
3	Florida (3 LTC facilities)	10.00%	December 19, 2030	Interest payable monthly	None	15,900,000	15,900,000	
2	Maryland (7 LTC facilities)	11.00%	April 30, 2022	Interest payable monthly	None	74,927,751	69,927,759	
4	Michigan (1 LTC facility) **(2)**	12.50%	December 31, 2020	Interest payable monthly	None	592,561	592,561	
5	Michigan (1 LTC facility) **(2)**	12.50%	December 31, 2020	Interest payable monthly	None	4,163,830	4,163,830	
6	Ohio (1 LTC facility)	11.00%	October 31, 2014	Interest plus $5,500 of principal payable monthly	None	6,500,000	6,231,934	
		11.00%	October 31, 2014	Interest payable monthly	None	345,011	345,011	
						$ 115,019,153	$108,556,518	

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

(2) These loans are constuction loans.

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

(4)	Year Ended December 31, 2008	2009	2010
Balance at beginning of period	$ 31,688,941	$ 100,821,287	$100,222,734
Additions during period - Placements	74,927,751	-	20,656,391
Deductions during period - collection of principal/other	(5,795,405)	(598,553)	(12,322,607)
Balance at close of period	$100,821,287	$ 100,222,734	$108,556,518

INDEX TO EXHIBITS TO 2010 FORM 10-K

EXHIBIT NUMBER	DESCRIPTION
2.1	Securities Purchase Agreement dated November 17, 2009 between CapitalSource Inc., CHR HUD Borrower LLC, CSE Mortgage LLC, CSE SLB LLC, CSE SNF Holding LLC and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K, filed November 23, 2009).
3.1	Amended and Restated Bylaws, as amended as of January 16, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's Form S-11, filed on January 29, 2007).
3.2	Articles of Amendment and Restatement of Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's Form 8-K, filed on June 14, 2010).
4.0	See Exhibits 3.1 to 3.2.
4.1	Indenture, dated as of December 30, 2005, among Omega Healthcare Investors, Inc., each of the subsidiary guarantors listed therein and U.S. Bank National Association, as trustee, relating to the 7% Senior Notes due 2016. (Incorporated by reference to Exhibit 4.1 of the Company's Form 8-K, filed on January 4, 2006).
4.1A	Form of 7% Senior Notes due 2016. (Incorporated by reference to Exhibit A of Exhibit 4.1 of the Company's Form 8-K, filed on January 4, 2006).
4.1B	Form of Subsidiary Guarantee relating to the 7% Senior Notes due 2016. (Incorporated by reference to Exhibit E of Exhibit 4.1 of the Company's Form 8-K, filed on January 4, 2006).
4.1C	First Supplemental Indenture, dated as of January 7, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, together with Second Supplemental Indenture, dated as of January 29, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, and Third Supplemental Indenture, dated as of February 2, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset II (FL), LLC and U.S. Bank National Association, as trustee. (Incorporated by reference to Exhibit 4.2C of the Company's Form 10-K, filed on March 1, 2009).
4.1D	Fourth Supplemental Indenture, dated as of June 23, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, together with Fifth Supplemental Indenture, dated as of September 2, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset (MI), LLC and U.S. Bank National Association, as trustee, and Sixth Supplemental Indenture, dated as of January 13, 2011, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset II (FL) Lender, LLC and U.S. Bank National Association, as trustee.*
4.2	Indenture, dated as of February 9, 2010, among Omega Healthcare Investors, Inc., each of the subsidiary guarantors listed therein and U.S. Bank National Association, as trustee, related to the 7.5%Senior Notes due 2020, including the Form of 7.5% Senior Notes and Form of Subsidiary Guarantee related thereto. (Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed on February 10, 2010).
4.2A	First Supplemental Indenture, dated as of June 23, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, each of the New Subsidiaries listed on Schedule II thereto and U.S. Bank National Association, as trustee, together with Second Supplemental Indenture, dated as of September 2, 2010, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset (MI), LLC and U.S. Bank National Association, as trustee, and Third Supplemental Indenture, dated as of January 13, 2011, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset II (FL) Lender, LLC and U.S. Bank National Association, as trustee.*
4.3	Indenture, dated as of October 4, 2010, by and among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto and U.S. Bank National Association, as trustee, related to the 6.75% Senior Notes due 2022, including the Form of 6.75% Senior Notes and Form of Subsidiary Guarantee related thereto. (Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K, filed on October 5, 2010).
4.3A	First Supplemental Indenture, dated as of January 13, 2011, among Omega Healthcare Investors, Inc., each of the Subsidiary Guarantors listed on Schedule I thereto, OHI Asset II (FL) Lender, LLC and U.S. Bank National Association, as trustee.*
10.1	Form of Directors and Officers Indemnification Agreement. (Incorporated by reference to Exhibit 10.11 to the Company's Form 10-Q for the quarterly period ended June 30, 2000).
10.2	Reserved.
10.3	2000 Stock Incentive Plan (as amended January 1, 2001). (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 2003).+
10.4	Amendment to 2000 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarterly period ended June 30, 2000).+
10.5	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and C. Taylor Pickett, including forms of equity awards. (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2010). +
10.6	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and Daniel Booth, including forms of equity awards. (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2010). +
10.7	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and R. Lee Crabill, including forms of equity awards. (Incorporated by reference to Exhibit 10.5 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2010). +
10.8	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and Robert O. Stephenson, including forms of equity awards. (Incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2010). +
10.9	Form of Restricted Stock Unit Award for 2007 to 2010 officer grants. (Incorporated by reference to Exhibit 10.6 to the Company's Form 10-Q for the quarterly period ended March 31, 2007).+
10.10	Form of Performance Restricted Stock Unit Award with annual vesting for 2007 to 2010 officer grants. (Incorporated by reference to Exhibit 10.7 to the Company's Form 10-Q for the quarterly period ended March 31, 2007).+

10.10A	Form of Performance Restricted Stock Unit Award with cliff vesting for 2007 to 2010 officer grants. (Incorporated by reference to Exhibit 10.8 to the Company's Form 10-Q for the quarterly period ended March 31, 2007).+
10.11	Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q for the quarterly period ended September 30, 2004).
10.11A	First Amendment to the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan, dated as of May 22, 2008 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed May 29, 2008).
10.12	Reserved.
10.13	Form of Incentive Stock Option Award for the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.30 to the Company's Form 10-K, filed on February 18, 2005). +
10.14	Form of Non-Qualified Stock Option Award for the Omega Healthcare Investors, Inc. 2004 Stock Incentive Plan. (Incorporated by reference to Exhibit 10.31 to the Company's Form 10-K, filed on February 18, 2005). +
10.15	Form of Directors' Restricted Stock Award. +*
10.16	Second Consolidated Amended and Restated Master Lease dated as of April 19, 2008 by and among OHI Asset III (PA) Trust as lessor and certain affiliated entities of CommuniCare Health Service as lessees. (Incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed April 28, 2008.)
10.16A	Third Amendment to Second Consolidated Amended and Restated Master Lease dated as of April 1, 2010 by and among OHI Asset III (PA) Trust as lessor and certain affiliated entities of CommuniCare Health Service as lessees, together with the First Amendment to the Second Consolidated Amended and Restated Master Lease dated as of July 31, 2009 and the Second Amendment to the Second Consolidated Amended and Restated Master Lease dated as of November 3, 2009. (Incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended June 30, 2010).
10.16B	Fourth Amendment to Second Consolidated Amended and Restated Master Lease dated as of October 1, 2010 by and among OHI Asset III (PA) Trust as lessor and certain affiliated entities of CommuniCare Health Service as lessees.*
10.16C	Fifth Amendment to Second Consolidated Amended and Restated Master Lease dated as of December 31, 2010 by and among OHI Asset III (PA) Trust as lessor and certain affiliated entities of CommuniCare Health Service as lessees.*
10.17	Loan Agreement dated as of April 19, 2008, by and among OHI Asset III (PA) Trust, as Lender, certain affiliated entities of CommuniCare Health Services as Borrowers, and certain affiliated entities of CommuniCare Health Services as Guarantors (Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 10-Q, filed April 28, 2008).
10.17A	First Amendment to Loan Agreement, dated as of March 15, 2009, by and among OHI Asset III (PA) Trust, as Lender, certain affiliated entities of CommuniCare Health Services as Borrowers, and certain affiliated entities of CommuniCare Health Services as Guarantors. (Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed June 2, 2009).
10.17B	Second Amendment to Loan Agreement, dated as of November 3, 2009, by and among OHI Asset III (PA) Trust, as Lender, certain affiliated entities of CommuniCare Health Services as Borrowers, and certain affiliated entities of CommuniCare Health Services as Guarantors, together with the Third Amendment to Loan Agreement, dated as of October 1, 2010, by and among OHI Asset III (PA) Trust, as Lender and certain affiliated entities of CommuniCare Health Services as Borrowers, and certain affiliated entities of CommuniCare Health Services as Guarantors, and the Fourth Amendment to Loan Agreement, dated as December 31, 2010, by and among OHI Asset III (PA) Trust, as Lender and certain affiliated entities of CommuniCare Health Services as Borrowers, and certain affiliated entities of CommuniCare Health Services as Guarantors. *
10.18	Reserved.
10.19	Reserved.
10.20	Employment Agreement, dated October 22, 2010, between Omega Healthcare Investors, Inc. and Michael Ritz, including forms of equity awards. (Incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q, for the quarterly period ended September 30, 2010). +
10.21	Deferred Stock Plan, dated January 20, 2009, and forms of related agreements. +
10.22	Third Amended and Restated Master Lease Agreement dated as of November 4, 2010, by and among certain of Omega Healthcare Investors, Inc.'s subsidiaries, as lessors, and certain of Sun Healthcare Group, Inc.'s affiliates, as lessees, amending and restating prior master leases with Sun Healthcare Group, its subsidiaries, and lessees and guarantors acquired by Sun Healthcare Group.*
10.23	Form of Equity Distribution Agreement, dated June 25, 2010, entered into by and between Omega Healthcare Investors, Inc. and each of Credit Agricole Securities (USA) Inc., Deutsche Bank Securities Inc., Jefferies & Company, Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBS Securities Inc., Stifel, Nicolaus & Company, Incorporated, and UBS Securities LLC. (Incorporated by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K, filed June 25, 2010).
10.24	Credit Agreement, dated as of April 13, 2010, among OHI Asset, LLC, OHI Asset (ID), LLC, OHI Asset (LA), LLC, OHI Asset (CA), LLC, Delta Investors I, LLC, Delta Investors II, LLC, OHI Asset (CO), LLC, Colonial Gardens, LLC, Wilcare, LLC, Texas Lessor- Stonegate, LP, OHIMA, Inc., Canton Health Care Land, Inc., Dixon Health Care Center, Inc., Hutton I Land, Inc., Hutton II Land, Inc., Hutton III Land, Inc., Leatherman Partnership 89-1, Inc., Leatherman Partnership 89-2, Inc., Leatherman 90-1, Inc., Meridian Arms Land, Inc., Orange Village Care Center, Inc., St. Mary's Properties, Inc. the lenders named therein, and Bank of America, N.A. (Incorporated by reference to Exhibit 10.1 to the Company Current Report on Form 8-K, filed April 16, 2010).
10.25	Credit Agreement, dated as of December 18, 2009, among NRS Ventures, L.L.C., as Borrower, General Electric Capital Corporation, as Administrative Agent and a Lender, and the other financial institutions who are or hereafter become parties thereto, as Lenders. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed December 23, 2009).
10.26	Casablanca Option Agreement dated December 22, 2009 between CapitalSource Inc., CSE SLB LLC and Omega Healthcare Investors, Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed December 29, 2009).
10.26A	First Amendment to Casablanca Option Agreement, dated as of June 9, 2010, among Omega Healthcare Investors, Inc. CapitalSource Inc. and CSB SLB LLC. (Incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q, filed August 8, 2006).
10.27	Registration Rights Agreement dated December 22, 2009 among Omega Healthcare Investors, Inc., CapitalSource Inc., CHR HUD Borrower LLC, CSE Mortgage LLC, CSE SLB LLC, CSE SNF Holding LLC and CapitalSource Healthcare REIT. (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K, filed December 29, 2009).
10.28	Purchase Agreement, dated as of February 4, 2010, by and among Omega Healthcare Investors, Inc., the Guarantors named therein, and Deutsche Bank Securities Inc., Banc of America Securities LLC and UBS Securities LLC, as Initial Purchasers. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K, filed on February 10, 2010).
10.29	Registration Rights Agreement, dated as of February 10, 2010, by and among Omega Healthcare Investors, Inc., the Guarantors named therein, and Deutsche Bank Securities Inc., Banc of America Securities LLC and UBS Securities LLC, as Initial Purchasers. (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K, filed on February 10, 2010).

10.30	Registration Rights Agreement, dated as of October 4, 2010, by and among Omega Healthcare Investors, Inc., the Guarantors named therein, and Banc of America Securities LLC, as Representative of the Initial Purchasers. (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K, filed on October 5, 2010).
10.31	Registration Rights Agreement, dated as of November 23, 2010, by and among Omega Healthcare Investors, Inc., the Guarantors named therein, and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Representative of the Initial Purchasers. (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K, filed on October 5, 2010).
12.1	Ratio of Earnings to Fixed Charges. *
12.2	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends. *
21	Subsidiaries of the Registrant. *
23	Consent of Independent Registered Public Accounting Firm.
31.1	Certification of the Chief Executive Officer under Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer under Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer under Section 906 of the Sarbanes- Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer under Section 906 of the Sarbanes- Oxley Act of 2002.*

_____

* Exhibits that are filed herewith.

+ Management contract or compensatory plan, contract or arrangement.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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.

By: /s/C. Taylor Pickett
C. Taylor Pickett
Chief Executive Officer

Date: February 28, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities on the date indicated.

Signatures	**Title**	**Date**
PRINCIPAL EXECUTIVE OFFICER		
/s/ C. Taylor Pickett C. Taylor Pickett	Chief Executive Officer	February 28, 2011
PRINCIPAL FINANCIAL OFFICER		
/s/ Robert O. Stephenson Robert O. Stephenson	Chief Financial Officer	February 28, 2011
/s/ Michael D.Ritz Michael D. Ritz	Chief Accounting Officer	February 28, 2011
DIRECTORS		
/s/ Bernard J. Korman Bernard J. Korman	Chairman of the Board	February 28, 2011
/s/ Thomas F. Franke Thomas F. Franke	Director	February 28, 2011
/s/ Harold J. Kloosterman Harold J. Kloosterman	Director	February 28, 2011
/s/ Edward Lowenthal Edward Lowenthal	Director	February 28, 2011
/s/ C. Taylor Pickett C. Taylor Pickett	Director	February 28, 2011
/s/ Stephen D. Plavin Stephen D. Plavin	Director	February 28, 2011

FOURTH SUPPLEMENTAL INDENTURE
(Senior Notes due 2016)

THIS FOURTH SUPPLEMENTAL INDENTURE (this "Fourth Supplemental Indenture") is dated as of June 23, 2010, among OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Issuer"), each of the SUBSIDIARY GUARANTORS listed on Schedule I hereto (collectively, the " Subsidiary Guarantors"), each of the NEW SUBSIDIARIES listed on Schedule II hereto (collectively, the " New Subsidiaries"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Issuer and the Subsidiary Guarantors have heretofore executed and delivered to the Trustee an Indenture, dated as of December 30, 2005 (as amended by the First Supplemental Indenture dated as of January 7, 2010, the Second Supplemental Indenture dated as of January 29, 2010, and the Third Supplemental Indenture dated as of February 2, 1010, the "Indenture"), providing for the issuance of the Issuer's 7% Senior Notes due 2016 (the " Notes");

WHEREAS, Section 9.01 of the Indenture authorizes the Issuer, the Subsidiary Guarantors and the Trustee, together, to amend or supplement the Indenture, without notice to or consent of any Holder of the Notes, for the purpose of making any change that would not materially adversely affect the rights of any Holder of the Notes;

WHEREAS, the Issuer has recently created or acquired, as appropriate, the New Subsidiaries, which are required to become Subsidiary Guarantors pursuant to Section 4.14 of the Indenture;

WHEREAS, in Section 1.01 of the Indenture, the term "Subsidiary Guarantors" is defined to include all Persons that become a Subsidiary Guarantor by the terms of the Indenture after the Closing Date; and

WHEREAS, Section 10.01 of the Indenture provides that each Subsidiary Guarantor shall be a guarantor of the Issuer's obligations under the Notes, subject to the terms and conditions described in the Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Subsidiary Guarantors, the New Subsidiaries and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENT TO GUARANTEE. Each of the New Subsidiaries hereby agrees, jointly and severally with all other Subsidiary Guarantors, to guarantee the Issuer's obligations under the Notes on the terms and subject to the conditions set forth in the Indenture, and to be bound by, and to receive the benefit of, all other applicable provisions of the Indenture as a Subsidiary Guarantor. Such guarantees shall be evidenced by the New Subsidiaries' execution of Subsidiary Guarantees, the form of which is attached as Exhibit E to the Indenture, and shall be effective as of the date hereof.

3. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, partner, affiliate, beneficiary or stockholder of the New Subsidiaries, as such, shall have any liability for any obligations of the Issuer or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this Fourth Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes, by accepting and holding a Note, waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Notes.

4. NEW YORK LAW TO GOVERN. The laws of the State of New York shall govern and be used to construe this Fourth Supplemental Indenture.

5. COUNTERPARTS. The parties may sign any number of copies of this Fourth Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Fourth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer, the Subsidiary Guarantors and the New Subsidiaries.

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IN WITNESS WHEREOF, the parties hereto have caused this Fourth Supplemental Indenture to be duly executed and attested, all as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

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

On behalf of each Subsidiary Guarantor, its sole member, general partner or trustee, named on the attached Schedule I

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

On behalf of each New Subsidiary, its sole member, sole manager, general partner or trustee, named on the attached Schedule II

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

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Paul L. Henderson
Name: Paul l. Henderson
Title: Assistant Vice President

Schedule I

SUBSIDIARY GUARANTORS

Arizona Lessor - Infinia, Inc.
Baldwin Health Center, Inc.
Bayside Alabama Healthcare Second, Inc.
Bayside Arizona Healthcare Associates, Inc.
Bayside Arizona Healthcare Second, Inc.
Bayside Colorado Healthcare Associates, Inc.
Bayside Colorado Healthcare Second, Inc.
Bayside Indiana Healthcare Associates, Inc.
Bayside Street II, Inc.
Bayside Street, Inc.
Canton Health Care Land, Inc.
Carnegie Gardens LLC
Center Healthcare Associates, Inc.
Cherry Street - Skilled Nursing, Inc.
Colonial Gardens, LLC
Colorado Lessor - Conifer, Inc.
Copley Health Center, Inc.
CSE Anchorage LLC
CSE Blountville LLC
CSE Bolivar LLC
CSE Camden LLC
CSE Centennial Village
CSE Corpus North LLC
CSE Crane LLC
CSE Denver Iliff LLC
CSE Fairhaven LLC
CSE Huntingdon LLC
CSE Jacinto City LLC
CSE Jefferson City LLC
CSE Kerrville LLC
CSE Marianna Holdings LLC
CSE Memphis LLC
CSE Pennsylvania Holdings
CSE Ripley LLC
CSE Ripon LLC
CSE Spring Branch LLC
CSE Texarkana LLC
CSE The Village LLC
CSE West Point LLC
CSE Whitehouse LLC
CSE Williamsport LLC
Dallas - Skilled Nursing, Inc.
Delta Investors I, LLC
Delta Investors II, LLC
Desert Lane, LLC
Dixon Health Care Center, Inc.
Florida Lessor - Crystal Springs, Inc.
Florida Lessor - Emerald, Inc.
Florida Lessor - Lakeland, Inc.
Florida Lessor - Meadowview, Inc.
Florida Real Estate Company, LLC
Georgia Lessor - Bonterra/Parkview, Inc.
Greenbough, LLC
Hanover House, Inc.
Heritage Texarkana Healthcare Associates, Inc.
House of Hanover, Ltd.
Hutton I Land, Inc.
Hutton II Land, Inc.
Hutton III Land, Inc.
Indiana Lessor - Jeffersonville, Inc.
Indiana Lessor - Wellington Manor, Inc.
Jefferson Clark, Inc.
LAD I Real Estate Company, LLC
Lake Park - Skilled Nursing, Inc.
Leatherman 90-1, Inc.
Leatherman Partnership 89-1, Inc.
Leatherman Partnership 89-2, Inc.
Long Term Care - Michigan, Inc.

Long Term Care - North Carolina, Inc.
Long Term Care Associates - Illinois, Inc.
Long Term Care Associates - Indiana, Inc.
Long Term Care Associates - Texas, Inc.
Meridian Arms Land, Inc.
North Las Vegas LLC
NRS Ventures, L.L.C.
OHI (Connecticut), Inc.
OHI (Florida), Inc.
OHI (Illinois), Inc.
OHI (Indiana), Inc.
OHI (Iowa), Inc.
OHI (Kansas), Inc.
OHI Asset (CA), LLC
OHI Asset (CT) Lender, LLC
OHI Asset (FL), LLC
OHI Asset (ID), LLC
OHI Asset (IN), LLC
OHI Asset (LA), LLC
OHI Asset (MI/NC), LLC
OHI Asset (MO), LLC
OHI Asset (OH) Lender, LLC
OHI Asset (OH) New Philadelphia, LLC
OHI Asset (OH), LLC
OHI Asset (PA) Trust
OHI Asset (PA), LLC (f/k/a OHI Asset (FL) Tarpon Springs, Pinellas Park & Gainesville, LLC)
OHI Asset (SMS) Lender, Inc. (f/k/a Florida Lessor – West Palm Beach and Southpoint, Inc.)
OHI Asset (TX), LLC
OHI Asset CSE-E, LLC
OHI Asset CSE-U, LLC
OHI Asset Essex (OH), LLC (f/k/a Omega Acquisition Facility I, LLC)
OHI Asset II (CA), LLC
OHI Asset II (PA) Trust
OHI Asset III (PA) Trust
OHI Asset, LLC
OHI of Kentucky, Inc.
OHI of Texas, Inc.
OHI Sunshine, Inc.
OHIMA, Inc.
Omega (Kansas), Inc.
Omega TRS I, Inc.
Orange Village Care Center, Inc.
OS Leasing Company
Panama City Nursing Center LLC
Parkview - Skilled Nursing, Inc.
Pavillion North Partners, Inc.
Pavillion North, LLP
Pavillion Nursing Center North, Inc.
Pine Texarkana Healthcare Associates, Inc.
Reunion Texarkana Healthcare Associates, Inc.
San Augustine Healthcare Associates, Inc.
Skilled Nursing - Gaston, Inc.
Skilled Nursing - Herrin, Inc.
Skilled Nursing - Hicksville, Inc.
Skilled Nursing - Paris, Inc.
Skyler Maitland LLC
South Athens Healthcare Associates, Inc.
St. Mary’s Properties, Inc.
Sterling Acquisition Corp.
Sterling Acquisition Corp. II
Suwanee, LLC
Texas Lessor - Stonegate GP, Inc.
Texas Lessor - Stonegate Limited, Inc.
Texas Lessor - Stonegate, L.P.
Texas Lessor - Treemont, Inc.
The Suburban Pavilion, Inc.
Washington Lessor - Silverdale, Inc.
Waxahachie Healthcare Associates, Inc.
West Athens Healthcare Associates, Inc.
Wilcare, LLC
OHI Asset (CO), LLC
OHI Asset (IL), LLC
OHI Asset IV (PA) Silver Lake Trust
OHI Asset II (FL), LLC

Schedule II

NEW SUBSIDIARIES

CSE Albany LLC
CSE Amarillo LLC
CSE Arden L.P.
CSE Augusta LLC
CSE Bedford LLC
CSE Cambridge LLC
CSE Cambridge Realty LLC
CSE Canton LLC
CSE Cedar Rapids LLC
CSE Chelmsford LLC
CSE Chesterton LLC
CSE Claremont LLC
CSE Denver LLC
CSE Douglas LLC
CSE Dumas LLC
CSE Elkton LLC
CSE Elkton Realty LLC
CSE Fort Wayne LLC
CSE Frankston LLC
CSE Georgetown LLC
CSE Green Bay LLC
CSE Hilliard LLC
CSE Huntsville LLC
CSE Indianapolis-Continental LLC
CSE Indianapolis-Greenbriar LLC
CSE Jefferson-Hillcrest Center LLC
CSE Jefferson-Jennings House LLC
CSE King L.P.
CSE Kingsport LLC
CSE Knightdale L.P.
CSE Lake City LLC
CSE Lake Worth LLC
CSE Lakewood LLC
CSE Las Vegas LLC
CSE Lawrenceburg LLC
CSE Lenoir L.P.
CSE Lexington Park LLC
CSE Lexington Park Realty LLC
CSE Ligonier LLC
CSE Live Oak LLC
CSE Logansport LLC
CSE Lowell LLC
CSE Mobile LLC
CSE Moore LLC
CSE North Carolina Holdings I LLC
CSE North Carolina Holdings II LLC
CSE Omro LLC
CSE Orange Park LLC
CSE Orlando-Pinar Terrace Manor LLC
CSE Orlando-Terra Vista Rehab LLC
CSE Piggott LLC
CSE Pilot Point LLC
CSE Ponca City LLC
CSE Port St. Lucie LLC
CSE Richmond LLC
CSE Safford LLC
CSE Salina LLC
CSE Seminole LLC
CSE Shawnee LLC
CSE Stillwater LLC
CSE Taylorsville LLC
CSE Texas City LLC
CSE Upland LLC
CSE Walnut Cove L.P.
CSE Winter Haven LLC
CSE Woodfin L.P.
CSE Yorktown LLC
CSE Casablanca Holdings LLC

CSE Casablanca Holdings II LLC
OHI Asset CSB LLC

FIFTH SUPPLEMENTAL INDENTURE
(Senior Notes due 2016)

THIS FIFTH SUPPLEMENTAL INDENTURE (this "Fifth Supplemental Indenture") is dated as of September 2, 2010, among OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Issuer"), each of the SUBSIDIARY GUARANTORS listed on Schedule I hereto (collectively, the " Subsidiary Guarantors"), OHI Asset (MI), LLC (the "New Subsidiary"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Issuer and the Subsidiary Guarantors have heretofore executed and delivered to the Trustee an Indenture, dated as of December 30, 2005 (as amended by the First Supplemental Indenture dated as of January 7, 2010, the Second Supplemental Indenture dated as of January 29, 2010, the Third Supplemental Indenture dated as of February 2, 1010, and the Fourth Supplemental Indenture dated as of June 23, 2010, the "Indenture"), providing for the issuance of the Issuer's 7% Senior Notes due 2016 (the "Notes");

WHEREAS, Section 9.01 of the Indenture authorizes the Issuer, the Subsidiary Guarantors and the Trustee, together, to amend or supplement the Indenture, without notice to or consent of any Holder of the Notes, for the purpose of making any change that would not materially adversely affect the rights of any Holder of the Notes;

WHEREAS, the Issuer has recently created the New Subsidiary, which is required to become a Subsidiary Guarantor pursuant to Section 4.14 of the Indenture;

WHEREAS, in Section 1.01 of the Indenture, the term "Subsidiary Guarantors" is defined to include all Persons that become a Subsidiary Guarantor by the terms of the Indenture after the Closing Date; and

WHEREAS, Section 10.01 of the Indenture provides that each Subsidiary Guarantor shall be a guarantor of the Issuer's obligations under the Notes, subject to the terms and conditions described in the Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Subsidiary Guarantors, the New Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENT TO GUARANTEE. The New Subsidiary hereby agrees, jointly and severally with all other Subsidiary Guarantors, to guarantee the Issuer's obligations under the Notes on the terms and subject to the conditions set forth in the Indenture, and to be bound by, and to receive the benefit of, all other applicable provisions of the Indenture as a Subsidiary Guarantor. Such guarantee shall be evidenced by the New Subsidiary's execution of a Subsidiary Guarantee, the form of which is attached as Exhibit E to the Indenture, and shall be effective as of the date hereof.

3. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, partner, affiliate, beneficiary or stockholder of the New Subsidiary, as such, shall have any liability for any obligations of the Issuer or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this Fifth Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes, by accepting and holding a Note, waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Notes.

4. NEW YORK LAW TO GOVERN. The laws of the State of New York shall govern and be used to construe this Fifth Supplemental Indenture.

5. COUNTERPARTS. The parties may sign any number of copies of this Fifth Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Fifth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer, the Subsidiary Guarantors and the New Subsidiary.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Fifth Supplemental Indenture to be duly executed and attested, all as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

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

On behalf of each Subsidiary Guarantor, its sole member, general partner or trustee, named on the attached Schedule I

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

On behalf of each New Subsidiary, its sole member,

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

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Paul L. Henderson
Name: Paul l. Henderson
Title: Assistant Vice President

Schedule I

SUBSIDIARY GUARANTORS

Arizona Lessor - Infinia, Inc.
Baldwin Health Center, Inc.
Bayside Alabama Healthcare Second, Inc.
Bayside Arizona Healthcare Associates, Inc.
Bayside Arizona Healthcare Second, Inc.
Bayside Colorado Healthcare Associates, Inc.
Bayside Colorado Healthcare Second, Inc.
Bayside Indiana Healthcare Associates, Inc.
Bayside Street II, Inc.
Bayside Street, Inc.
Canton Health Care Land, Inc.
Carnegie Gardens LLC
Center Healthcare Associates, Inc.
Cherry Street - Skilled Nursing, Inc.
Colonial Gardens, LLC
Colorado Lessor - Conifer, Inc.
Copley Health Center, Inc.
CSE Anchorage LLC
CSE Blountville LLC
CSE Bolivar LLC
CSE Camden LLC
CSE Centennial Village
CSE Corpus North LLC
CSE Crane LLC
CSE Denver Iliff LLC
CSE Fairhaven LLC
CSE Huntingdon LLC
CSE Jacinto City LLC
CSE Jefferson City LLC
CSE Kerrville LLC
CSE Marianna Holdings LLC
CSE Memphis LLC
CSE Pennsylvania Holdings
CSE Ripley LLC
CSE Ripon LLC
CSE Spring Branch LLC
CSE Texarkana LLC
CSE The Village LLC
CSE West Point LLC
CSE Whitehouse LLC
CSE Williamsport LLC
Dallas - Skilled Nursing, Inc.
Delta Investors I, LLC
Delta Investors II, LLC
Desert Lane, LLC
Dixon Health Care Center, Inc.
Florida Lessor - Crystal Springs, Inc.
Florida Lessor - Emerald, Inc.
Florida Lessor - Lakeland, Inc.
Florida Lessor - Meadowview, Inc.
Florida Real Estate Company, LLC
Georgia Lessor - Bonterra/Parkview, Inc.
Greenbough, LLC
Hanover House, Inc.
Heritage Texarkana Healthcare Associates, Inc.
House of Hanover, Ltd.
Hutton I Land, Inc.
Hutton II Land, Inc.
Hutton III Land, Inc.
Indiana Lessor - Jeffersonville, Inc.
Indiana Lessor - Wellington Manor, Inc.
Jefferson Clark, Inc.
LAD I Real Estate Company, LLC
Lake Park - Skilled Nursing, Inc.
Leatherman 90-1, Inc.
Leatherman Partnership 89-1, Inc.
Leatherman Partnership 89-2, Inc.
Long Term Care - Michigan, Inc.

Long Term Care - North Carolina, Inc.
Long Term Care Associates - Illinois, Inc.
Long Term Care Associates - Indiana, Inc.
Long Term Care Associates - Texas, Inc.
Meridian Arms Land, Inc.
North Las Vegas LLC
NRS Ventures, L.L.C.
OHI (Connecticut), Inc.
OHI (Florida), Inc.
OHI (Illinois), Inc.
OHI (Indiana), Inc.
OHI (Iowa), Inc.
OHI (Kansas), Inc.
OHI Asset (CA), LLC
OHI Asset (CT) Lender, LLC
OHI Asset (FL), LLC
OHI Asset (ID), LLC
OHI Asset (IN), LLC
OHI Asset (LA), LLC
OHI Asset (MI/NC), LLC
OHI Asset (MO), LLC
OHI Asset (OH) Lender, LLC
OHI Asset (OH) New Philadelphia, LLC
OHI Asset (OH), LLC
OHI Asset (PA) Trust
OHI Asset (PA), LLC (f/k/a OHI Asset (FL) Tarpon Springs, Pinellas Park & Gainesville, LLC)
OHI Asset (SMS) Lender, Inc. (f/k/a Florida Lessor – West Palm Beach and Southpoint, Inc.)
OHI Asset (TX), LLC
OHI Asset CSE-E, LLC
OHI Asset CSE-U, LLC
OHI Asset Essex (OH), LLC (f/k/a Omega Acquisition Facility I, LLC)
OHI Asset II (CA), LLC
OHI Asset II (PA) Trust
OHI Asset III (PA) Trust
OHI Asset, LLC
OHI of Kentucky, Inc.
OHI of Texas, Inc.
OHI Sunshine, Inc.
OHIMA, Inc.
Omega (Kansas), Inc.
Omega TRS I, Inc.
Orange Village Care Center, Inc.
OS Leasing Company
Panama City Nursing Center LLC
Parkview - Skilled Nursing, Inc.
Pavillion North Partners, Inc.
Pavillion North, LLP
Pavillion Nursing Center North, Inc.
Pine Texarkana Healthcare Associates, Inc.
Reunion Texarkana Healthcare Associates, Inc.
San Augustine Healthcare Associates, Inc.
Skilled Nursing - Gaston, Inc.
Skilled Nursing - Herrin, Inc.
Skilled Nursing - Hicksville, Inc.
Skilled Nursing - Paris, Inc.
Skyler Maitland LLC
South Athens Healthcare Associates, Inc.
St. Mary’s Properties, Inc.
Sterling Acquisition Corp.
Sterling Acquisition Corp. II
Suwanee, LLC
Texas Lessor - Stonegate GP, Inc.
Texas Lessor - Stonegate Limited, Inc.
Texas Lessor - Stonegate, L.P.
Texas Lessor - Treemont, Inc.
The Suburban Pavilion, Inc.
Washington Lessor - Silverdale, Inc.
Waxahachie Healthcare Associates, Inc.
West Athens Healthcare Associates, Inc.
Wilcare, LLC
OHI Asset (CO), LLC
OHI Asset (IL), LLC
OHI Asset IV (PA) Silver Lake Trust
OHI Asset II (FL), LLC
CSE Albany LLC

CSE Amarillo LLC
CSE Arden L.P.
CSE Augusta LLC
CSE Bedford LLC
CSE Cambridge LLC
CSE Cambridge Realty LLC
CSE Canton LLC
CSE Cedar Rapids LLC
CSE Chelmsford LLC
CSE Chesterton LLC
CSE Claremont LLC
CSE Denver LLC
CSE Douglas LLC
CSE Dumas LLC
CSE Elkton LLC
CSE Elkton Realty LLC
CSE Fort Wayne LLC
CSE Frankston LLC
CSE Georgetown LLC
CSE Green Bay LLC
CSE Hilliard LLC
CSE Huntsville LLC
CSE Indianapolis-Continental LLC
CSE Indianapolis-Greenbriar LLC
CSE Jefferson-Hillcrest Center LLC
CSE Jefferson-Jennings House LLC
CSE King L.P.
CSE Kingsport LLC
CSE Knightdale L.P.
CSE Lake City LLC
CSE Lake Worth LLC
CSE Lakewood LLC
CSE Las Vegas LLC
CSE Lawrenceburg LLC
CSE Lenoir L.P.
CSE Lexington Park LLC
CSE Lexington Park Realty LLC
CSE Ligonier LLC
CSE Live Oak LLC
CSE Logansport LLC
CSE Lowell LLC
CSE Mobile LLC
CSE Moore LLC
CSE North Carolina Holdings I LLC
CSE North Carolina Holdings II LLC
CSE Omro LLC
CSE Orange Park LLC
CSE Orlando-Pinar Terrace Manor LLC
CSE Orlando-Terra Vista Rehab LLC
CSE Piggott LLC
CSE Pilot Point LLC
CSE Ponca City LLC
CSE Port St. Lucie LLC
CSE Richmond LLC
CSE Safford LLC
CSE Salina LLC
CSE Seminole LLC
CSE Shawnee LLC
CSE Stillwater LLC
CSE Taylorsville LLC
CSE Texas City LLC
CSE Upland LLC
CSE Walnut Cove L.P.
CSE Winter Haven LLC
CSE Woodfin L.P.
CSE Yorktown LLC
CSE Casablanca Holdings LLC
CSE Casablanca Holdings II LLC
OHI Asset CSB LLC

SIXTH SUPPLEMENTAL INDENTURE
(Senior Notes due 2016)

THIS SIXTH SUPPLEMENTAL INDENTURE (this "Sixth Supplemental Indenture") is dated as of January 13, 2011, among OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Issuer"), each of the SUBSIDIARY GUARANTORS listed on Schedule I hereto (collectively, the " Subsidiary Guarantors"), OHI Asset (FL) Lender, LLC, a Delaware limited liability company (the "New Subsidiary"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Issuer and the Subsidiary Guarantors have heretofore executed and delivered to the Trustee an Indenture, dated as of December 30, 2005 (as amended by the First Supplemental Indenture dated as of January 7, 2010, the Second Supplemental Indenture dated as of January 29, 2010, the Third Supplemental Indenture dated as of February 2, 1010, the Fourth Supplemental Indenture dated as of June 23, 2010, and the Fifth Supplemental Indenture dated as of September 2, 2010, the "Indenture"), providing for the issuance of the Issuer's 7% Senior Notes due 2016 (the " Notes");

WHEREAS, Section 9.01 of the Indenture authorizes the Issuer, the Subsidiary Guarantors and the Trustee, together, to amend or supplement the Indenture, without notice to or consent of any Holder of the Notes, for the purpose of making any change that would not materially adversely affect the rights of any Holder of the Notes;

WHEREAS, the Issuer has recently created the New Subsidiary, which is required to become a Subsidiary Guarantor pursuant to Section 4.14 of the Indenture;

WHEREAS, in Section 1.01 of the Indenture, the term "Subsidiary Guarantors" is defined to include all Persons that become a Subsidiary Guarantor by the terms of the Indenture after the Closing Date; and

WHEREAS, Section 10.01 of the Indenture provides that each Subsidiary Guarantor shall be a guarantor of the Issuer's obligations under the Notes, subject to the terms and conditions described in the Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Subsidiary Guarantors, the New Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENT TO GUARANTEE. The New Subsidiary hereby agrees, jointly and severally with all other Subsidiary Guarantors, to guarantee the Issuer's obligations under the Notes on the terms and subject to the conditions set forth in the Indenture, and to be bound by, and to receive the benefit of, all other applicable provisions of the Indenture as a Subsidiary Guarantor. Such guarantee shall be evidenced by the New Subsidiary's execution of a Subsidiary Guarantee, the form of which is attached as Exhibit E to the Indenture, and shall be effective as of the date hereof.

3. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, partner, affiliate, beneficiary or stockholder of the New Subsidiary, as such, shall have any liability for any obligations of the Issuer or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this Sixth Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes, by accepting and holding a Note, waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Notes.

4. NEW YORK LAW TO GOVERN. The laws of the State of New York shall govern and be used to construe this Sixth Supplemental Indenture.

5. COUNTERPARTS. The parties may sign any number of copies of this Sixth Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Sixth Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer, the Subsidiary Guarantors and the New Subsidiary.

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IN WITNESS WHEREOF, the parties hereto have caused this Sixth Supplemental Indenture to be duly executed and attested, all as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

On behalf of each Subsidiary Guarantor, its sole member, general partner or trustee, named on the attached Schedule I

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

On behalf of the New Subsidiary, its sole member,

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Paul L. Henderson
Name: Paul L. Henderson
Title: Assistant Vice President

Schedule I

SUBSIDIARY GUARANTORS

Arizona Lessor - Infinia, Inc.
Baldwin Health Center, Inc.
Bayside Alabama Healthcare Second, Inc.
Bayside Arizona Healthcare Associates, Inc.
Bayside Arizona Healthcare Second, Inc.
Bayside Colorado Healthcare Associates, Inc.
Bayside Colorado Healthcare Second, Inc.
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Bayside Street, Inc.
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CSE Centennial Village
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Hutton II Land, Inc.
Hutton III Land, Inc.
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Indiana Lessor - Wellington Manor, Inc.
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Leatherman Partnership 89-1, Inc.
Leatherman Partnership 89-2, Inc.
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Long Term Care - North Carolina, Inc.
Long Term Care Associates - Illinois, Inc.
Long Term Care Associates - Indiana, Inc.
Long Term Care Associates - Texas, Inc.
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North Las Vegas LLC
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OHI (Connecticut), Inc.
OHI (Florida), Inc.
OHI (Illinois), Inc.
OHI (Indiana), Inc.
OHI (Iowa), Inc.
OHI (Kansas), Inc.
OHI Asset (CA), LLC
OHI Asset (CT) Lender, LLC
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OHI Asset (ID), LLC
OHI Asset (IN), LLC
OHI Asset (LA), LLC
OHI Asset (MI), LLC
OHI Asset (MI/NC), LLC
OHI Asset (MO), LLC
OHI Asset (OH) Lender, LLC
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OHI Asset (OH), LLC
OHI Asset (PA) Trust
OHI Asset (PA), LLC (f/k/a OHI Asset (FL) Tarpon Springs, Pinellas Park & Gainesville, LLC)
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OHI Asset CSE-U, LLC
OHI Asset Essex (OH), LLC (f/k/a Omega Acquisition Facility I, LLC)
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OHI Asset II (PA) Trust
OHI Asset III (PA) Trust
OHI Asset, LLC
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OHI of Texas, Inc.
OHI Sunshine, Inc.
OHIMA, Inc.
Omega (Kansas), Inc.
Omega TRS I, Inc.
Orange Village Care Center, Inc.
OS Leasing Company
Panama City Nursing Center LLC
Parkview - Skilled Nursing, Inc.
Pavillion North Partners, Inc.
Pavillion North, LLP
Pavillion Nursing Center North, Inc.
Pine Texarkana Healthcare Associates, Inc.
Reunion Texarkana Healthcare Associates, Inc.
San Augustine Healthcare Associates, Inc.
Skilled Nursing - Gaston, Inc.
Skilled Nursing - Herrin, Inc.
Skilled Nursing - Hicksville, Inc.
Skilled Nursing - Paris, Inc.
Skyler Maitland LLC
South Athens Healthcare Associates, Inc.
St. Mary’s Properties, Inc.
Sterling Acquisition Corp.
Sterling Acquisition Corp. II
Suwanee, LLC
Texas Lessor - Stonegate GP, Inc.
Texas Lessor - Stonegate Limited, Inc.
Texas Lessor - Stonegate, L.P.
Texas Lessor - Treemont, Inc.
The Suburban Pavilion, Inc.
Washington Lessor - Silverdale, Inc.
Waxahachie Healthcare Associates, Inc.
West Athens Healthcare Associates, Inc.
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CSE Augusta LLC
CSE Bedford LLC
CSE Cambridge LLC
CSE Cambridge Realty LLC
CSE Canton LLC
CSE Cedar Rapids LLC
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CSE Chesterton LLC
CSE Claremont LLC
CSE Denver LLC
CSE Douglas LLC
CSE Dumas LLC
CSE Elkton LLC
CSE Elkton Realty LLC
CSE Fort Wayne LLC
CSE Frankston LLC
CSE Georgetown LLC
CSE Green Bay LLC
CSE Hilliard LLC
CSE Huntsville LLC
CSE Indianapolis-Continental LLC
CSE Indianapolis-Greenbriar LLC
CSE Jefferson-Hillcrest Center LLC
CSE Jefferson-Jennings House LLC
CSE King L.P.
CSE Kingsport LLC
CSE Knightdale L.P.
CSE Lake City LLC
CSE Lake Worth LLC
CSE Lakewood LLC
CSE Las Vegas LLC
CSE Lawrenceburg LLC
CSE Lenoir L.P.
CSE Lexington Park LLC
CSE Lexington Park Realty LLC
CSE Ligonier LLC
CSE Live Oak LLC
CSE Logansport LLC
CSE Lowell LLC
CSE Mobile LLC
CSE Moore LLC
CSE North Carolina Holdings I LLC
CSE North Carolina Holdings II LLC
CSE Omro LLC
CSE Orange Park LLC
CSE Orlando-Pinar Terrace Manor LLC
CSE Orlando-Terra Vista Rehab LLC
CSE Piggott LLC
CSE Pilot Point LLC
CSE Ponca City LLC
CSE Port St. Lucie LLC
CSE Richmond LLC
CSE Safford LLC
CSE Salina LLC
CSE Seminole LLC
CSE Shawnee LLC
CSE Stillwater LLC
CSE Taylorsville LLC
CSE Texas City LLC
CSE Upland LLC
CSE Walnut Cove L.P.
CSE Winter Haven LLC
CSE Woodfin L.P.
CSE Yorktown LLC
CSE Casablanca Holdings LLC
CSE Casablanca Holdings II LLC
OHI Asset CSB LLC

FIRST SUPPLEMENTAL INDENTURE
(Senior Notes due 2020)

THIS FIRST SUPPLEMENTAL INDENTURE (this "First Supplemental Indenture") is dated as of June 23, 2010, among OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Issuer"), each of the SUBSIDIARY GUARANTORS listed on Schedule I hereto (collectively, the " Subsidiary Guarantors"), each of the NEW SUBSIDIARIES listed on Schedule II hereto (collectively, the "New Subsidiaries"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Issuer and the Subsidiary Guarantors have heretofore executed and delivered to the Trustee an Indenture, dated as of February 9, 2010 (the "Indenture"), providing for the issuance of the Issuer's 7-1/2% Senior Notes due 2020 (the " Notes");

WHEREAS, Section 9.01 of the Indenture authorizes the Issuer, the Subsidiary Guarantors and the Trustee, together, to amend or supplement the Indenture, without notice to or consent of any Holder of the Notes, for the purpose of making any change that would not materially adversely affect the rights of any Holder of the Notes;

WHEREAS, the Issuer has recently created or acquired, as appropriate, the New Subsidiaries, which are required to become Subsidiary Guarantors pursuant to Section 4.14 of the Indenture;

WHEREAS, in Section 1.01 of the Indenture, the term "Subsidiary Guarantors" is defined to include all Persons that become a Subsidiary Guarantor by the terms of the Indenture after the Closing Date; and

WHEREAS, Section 10.01 of the Indenture provides that each Subsidiary Guarantor shall be a guarantor of the Issuer's obligations under the Notes, subject to the terms and conditions described in the Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Subsidiary Guarantors, the New Subsidiaries and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENT TO GUARANTEE. Each of the New Subsidiaries hereby agrees, jointly and severally with all other Subsidiary Guarantors, to guarantee the Issuer's obligations under the Notes on the terms and subject to the conditions set forth in the Indenture, and to be bound by, and to receive the benefit of, all other applicable provisions of the Indenture as a Subsidiary Guarantor. Such guarantees shall be evidenced by the New Subsidiaries' execution of Subsidiary Guarantees, the form of which is attached as Exhibit E to the Indenture, and shall be effective as of the date hereof.

3. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, partner, affiliate, beneficiary or stockholder of the New Subsidiaries, as such, shall have any liability for any obligations of the Issuer or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this First Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes, by accepting and holding a Note, waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Notes.

4. NEW YORK LAW TO GOVERN. The laws of the State of New York shall govern and be used to construe this First Supplemental Indenture.

5. COUNTERPARTS. The parties may sign any number of copies of this First Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this First Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer, the Subsidiary Guarantors and the New Subsidiaries.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed and attested, all as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

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

On behalf of each Subsidiary Guarantor, its sole member, general partner or trustee, named on the attached Schedule I

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

On behalf of each New Subsidiary, its sole member, sole manager, general partner or trustee, named on the attached Schedule II

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

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Paul L. Henderson
Name: Paul l. Henderson
Title: Assistant Vice President

Schedule I

SUBSIDIARY GUARANTORS

Arizona Lessor - Infinia, Inc.
Baldwin Health Center, Inc.
Bayside Alabama Healthcare Second, Inc.
Bayside Arizona Healthcare Associates, Inc.
Bayside Arizona Healthcare Second, Inc.
Bayside Colorado Healthcare Associates, Inc.
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CSE Corpus North LLC
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CSE Fairhaven LLC
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Dixon Health Care Center, Inc.
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Florida Lessor - Emerald, Inc.
Florida Lessor - Lakeland, Inc.
Florida Lessor - Meadowview, Inc.
Florida Real Estate Company, LLC
Georgia Lessor - Bonterra/Parkview, Inc.
Greenbough, LLC
Hanover House, Inc.
Heritage Texarkana Healthcare Associates, Inc.
House of Hanover, Ltd.
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Hutton II Land, Inc.
Hutton III Land, Inc.
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Indiana Lessor - Wellington Manor, Inc.
Jefferson Clark, Inc.
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Lake Park - Skilled Nursing, Inc.
Leatherman 90-1, Inc.
Leatherman Partnership 89-1, Inc.
Leatherman Partnership 89-2, Inc.
Long Term Care - Michigan, Inc.

Long Term Care - North Carolina, Inc.
Long Term Care Associates - Illinois, Inc.
Long Term Care Associates - Indiana, Inc.
Long Term Care Associates - Texas, Inc.
Meridian Arms Land, Inc.
North Las Vegas LLC
NRS Ventures, L.L.C.
OHI (Connecticut), Inc.
OHI (Florida), Inc.
OHI (Illinois), Inc.
OHI (Indiana), Inc.
OHI (Iowa), Inc.
OHI (Kansas), Inc.
OHI Asset (CA), LLC
OHI Asset (CT) Lender, LLC
OHI Asset (FL), LLC
OHI Asset (ID), LLC
OHI Asset (IN), LLC
OHI Asset (LA), LLC
OHI Asset (MI/NC), LLC
OHI Asset (MO), LLC
OHI Asset (OH) Lender, LLC
OHI Asset (OH) New Philadelphia, LLC
OHI Asset (OH), LLC
OHI Asset (PA) Trust
OHI Asset (PA), LLC
OHI Asset (SMS) Lender, Inc.
OHI Asset (TX), LLC
OHI Asset CSE-E, LLC
OHI Asset CSE-U, LLC
OHI Asset Essex (OH), LLC
OHI Asset II (CA), LLC
OHI Asset II (PA) Trust
OHI Asset III (PA) Trust
OHI Asset, LLC
OHI of Kentucky, Inc.
OHI of Texas, Inc.
OHI Sunshine, Inc.
OHIMA, Inc.
Omega (Kansas), Inc.
Omega TRS I, Inc.
Orange Village Care Center, Inc.
OS Leasing Company
Panama City Nursing Center LLC
Parkview - Skilled Nursing, Inc.
Pavillion North Partners, Inc.
Pavillion North, LLP
Pavillion Nursing Center North, Inc.
Pine Texarkana Healthcare Associates, Inc.
Reunion Texarkana Healthcare Associates, Inc.
San Augustine Healthcare Associates, Inc.
Skilled Nursing - Gaston, Inc.
Skilled Nursing - Herrin, Inc.
Skilled Nursing - Hicksville, Inc.
Skilled Nursing - Paris, Inc.
Skyler Maitland LLC
South Athens Healthcare Associates, Inc.
St. Mary’s Properties, Inc.
Sterling Acquisition Corp.
Sterling Acquisition Corp. II
Suwanee, LLC
Texas Lessor - Stonegate GP, Inc.
Texas Lessor - Stonegate Limited, Inc.
Texas Lessor - Stonegate, L.P.
Texas Lessor - Treemont, Inc.
The Suburban Pavilion, Inc.
Washington Lessor - Silverdale, Inc.
Waxahachie Healthcare Associates, Inc.
West Athens Healthcare Associates, Inc.
Wilcare, LLC
OHI Asset (CO), LLC
OHI Asset (IL), LLC
OHI Asset IV (PA) Silver Lake Trust
OHI Asset II (FL), LLC

Schedule II

NEW SUBSIDIARIES

CSE Albany LLC
CSE Amarillo LLC
CSE Arden L.P.
CSE Augusta LLC
CSE Bedford LLC
CSE Cambridge LLC
CSE Cambridge Realty LLC
CSE Canton LLC
CSE Cedar Rapids LLC
CSE Chelmsford LLC
CSE Chesterton LLC
CSE Claremont LLC
CSE Denver LLC
CSE Douglas LLC
CSE Dumas LLC
CSE Elkton LLC
CSE Elkton Realty LLC
CSE Fort Wayne LLC
CSE Frankston LLC
CSE Georgetown LLC
CSE Green Bay LLC
CSE Hilliard LLC
CSE Huntsville LLC
CSE Indianapolis-Continental LLC
CSE Indianapolis-Greenbriar LLC
CSE Jefferson-Hillcrest Center LLC
CSE Jefferson-Jennings House LLC
CSE King L.P.
CSE Kingsport LLC
CSE Knightdale L.P.
CSE Lake City LLC
CSE Lake Worth LLC
CSE Lakewood LLC
CSE Las Vegas LLC
CSE Lawrenceburg LLC
CSE Lenoir L.P.
CSE Lexington Park LLC
CSE Lexington Park Realty LLC
CSE Ligonier LLC
CSE Live Oak LLC
CSE Logansport LLC
CSE Lowell LLC
CSE Mobile LLC
CSE Moore LLC
CSE North Carolina Holdings I LLC
CSE North Carolina Holdings II LLC
CSE Omro LLC
CSE Orange Park LLC
CSE Orlando-Pinar Terrace Manor LLC
CSE Orlando-Terra Vista Rehab LLC
CSE Piggott LLC
CSE Pilot Point LLC
CSE Ponca City LLC
CSE Port St. Lucie LLC
CSE Richmond LLC
CSE Safford LLC
CSE Salina LLC
CSE Seminole LLC
CSE Shawnee LLC
CSE Stillwater LLC
CSE Taylorsville LLC
CSE Texas City LLC
CSE Upland LLC
CSE Walnut Cove L.P.
CSE Winter Haven LLC
CSE Woodfin L.P.
CSE Yorktown LLC
CSE Casablanca Holdings LLC

CSE Casablanca Holdings II LLC
OHI Asset CSB LLC

SECOND SUPPLEMENTAL INDENTURE
(Senior Notes due 2020)

THIS SECOND SUPPLEMENTAL INDENTURE (this "Second Supplemental Indenture") is dated as of September 2, 2010, among OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Issuer"), each of the SUBSIDIARY GUARANTORS listed on Schedule I hereto (collectively, the " Subsidiary Guarantors"), OHI Asset (MI), LLC (the "New Subsidiary"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Issuer and the Subsidiary Guarantors have heretofore executed and delivered to the Trustee an Indenture, dated as of February 9, 2010 (as supplemented by that First Supplemental Indenture, dated June 23, 2010, the "Indenture"), providing for the issuance of the Issuer's 7-1/2% Senior Notes due 2020 (the "Notes");

WHEREAS, Section 9.01 of the Indenture authorizes the Issuer, the Subsidiary Guarantors and the Trustee, together, to amend or supplement the Indenture, without notice to or consent of any Holder of the Notes, for the purpose of making any change that would not materially adversely affect the rights of any Holder of the Notes;

WHEREAS, the Issuer has recently created the New Subsidiary, which is required to become a Subsidiary Guarantor pursuant to Section 4.14 of the Indenture;

WHEREAS, in Section 1.01 of the Indenture, the term "Subsidiary Guarantors" is defined to include all Persons that become a Subsidiary Guarantor by the terms of the Indenture after the Closing Date; and

WHEREAS, Section 10.01 of the Indenture provides that each Subsidiary Guarantor shall be a guarantor of the Issuer's obligations under the Notes, subject to the terms and conditions described in the Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Subsidiary Guarantors, the New Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENT TO GUARANTEE. The New Subsidiary hereby agrees, jointly and severally with all other Subsidiary Guarantors, to guarantee the Issuer's obligations under the Notes on the terms and subject to the conditions set forth in the Indenture, and to be bound by, and to receive the benefit of, all other applicable provisions of the Indenture as a Subsidiary Guarantor. Such guarantees shall be evidenced by the New Subsidiary's execution of a Subsidiary Guarantee, the form of which is attached as Exhibit E to the Indenture, and shall be effective as of the date hereof.

3. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, partner, affiliate, beneficiary or stockholder of the New Subsidiary, as such, shall have any liability for any obligations of the Issuer or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this Second Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes, by accepting and holding a Note, waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Notes.

4. NEW YORK LAW TO GOVERN. The laws of the State of New York shall govern and be used to construe this Second Supplemental Indenture.

5. COUNTERPARTS. The parties may sign any number of copies of this Second Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Second Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer, the Subsidiary Guarantors and the New Subsidiary.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Second Supplemental Indenture to be duly executed and attested, all as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

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

On behalf of each Subsidiary Guarantor, its sole member, general partner or trustee, named on the attached Schedule I

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

On behalf of each New Subsidiary, its sole member

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

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Paul L. Henderson
Name: Paul l. Henderson
Title: Assistant Vice President

Schedule I

SUBSIDIARY GUARANTORS

Arizona Lessor - Infinia, Inc.
Baldwin Health Center, Inc.
Bayside Alabama Healthcare Second, Inc.
Bayside Arizona Healthcare Associates, Inc.
Bayside Arizona Healthcare Second, Inc.
Bayside Colorado Healthcare Associates, Inc.
Bayside Colorado Healthcare Second, Inc.
Bayside Indiana Healthcare Associates, Inc.
Bayside Street II, Inc.
Bayside Street, Inc.
Canton Health Care Land, Inc.
Carnegie Gardens LLC
Center Healthcare Associates, Inc.
Cherry Street - Skilled Nursing, Inc.
Colonial Gardens, LLC
Colorado Lessor - Conifer, Inc.
Copley Health Center, Inc.
CSE Anchorage LLC
CSE Blountville LLC
CSE Bolivar LLC
CSE Camden LLC
CSE Centennial Village
CSE Corpus North LLC
CSE Crane LLC
CSE Denver Iliff LLC
CSE Fairhaven LLC
CSE Huntingdon LLC
CSE Jacinto City LLC
CSE Jefferson City LLC
CSE Kerrville LLC
CSE Marianna Holdings LLC
CSE Memphis LLC
CSE Pennsylvania Holdings
CSE Ripley LLC
CSE Ripon LLC
CSE Spring Branch LLC
CSE Texarkana LLC
CSE The Village LLC
CSE West Point LLC
CSE Whitehouse LLC
CSE Williamsport LLC
Dallas - Skilled Nursing, Inc.
Delta Investors I, LLC
Delta Investors II, LLC
Desert Lane, LLC
Dixon Health Care Center, Inc.
Florida Lessor - Crystal Springs, Inc.
Florida Lessor - Emerald, Inc.
Florida Lessor - Lakeland, Inc.
Florida Lessor - Meadowview, Inc.
Florida Real Estate Company, LLC
Georgia Lessor - Bonterra/Parkview, Inc.
Greenbough, LLC
Hanover House, Inc.
Heritage Texarkana Healthcare Associates, Inc.
House of Hanover, Ltd.
Hutton I Land, Inc.
Hutton II Land, Inc.
Hutton III Land, Inc.
Indiana Lessor - Jeffersonville, Inc.
Indiana Lessor - Wellington Manor, Inc.
Jefferson Clark, Inc.
LAD I Real Estate Company, LLC
Lake Park - Skilled Nursing, Inc.
Leatherman 90-1, Inc.
Leatherman Partnership 89-1, Inc.
Leatherman Partnership 89-2, Inc.
Long Term Care - Michigan, Inc.

Long Term Care - North Carolina, Inc.
Long Term Care Associates - Illinois, Inc.
Long Term Care Associates - Indiana, Inc.
Long Term Care Associates - Texas, Inc.
Meridian Arms Land, Inc.
North Las Vegas LLC
NRS Ventures, L.L.C.
OHI (Connecticut), Inc.
OHI (Florida), Inc.
OHI (Illinois), Inc.
OHI (Indiana), Inc.
OHI (Iowa), Inc.
OHI (Kansas), Inc.
OHI Asset (CA), LLC
OHI Asset (CT) Lender, LLC
OHI Asset (FL), LLC
OHI Asset (ID), LLC
OHI Asset (IN), LLC
OHI Asset (LA), LLC
OHI Asset (MI/NC), LLC
OHI Asset (MO), LLC
OHI Asset (OH) Lender, LLC
OHI Asset (OH) New Philadelphia, LLC
OHI Asset (OH), LLC
OHI Asset (PA) Trust
OHI Asset (PA), LLC
OHI Asset (SMS) Lender, Inc.
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OHI Asset CSE-E, LLC
OHI Asset CSE-U, LLC
OHI Asset Essex (OH), LLC
OHI Asset II (CA), LLC
OHI Asset II (PA) Trust
OHI Asset III (PA) Trust
OHI Asset, LLC
OHI of Kentucky, Inc.
OHI of Texas, Inc.
OHI Sunshine, Inc.
OHIMA, Inc.
Omega (Kansas), Inc.
Omega TRS I, Inc.
Orange Village Care Center, Inc.
OS Leasing Company
Panama City Nursing Center LLC
Parkview - Skilled Nursing, Inc.
Pavillion North Partners, Inc.
Pavillion North, LLP
Pavillion Nursing Center North, Inc.
Pine Texarkana Healthcare Associates, Inc.
Reunion Texarkana Healthcare Associates, Inc.
San Augustine Healthcare Associates, Inc.
Skilled Nursing - Gaston, Inc.
Skilled Nursing - Herrin, Inc.
Skilled Nursing - Hicksville, Inc.
Skilled Nursing - Paris, Inc.
Skyler Maitland LLC
South Athens Healthcare Associates, Inc.
St. Mary’s Properties, Inc.
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Sterling Acquisition Corp. II
Suwanee, LLC
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Texas Lessor - Stonegate Limited, Inc.
Texas Lessor - Stonegate, L.P.
Texas Lessor - Treemont, Inc.
The Suburban Pavilion, Inc.
Washington Lessor - Silverdale, Inc.
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West Athens Healthcare Associates, Inc.
Wilcare, LLC
OHI Asset (CO), LLC
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CSE Albany LLC

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CSE Arden L.P.
CSE Augusta LLC
CSE Bedford LLC
CSE Cambridge LLC
CSE Cambridge Realty LLC
CSE Canton LLC
CSE Cedar Rapids LLC
CSE Chelmsford LLC
CSE Chesterton LLC
CSE Claremont LLC
CSE Denver LLC
CSE Douglas LLC
CSE Dumas LLC
CSE Elkton LLC
CSE Elkton Realty LLC
CSE Fort Wayne LLC
CSE Frankston LLC
CSE Georgetown LLC
CSE Green Bay LLC
CSE Hilliard LLC
CSE Huntsville LLC
CSE Indianapolis-Continental LLC
CSE Indianapolis-Greenbriar LLC
CSE Jefferson-Hillcrest Center LLC
CSE Jefferson-Jennings House LLC
CSE King L.P.
CSE Kingsport LLC
CSE Knightdale L.P.
CSE Lake City LLC
CSE Lake Worth LLC
CSE Lakewood LLC
CSE Las Vegas LLC
CSE Lawrenceburg LLC
CSE Lenoir L.P.
CSE Lexington Park LLC
CSE Lexington Park Realty LLC
CSE Ligonier LLC
CSE Live Oak LLC
CSE Logansport LLC
CSE Lowell LLC
CSE Mobile LLC
CSE Moore LLC
CSE North Carolina Holdings I LLC
CSE North Carolina Holdings II LLC
CSE Omro LLC
CSE Orange Park LLC
CSE Orlando-Pinar Terrace Manor LLC
CSE Orlando-Terra Vista Rehab LLC
CSE Piggott LLC
CSE Pilot Point LLC
CSE Ponca City LLC
CSE Port St. Lucie LLC
CSE Richmond LLC
CSE Safford LLC
CSE Salina LLC
CSE Seminole LLC
CSE Shawnee LLC
CSE Stillwater LLC
CSE Taylorsville LLC
CSE Texas City LLC
CSE Upland LLC
CSE Walnut Cove L.P.
CSE Winter Haven LLC
CSE Woodfin L.P.
CSE Yorktown LLC
CSE Casablanca Holdings LLC
CSE Casablanca Holdings II LLC
OHI Asset CSB LLC

THIRD SUPPLEMENTAL INDENTURE
(Senior Notes due 2020)

THIS THIRD SUPPLEMENTAL INDENTURE (this "Third Supplemental Indenture") is dated as of January 13, 2011, among OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Issuer"), each of the SUBSIDIARY GUARANTORS listed on Schedule I hereto (collectively, the " Subsidiary Guarantors"), OHI Asset (FL) Lender, LLC, a Delaware limited liability company (the "New Subsidiary"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Issuer and the Subsidiary Guarantors have heretofore executed and delivered to the Trustee an Indenture, dated as of February 9, 2010 (as supplemented by that First Supplemental Indenture, dated June 23, 2010, and that Second Supplemental Indenture, dated September 2, 2010, the "Indenture"), providing for the issuance of the Issuer's 7-1/2% Senior Notes due 2020 (the "Notes");

WHEREAS, Section 9.01 of the Indenture authorizes the Issuer, the Subsidiary Guarantors and the Trustee, together, to amend or supplement the Indenture, without notice to or consent of any Holder of the Notes, for the purpose of making any change that would not materially adversely affect the rights of any Holder of the Notes;

WHEREAS, the Issuer has recently created the New Subsidiary, which is required to become a Subsidiary Guarantor pursuant to Section 4.14 of the Indenture;

WHEREAS, in Section 1.01 of the Indenture, the term "Subsidiary Guarantors" is defined to include all Persons that become a Subsidiary Guarantor by the terms of the Indenture after the Closing Date; and

WHEREAS, Section 10.01 of the Indenture provides that each Subsidiary Guarantor shall be a guarantor of the Issuer's obligations under the Notes, subject to the terms and conditions described in the Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Subsidiary Guarantors, the New Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENT TO GUARANTEE. The New Subsidiary hereby agrees, jointly and severally with all other Subsidiary Guarantors, to guarantee the Issuer's obligations under the Notes on the terms and subject to the conditions set forth in the Indenture, and to be bound by, and to receive the benefit of, all other applicable provisions of the Indenture as a Subsidiary Guarantor. Such guarantee shall be evidenced by the New Subsidiary's execution of a Subsidiary Guarantee, the form of which is attached as Exhibit E to the Indenture, and shall be effective as of the date hereof.

3. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, partner, affiliate, beneficiary or stockholder of the New Subsidiary, as such, shall have any liability for any obligations of the Issuer or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this Third Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes, by accepting and holding a Note, waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Notes.

4. NEW YORK LAW TO GOVERN. The laws of the State of New York shall govern and be used to construe this Third Supplemental Indenture.

5. COUNTERPARTS. The parties may sign any number of copies of this Third Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Third Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer, the Subsidiary Guarantors and the New Subsidiary.

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IN WITNESS WHEREOF, the parties hereto have caused this Third Supplemental Indenture to be duly executed and attested, all as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

On behalf of each Subsidiary Guarantor, its sole member, general partner or trustee, named on the attached Schedule I

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

On behalf of the New Subsidiary, its sole member

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Paul L. Henderson
Name: Paul L. Henderson
Title: Assistant Vice President

Schedule I

SUBSIDIARY GUARANTORS

Arizona Lessor - Infinia, Inc.
Baldwin Health Center, Inc.
Bayside Alabama Healthcare Second, Inc.
Bayside Arizona Healthcare Associates, Inc.
Bayside Arizona Healthcare Second, Inc.
Bayside Colorado Healthcare Associates, Inc.
Bayside Colorado Healthcare Second, Inc.
Bayside Indiana Healthcare Associates, Inc.
Bayside Street II, Inc.
Bayside Street, Inc.
Canton Health Care Land, Inc.
Carnegie Gardens LLC
Center Healthcare Associates, Inc.
Cherry Street - Skilled Nursing, Inc.
Colonial Gardens, LLC
Colorado Lessor - Conifer, Inc.
Copley Health Center, Inc.
CSE Anchorage LLC
CSE Blountville LLC
CSE Bolivar LLC
CSE Camden LLC
CSE Centennial Village
CSE Corpus North LLC
CSE Crane LLC
CSE Denver Iliff LLC
CSE Fairhaven LLC
CSE Huntingdon LLC
CSE Jacinto City LLC
CSE Jefferson City LLC
CSE Kerrville LLC
CSE Marianna Holdings LLC
CSE Memphis LLC
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CSE Ripley LLC
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CSE The Village LLC
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CSE Whitehouse LLC
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Delta Investors II, LLC
Desert Lane, LLC
Dixon Health Care Center, Inc.
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Florida Lessor - Emerald, Inc.
Florida Lessor - Lakeland, Inc.
Florida Lessor - Meadowview, Inc.
Florida Real Estate Company, LLC
Georgia Lessor - Bonterra/Parkview, Inc.
Greenbough, LLC
Hanover House, Inc.
Heritage Texarkana Healthcare Associates, Inc.
House of Hanover, Ltd.
Hutton I Land, Inc.
Hutton II Land, Inc.
Hutton III Land, Inc.
Indiana Lessor - Jeffersonville, Inc.
Indiana Lessor - Wellington Manor, Inc.
Jefferson Clark, Inc.
LAD I Real Estate Company, LLC
Lake Park - Skilled Nursing, Inc.
Leatherman 90-1, Inc.
Leatherman Partnership 89-1, Inc.
Leatherman Partnership 89-2, Inc.
Long Term Care - Michigan, Inc.

Long Term Care - North Carolina, Inc.
Long Term Care Associates - Illinois, Inc.
Long Term Care Associates - Indiana, Inc.
Long Term Care Associates - Texas, Inc.
Meridian Arms Land, Inc.
North Las Vegas LLC
NRS Ventures, L.L.C.
OHI (Connecticut), Inc.
OHI (Florida), Inc.
OHI (Illinois), Inc.
OHI (Indiana), Inc.
OHI (Iowa), Inc.
OHI (Kansas), Inc.
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OHI Asset (CT) Lender, LLC
OHI Asset (FL), LLC
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OHI Asset (MO), LLC
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Pavillion North, LLP
Pavillion Nursing Center North, Inc.
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Reunion Texarkana Healthcare Associates, Inc.
San Augustine Healthcare Associates, Inc.
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Skilled Nursing - Herrin, Inc.
Skilled Nursing - Hicksville, Inc.
Skilled Nursing - Paris, Inc.
Skyler Maitland LLC
South Athens Healthcare Associates, Inc.
St. Mary’s Properties, Inc.
Sterling Acquisition Corp.
Sterling Acquisition Corp. II
Suwanee, LLC
Texas Lessor - Stonegate GP, Inc.
Texas Lessor - Stonegate Limited, Inc.
Texas Lessor - Stonegate, L.P.
Texas Lessor - Treemont, Inc.
The Suburban Pavilion, Inc.
Washington Lessor - Silverdale, Inc.
Waxahachie Healthcare Associates, Inc.
West Athens Healthcare Associates, Inc.
Wilcare, LLC
OHI Asset (CO), LLC
OHI Asset (IL), LLC
OHI Asset IV (PA) Silver Lake Trust
OHI Asset II (FL), LLC

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CSE Amarillo LLC
CSE Arden L.P.
CSE Augusta LLC
CSE Bedford LLC
CSE Cambridge LLC
CSE Cambridge Realty LLC
CSE Canton LLC
CSE Cedar Rapids LLC
CSE Chelmsford LLC
CSE Chesterton LLC
CSE Claremont LLC
CSE Denver LLC
CSE Douglas LLC
CSE Dumas LLC
CSE Elkton LLC
CSE Elkton Realty LLC
CSE Fort Wayne LLC
CSE Frankston LLC
CSE Georgetown LLC
CSE Green Bay LLC
CSE Hilliard LLC
CSE Huntsville LLC
CSE Indianapolis-Continental LLC
CSE Indianapolis-Greenbriar LLC
CSE Jefferson-Hillcrest Center LLC
CSE Jefferson-Jennings House LLC
CSE King L.P.
CSE Kingsport LLC
CSE Knightdale L.P.
CSE Lake City LLC
CSE Lake Worth LLC
CSE Lakewood LLC
CSE Las Vegas LLC
CSE Lawrenceburg LLC
CSE Lenoir L.P.
CSE Lexington Park LLC
CSE Lexington Park Realty LLC
CSE Ligonier LLC
CSE Live Oak LLC
CSE Logansport LLC
CSE Lowell LLC
CSE Mobile LLC
CSE Moore LLC
CSE North Carolina Holdings I LLC
CSE North Carolina Holdings II LLC
CSE Omro LLC
CSE Orange Park LLC
CSE Orlando-Pinar Terrace Manor LLC
CSE Orlando-Terra Vista Rehab LLC
CSE Piggott LLC
CSE Pilot Point LLC
CSE Ponca City LLC
CSE Port St. Lucie LLC
CSE Richmond LLC
CSE Safford LLC
CSE Salina LLC
CSE Seminole LLC
CSE Shawnee LLC
CSE Stillwater LLC
CSE Taylorsville LLC
CSE Texas City LLC
CSE Upland LLC
CSE Walnut Cove L.P.
CSE Winter Haven LLC
CSE Woodfin L.P.
CSE Yorktown LLC
CSE Casablanca Holdings LLC
CSE Casablanca Holdings II LLC
OHI Asset CSB LLC

FIRST SUPPLEMENTAL INDENTURE
(Senior Notes due 2022)

THIS FIRST SUPPLEMENTAL INDENTURE (this "First Supplemental Indenture") is dated as of January 13, 2011, among OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation (the "Issuer"), each of the SUBSIDIARY GUARANTORS listed on Schedule I hereto (collectively, the " Subsidiary Guarantors"), OHI Asset (FL) Lender, LLC, a Delaware limited liability company (the "New Subsidiary"), and U.S. BANK NATIONAL ASSOCIATION, a national banking association organized and existing under the laws of the United States of America, as trustee (the "Trustee").

W I T N E S S E T H :

WHEREAS, the Issuer and the Subsidiary Guarantors have heretofore executed and delivered to the Trustee an Indenture, dated as of October 4, 2010 (the "Indenture"), providing for the issuance of the Issuer's 6-3/4% Senior Notes due 2022 (the " Notes");

WHEREAS, Section 9.01 of the Indenture authorizes the Issuer, the Subsidiary Guarantors and the Trustee, together, to amend or supplement the Indenture, without notice to or consent of any Holder of the Notes, for the purpose of making any change that would not materially adversely affect the rights of any Holder of the Notes;

WHEREAS, the Issuer has recently created the New Subsidiary, which is required to become a Subsidiary Guarantor pursuant to Section 4.14 of the Indenture;

WHEREAS, in Section 1.01 of the Indenture, the term "Subsidiary Guarantors" is defined to include all Persons that become a Subsidiary Guarantor by the terms of the Indenture after the Closing Date; and

WHEREAS, Section 10.01 of the Indenture provides that each Subsidiary Guarantor shall be a guarantor of the Issuer's obligations under the Notes, subject to the terms and conditions described in the Indenture.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Issuer, the Subsidiary Guarantors, the New Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. CAPITALIZED TERMS. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. AMENDMENT TO GUARANTEE. The New Subsidiary hereby agrees, jointly and severally with all other Subsidiary Guarantors, to guarantee the Issuer's obligations under the Notes on the terms and subject to the conditions set forth in the Indenture, and to be bound by, and to receive the benefit of, all other applicable provisions of the Indenture as a Subsidiary Guarantor. Such guarantee shall be evidenced by the New Subsidiary's execution of a Subsidiary Guarantee, the form of which is attached as Exhibit E to the Indenture, and shall be effective as of the date hereof.

3. NO RECOURSE AGAINST OTHERS. No past, present or future director, officer, employee, partner, affiliate, beneficiary or stockholder of the New Subsidiary, as such, shall have any liability for any obligations of the Issuer or any Subsidiary Guarantor under the Notes, any Guarantees, the Indenture or this First Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes, by accepting and holding a Note, waives and releases all such liability. Such waiver and release are part of the consideration for the issuance of the Notes.

4. NEW YORK LAW TO GOVERN. The laws of the State of New York shall govern and be used to construe this First Supplemental Indenture.

5. COUNTERPARTS. The parties may sign any number of copies of this First Supplemental Indenture. Each signed copy shall be an original, but all of them together shall represent the same agreement.

6. EFFECT OF HEADINGS. The Section headings herein are for convenience only and shall not affect the construction hereof.

7. THE TRUSTEE. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this First Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Issuer, the Subsidiary Guarantors and the New Subsidiary.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this First Supplemental Indenture to be duly executed and attested, all as of the date first above written.

OMEGA HEALTHCARE INVESTORS, INC.

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

On behalf of each Subsidiary Guarantor, its sole member, general partner or trustee, named on the attached Schedule I

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

On behalf of the New Subsidiary, its sole member

By: /s/ Robert O. Stephenson
Name: Robert O. Stephenson
Title: Chief Financial Officer

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: /s/ Paul L. Henderson
Name: Paul L. Henderson
Title: Assistant Vice President

Schedule I

SUBSIDIARY GUARANTORS

Arizona Lessor - Infinia, Inc.
Baldwin Health Center, Inc.
Bayside Alabama Healthcare Second, Inc.
Bayside Arizona Healthcare Associates, Inc.
Bayside Arizona Healthcare Second, Inc.
Bayside Colorado Healthcare Associates, Inc.
Bayside Colorado Healthcare Second, Inc.
Bayside Indiana Healthcare Associates, Inc.
Bayside Street II, Inc.
Bayside Street, Inc.
Canton Health Care Land, Inc.
Carnegie Gardens LLC
Center Healthcare Associates, Inc.
Cherry Street - Skilled Nursing, Inc.
Colonial Gardens, LLC
Colorado Lessor - Conifer, Inc.
Copley Health Center, Inc.
CSE Anchorage LLC
CSE Blountville LLC
CSE Bolivar LLC
CSE Camden LLC
CSE Centennial Village
CSE Corpus North LLC
CSE Crane LLC
CSE Denver Iliff LLC
CSE Fairhaven LLC
CSE Huntingdon LLC
CSE Jacinto City LLC
CSE Jefferson City LLC
CSE Kerrville LLC
CSE Marianna Holdings LLC
CSE Memphis LLC
CSE Pennsylvania Holdings
CSE Ripley LLC
CSE Ripon LLC
CSE Spring Branch LLC
CSE Texarkana LLC
CSE The Village LLC
CSE West Point LLC
CSE Whitehouse LLC
CSE Williamsport LLC
Dallas - Skilled Nursing, Inc.
Delta Investors I, LLC
Delta Investors II, LLC
Desert Lane, LLC
Dixon Health Care Center, Inc.
Florida Lessor - Crystal Springs, Inc.
Florida Lessor - Emerald, Inc.
Florida Lessor - Lakeland, Inc.
Florida Lessor - Meadowview, Inc.
Florida Real Estate Company, LLC
Georgia Lessor - Bonterra/Parkview, Inc.
Greenbough, LLC
Hanover House, Inc.
Heritage Texarkana Healthcare Associates, Inc.
House of Hanover, Ltd.
Hutton I Land, Inc.
Hutton II Land, Inc.
Hutton III Land, Inc.
Indiana Lessor - Jeffersonville, Inc.
Indiana Lessor - Wellington Manor, Inc.
Jefferson Clark, Inc.
LAD I Real Estate Company, LLC
Lake Park - Skilled Nursing, Inc.
Leatherman 90-1, Inc.
Leatherman Partnership 89-1, Inc.
Leatherman Partnership 89-2, Inc.
Long Term Care - Michigan, Inc.

Long Term Care - North Carolina, Inc.
Long Term Care Associates - Illinois, Inc.
Long Term Care Associates - Indiana, Inc.
Long Term Care Associates - Texas, Inc.
Meridian Arms Land, Inc.
North Las Vegas LLC
NRS Ventures, L.L.C.
OHI (Connecticut), Inc.
OHI (Florida), Inc.
OHI (Illinois), Inc.
OHI (Indiana), Inc.
OHI (Iowa), Inc.
OHI (Kansas), Inc.
OHI Asset (CA), LLC
OHI Asset (CT) Lender, LLC
OHI Asset (FL), LLC
OHI Asset (ID), LLC
OHI Asset (IN), LLC
OHI Asset (LA), LLC
OHI Asset (MI), LLC
OHI Asset (MI/NC), LLC
OHI Asset (MO), LLC
OHI Asset (OH) Lender, LLC
OHI Asset (OH) New Philadelphia, LLC
OHI Asset (OH), LLC
OHI Asset (PA) Trust
OHI Asset (PA), LLC
OHI Asset (SMS) Lender, Inc.
OHI Asset (TX), LLC
OHI Asset CSE-E, LLC
OHI Asset CSE-U, LLC
OHI Asset Essex (OH), LLC
OHI Asset II (CA), LLC
OHI Asset II (PA) Trust
OHI Asset III (PA) Trust
OHI Asset, LLC
OHI of Kentucky, Inc.
OHI of Texas, Inc.
OHI Sunshine, Inc.
OHIMA, Inc.
Omega (Kansas), Inc.
Omega TRS I, Inc.
Orange Village Care Center, Inc.
OS Leasing Company
Panama City Nursing Center LLC
Parkview - Skilled Nursing, Inc.
Pavillion North Partners, Inc.
Pavillion North, LLP
Pavillion Nursing Center North, Inc.
Pine Texarkana Healthcare Associates, Inc.
Reunion Texarkana Healthcare Associates, Inc.
San Augustine Healthcare Associates, Inc.
Skilled Nursing - Gaston, Inc.
Skilled Nursing - Herrin, Inc.
Skilled Nursing - Hicksville, Inc.
Skilled Nursing - Paris, Inc.
Skyler Maitland LLC
South Athens Healthcare Associates, Inc.
St. Mary’s Properties, Inc.
Sterling Acquisition Corp.
Sterling Acquisition Corp. II
Suwanee, LLC
Texas Lessor - Stonegate GP, Inc.
Texas Lessor - Stonegate Limited, Inc.
Texas Lessor - Stonegate, L.P.
Texas Lessor - Treemont, Inc.
The Suburban Pavilion, Inc.
Washington Lessor - Silverdale, Inc.
Waxahachie Healthcare Associates, Inc.
West Athens Healthcare Associates, Inc.
Wilcare, LLC
OHI Asset (CO), LLC
OHI Asset (IL), LLC
OHI Asset IV (PA) Silver Lake Trust
OHI Asset II (FL), LLC

CSE Albany LLC
CSE Amarillo LLC
CSE Arden L.P.
CSE Augusta LLC
CSE Bedford LLC
CSE Cambridge LLC
CSE Cambridge Realty LLC
CSE Canton LLC
CSE Cedar Rapids LLC
CSE Chelmsford LLC
CSE Chesterton LLC
CSE Claremont LLC
CSE Denver LLC
CSE Douglas LLC
CSE Dumas LLC
CSE Elkton LLC
CSE Elkton Realty LLC
CSE Fort Wayne LLC
CSE Frankston LLC
CSE Georgetown LLC
CSE Green Bay LLC
CSE Hilliard LLC
CSE Huntsville LLC
CSE Indianapolis-Continental LLC
CSE Indianapolis-Greenbriar LLC
CSE Jefferson-Hillcrest Center LLC
CSE Jefferson-Jennings House LLC
CSE King L.P.
CSE Kingsport LLC
CSE Knightdale L.P.
CSE Lake City LLC
CSE Lake Worth LLC
CSE Lakewood LLC
CSE Las Vegas LLC
CSE Lawrenceburg LLC
CSE Lenoir L.P.
CSE Lexington Park LLC
CSE Lexington Park Realty LLC
CSE Ligonier LLC
CSE Live Oak LLC
CSE Logansport LLC
CSE Lowell LLC
CSE Mobile LLC
CSE Moore LLC
CSE North Carolina Holdings I LLC
CSE North Carolina Holdings II LLC
CSE Omro LLC
CSE Orange Park LLC
CSE Orlando-Pinar Terrace Manor LLC
CSE Orlando-Terra Vista Rehab LLC
CSE Piggott LLC
CSE Pilot Point LLC
CSE Ponca City LLC
CSE Port St. Lucie LLC
CSE Richmond LLC
CSE Safford LLC
CSE Salina LLC
CSE Seminole LLC
CSE Shawnee LLC
CSE Stillwater LLC
CSE Taylorsville LLC
CSE Texas City LLC
CSE Upland LLC
CSE Walnut Cove L.P.
CSE Winter Haven LLC
CSE Woodfin L.P.
CSE Yorktown LLC
CSE Casablanca Holdings LLC
CSE Casablanca Holdings II LLC
OHI Asset CSB LLC

FOURTH AMENDMENT TO
SECOND CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

THIS FOURTH AMENDMENT TO SECOND CONSOLIDATED AMENDED AND RESTATED MASTER LEASE (" Lease") is executed and delivered as of this 1st day of October, 2010 and is entered into by OHI ASSET III (PA) TRUST, a Maryland business trust ("Lessor"), the successor by merger to OHI Asset II (OH), LLC, a Delaware limited liability company, and Ohio Lessor – Waterford & Crestwood, Inc., a Maryland corporation, the address of which is 200 International Circle, Suite 3500, Hunt Valley, MD 21030, OMG MSTR LSCO, LLC, an Ohio limited liability company ("Lessee One"), the successor by merger to CSC MSTR LSCO, LLC, and OMG LS LEASING CO., LLC, an Ohio limited liability company ("Lessee Two", and collectively with Lessee One, " Lessee"), the address of which is 4700 Ashwood Drive, Suite 200, Cincinnati, OH 45241.

RECITALS

The circumstances underlying the execution and delivery of this Lease are as follows:

A. Lessee and Lessor have executed and delivered to each other a Second Consolidated Amended and Restated Master Lease dated as of April 18, 2008, as amended by a First Amendment to Second Consolidated Amended and Restated Master Lease dated as of July 31, 2009, a Second Amendment to Second Consolidated Amended and Restated Master Lease dated as of November 3, 2009, and a Third Amendment to Second Consolidated Amended and Restated Master Lease dated as of April 1, 2010 (the "Existing Master Lease") pursuant to which Lessee leases from Lessor certain healthcare facilities located in Ohio and Pennsylvania.

B. Lessor and Lessee desire to amend the Existing Master Lease to provide for (i) the extension of a loan from Lessor to Lessee for the purposes of acquiring fixtures, equipment and other personal property for certain of the Facilities, and (ii) extend the term of the Existing Master Lease until April 20, 2022.

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 Existing Master Lease.

(b) In addition to the other definitions contained herein, when used in this Amendment the following term shall have the following meaning:

Capex Note: means the Secured Capital Improvements Promissory Note dated as of the date of this Amendment from Lessee in favor of Lessor in the aggregate principal amount of Two Million Dollars ($2,000,000).

(c) The following definition defined in §2.1 of the Existing Master Lease is hereby amended in its entirety as follows:

Expiration Date: means April 30, 2022 if the second Renewal Option has not been exercised, or April 30, 2032, if the second Renewal Option has been exercised but not the third Renewal Option, or April 30, 2042, if the third Renewal Option has been exercised.

(d) From and after the date of this Amendment, each reference in the Transaction Documents to the Existing Master Lease, means the Existing Master Lease as modified by this Amendment.

2. Capex Loan. Lessor hereby agrees to make the loan evidenced by the Capex Note for the purposes, and pursuant to the terms, set forth in the Capex Note. In consideration of Lessor agreeing to make such loan, effective as of the "Due Date" as defined in the Capex Note, Lessee and each the Sublessees hereby transfers, assigns, and conveys to Lessor all right, title and interest in and to all fixtures, equipment and other property acquired with the proceeds of the loans evidenced by the Capex Note. The Capex Note shall constitute a Transaction Document.

3. Section 1.3. Section 1.3 of the Existing Master Lease is amended and restated in its entirety as follows:

1.3 Option to Renew. Lessee is hereby granted three (3) successive options to renew this Lease. The first option to renew has been exercised and is for the period of February 1, 2007 thru April 30, 2022. Two additional options to renew shall be for a period of ten (10) Lease Years each, for a maximum Term if such options are exercised of approximately thirty-four (34) Lease Years. Lessee's exercise of the second and third options to renew this Lease are subject to the following terms and conditions (which conditions may be waived by Lessor in its sole discretion):

(a) An option to renew is exercisable only by Notice to Lessor at least one hundred and eighty (180) days, and not more than three hundred sixty (360) days, prior to the expiration of the Initial Term (or prior to the expiration of the preceding Renewal Term, as the case may be);

(b) No Event of Default or Unmatured Event of Default shall have occurred and be continuing either at the time a renewal option is exercised or at the commencement of a Renewal Term;

(c) During a Renewal Term, all of the terms and conditions of this Lease shall remain in full force and effect;

(d) Lessee may exercise its options to renew with respect to all (and no fewer than all) of the Leased Properties; and

(e) Lessee may only exercise an option to renew if the Option to Extend (as defined in the Maryland Loan Agreement) for a corresponding period of years is also exercised such that the Maturity Date (as defined in the Maryland Loan Agreement) and the Expiration Date are the same date.

4. Costs and Expenses. Lessee shall pay Lessor's reasonable costs and expenses, including reasonable attorneys fees, incurred in connection with this Amendment.

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 of Transaction Documents. Except as expressly and specifically set forth herein, the Transaction Documents remain unmodified and in full force and effect. In the event of any discrepancy between any other Transaction Document and this Amendment, the terms and conditions of this Amendment will control and such other Transaction Document is deemed amended to conform hereto.

SIGNATURE PAGES FOLLOW

Signature Page to
FOURTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

LESSOR:

OHI ASSET III (PA) TRUST

By: OHI Asset (PA), LLC, a Delaware limited liability company, its sole trustee

By: Omega Healthcare Investors, a Maryland corporation, its sole member

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

THE STATE OF MARYLAND)
)
COUNTY OF BALTIMORE)

This instrument was acknowledged before me on the 13th day of October , 2010, by Daniel J. Booth, the Chief Operating Officer of Omega Healthcare Investors, Inc., a Maryland corporation, the sole member of OHI Asset (PA), LLC, a Delaware limited liability company, the sole trustee of OHI Asset III (PA) Trust, a Maryland business trust, on behalf of said business trust.

Judith A. Jacobs
Notary Public State of Maryland
County of Baltimore
My commission expires May 12, 2012

Signature Page to
FOURTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

LESSEE:

OMG MSTR LSCO, LLC

By: HEALTH CARE HOLDINGS, LLC,
its Sole Member

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: Treasurer

OMG LS LEASING CO., LLC

By: OMG RE HOLDINGS, LLC,
its Sole Member

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: Treasurer

THE STATE OF OHIO)
)
COUNTY OF HAMILTON)

This instrument was acknowledged before me on the 7th day of October , 2010, by Charles R. Stoltz, the Treasurer of HEALTH CARE HOLDINGS, LLC, an Ohio limited liability company, the sole member of OMG MSTR LSCO, LLC, an Ohio limited liability company, and of OMG RE HOLDINGS, LLC, an Ohio limited liability company, the sole member of OMG LS LEASING CO., LLC, an Ohio limited liability company, on behalf of said companies.

Monica R. Humbert
Notary Public State of Ohio
My commission expires 07/28/2012

Joinder to
FOURTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

The undersigned hereby join in Section 2 of this Amendment.

SUBLESSEES:

BELMORE LEASING CO., LLC
WYANT LEASING CO., LLC
BRECKSVILLE LEASING CO., LLC
JARVIS LEASING CO., LLC
KOLBE LEASING CO., LLC
PEARL LEASING CO., LLC
PEARL II LEASING CO., LLC
PEARL III LEASING CO., LLC
MERIT LEASING CO., LLC
FALLING LEASING CO., LLC
FRONT LEASING CO., LLC
MIDLAND LEASING CO., LLC
GARDEN LEASING CO., LLC
SKYLINE (PA) LEASING CO., LLC
OLD LEASING CO., LLC
EMERY LEASING CO., LLC
AVIS LEASING CO., LLC
HERITAGE (OHIO) LEASING CO., LLC
GARDEN II LEASING CO., LLC
WATER LEASING CO., LLC
SOUTH II LEASING CO., LLC
SOUTH I LEASING CO., LLC
SOUTH III LEASING CO., LLC
FAIRCHILD (MD) LEASING CO., LLC
ROCKY RIVER LEASING CO., LLC
CLIME LEASING CO., LLC
ROYCE LEASING CO., LLC
EAST WATER LEASING CO., LLC

By: /s/ Charles R. Stolz
Name: Charles R. Stolz
Title: CFO and Treasurer

Joinder to
FOURTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

STATE OF OHIO)
) SS
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this 7th day of October , 2010, by Charles R. Stoltz, who is the CFO and Treasurer of each of the above listed companies, on behalf of such companies.

Monica R. Humbert , Notary Public Hamiltion County, Ohio
My Commission Expires: 7/28/2012

FIFTH AMENDMENT TO
SECOND CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

THIS FIFTH AMENDMENT TO SECOND CONSOLIDATED AMENDED AND RESTATED MASTER LEASE (" Lease") is executed and delivered as of this 31st day of December, 2010 and is entered into by OHI ASSET III (PA) TRUST, a Maryland business trust ("Lessor"), the successor by merger to OHI Asset II (OH), LLC, a Delaware limited liability company, and Ohio Lessor – Waterford & Crestwood, Inc., a Maryland corporation, the address of which is 200 International Circle, Suite 3500, Hunt Valley, MD 21030, OMG MSTR LSCO, LLC, an Ohio limited liability company ("Lessee One"), the successor by merger to CSC MSTR LSCO, LLC, and OMG LS LEASING CO., LLC, an Ohio limited liability company ("Lessee Two", and collectively with Lessee One, " Lessee"), the address of which is 4700 Ashwood Drive, Suite 200, Cincinnati, OH 45241.

RECITALS

The circumstances underlying the execution and delivery of this Lease are as follows:

A. Lessee and Lessor have executed and delivered to each other a Second Consolidated Amended and Restated Master Lease dated as of April 18, 2008, as amended by a First Amendment to Second Consolidated Amended and Restated Master Lease dated as of July 31, 2009, a Second Amendment to Second Consolidated Amended and Restated Master Lease dated as of November 3, 2009, a Third Amendment to Second Consolidated Amended and Restated Master Lease dated as of April 1, 2010, and a Fourth Amendment to Second Consolidated Amended and Restated Master Lease dated as of October 1, 2010 (the "Existing Master Lease") pursuant to which Lessee leases from Lessor certain healthcare facilities located in Ohio and Pennsylvania.

B. Lessor and Lessee desire to amend the Existing Master Lease to provide for the payment of additional rent in connection with the transfer to Lessee or a Sublessee of .

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 Existing Master Lease.

(b) In addition to the other definitions contained herein, when used in this Amendment the following term shall have the following meaning:

"Bed Additional Rent" means:

(1) During the period from September 1, 2010 thru December 31, 2011, the monthly sum of Four Thousand Six Hundred Sixty Six and 66/100 Dollars ($4,666.66);

(2) For the Lease Year commencing on January 1, 2012, an annual amount equal to the product of Fifty Six Thousand Dollars ($56,000) multiplied by (i) one hundred percent (100%) plus (ii) the *lesser* of (a) two (2) times the increase in the CPI (expressed as a percentage) and (b) two and one half percent (2.5%); and

(3) For the subsequent Lease Year, the product of (A) the Bed Additional Rent for the previous Lease Year multiplied by (i) one hundred percent (100%) plus (ii) the *lesser* of (a) two (2) times the increase in the CPI (expressed as a percentage) and (b) two and one half percent (2.5%); and

(c) The following definition defined in §2.1 of the Existing Master Lease is hereby amended in its entirety as follows:

Rent: Collectively, Base Rent, the Golden Years Additional Rent, the Bed Additional Rent and Additional Charges.

(d) From and after the date of this Amendment, each reference in the Transaction Documents to the Existing Master Lease, means the Existing Master Lease as modified by this Amendment.

2. Bed Additional Base Rent. Commencing as of September 1, 2010, Lessee shall pay the Bed Additional Rent pursuant to the terms and conditions of Article III of the Lease.

3. Sections 9.3.2 and 9.3.3 . Sections 9.3.2 and 9.3.3 of the Existing Master Lease are hereby amended by deleting the words "December 31, 2010" in each place it occurs in each Section and inserting the words "December 31, 2011" in place thereof.

4. Schedule 9.3. Schedule 9.3 to the Existing Master Lease is hereby amended and restated in its entirety by Schedule 9.3 to this Amendment.

5. Section 38.4. Section 38.4 of the Existing Master Lease is amended and restated in its entirety as follows:

38.4 Option Price. If Lessee exercises its option to purchase the Lessee Option Property as set forth in this Lease, the purchase price for the Lessee Option Property (the "Lessee Purchase Price") to be paid by Lessee shall be equal to the *greater* of (i) the Minimum Purchase Price (listed below) plus the Golden Years Addition Minimum Purchase Price, and (ii) the Allocated Purchase Price (listed below) plus the Golden Years Addition Purchase Price plus 50% of the amount, if any, that (A) the Fair Market Value of the Lessee Option Facilities on the date of exercise of the option exceeds (B) the Allocated Purchase Price plus the Golden Years Addition Purchase Price.

Facility	Allocated Purchase Price	Minimum Purchase Price
Northwestern Center	$ 5,378,350.46	$ 6,393,168.57

Columbus Center	$ 5,395,043.01	$ 6,413,010.77
Golden Years Healthcare Center	$ 3,219,706.84	$ 3,827,219.65
Oak Grove Center	$ 2,334,560.33	$ 2,775,058.61
Total	$ 16,327,660.65	$ 19,408,457.60

The Lessee Purchase Price shall be payable by Lessee in immediately available funds at closing. The Lessee Option Deposit shall be applied against the Lessee Purchase Price at closing. Lessee shall also pay the cost of any revenue or transfer stamps required to be affixed to the deeds, and all reasonable expenses, disbursements and reasonable attorneys' fees incurred by Lessor in the sale transaction.

6. Costs and Expenses. Lessee shall pay Lessor's reasonable costs and expenses, including reasonable attorneys fees, incurred in connection with this Amendment.

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 of Transaction Documents. Except as expressly and specifically set forth herein, the Transaction Documents remain unmodified and in full force and effect. In the event of any discrepancy between any other Transaction Document and this Amendment, the terms and conditions of this Amendment will control and such other Transaction Document is deemed amended to conform hereto.

SIGNATURE PAGES FOLLOW

Signature Page to
FIFTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

LESSOR:

OHI ASSET III (PA) TRUST

By: OHI Asset (PA), LLC, a Delaware limited liability company, its sole trustee

By: Omega Healthcare Investors, a Maryland corporation, its sole member

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

THE STATE OF MARYLAND)
)
COUNTY OF BALTIMORE)

This instrument was acknowledged before me on the 28th day of December, 2010, by Daniel J. Booth, the Chief Operating Officer of Omega Healthcare Investors, Inc., a Maryland corporation, the sole member of OHI Asset (PA), LLC, a Delaware limited liability company, the sole trustee of OHI Asset III (PA) Trust, a Maryland business trust, on behalf of said business trust.

Notary Public

Judith A. Jacobs

Baltimore County, MD My Commission Expires: May 12, 2012

LESSEE:

OMG MSTR LSCO, LLC

By: HEALTH CARE HOLDINGS, LLC,
its Sole Member

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: Treasurer

OMG LS LEASING CO., LLC

By: OMG RE HOLDINGS, LLC,
its Sole Member

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: Treasurer

THE STATE OF OHIO)
)
COUNTY OF HAMILTON)

This instrument was acknowledged before me on the 29thday of December, 2010, by Charles R. Stoltz, the Treasurer of HEALTH CARE HOLDINGS, LLC, an Ohio limited liability company, the sole member of OMG MSTR LSCO, LLC, an Ohio limited liability company, and of OMG RE HOLDINGS, LLC, an Ohio limited liability company, the sole member of OMG LS LEASING CO., LLC, an Ohio limited liability company, on behalf of said companies.

Notary Public

Kathleen M. Portman

State of Ohio

My Commission Expires 3-28-2012

Joinder to
FIFTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

The undersigned hereby 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 Loan Agreement and 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.

CITY VIEW BORROWERS:

CITY VIEW NURSING & REHAB, LLC
CLEVELAND NH ASSET, LLC

By: /s/ Charles R. Stolz
Name: Charles R. Stolz
Title: CFO and Treasurer

MARYLAND BORROWERS:

BEL PRE LEASING CO, LLC
RIDGE (MD) LEASING CO, LLC
MARLBORO LEASING CO, LLC
FAYETTE LEASING CO, LLC
LIBERTY LEASING CO, LLC
HOWARD LEASING CO, LLC
PALL MALL LEASING CO, LLC
WASHINGTON (MD) LEASING CO, LLC
MARYLAND NH ASSET, LLC

By: /s/ Charles R. Stolz
Name: Charles R. Stolz
Title: CFO and Treasurer

SUBLESSEES:

BELMORE LEASING CO., LLC
WYANT LEASING CO., LLC
BRECKSVILLE LEASING CO., LLC
JARVIS LEASING CO., LLC
KOLBE LEASING CO., LLC
PEARL LEASING CO., LLC
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FAIRCHILD (MD) LEASING CO., LLC
ROCKY RIVER LEASING CO., LLC
CLIME LEASING CO., LLC
ROYCE LEASING CO., LLC
EAST WATER LEASING CO., LLC

By: /s/ Charles R. Stolz
Name: Charles R. Stolz
Title: CFO and Treasurer

GUARANTORS:

RESIDENT CARE CONSULTING CO., LLC
HEALTH CARE FACILITY MANAGEMENT, LLC
OMG ASSET OWNERSHIP, LLC
OMG RE LEASING CO., LLC
OMG RE HOLDINGS, LLC

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

Joinder to
FIFTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

MANAGERS:

CARNEGIE (OHIO) MANAGEMENT CO., LLC
GARDEN MANAGEMENT CO., LLC
MIDLAND (OHIO) MANAGEMENT CO., LLC
SKYLINE (PA) MGMT CO, LLC
HERITAGE (OHIO) MGMT CO, LLC
AVIS (OHIO) MGMT CO, LLC
SUBURBAN (OHIO) MGMT CO, LLC
OLD MGMT CO, LLC
BELMORE MGT. CO., LLC
WYANT MGT. CO., LLC
BRECKSVILLE MGT CO., LLC
JARVIS MGT. CO., LLC
KOLBE MGT. CO., LLC
PEARL (OHIO) MGT. CO., LLC
PEARL II MGT. CO., LLC
PEARL III MGT. CO., LLC
MERIT (OHIO) MGT. CO., LLC
FALLING MGT. CO., LLC
FRONT MGT. CO., LLC
Each an Ohio limited liability company

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

(Managers continued on next page)

MANAGERS (continued):

WATER MGMT. CO., LLC
SOUTH II MGMT. CO., LLC
SOUTH I MGMT. CO., LLC
SOUTH III MGMT. CO., LLC
FAIRCHILD MGMT. CO., LLC
ROCKY RIVER MGMT. CO., LLC
CLIME MGMT. CO., LLC
ROYCE MGMT. CO., LLC
EAST WATER MGMT. CO., LLC
BEL PRE MGMT. CO., LLC
RIDGE (MD) MGMT. CO., LLC
MARLBORO MGMT. CO., LLC
FAYETTE MGMT. CO., LLC
LIBERTY MGMT. CO., LLC
HOWARD MGMT. CO., LLC
PALL MALL MGMT. CO., LLC
WASHINGTON (MD) MGMT. CO., LLC
Each an Ohio limited liability company

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

CONSULTANTS:

CARNEGIE (OHIO) CONSULTING CO., LLC
GARDEN CONSULTING CO., LLC
MIDLAND CONSULTING CO., LLC
SKYLINE (PA) CONSULTING CO, LLC
HERITAGE (OHIO) CONSULTING CO, LLC
AVIS (OHIO) CONSULTING CO, LLC
SUBURBAN (OHIO) CONSULTING CO, LLC
OLD CONSULTING CO, LLC
BELMORE CONSULTING CO., LLC
WYANT CONSULTING CO., LLC
BRECKSVILLE CONSULTING CO., LLC
JARVIS CONSULTING CO., LLC
KOLBE CONSULTING CO., LLC
PEARL CONSULTING CO., LLC
PEARL II CONSULTING CO., LLC
PEARL III CONSULTING CO., LLC
MERIT CONSULTING CO., LLC
FALLING CONSULTING CO., LLC
FRONT CONSULTING CO., LLC
Each an Ohio limited liability company

By: RESIDENT CARE CONSULTING, LLC, their sole member

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

STATE OF OHIO)
) SS
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this 29th day of December, 2010, by Charles R. Stoltz, who is the CFO and Treasurer of each of the above listed companies, on behalf of such companies.

Kathleen M. Portman, Notary Public
Hamilton County, Ohio
My Commission Expires: 3-28-2012

Schedule 9.3 to
FIFTH AMENDMENT TO SECOND
CONSOLIDATED AMENDED AND RESTATED MASTER LEASE
Multiple Facilities

Improvements Schedule

Funds will be allocated per Facility as follows:

Facility	Address	City	ST	Allocation of $3.0M CAP-EX (1)
Chardon Healthcare Center	620 Water Street	Chardon	OH	75,000.00
Commons at Greenbriar (ALF)	8060 South Avenue	Boardman	OH	10,000.00
Greenbriar Center (a/k/a Greenbriar North)	8064 South Avenue	Boardman	OH	135,000.00
Greenbriar Rehabilitation Hospital	8064 South Avenue, Ste. One	Boardman	OH	10,000.00
Kent Care Center	1290 Fairchild Avenue	Kent	OH	80,000.00
Northwestern Center	570 North Rocky River Drive	Berea	OH	125,000.00
Columbus Center	4301 Clime Road, North	Columbus	OH	145,000.00
Golden Years Healthcare Center	(P.O. Box 1148) 2125 Royce Street	Portsmouth	OH	45,000.00
Oak Grove Center	620 East Water Street	Deshler	OH	-
		Total		$ 625,000

Specific improvements, budgets, and plans must be approved prior to the commencement of any improvement.

SECOND AMENDMENT TO LOAN AGREEMENT
(Maryland Acquisition Loan)

BETWEEN

OHI ASSET III (PA) TRUST, as Lender

and

BEL PRE LEASING CO., LLC
RIDGE (MD) LEASING CO, LLC
MARLBORO LEASING CO., LLC
FAYETTE LEASING CO., LLC
LIBERTY LEASING CO., LLC
HOWARD LEASING CO., LLC
PALL MALL LEASING CO., LLC
WASHINGTON (MD) LEASING CO., LLC
MARYLAND NH ASSET, LLC
as Borrowers

and

OMG RE HOLDINGS, LLC
OMG RE LEASING CO., LLC
OMG ASSET OWNERSHIP, LLC
HEALTH CARE FACILITY MANAGEMENT, LLC
RESIDENT CARE CONSULTING, LLC
as Parent Guarantors

Dated: November 3, 2009

SECOND AMENDMENT TO LOAN AGREEMENT

(Maryland Acquisition Loan)

This Second Amendment to Loan Agreement (" Second Amendment") is dated as of November 3, 2009, and is by and among OHI ASSET III (PA) TRUST, a Maryland business trust ("Lender"), and BEL PRE LEASING CO., LLC, an Ohio limited liability company, RIDGE (MD) LEASING CO., LLC, an Ohio limited liability company, MARLBORO LEASING CO., LLC, an Ohio limited liability company, FAYETTE LEASING CO., LLC, an Ohio limited liability company, LIBERTY LEASING CO., LLC, an Ohio limited liability company, HOWARD LEASING CO., LLC, an Ohio limited liability company, PALL MALL LEASING CO., LLC, an Ohio limited liability company, WASHINGTON (MD) LEASING CO., LLC, an Ohio limited liability company, and MARYLAND NH ASSET, LLC, an Ohio limited liability company (each a "Borrower", and collectively, as the "Borrowers") and OMG RE HOLDINGS, LLC, an Ohio limited liability company (" RE Holdings"), OMG RE LEASING CO, LLC, an Ohio limited liability company ("RE Leasing"), and OMG ASSET OWNERSHIP, LLC, an Ohio limited liability company (" AO"), HEALTH CARE FACILITY MANAGEMENT, LLC, an Ohio limited liability company ("HCFM"), and RESIDENT CARE CONSULTING, LLC, an Ohio limited liability company ("RCC", and together with RE Holdings, RE Leasing, AO, and HCFM each a " Parent Guarantor" and collectively, the "Parent Guarantors").

RECITALS:

A. Borrowers and Parent Guarantors have executed and delivered to Lender a Loan Agreement dated April 18, 2008, as amended by that certain First Amendment to Loan Agreement dated as of March 15, 2009 (as amended, the "Existing Loan Agreement"), pursuant to which Lender has made a loan (the "Loan") to Borrowers. The Loan is evidenced by the Note and secured by the Loan Documents (as defined below).

B. Lender and the Borrowers desire to amend the Existing Loan Agreement as set forth in this Second Amendment.

NOW THEREFORE, the parties agree as follows:

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

2. Section 2.8. Section 2.8 of the Existing Loan Agreement is hereby amended by deleting the following third (3rd) sentence thereof:

After receipt of approval as to any specific Escrowed Improvement, the Borrowers shall promptly undertake, and complete each such Escrowed Improvement on or before December 31, 2009; provided, however, that with respect to Scheduled Improvements to the Bel Pre Health & Rehabilitation Center and Marley Neck Health & Rehabilitation Center to be funded from the $1,400,000 added to the Escrowed Capex Funds on December 2, 2008, such Scheduled Improvement shall be completed on or before December 31, 2010.

and by replacing such third (3rd) sentence with the following:

"After receipt of approval as to any specific Escrowed Improvement, the Borrowers shall promptly undertake, and complete each such Escrowed Improvement on or before December 31, 2010."

3. Exhibit C. Exhibit C to the Existing Loan Agreement is hereby amended and restated in its entirety by Exhibit C to this Amendment.

4. Section 3.4. Section 3.4 of the Existing Loan Agreement is hereby amended and restated in its entirety as follows:

3.3 Release of Certain Facilities during First Three Years .

(a) On or before the third anniversary of the Closing, provided that (i) no Event of Default has occurred and is continuing under the Loan Documents, (ii) no Unmatured Event of Default has occurred and is continuing, and (iii) Borrowers are selling the Facility or Facilities to an unrelated third party, upon the payment to Lender of the applicable release payment set forth below (each a "Three Years Release Payment"), Lender would agree to release the applicable Facility listed below (each a "Three Years Facility") from the lien of the Loan Documents. No Prepayment Premium would be payable in connection with such prepayment and release. The initial release prices (to be increased by any reallocations as discussed below or any funded capex under Section 2.8) are:

Facility Name	Initial Release Payment
Liberty Heights Health & Rehabilitation Center 4017 Liberty Heights Avenue Baltimore MD 21207	$ 7,975,509.54
Franklin Square Health & Rehabilitation Center 1217 W. Fayette Street Baltimore MD 21223	$ 10,669,070.16

Each Third Year Release Payment will increase 2.5% per year (compounding) on each anniversary of the Closing and pursuant to subparagraph (b) below.

(b) If, after exercising reasonable efforts to sell any Three Years Facility, Borrowers are unable to find a buyer willing to pay an amount sufficient to satisfy the applicable Three Years Release Payment, then Lender will accept as a Three Years Release Payment a lower release payment provided that: (i) the release payment is no less than 50% of the otherwise applicable Third Year Release Payment, and (ii) after giving effect to the sale of the Facility and the pay down of the Loan, the Borrowers remain in compliance with the Cash Flow Coverage Ratio and Combined Cash Flow Coverage Ratio required as of the date of the payment. The difference between the actual release payment and the Three Years Release Payment shall be reallocated among the remaining Facilities in proportion to the number of licensed beds at each remaining Facility bears to the total number of licensed beds at all Facilities, which reallocation shall also increase the Third Year Release Payment under this Section and the Seventh Year Release Payment under

Section 3.4 in the amount reallocated to such Facilities.

(c) Borrowers must sell the Facilities to unrelated third parties in order for the Facilities to be released from the lien of the Loan Documents pursuant to this Section.

(d) Upon payment of the applicable Third Year Release Payment, the amount of the Security Deposit required under this Agreement and the Master Lease will be reduced by an amount equal to (i) the amount of the applicable Third Year Release Payment actually paid to Lender *multiplied by* (ii) the Interest Rate *divided by* (iii) four (4).

(e) Upon payment of the applicable Third Year Release Payment, Lender shall release the applicable Facility from the Option to Purchase.

5. Section 3.4. Section 3.4 of the Existing Loan Agreement is hereby amended and restated in its entirety as follows:

3.4 Release of Certain Facilities after Seven Years .

During the one year period commencing on the seventh anniversary of the Closing, provided that (i) no Event of Default has occurred and is continuing under the loan documents, (ii) no Unmatured Event of Default has occurred and is continuing, (iii) the prepayment is made concurrently with respect to all such Facilities (to the extent they have not previously been released as provided for in Section 3.3), and (iv) the Lessee Purchase Option is closed concurrently, upon the payment to Seller of $41,046738.18 (as such amount may be increased or reduced pursuant to Sections 3.3(b) and 3.4(b), the "Seventh Year Release Payment"), Seller will release the Facilities listed below from the lien of the Loan Documents. No Prepayment Premium would be payable in connection with such prepayment and release. Borrowers would not be obligated to sell the Facilities in connection with such prepayment and release. The Facilities covered by this Section are as follows:

Bel Pre Health & Rehabilitation Center
2601 Bel Pre Road
Silver Spring MD 20906

Liberty Heights Health & Rehabilitation Center
4017 Liberty Heights Avenue
Baltimore MD 21207

Marley Neck Health & Rehabilitation Center
7575 E. Howard Road
Glen Burnie MD 21060

Franklin Square Health & Rehabilitation Center
1217 W. Fayette Street
Baltimore MD 21223

(a) The Seventh Year Release Payment will be reduced by the amount any Third Year Release Payment paid in connection with any of the Seventh Year Facilities which are also Third Year Facilities.

(b) If Borrowers do not sell or otherwise transfer the Facilities to third parties, but instead continue to own and operate them, then upon payment of the Seventh Year Release Payment and release of the Seventh Year Facilities from the lien of the Loan Documents, the ownership of the applicable Borrowers which own or operate such Facilities shall be transferred such that HCREH and the Parent Guarantors no longer own or control such Borrowers. Upon such transfer, Lender will release such Borrowers from their obligations arising under the Loan Document and their guaranty of the Master Lease and the City View Loan.

(c) Upon payment of the Seventh Year Release Payment, the amount of the Security Deposit required under this Agreement and the Master Lease will be reduced by an amount equal to (i) the amount of the Seventh Year Release Payment actually paid to Lender *multiplied by* (ii) the Interest Rate *divided by* (iii) four (4).

(d) Upon payment of the Seventh Year Release Payment, Lender shall release the Facilities covered by this Section from the Option to Purchase.

6. Representations and Warranties .

(a) Each of Borrower and Parent Guarantor hereby confirms and makes all of the representations and warranties set forth in the Loan Agreement and other Loan Documents with respect to such Borrower or Parent Guarantor, this Second Amendment and the Loan Documents as of the date hereof and confirms that they are true and correct in all material respects.

(b) Each of Borrower and Parent Guarantor hereby represents and warrants as of the date of this Second Amendment as follows: (i) it is duly incorporated or organized, validly existing and in good standing under the laws of its jurisdiction of organization; (ii) the execution, delivery and performance by it of this Second Amendment and the Loan Documents, as applicable, are within its powers, have been duly authorized, and do not contravene (A) its articles of organization, operating agreement, or other organizational documents, or (B) any applicable law; (iii) no consent, license, permit, approval or authorization of, or registration, filing or declaration with any Governmental Authority or other Person (except for those that have already been obtained), is required in connection with the execution, delivery, performance, validity or enforceability of this Second Amendment or the Loan Documents, as applicable, by or against it; (iv) this Second Amendment and the Loan Documents, as applicable, have been duly executed and delivered by it; (v) this Second Amendment and the Loan Documents, as applicable, constitute its legal, valid and binding obligations enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity; (vi) it is not in default under the Loan Agreement and no Event of Default or Unmatured Event of Default exists, has occurred or is continuing, and (vii) Lender has fully performed all of its obligations under each of the Loan Documents through the date of this Agreement, and Lender is in full compliance with its obligations under each of the Loan Documents.

7. Expenses of Lender. Borrowers shall pay all reasonable expenses of Lender incurred in connection with this Second Amendment, including reasonable

attorneys fees and expenses.

8. Execution and Counterparts. This Second 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.

9. Entire Agreement. This Second Amendment, together with the other Loan Documents, constitute the entire agreement of the parties in respect of the subject matter described herein. This Second Amendment may not be changed or modified except by an agreement in writing signed by the Lender and the Borrowers hereto.

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

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

[SIGNATURES APPEAR ON FOLLOWING PAGES]

LENDER:

OHI ASSET III (PA) TRUST

By: OHI Asset (PA), LLC, a Delaware limited liability company, its sole trustee

By: Omega Healthcare Investors, a Maryland corporation, its sole member

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

THE STATE OF MARYLAND)
)
COUNTY OF BALTIMORE)

This instrument was acknowledged before me on the 3rd day of November, 2009, by Daniel J. Booth, the Chief Operating Officer of Omega Healthcare Investors, Inc., a Maryland corporation, the sole member of OHI Asset (PA), LLC, a Delaware limited liability company, the sole trustee of OHI Asset III (PA) Trust, a Maryland business trust, on behalf of said business trust.

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

BORROWERS:

BEL PRE LEASING CO., LLC
RIDGE (MD) LEASING CO., LLC
MARLBORO LEASING CO., LLC
FAYETTE LEASING CO., LLC
LIBERTY LEASING CO., LLC
HOWARD LEASING CO., LLC
PALL MALL LEASING CO., LLC
WASHINGTON (MD) LEASING CO., LLC
MARYLAND NH ASSET, LLC

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

PARENT GUARANTORS:

OMG RE HOLDINGS, LLC
OMG RE LEASING CO., LLC
OMG ASSET OWNERSHIP, LLC
HEALTH CARE FACILITY MANAGEMENT, LLC
RESIDENT CARE CONSULTING, LLC

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

STATE OF OHIO)
) ss.
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this 3rd day of November, 2009, by Charles R. Stoltz, who is the CFO and Treasurer of the limited liability companies listed above, on behalf of all such limited liability companies.

Kathleen M. Portman
Notary Public, Hamilton County, Ohio
My commission expires: 3-28-2012

EXHIBIT C

SCHEDULED IMPROVEMENTS

Facility	Address	City	ST	Allocation of $3.775M CAP-EX (1)
Bel Pre Health & Rehabilitation Center	2601 Bel Pre Road	Silver Spring	MD	625,000.00
Ellicott City Health & Rehabilitation Center	3000 N. Ridge Road	Ellicott City	MD	300,000.00
Forestville Health & Rehabilitation Center	7420 Marlboro Pike	Forestville	MD	750,000.00
Franklin Square Health & Rehabilitation Center (Fayette)	1217 W. Fayette Street	Baltimore	MD	400,000.00
Liberty Heights Health & Rehabilitation Center	4017 Liberty Heights Avenue	Baltimore	MD	400,000.00
Marley Neck Health & Rehabilitation Center	7575 E. Howard Road	Glen Burnie	MD	1,050,000.00
South River Health & Rehabilitation Center	144 Washington Road	Edgewater	MD	250,000.00
		Total		$ 3,775,000

Specific improvements, budgets, and plans must be approved prior to the commencement of any improvement.

THIRD AMENDMENT TO LOAN AGREEMENT
(Maryland Acquisition Loan)

BETWEEN

OHI ASSET III (PA) TRUST, as Lender

and

BEL PRE LEASING CO., LLC
RIDGE (MD) LEASING CO, LLC
MARLBORO LEASING CO., LLC
FAYETTE LEASING CO., LLC
LIBERTY LEASING CO., LLC
HOWARD LEASING CO., LLC
PALL MALL LEASING CO., LLC
WASHINGTON (MD) LEASING CO., LLC
MARYLAND NH ASSET, LLC
as Borrowers

and

OMG RE HOLDINGS, LLC
OMG RE LEASING CO., LLC
OMG ASSET OWNERSHIP, LLC
HEALTH CARE FACILITY MANAGEMENT, LLC
RESIDENT CARE CONSULTING, LLC
as Parent Guarantors

Dated: October 1, 2010

THIRD AMENDMENT TO LOAN AGREEMENT

(Maryland Acquisition Loan)

This Third Amendment to Loan Agreement (" Second Amendment") is dated as of October 1, 2010, and is by and among OHI ASSET III (PA) TRUST, a Maryland business trust ("Lender"), and BEL PRE LEASING CO., LLC, an Ohio limited liability company, RIDGE (MD) LEASING CO., LLC, an Ohio limited liability company, MARLBORO LEASING CO., LLC, an Ohio limited liability company, FAYETTE LEASING CO., LLC, an Ohio limited liability company, LIBERTY LEASING CO., LLC, an Ohio limited liability company, HOWARD LEASING CO., LLC, an Ohio limited liability company, PALL MALL LEASING CO., LLC, an Ohio limited liability company, WASHINGTON (MD) LEASING CO., LLC, an Ohio limited liability company, and MARYLAND NH ASSET, LLC, an Ohio limited liability company (each a "Borrower", and collectively, as the "Borrowers") and OMG RE HOLDINGS, LLC, an Ohio limited liability company (" RE Holdings"), OMG RE LEASING CO, LLC, an Ohio limited liability company ("RE Leasing"), and OMG ASSET OWNERSHIP, LLC, an Ohio limited liability company (" AO"), HEALTH CARE FACILITY MANAGEMENT, LLC, an Ohio limited liability company ("HCFM"), and RESIDENT CARE CONSULTING, LLC, an Ohio limited liability company ("RCC", and together with RE Holdings, RE Leasing, AO, and HCFM each a " Parent Guarantor" and collectively, the "Parent Guarantors").

RECITALS:

A. Borrowers and Parent Guarantors have executed and delivered to Lender a Loan Agreement dated April 18, 2008, as amended by that certain First Amendment to Loan Agreement dated as of March 15, 2009, and a Second Amendment to Loan Agreement dated as of November 3, 2009 (as amended, the "Existing Loan Agreement"), pursuant to which Lender has made a loan (the " Loan") to Borrowers. The Loan is evidenced by the Note and secured by the Loan Documents (as defined below).

B. Lender and the Borrowers desire to amend the Existing Loan Agreement as set forth in this Second Amendment.

NOW THEREFORE, the parties agree as follows:

1. Definitions.

(a) Any capitalized term used but not defined in this Second Amendment will have the meaning assigned to such term in the Existing Loan Agreement.

(b) The following term defined in Article I of the Existing Lease is hereby amended and restated in its entirety as follows:

Interest Rate: means the following annual rate for the following period of time:

Rate	Period
11%	April 18, 2008 thru April 30, 2018
13.75%	May 1, 2019 thru April 30, 2028
16.75%	Thereafter

Maturity Date: means April 30, 2022, as extended pursuant to Section 0.

2. Section 2.7. Section 2.7 of the Existing Loan Agreement is hereby amended and restated in its entirety as follows:

2.7 Extension of Maturity Date. Borrowers are hereby granted two (2) successive options to extend the Maturity Date (each an " Option to Extend"). The Options to Extend shall be for a period of ten (10) years each, such that if the first Option to Extend is exercised, the Maturity Date would be April 30, 2032 and if the first and second Options to Extend are exercised, the Maturity Date would be April 30, 2042. Borrowers' exercise of the first and second Options to Extend are subject to the following terms and conditions (which conditions may be waived by Lender in its sole discretion):

(a) An Option to Extend is exercisable only by Notice to Lender at least one hundred and eighty (180) days, and not more than three hundred sixty (360) days, prior to the Maturity Date;

(b) No Event of Default or Unmatured Event of Default shall have occurred and be continuing either at the time an option to extend is exercised or at the commencement of the extension period;

(c) All of the terms and conditions of this Agreement, the Note, the Deeds of Trust and the other Loan Documents shall remain in full force and effect; and

(d) Borrowers may only exercise their Options to Extend if the option to renew for a corresponding period of years under the Master Lease (the "Master Lease") is also exercised with respect to all (and no fewer than all) of the Leased Properties (as defined in the Master Lease) such that the Expiration Date (as defined in the Master Lease) and the Maturity Date are the same date.

3. Representations and Warranties.

(a) Each of Borrower and Parent Guarantor hereby confirms and makes all of the representations and warranties set forth in the Loan Agreement and other Loan Documents with respect to such Borrower or Parent Guarantor, this Second Amendment and the Loan Documents as of the date hereof and confirms that they are true and correct in all material respects.

(b) Each of Borrower and Parent Guarantor hereby represents and warrants as of the date of this Second Amendment as follows: (i) it is duly incorporated or organized, validly existing and in good standing under the laws of its jurisdiction of organization; (ii) the execution, delivery and performance by it of this Second Amendment and the Loan Documents, as applicable, are within its powers, have been duly authorized, and do not contravene (A) its articles of organization, operating agreement, or other organizational documents, or (B) any applicable law; (iii) no consent, license, permit, approval or authorization of, or registration, filing or declaration with any Governmental Authority or other Person (except for those that have already been obtained), is required in connection with the execution, delivery, performance, validity or enforceability of this Second Amendment or the

Loan Documents, as applicable, by or against it; (iv) this Second Amendment and the Loan Documents, as applicable, have been duly executed and delivered by it; (v) this Second Amendment and the Loan Documents, as applicable, constitute its legal, valid and binding obligations enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity; (vi) it is not in default under the Loan Agreement and no Event of Default or Unmatured Event of Default exists, has occurred or is continuing, and (vii) Lender has fully performed all of its obligations under each of the Loan Documents through the date of this Agreement, and Lender is in full compliance with its obligations under each of the Loan Documents.

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

5. Execution and Counterparts. This Second 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. Entire Agreement. This Second Amendment, together with the other Loan Documents, constitute the entire agreement of the parties in respect of the subject matter described herein. This Second Amendment may not be changed or modified except by an agreement in writing signed by the Lender and the Borrowers hereto.

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

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

[SIGNATURES APPEAR ON FOLLOWING PAGES]

LENDER:

OHI ASSET III (PA) TRUST

By: OHI Asset (PA), LLC, a Delaware limited liability company, its sole trustee

By: Omega Healthcare Investors, a Maryland corporation, its sole member

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

THE STATE OF MARYLAND)
)
COUNTY OF BALTIMORE)

This instrument was acknowledged before me on the 13th day of October, 2010, by Daniel J. Booth, the Chief Operating Officer of Omega Healthcare Investors, Inc., a Maryland corporation, the sole member of OHI Asset (PA), LLC, a Delaware limited liability company, the sole trustee of OHI Asset III (PA) Trust, a Maryland business trust, on behalf of said business trust.

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

BORROWERS:

BEL PRE LEASING CO., LLC
RIDGE (MD) LEASING CO., LLC
MARLBORO LEASING CO., LLC
FAYETTE LEASING CO., LLC
LIBERTY LEASING CO., LLC
HOWARD LEASING CO., LLC
PALL MALL LEASING CO., LLC
WASHINGTON (MD) LEASING CO., LLC
MARYLAND NH ASSET, LLC

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

PARENT GUARANTORS:

OMG RE HOLDINGS, LLC
OMG RE LEASING CO., LLC
OMG ASSET OWNERSHIP, LLC
HEALTH CARE FACILITY MANAGEMENT, LLC
RESIDENT CARE CONSULTING, LLC

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

STATE OF OHIO)
) ss.
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this 7th day of October, 2010, by Charles R. Stoltz, who is the CFO and Treasurer of the limited liability companies listed above, on behalf of all such limited liability companies.

Monica R. Humbert
Notary Public, Hamilton County, Ohio
My commission expires: 7/28/2012

FOURTH AMENDMENT TO LOAN AGREEMENT
(Maryland Acquisition Loan)

BETWEEN

OHI ASSET III (PA) TRUST, as Lender

and

BEL PRE LEASING CO., LLC
RIDGE (MD) LEASING CO, LLC
MARLBORO LEASING CO., LLC
FAYETTE LEASING CO., LLC
LIBERTY LEASING CO., LLC
HOWARD LEASING CO., LLC
PALL MALL LEASING CO., LLC
WASHINGTON (MD) LEASING CO., LLC
MARYLAND NH ASSET, LLC
as Borrowers

and

OMG RE HOLDINGS, LLC
OMG RE LEASING CO., LLC
OMG ASSET OWNERSHIP, LLC
HEALTH CARE FACILITY MANAGEMENT, LLC
RESIDENT CARE CONSULTING, LLC
as Parent Guarantors

Dated: December 31, 2010

FOURTH AMENDMENT TO LOAN AGREEMENT

(Maryland Acquisition Loan)

This Fourth Amendment to Loan Agreement (" Second Amendment") is dated as of December 31, 2010, and is by and among OHI ASSET III (PA) TRUST, a Maryland business trust ("Lender"), and BEL PRE LEASING CO., LLC, an Ohio limited liability company, RIDGE (MD) LEASING CO., LLC, an Ohio limited liability company, MARLBORO LEASING CO., LLC, an Ohio limited liability company, FAYETTE LEASING CO., LLC, an Ohio limited liability company, LIBERTY LEASING CO., LLC, an Ohio limited liability company, HOWARD LEASING CO., LLC, an Ohio limited liability company, PALL MALL LEASING CO., LLC, an Ohio limited liability company, WASHINGTON (MD) LEASING CO., LLC, an Ohio limited liability company, and MARYLAND NH ASSET, LLC, an Ohio limited liability company (each a "Borrower", and collectively, as the "Borrowers") and OMG RE HOLDINGS, LLC, an Ohio limited liability company (" RE Holdings"), OMG RE LEASING CO, LLC, an Ohio limited liability company (" RE Leasing"), and OMG ASSET OWNERSHIP, LLC, an Ohio limited liability company ("AO"), HEALTH CARE FACILITY MANAGEMENT, LLC, an Ohio limited liability company (" HCFM"), and RESIDENT CARE CONSULTING, LLC, an Ohio limited liability company ("RCC", and together with RE Holdings, RE Leasing, AO, and HCFM each a " Parent Guarantor" and collectively, the "Parent Guarantors").

RECITALS:

A. Borrowers and Parent Guarantors have executed and delivered to Lender a Loan Agreement dated April 18, 2008, as amended by that certain First Amendment to Loan Agreement dated as of March 15, 2009, a Second Amendment to Loan Agreement dated as of November 3, 2009, and a Third Amendment to Loan Agreement dated as of October 1, 2010 (as amended, the "Existing Loan Agreement"), pursuant to which Lender has made a loan (the "Loan") to Borrowers. The Loan is evidenced by the Note and secured by the Loan Documents (as defined below).

B. Lender and the Borrowers desire to amend the Existing Loan Agreement as set forth in this Second Amendment.

NOW THEREFORE, the parties agree as follows:

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

2. Section 2.8. Section 2.8 of the Existing Loan Agreement is hereby amended by deleting the following third (3rd) sentence thereof:

"After receipt of approval as to any specific Scheduled Improvement, the Borrowers shall promptly undertake, and complete each such Scheduled Improvement on or before December 31, 2010."

and by replacing such third (3rd) sentence with the following:

"After receipt of approval as to any specific Scheduled Improvement, the Borrowers shall promptly undertake, and complete each such Scheduled Improvement on or before December 31, 2011."

3. Exhibit C. Exhibit C to the Existing Loan Agreement is hereby amended and restated in its entirety by Exhibit C to this Amendment.

4. Section 3.4. Section 3.4 of the Existing Loan Agreement is hereby amended and restated in its entirety as follows:

3.3 Release of Certain Facilities during First Three Years .

(a) On or before the third anniversary of the Closing, provided that (i) no Event of Default has occurred and is continuing under the Loan Documents, (ii) no Unmatured Event of Default has occurred and is continuing, and (iii) Borrowers are selling the Facility or Facilities to an unrelated third party, upon the payment to Lender of the applicable release payment set forth below (each a "Three Years Release Payment"), Lender would agree to release the applicable Facility listed below (each a "Three Years Facility") from the lien of the Loan Documents. No Prepayment Premium would be payable in connection with such prepayment and release. The initial release prices (to be increased by any reallocations as discussed below or any funded capex under Section 2.8) are:

Facility Name	Initial Release Payment
Liberty Heights Health & Rehabilitation Center 4017 Liberty Heights Avenue Baltimore MD 21207	$ 8,018,877.12
Franklin Square Health & Rehabilitation Center 1217 W. Fayette Street Baltimore MD 21223	$11,294,353.32

Each Third Year Release Payment will increase 2.5% per year (compounding) on each anniversary of the Closing and pursuant to subparagraph (b) below.

(b) If, after exercising reasonable efforts to sell any Three Years Facility, Borrowers are unable to find a buyer willing to pay an amount sufficient to satisfy the applicable Three Years Release Payment, then Lender will accept as a Three Years Release Payment a lower release payment provided that: (i) the release payment is no less than 50% of the otherwise applicable Third Year Release Payment, and (ii) after giving effect to the sale of the Facility and the pay down of the Loan, the Borrowers remain in compliance with the Cash Flow Coverage Ratio and Combined Cash Flow Coverage Ratio required as of the date of the payment. The difference between the actual release payment and the Three Years Release Payment shall be reallocated among the remaining Facilities in proportion to the number of licensed beds at each remaining Facility bears to the total number of licensed

beds at all Facilities, which reallocation shall also increase the Third Year Release Payment under this Section and the Seventh Year Release Payment under Section 3.4 in the amount reallocated to such Facilities.

(c) Borrowers must sell the Facilities to unrelated third parties in order for the Facilities to be released from the lien of the Loan Documents pursuant to this Section.

(d) Upon payment of the applicable Third Year Release Payment, the amount of the Security Deposit required under this Agreement and the Master Lease will be reduced by an amount equal to (i) the amount of the applicable Third Year Release Payment actually paid to Lender *multiplied by* (ii) the Interest Rate *divided by* (iii) four (4).

(e) Upon payment of the applicable Third Year Release Payment, Lender shall release the applicable Facility from the Option to Purchase.

5. Section 3.4. Section 3.4 of the Existing Loan Agreement is hereby amended and restated in its entirety as follows:

3.4 Release of Certain Facilities after Seven Years .

During the one year period commencing on the seventh anniversary of the Closing, provided that (i) no Event of Default has occurred and is continuing under the loan documents, (ii) no Unmatured Event of Default has occurred and is continuing, (iii) the prepayment is made concurrently with respect to all such Facilities (to the extent they have not previously been released as provided for in Section 3.3), and (iv) the Lessee Purchase Option is closed concurrently, upon the payment to Seller of $40,372,426.00 (as such amount may be increased or reduced pursuant to Sections 3.3(b) and 3.4(b), the "Seventh Year Release Payment"), Seller will release the Facilities listed below from the lien of the Loan Documents. No Prepayment Premium would be payable in connection with such prepayment and release. Borrowers would not be obligated to sell the Facilities in connection with such prepayment and release. The Facilities covered by this Section are as follows:

Bel Pre Health & Rehabilitation Center
2601 Bel Pre Road
Silver Spring MD 20906

Liberty Heights Health & Rehabilitation Center
4017 Liberty Heights Avenue
Baltimore MD 21207

Marley Neck Health & Rehabilitation Center
7575 E. Howard Road
Glen Burnie MD 21060

Franklin Square Health & Rehabilitation Center
1217 W. Fayette Street
Baltimore MD 21223

(a) The Seventh Year Release Payment will be reduced by the amount any Third Year Release Payment paid in connection with any of the Seventh Year Facilities which are also Third Year Facilities.

(b) If Borrowers do not sell or otherwise transfer the Facilities to third parties, but instead continue to own and operate them, then upon payment of the Seventh Year Release Payment and release of the Seventh Year Facilities from the lien of the Loan Documents, the ownership of the applicable Borrowers which own or operate such Facilities shall be transferred such that HCREH and the Parent Guarantors no longer own or control such Borrowers. Upon such transfer, Lender will release such Borrowers from their obligations arising under the Loan Document and their guaranty of the Master Lease and the City View Loan.

(c) Upon payment of the Seventh Year Release Payment, the amount of the Security Deposit required under this Agreement and the Master Lease will be reduced by an amount equal to (i) the amount of the Seventh Year Release Payment actually paid to Lender *multiplied by* (ii) the Interest Rate *divided by* (iii) four (4).

(d) Upon payment of the Seventh Year Release Payment, Lender shall release the Facilities covered by this Section from the Option to Purchase.

6. Representations and Warranties .

(a) Each of Borrower and Parent Guarantor hereby confirms and makes all of the representations and warranties set forth in the Loan Agreement and other Loan Documents with respect to such Borrower or Parent Guarantor, this Second Amendment and the Loan Documents as of the date hereof and confirms that they are true and correct in all material respects.

(b) Each of Borrower and Parent Guarantor hereby represents and warrants as of the date of this Second Amendment as follows: (i) it is duly incorporated or organized, validly existing and in good standing under the laws of its jurisdiction of organization; (ii) the execution, delivery and performance by it of this Second Amendment and the Loan Documents, as applicable, are within its powers, have been duly authorized, and do not contravene (A) its articles of organization, operating agreement, or other organizational documents, or (B) any applicable law; (iii) no consent, license, permit, approval or authorization of, or registration, filing or declaration with any Governmental Authority or other Person (except for those that have already been obtained), is required in connection with the execution, delivery, performance, validity or enforceability of this Second Amendment or the Loan Documents, as applicable, by or against it; (iv) this Second Amendment and the Loan Documents, as applicable, have been duly executed and delivered by it; (v) this Second Amendment and the Loan Documents, as applicable, constitute its legal, valid and binding obligations enforceable against it in accordance with its terms, except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting the enforcement of creditors' rights generally or by general principles of equity; (vi) it is not in default under the Loan Agreement and no Event of Default or Unmatured Event of Default exists, has occurred or is continuing, and (vii) Lender has fully performed all of its obligations under each of the Loan Documents through the date of this Agreement, and Lender is in full compliance with its obligations under each of the Loan Documents.

7. Expenses of Lender. Borrowers shall pay all reasonable expenses of Lender incurred in connection with this Second Amendment, including reasonable attorneys fees and expenses.

8. Execution and Counterparts. This Second 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.

9. Entire Agreement. This Second Amendment, together with the other Loan Documents, constitute the entire agreement of the parties in respect of the subject matter described herein. This Second Amendment may not be changed or modified except by an agreement in writing signed by the Lender and the Borrowers hereto.

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

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

[SIGNATURES APPEAR ON FOLLOWING PAGES]

LENDER:

OHI ASSET III (PA) TRUST

By: OHI Asset (PA), LLC, a Delaware limited liability company, its sole trustee

By: Omega Healthcare Investors, a Maryland corporation, its sole member

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

THE STATE OF MARYLAND)
)
COUNTY OF BALTIMORE)

This instrument was acknowledged before me on the 28th day of December, 2010, by Daniel J. Booth, the Chief Operating Officer of Omega Healthcare Investors, Inc., a Maryland corporation, the sole member of OHI Asset (PA), LLC, a Delaware limited liability company, the sole trustee of OHI Asset III (PA) Trust, a Maryland business trust, on behalf of said business trust.

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

BORROWERS:

BEL PRE LEASING CO., LLC
RIDGE (MD) LEASING CO., LLC
MARLBORO LEASING CO., LLC
FAYETTE LEASING CO., LLC
LIBERTY LEASING CO., LLC
HOWARD LEASING CO., LLC
PALL MALL LEASING CO., LLC
WASHINGTON (MD) LEASING CO., LLC
MARYLAND NH ASSET, LLC

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

PARENT GUARANTORS:

OMG RE HOLDINGS, LLC
OMG RE LEASING CO., LLC
OMG ASSET OWNERSHIP, LLC
HEALTH CARE FACILITY MANAGEMENT, LLC
RESIDENT CARE CONSULTING, LLC

By: /s/ Charles R. Stoltz
Name: Charles R. Stoltz
Title: CFO and Treasurer

STATE OF OHIO)
) ss.
COUNTY OF HAMILTON)

The foregoing instrument was acknowledged before me this 29 day of December, 2010, by Charles R. Stoltz, who is the CFO and Treasurer of the limited liability companies listed above, on behalf of all such limited liability companies.

Kathleen M. Portman
Notary Public, Hamilton County, Ohio
My commission expires: 3/28/2012

EXHIBIT C

SCHEDULED IMPROVEMENTS

Facility	Address	City	ST	Allocation of $3.775M CAP-EX (1)
Bel Pre Health & Rehabilitation Center	2601 Bel Pre Road	Silver Spring	MD	$ 268,464.07
Ellicott City Health & Rehabilitation Center	3000 N. Ridge Road	Ellicott City	MD	$ 532,109.32
Forestville Health & Rehabilitation Center	7420 Marlboro Pike	Forestville	MD	$ 1,133,252.98
Franklin Square Health & Rehabilitation Center (Fayette)	1217 W. Fayette Street	Baltimore	MD	$ 995,122.99
Liberty Heights Health & Rehabilitation Center	4017 Liberty Heights Avenue	Baltimore	MD	$ 443,367.58
Marley Neck Health & Rehabilitation Center	7575 E. Howard Road	Glen Burnie	MD	$ 200,769.96
South River Health & Rehabilitation Center	144 Washington Road	Edgewater	MD	$ 201,913.10
		Total		$ 3,775,000

Specific improvements, budgets, and plans must be approved prior to the commencement of any improvement.

THIRD AMENDED AND RESTATED

MASTER LEASE AGREEMENT

Among

THE LESSOR ENTITIES IDENTIFIED ON THE SIGNATURE PAGE HEREOF

THE LESSEE ENTITIES IDENTIFIED ON THE SIGNATURE PAGE HEREOF

AND

THE GUARANTOR ENTITIES IDENTIFIED ON THE SIGNATURE PAGE HEREOF

Dated As Of

November 4, 2010

TABLE OF CONTENTS

THIS THIRD AMENDED AND RESTATED MASTER LEASE AGREEMENT (this " Master Lease"), is made and entered into on this 4th day of November, 2010 to be effective as of the Amended Lease Release Date by and among the lessor entities identified on the signature page hereof (collectively, the "Lessor," and where the context requires, each, a "Lessor"), and the lessee entities listed on the signature page hereof (collectively, jointly and severally, the " Lessee," and where the context requires, each, a "Lessee").

RECITALS

The circumstances underlying the execution of this Master Lease are as follows:

A. Capitalized terms used in this Master Lease and not otherwise defined herein are defined in Article II hereof.

B. Pursuant to a Second Amended and Restated Master Lease Agreement dated as of February 1, 2008, as amended by a First Amendment to Second Amended and Restated Master Lease Agreement dated as of August 26, 2008, and a Second Amendment to Second Amended and Restated Master Lease dated as of February 26, 2009 (the "Existing Sun Master Lease"), among certain of the entities comprising Lessor, certain of the entities comprising Lessee, Omega and SHG, Lessee leases from Lessor, as of the Amended Lease Release Date, forty (40) long term nursing, rehabilitation hospitals or other health care facilities.

C. Pursuant to a Second Amended and Restated Guaranty, dated as of February 1, 2008 (as amended, supplemented or otherwise modified from time to time, the "ExistingGuaranty"), SHG guaranteed the obligations of each of the entities comprising Lessee under the Existing Sun Master Lease.

D. Pursuant to separate Guaranties dated as of February 1, 2008, each of Harborside Guarantor and the Peak Guarantor guaranteed the obligations of each of the entities comprising Lessee under the Existing Sun Master Lease. Concurrently herewith, the Harborside Guarantor and the Peak Guarantor have ratified and affirmed their obligations under such guaranties.

E. Pursuant to the Agreement Re Separation, SHG, New Sun, and Omega agreed, among other things, as of the Amended Lease Release Date to (i) amend and restate in its entirety the Existing Sun Master Lease as set forth in this Master Lease, (ii) terminate the Existing Guaranty, and (ii) replace the Existing Guaranty with a new guaranty from New Sun.

G. A list of the forty (40) facilities covered by this Master Lease as of the Commencement Date is attached hereto as Exhibit A (the "Facilities")

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

1.1 Lease. Upon and subject to the terms and conditions set forth in this Master Lease, from and after the Amended Lease Release Date, Lessor shall continue to lease to Lessee, and Lessee shall continue to lease from Lessor, the Leased Properties upon which the forty (40) Facilities listed on attached Exhibit A are located, on the terms and conditions set forth herein, it being the express intention of the parties that the leasehold estates governed by this Master Lease shall be one and the same as the leasehold estates created under the Existing Sun Master Lease.

The term "Leased Properties" as of the Commencement Date means all of Lessor's right, title and interest in and to the real properties described on Exhibit B to this Master Lease (the "Land") and all of the following:

(i) all buildings, structures, Fixtures (as hereinafter defined) and other improvements of every kind including, but not limited to, alleyways and connecting tunnels, sidewalks, utility pipes, conduits and lines (on-site and off-site), parking areas and roadways appurtenant to such buildings and structures presently situated upon the Land (collectively, the "Leased Improvements");

(ii) all easements, rights and appurtenances relating to the Land and the Leased Improvements (collectively, the " Related Rights");

(iii) all permanently affixed equipment, machinery, fixtures, and other items of real and/or personal property, including all components thereof, now and hereafter located in, on or used in connection with, and permanently affixed to or incorporated into the Leased Improvements, including, without limitation, all furnaces, boilers, heaters, electrical equipment, heating, plumbing, lighting, ventilating, refrigerating, incineration, air and water pollution control, waste disposal, air-cooling and air-conditioning systems and apparatus (other than individual units), sprinkler systems and fire and theft protection equipment, and built-in oxygen and vacuum systems, all of which to the greatest extent permitted by law, are hereby deemed by the parties hereto to constitute real estate, together with all replacements, modifications, alterations and additions thereto but specifically excluding all items included within the categories of Lessor's Personal Property (defined below) (collectively the "Fixtures"); and

(iv) all of the Personal Property (including intangibles), now or hereafter located on the Land or in the Leased Improvements, together with any and all replacements thereof, which is the property of Lessor, and all Personal Property that pursuant to the terms of this Master Lease becomes the property of Lessor during the Term ("Lessor's Personal Property"); provided, however that the term "Lessor's Personal Property" shall expressly exclude Cash, Accounts, Lessee's Personal Property and all proceeds thereof.

In the event that, at anytime during the Term, this Master Lease, by its terms, terminates as to any portion of the Leased Properties, then effective from and after such termination and without the need by any of the parties to execute any amendments to this Master Lease, the "Leased Properties" shall refer to that portion of the Leased Properties which continues to be subject to the terms of this Master Lease. The Leased Properties are leased subject to all covenants, conditions, restrictions, easements and other matters affecting the Leased Properties as of the Commencement Date and such subsequent covenants, conditions, restrictions, easement and other matters as may be agreed to by Lessor or Lessee in accordance with the terms of this Lease, whether or not of record, including the Permitted Encumbrances and other matters which would be disclosed by an inspection or accurate survey of the Leased Properties. Lessor represents and warrants to Lessee that as of the Commencement Date it has no actual knowledge of any covenants, conditions, restrictions, easement or other matters affecting the Leased Properties which is not of record.

1.2 Single, Indivisible Lease. This Master Lease constitutes one indivisible lease of the Leased Properties and not separate leases governed by similar terms. The Leased Properties constitute one economic unit, and the Base Rent and all other provisions have been negotiated and agreed to based on a demise of all of the Leased Properties to Lessee as a single, composite, inseparable transaction and would have been substantially different had separate leases or a

divisible lease been intended. Except as expressly provided in this Master Lease for specific, isolated purposes (and then only to the extent expressly otherwise stated), all provisions of this Master Lease apply equally and uniformly to all of the Leased Properties as one unit. An Event of Default with respect to any Leased Property is an Event of Default as to all of the Leased Properties. The parties intend that the provisions of this Master Lease shall at all times be construed, interpreted and applied so as to carry out their mutual objective to create an indivisible lease of all of the Leased Properties and, in particular but without limitation, that, for purposes of any assumption, rejection or assignment of this Master Lease under 11 U.S.C. Section 365, this is one indivisible and non-severable lease and executory contract dealing with one legal and economic unit and that this Master Lease must be assumed, rejected or assigned as a whole with respect to all (and only as to all) of the Leased Properties.

1.3 Joint and Several Obligation. Lessee acknowledges that collectively they are jointly and severally liable for the payment of all sums payable and for the performance of all obligations performable, by one or more of the Lessees. Notwithstanding the foregoing, however, no Lessee shall, by virtue of this Master Lease, have any rights to, or title or interest in, the Leased Property or Properties leased by another Lessee or any obligation to operate the same to the extent it is not licensed to do so under applicable law.

1.4 Term.

1.4.1 The initial continued term of this Master Lease (" Initial Continued Term"):

(i) commenced on December 1, 2003 and shall end on December 31, 2013 for the Continued Facilities; and

(ii) commenced on February 1, 2008 and shall end on December 31, 2013 for the Harborside Facilities;

in each case, subject to renewal as set forth in Section 1.5 below.

1.4.2 The initial term of the Master Lease for the Litchfield Facilities (the " Initial Litchfield Term") commenced on February 1, 2008 and shall end on September 30, 2017, subject to renewal as set forth in Section 1.5 below.

1.5 Options to Renew. Lessee is hereby granted two (2) successive options to renew this Master Lease as to the Facilities (each a " Option to Renew"), with the first such Option to Renew being, with respect to the Non-Litchfield Facilities, for the period from January 1, 2014 through December 31, 2025 and, with respect to the Litchfield Facilities, for the period from October 1, 2017 through December 31, 2025, and the second such option being, with respect to all of the Facilities, for the period from January 1, 2026 through December 31, 2035. The Options to Renew are subject to the following terms and conditions (which conditions may be waived by Lessor in its sole discretion):

(a) An Option to Renew is exercisable only by Notice to Lessor at least three hundred and sixty-five (365) days, and not more than five hundred forty-five (545), prior to the expiration of the Initial Continued Term (or prior to the expiration of the period covered by the preceding Option to Renew, as the case may be);

(b) No Event of Default shall have occurred and be continuing either at the time an Option to Renew is exercised or at the commencement of the period covered by each Option to Renew;

(c) During the period covered by each Option to Renew, except as otherwise specifically provided for herein, all of the terms and conditions of this Master Lease shall remain in full force and effect; and,

(d) Lessee may exercise its Option to Renew with respect to all (and no fewer than all) of the Facilities which are subject to this Master Lease at the time of exercise of each Option to Renew, it being understood and agreed, however, that upon the exercise of the first Option to Renew, the affect shall be to automatically renew the Initial Litchfield Term upon the expiration thereof not upon the earlier expiration of the Initial Continued Term.

1.6 Lessor Funded Capital Expenditures. The funding of certain capital expenditures by Lessor shall be governed by Exhibit C-1 to this Master Lease.

1.7 Lessor Performance of certain Capital Expenditures. The performance by Lessor of certain capital expenditures shall be governed by Exhibit C-2 to this Master Lease.

1.8 Funded Amount and Additional Project Rent. As of October 31, 2010, the Funded Amount and Additional Project Rent under Exhibits C-1 and C-2 was as set forth on Exhibit C-3, with such Additional Project Rent included or excluded from the Base Rent amounts set forth in Section 2.1 as indicated on Exhibit C-3.

ARTICLE II

2.1 Definitions. For all purposes of this Master Lease, except as otherwise expressly provided or unless the context otherwise requires, (i) the terms defined in this Article II include the plural as well as the singular, (ii) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with GAAP as at the time applicable, (iii) all references in this Master Lease to designated "Articles," "Sections" and other subdivisions are to the designated Articles, Sections and other subdivisions of this Master Lease, and (iv) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Master Lease as a whole and not to any particular Article, Section or other subdivision.

Accounts: All accounts, all rights to payment or reimbursement for goods sold or leased or services rendered (including, without limitation, Medicare, Medicaid and other third party reimbursed receivables) and all accounts receivable, in each case whether or not evidenced by a contract, document, instrument or chattel paper and whether or not earned by performance, including without limitation, the right to payment of management fees and all proceeds of the foregoing.

Action: Any claim, demand, action or proceeding.

Additional Charges: As defined in Article III.

Affiliate: When used with respect to any corporation, limited liability company, or partnership, the term "Affiliate" shall mean any person which, directly or indirectly, controls or is controlled by or is under common control with such corporation, limited liability company or partnership. For the purposes of this

definition, “control” (including the correlative meanings of the terms “controlled by” and “under common control with”), as used with respect to any Person, shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, through the ownership of voting securities, partnership interests or other equity interests.

Agreement Re Separation: The Agreement Re Separation dated as of the date of this Lease among SHG, New Sun, and Omega.

Allocated Current Rent: As defined in Section 3.9.

Amended Lease Release Date: As defined in the Agreement re Separation. Upon the request of either party, Lessor and Lessee shall execute a written confirmation of the Amended Lease Release Date.

Applicable Rate: A rate of interest per annum equal to the *higher* of: (a) six percent (6%) and (b) 375 basis points above LIBOR.

Article XXXVI Default Notice: As defined in Section 36.8.

Assessment: Any assessment on the Leased Properties or any part of any of them for public improvements or benefits whether or not commenced or completed prior to the date hereof and whether or not to be completed within the Term.

Assumed Indebtedness: Any indebtedness or other obligations expressly assumed by or taken subject to by Lessor, existing on the Commencement Date and, secured by a mortgage, deed of trust or other security agreement in or on the related Leased Property.

Award: As defined in Article XV.

Base Rent: means the sum of (i) the Non-Litchfield Base Rent and (ii) the Litchfield Base Rent.

Board: The Board of Directors of New Sun.

Business Day: Any day other than a Saturday, Sunday or holiday on which banks in New York City, New York are required or permitted to be closed.

Capital Stock: (i) With respect to any Person that is a corporation, any and all shares, interests, participations or other equivalents (however designated) of capital or capital stock of such Person and (ii) with respect to any Person that is not a corporation, any and all partnership, limited partnership, limited liability company or other equity interests of such Person.

Capitalized Leases: Leases that in accordance with GAAP are required to be capitalized for financial reporting purposes.

Cash: Cash and cash equivalents and all instruments evidencing the same or any right thereto and all proceeds thereof.

Cash Flow: For any period, the sum of (a) Net Income of Lessee arising solely from the operation of the Facilities for the applicable period, and (b) the amounts deducted in computing Lessee’s Net Income for the period for (i) depreciation, (ii) amortization, (iii) Base Rent, (iv) interest (including payments in the nature of interest under Capitalized Leases and interest on any Purchase Money Financing), (v) income taxes (or, if greater, income tax actually paid during the period) and (vi) management fees, and less (c) an imputed management fee equal to five percent (5%) of gross revenues.

Cash Flow to Rent Ratio: For any fiscal period, the ratio of Cash Flow to Base Rent.

Code: The Internal Revenue Code of 1986, as amended.

Collateral: As defined in the Security Agreement.

Commencement Date: means February 1, 2008 for the Harborside Facilities and the Litchfield Facilities, and December 1, 2003 for all Continued Facilities.

Condemnation, Condemnor: As defined in Article XV.

Continued Facilities: All Facilities other than the Harborside Facilities and the Litchfield Facilities.

Conversion: As defined in the Agreement re Separation.

CPI: The United States Department of Labor, Bureau of Labor Statistics Revised Consumer Price Index for All Urban Consumers (1982-84=100), U.S. City Average, All Items, or, if that index is not available at the time in question, the index designated by such Department as the successor to such index, and if there is no index so designated, an index for an area in the United States that most closely corresponds to the entire United States, published by such Department, or if none, by any other instrumentality of the United States.

Date of Taking: As defined in Article XV.

Discretionary Transferee: An entity that (a) has sufficient operating experience and history and sufficient assets and income, in Lessor’s reasonable judgment, to bear the financial responsibilities of Lessee under this Master Lease; (b) is, in Lessor’s reasonable judgment, a reputable person or entity of good character and has a general business reputation for providing quality healthcare services reasonably compatible with the services provided by Lessee; (c) shall not have, and whose Affiliates shall not have, within the twenty-four month period immediately preceding the date of any proposed assignment or transfer to such entity, had any license or certification to operate any skilled nursing facility or assisted living facility revoked by any governmental authority due to either (1) a material and continuing failure by such proposed transferee or assignee or any of its Affiliates to operate such facility in substantial compliance with applicable law, which failure, as reasonably determined by Lessor, materially and adversely impacts (as a whole) such transferee’s or assignee’s business, operations, financial condition, or business reputation, or (2) due to the gross negligence or willful misconduct of such proposed transferee or assignee or any of its Affiliates; (d) shall be licensed or certified for the operation of the Leased Property as of the date of any proposed assignment or transfer to such entity and (e) if necessary, causes a replacement guarantor with sufficient assets and income, in Lessor’s reasonable judgment, to bear the financial responsibilities of Guarantor under the Guaranty to

provide a replacement guaranty in substantially the same form as the Guaranty with respect to all obligations of the Lessee under this Master Lease arising or accruing from and after the date of the proposed assignment or transfer.

Encumbrance: Any mortgage, deed of trust, lien, encumbrance or other matter affecting title to any of the Leased Properties, or any portion thereof or interest therein.

Event of Default: As defined in Article XVI.

Exchange Act: The Securities Exchange Act of 1934, as amended.

Excluded Lessee's Personal Property: All vehicles, business office equipment, including computer hardware, software and peripherals, telephone systems and Specialized Medical Equipment owned or leased by Lessee and used in connection with the operation of the Leased Properties.

Executive Officer: Any of the Chairman of the Board, the President, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, any Vice President and the Secretary of any corporation, a general partner of any partnership and a managing member of any limited liability company upon which service of a Notice is to be made.

Existing Sun Master Lease: As defined in Recital B.

Expiration Date: As to the Non-Litchfield Facilities, December 31, 2013 if no Renewal Option has been exercised, December 31, 2025 if the first Renewal Option has been exercised, or December 31, 2035 if the first and second Renewal Options have been exercised, and, as to the Litchfield Facilities, September 30, 2017 if no Renewal Option has been exercised, December 31, 2025 if the first Renewal Option has been exercised, or December 31, 2035 if the first and second Renewal Options have been exercised.

Facilit(y)(ies): The licensed nursing homes, rehabilitation hospitals or other health care facilities being operated on the Leased Propert(y)(ies).

Facility Mortgage: As defined in Section 13.1, and any loan documents related to such mortgage.

Facility Mortgage Reserve Account: As defined in Section 33.2.2.

Facility Mortgagee: As defined in Section 13.1.

Facility Mortgage Documents: Shall mean with respect to each Facility Mortgage and Facility Mortgagee, the applicable Facility Mortgage, loan or credit agreement, lease, note, collateral assignment instruments, guarantees, indemnity agreements and other documents or instruments evidencing, securing or otherwise relating to the loan made, credit extended, lease or other financing vehicle pursuant thereto.

Facility Trade Name: As defined in Section 33.2.

Financial Statements: For a fiscal year period, statements of New Sun's earnings and retained earnings and of changes in financial position and profit and loss for such period and for the period from the beginning of the respective fiscal year to the end of such period and the related balance sheet as at the end of such period, together with the notes thereto, all in reasonable detail and setting forth in comparative form the corresponding figures for the corresponding period in the preceding fiscal year and prepared in accordance with GAAP and reported on by a "big four" or other nationally recognized accounting firm approved by Lessor, which approval will not be unreasonably withheld or delayed from the beginning of the fiscal year to the end of such period.

Financials: Unaudited statements of a the financial performance or condition of any of (i) each Guarantor or the Guarantors, taken as a whole or (ii) each Facility individually, and the Facilities, taken as a whole, whether or not fulfilling the requirements for Financial Statements.

Fiscal Year: The annual period commencing January 1 and terminating December 31 of each year.

Fixtures: As defined in Section 1.1.

GAAP: Generally accepted accounting principles consistent with those applied in the preparation of financial statements.

Guarantor or Guarantors: One, some or all of New Sun, Harborside Guarantor, Peak Guarantor or any successor entity that guaranties the payment or collection of all or any portion of the amounts payable by Lessee, or the performance by Lessee of all or any of its obligations, under this Master Lease.

Guarantor Lender: As defined in the Security Agreement.

Guaranty: Any guaranty executed by a Guarantor in favor of Lessor, as the same may be amended or supplemented from time to time.

Harborside Facilities: means the Facilities commonly known as:

Name	Address
Falmouth Nursing & Rehab Center	359 Jones Road, Falmouth, MA
Mashpee Nursing & Rehab Center	161 Falmouth Road, Rte 128, Mashpee, MA
Wakefield Nursing & Rehab Center	1 Bathol Street, Wakefield, MA
Westfield Nursing & Rehab Center	60 East Silver Street, Westfield, MA

Harborside Guarantor: Harborside Healthcare, LLC, a Delaware limited liability company.

Hazardous Substances: As defined in Section 7.3.

Impositions: Collectively, all taxes (including, without limitation, all capital stock and franchise taxes of Lessor, all ad valorem, sales and use, single business, gross receipts, transaction privilege, rent or similar taxes), assessments (including Assessments as herein defined), ground rents, water, sewer or

other rents and charges, excises, tax levies, fees (including, without limitation, license, permit, inspection, authorization and similar fees), and all other governmental charges, in each case whether general or special, ordinary or extraordinary, or foreseen or unforeseen, of every character in respect of the Leased Properties or the business conducted thereon by Lessee and/or the Rent (including all interest and penalties thereon due to any failure of payment by Lessee) applicable to periods of time commencing on the Possession Date (unless any Tenant's obligations for any portion of such period has been discharged as a matter of law) and ending on the expiration of the Term hereof which at any time during or in respect of such period hereof may be assessed or imposed on or in respect of or be a lien upon (i) Lessor or Lessor's interest in the Leased Properties, (ii) the Leased Properties or any part thereof or any rent therefrom or any estate, right, title or interest therein, or (iii) any occupancy, operation, use or possession of, or sales from, or activity conducted on, or in connection with the Leased Properties or the leasing or use of the Leased Properties or any part thereof or (iv) the Rent. The term "Imposition" shall not include: (a) any tax based on gross or net income (whether denominated as a franchise or capital stock or other tax) imposed on Lessor generally and not specifically arising in connection with the Leased Properties, but Lessee shall pay any tax hereafter specifically imposed on Rent received by Lessor from Lessee, or (b) any net revenue tax of Lessor or any other person, or (c) any tax imposed with respect to the sale, exchange or other disposition by Lessor of the Leased Properties or the proceeds thereof or (d) any principal or interest on any Assumed Indebtedness on the Leased Properties or any other indebtedness of Lessor, except to the extent that any tax, assessment, tax levy or charge, which Lessee is obligated to pay pursuant to the first sentence of this definition and which is in effect at any time during the Term hereof is totally or partially repealed, and a tax, assessment, tax levy or charge set forth in clause (a) or (b) is levied, assessed or imposed in lieu thereof.

Initial Consolidated Net Worth: The consolidated net worth of New Sun as shown on the first balance sheet filed with the SEC on or after the Amended Lease Release Date of this Master Lease.

Initial Continued Term: As defined in Section 1.4.1.

Initial Litchfield Term: As defined in Section 1.4.2.

Insurance Requirements: All terms of any insurance policy required by this Master Lease and all requirements of the issuer of any such policy.

Judgment Date: The date on which a judgment is entered against a Lessee that establishes, without the possibility of appeal, the amount of liquidated damages to which Lessor is entitled under this Master Lease.

Land: As defined in Section 1.1.

Lease Year: January 1 through the following December 31 during the Term. If this Master Lease is terminated before the end of any Lease Year, the final Lease Year for purposes of such terminated lease will be January 1 through the date of termination thereof.

Leased Properties: As defined in Section 1.1.

Legal Requirements: As to the Leased Properties, all federal, state, county, municipal and other governmental statutes, laws, rules, orders, regulations, ordinances, judgments, decrees and injunctions affecting either the Leased Properties or the construction, use or alteration thereof, whether now or hereafter enacted and in force, including any which may (i) require repairs, modifications or alterations in or to any of the Leased Properties or (ii) in any way adversely affect the use and enjoyment thereof, and all permits, licenses and authorizations and regulations relating thereto including, but not limited to, those relating to existing healthcare licenses, those authorizing the current number of licensed beds and the level of services delivered from the Leased Properties, and all covenants, agreements, restrictions and encumbrances contained in any instruments, either of record or known to Lessee at any time in force affecting any Leased Property (other than covenants, agreements, restrictions and encumbrances created by Lessor with the consent of Lessee, which consent shall not be unreasonably withheld or delayed, providing that such covenants, agreements, restrictions and encumbrances will not materially and adversely affect Lessee's leasehold rights hereunder).

Lessee Encumbrances: All real estate taxes, assessments, water charges, requirements of municipal or other governmental authorities, or other covenants, agreements, matters or things which are the obligation of Lessee or its Affiliates to pay, comply with, conform to or discharge under the provisions of this Master Lease, the Litchfield Peak Lease, or the Harborside Master Lease; and all liens, encumbrances, violations, charges or conditions that are due to any act or omission of Lessee.

Lessee's Leasehold Award: As defined in Section 15.4.

Lessee's Personal Property: Personal Property owned or leased by Lessee that is not included within the definition of the term "Lessor's Personal Property" but is used by Lessee in the operation of the Facilities, including, but not limited to, the Excluded Lessee's Personal Property and any Personal Property hereinafter provided by Lessee in compliance with Section 6.3 hereof, but specifically excluding Cash and Accounts.

Lessee's Personal Property Award: As defined in Section 15.4.

Lessor: As defined in the lead in paragraph to this Master Lease.

Lessor Indemnified Party: Lessor and each of Lessor's officers, directors, employees, agents and affiliates and each person that controls (within the meaning of Section 20 of the Exchange Act) any of the foregoing persons.

Lessor's Personal Property: As defined in Section 1.1.

Letter of Credit Agreement: An agreement Lessor, Lessee and Guarantor, as the same may be amended, modified, replaced or restated from time to time, providing for a letter of credit to be delivered to Lessor as the Security Deposit.

Limited Remedies Event of Default: As defined in Section 16.4.

Litchfield Base Rent:

(A) During the Initial Litchfield Term, the Litchfield Base Rent shall be:

(i) For the period prior to the Amended Lease Release Date, the amounts set forth in the Existing Sun Master Lease;

(ii) For the period from the Amended Lease Release Date through September 30, 2011, the monthly sum of Five Hundred Fifty Seven Thousand Six Hundred Eighteen and 19/100 Dollars ($557,618.19), which on an annualized basis is Six Million Six Hundred Ninety One Thousand Four Hundred Eighteen and 28/100 Dollars ($6,691,418.28) (the "2010 Annualized Litchfield Base Rent");

(iii) For Lease Year commencing October 1, 2011, the 2010 Annualized Litchfield Base Rent, increased by an amount equal to the 2010 Annualized Litchfield Base Rent multiplied by the *lesser* of (x) 235 basis points over the ten year treasury securities constant maturity rate in effect for the month of December immediately prior to each such increase and (y) two and one-half percent (2.5%);

(ii) For each period from October 1 through September 30 thereafter, the Litchfield Base Rent for the previous twelve month period, increased by an amount equal to the Litchfield Base Rent for the previous twelve month period multiplied by the *lesser* of (x) 235 basis points over the ten year treasury securities constant maturity rate in effect for the month of December immediately prior to each such increase and (y) two and one-half percent (2.5%).

(B) During a Renewal Term, the Litchfield Base Rent shall be:

(i) For each Lease Year during a Renewal Term, the Litchfield Base Rent for the previous Lease Year increased by an amount equal to the Litchfield Base Rent for the previous Lease Year multiplied by the *lesser* of (x) 235 basis points over the ten year treasury securities constant maturity rate in effect for the month of December immediately prior to each such increase and (y) two and one-half percent (2.5%).

Litchfield Facilities: means the Facilities commonly known as:

Name	Address
Capitol Care Center	8211 Ustick Road, Boise, ID
Cheyenne Mountain Care Center	835 Tenderfoot Hill Road, Colorado Springs, CO
Cheyenne Place Retirement Center	945 Tenderfoot Hill Road, Colorado Springs, CO
Mesa Manor Care Center	2901 North 12th Street, Grand Junction, CO
Pikes Peak Care Center	2719 North Union Boulevard, Colorado Springs, CO
Pueblo Extended Care Center	2611 Jones Avenue, Pueblo, CO

LRED Damages: As defined in Section 16.4.

Minimum Bed Value: means

(A) At any time prior to December 31, 2011, Forty Thousand Dollars ($40,000); and

(B) For each Lease Year thereafter, the Minimum Bed Value in effect for the prior Lease Year, *multiplied by* (i) one (1) plus (ii) the *lesser* of (x) 235 basis points over the ten year treasury securities constant maturity rate in effect for the month of December immediately prior to each such increase, and (y) two and one half percent (2.5%).

Minimum Purchase Price: The Minimum Purchase Price for each Leased Property shall be an amount equal to (A) the *higher* of (i) the average Cash Flow for the three (3) most recent calendar years, or (ii) the Cash Flow for the most recent calendar year, *multiplied by* (B) the median capitalization rate of skilled nursing acquisitions made by Omega (or its subsidiaries) during the comparable period; provided, however, that the Minimum Purchase Price for each Leased Property shall not be less than (x) the number of licensed beds for such Leased Property *multiplied by* (y) the Minimum Bed Value.

NASD: The National Association of Securities Dealers.

Net Income: For any period, Lessee's net income (or loss) for such period attributable to the operation of the Facilities, determined in accordance with GAAP; provided, however, that Lessee's Net Income shall not include any extraordinary gains (or losses) or nonrecurring gains (or losses).

Net Proceeds: As defined in Section 14.1.

New Sun: Sun Healthcare Group, Inc., a Delaware corporation, formerly known as SHG Services, Inc. For clarification, this entity was not merged into Sabra, but rather was renamed after such merger was completed and the name became available.

Non-Litchfield Base Rent:

(A) During the Initial Continued Term, the Non-Litchfield Base Rent shall be:

(i) For the period prior to the Amended Lease Release Date, the amounts set forth in the Existing Sun Master Lease;

(ii) For the period from the Amended Lease Release Date through December 31, 2010, the monthly sum of Two Million One Hundred Fifty Six Thousand Four Hundred Nineteen and 35/100 Dollars ($2,156,419.35), which on an annualized basis is Twenty Five Million Eight Hundred Seventy Seven Thousand Thirty Two and 20/100 Dollars ($25,877,032.20) (the "2010 Annualized Non-Litchfield Base Rent");

(iii) For Lease Year commencing January 1, 2011, the 2010 Annualized Non-Litchfield Base Rent, increased by an amount equal to the 2010 Annualized Non-Litchfield Base Rent multiplied by the *lesser* of (x) 235 basis points over the ten year treasury securities constant maturity rate in effect for the month of December immediately prior to each such increase and (y) two and one-half percent (2.5%);

(iv) For each Lease Year following 2011, the Non-Litchfield Base Rent for the previous Lease Year, increased by an amount equal to the Non-Litchfield Base Rent for the previous Lease Year multiplied by the *lesser* of (x) 235 basis points over the ten year treasury securities constant maturity rate in effect for the month of December immediately prior to each such increase and (y) two and one-half percent (2.5%).

(B) During a Renewal Term, the Non-Litchfield Base Rent shall be:

(i) For each Lease Year during a Renewal Term, the Non-Litchfield Base Rent for the previous Lease Year increased by an amount equal to the Non-Litchfield Base Rent for the previous Lease Year multiplied by the *lesser* of (x) 235 basis points over the ten year treasury securities constant maturity rate in effect for the month of December immediately prior to each such increase and (y) two and one-half percent (2.5%).

Non-Litchfield Facilities: means all Facilities other than the Litchfield Facilities.

Notice: A notice given in accordance with Article XXXI.

Occurrence Date: As defined in Section 16.4.

Officer's Certificate: A certificate of Lessee signed by one or more Executive Officers of Lessee.

Omega: Omega Healthcare Investors, Inc., a Maryland corporation.

Omega Lenders: As defined in Section 8.2(f).

OTA: As defined in Section 3.7.

Overdue Rate: On any date, a rate equal to five (5) percentage points above the Prime Rate, but in no event greater than the maximum rate then permitted under applicable law.

Payment Date: The due date for the payment of the installments of Base Rent, Additional Charges, or any other sums payable under this Master Lease.

Peak Guarantor: Peak Medical Corporation, a Delaware corporation.

Peak Idaho Facilities: means the Facilities commonly known as:

Name	Address
Idaho Falls Care Center	3111 Channing Way, Idaho Falls, Idaho
Twin Falls Care Center	674 Eastland Drive, Twin Falls, Idaho

Permitted Encumbrances: The Permitted Encumbrances described in Exhibit D hereto.

Permitted Personal Property Leases or Liens: Liens or other exceptions to title granted to, or leases entered into with, a third party in connection with the acquisition of new Personal Property.

Person: An individual or a corporation, partnership, trust, incorporated or unincorporated association, limited liability company, joint venture, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

Personal Property: All machinery, equipment, furniture, furnishings, movable walls or partitions, computers (and all associated software and peripheral equipment), trade fixtures and other tangible personal property (but excluding consumable inventory and supplies owned by Lessee, Cash and Accounts), together with all replacements, modifications, alterations and additions thereto, except items, if any, included within the definition of Fixtures or Leased Improvements. The term "Personal Property" shall exclude personal property leased from third parties.

Possession Date: As to each Facility, the date that a Lessee first took possession of such Facility, which, in the case of the Harborside Facilities, means March 1, 2002, in the case of the Litchfield Facilities, means November 1, 2002, in the case of the Peak Idaho Facilities, means March 26, 1999, in the case of the Continuing Facilities which are the subject of the Delta I Master Lease or the Delta II Master Lease (as those terms are defined in Schedule I), means October 7, 1997, in the case of the Continuing Facilities which are the subject of the Regency North Carolina Master Lease (as that term is defined in Schedule I) means February 1, 1996 and in the case of the Continuing Facilities which are the subject of the Qualicorp Master Lease (as that term is defined in Schedule I) means June 1, 1997.

Primary Intended Use: As defined in Section 7.2.2.

Prime Rate: On any date, a rate equal to the annual rate on such date publicly announced by Citibank, N.A. to be its prime rate for 90-day unsecured loans to its corporate borrowers of the highest credit standing, but in no event greater than the maximum rate then permitted under applicable law.

Purchase Money Financing: Any financing provided by a Person to Lessee or a Sublessee that is an Affiliate of Lessee in connection with the acquisition of Personal Property used in connection with the operation of a Facility, whether by way of installment sale or otherwise.

Reconstruction Period: Two hundred forty days (240) following damage, destruction or Condemnation, as applicable, subject to extension to the extent required by Unavoidable Delay.

Relinquished Lessee's Personal Property: All of the Lessee's Personal Property other than the Excluded Lessee's Personal Property.

Renewal Term: A period for which the Term is renewed in accordance with Section 1.5.

Rent: Collectively, the Base Rent and Additional Charges.

Replacement Property: As defined in Section 9.1.6.

Sabra: Sabra Health Care REIT, Inc., a Maryland corporation, the successor by merger to SHG.

SEC: The United States Securities and Exchange Commission.

SEC Filing: As defined in Section 8.1(i).

Securities Act: The Securities Act of 1933, as amended, or any successor statute, and the rules and regulations promulgated thereunder.

Security Agreement: The Third Amended and Restated Security Agreement dated as of the date of this Lease between Lessor and Lessee, as may be amended or supplemented from time to time.

Security Deposit: As defined in Section 40.1.

Self-Administered Amount: One Hundred and Fifty Thousand ($150,000.00) Dollars.

Separation: As defined in the Agreement re Separation.

SHG: Sun Healthcare Group, Inc., a Delaware corporation, which as of the Effective Date shall have merged with and into Sabra.

Specialized Medical Equipment: Any non-affixed equipment (i) which is owned or leased by Lessee, and (ii) which is used by Lessee for lifting or transferring, or providing therapeutic interventions or other specialized medical services to, residents/patients.

State: With respect to each Facility, the state in which such Facility is located

Sun's Credit Agreement: A loan agreement (however denominated) entered into from time to time by New Sun and/or one or more of the entities comprising Lessee and/or other Affiliates of the entities comprising Lessee, as the same may be amended, modified or restated from time to time.

Taking: As defined in Section 15.1.1.

Term: Collectively, the Initial Continued Term and the Initial Litchfield Term plus the Renewal Term or Renewal Terms, if any.

Transfer: As defined in Section 22.1.

Unavoidable Delays: Delays due to strikes, lock-outs, inability to procure materials, power failure, acts of God, governmental restrictions, enemy action, civil commotion, fire, unavoidable casualty or other causes beyond the control of the party responsible for performing an obligation hereunder, provided that lack of funds shall not be deemed a cause beyond the control of a party.

Unsuitable for Its Primary Intended Use: A state or condition of any Facility such that by reason of damage or destruction, or a partial taking by Condemnation, such Facility cannot be operated on a commercially practicable basis for its Primary Intended Use, taking into account, among other relevant factors, the number of useable beds, the amount of square footage and the estimated revenue affected by such damage or destruction.

ARTICLE III

3.1 Rent. During the Term, Lessee will pay to Lessor the Base Rent and Additional Charges in lawful money of the United States of America and legal tender for the payment of public and private debts, in the manner provided in Section 3.5. The Base Rent during any Lease Year is payable in advance in consecutive monthly installments on the third day of each calendar month during that Lease Year. Unless otherwise agreed by the parties, Base Rent and Additional Charges shall be prorated as to any partial months at the beginning and end of the Term.

3.2 Additional Charges. In addition to the Base Rent, Lessee will also pay and discharge as and when due and payable all Impositions as provided in Section 4.1, and all other amounts, liabilities, obligations and Impositions which Lessee assumes or agrees to pay under this Master Lease. In the event of any failure on the part of Lessee to pay any of those items referred to in the previous sentence, Lessee will also promptly pay and discharge every fine, penalty, interest and cost which may be added for non-payment or late payment of such items referred to in this sentence and the previous sentence. Collectively, the items referred to in the first two sentences of this Section 3.3 are referred to as the "Additional Charges" and shall also constitute Rent.

3.3 Late Charge. If any installment of Base Rent, or Additional Charges owing by Lessee to Lessor shall not be paid by its due date, Lessee shall pay Lessor on demand, as an Additional Charge, a late charge equal to the greater of (i) five percent (5%) on the amount of such installment or (ii) all charges, expenses, fees or penalties imposed on Lessor by the Facility Mortgagee for late payment.

3.4 Method of Payment of Rent. Rent to be paid to Lessor shall be paid by electronic funds transfer debit transactions through wire transfer of immediately available funds and shall be initiated by Lessee for settlement on or before the due date each calendar month; provided, however, if the due date is not a Business Day, then settlement shall be made on the next succeeding day which is a Business Day. Lessor shall provide Lessee with appropriate wire transfer information in a Notice from Lessor to Lessee. Lessee shall inform Lessor of payment by sending a facsimile transmission of Lessee's wire transfer confirmation not later than noon, Eastern Standard or Daylight Savings time on each payment date. If Lessor directs Lessee to pay any Base Rent to any party other than Lessor, Lessee shall send to Lessor, simultaneously with such payment, a copy of the transmittal letter or invoice and a check whereby such payment is made or such other evidence of payment as Lessor may reasonably require.

3.5 Net Lease.

3.5.1 The Rent shall be paid absolutely net to Lessor, so that this Master Lease shall yield to Lessor the full amount of the installments of Base Rent and Additional Charges payable thereunder throughout the Term, subject only to any other provisions of this Master Lease which expressly provide for adjustment or abatement of Rent or other charges. This Master Lease is and shall be a "pure-net" or "triple-net" lease, as such terms are commonly used in the real estate industry, it being intended that Lessee shall pay all costs, expenses, and charges arising out of the use, occupancy and operation of the Leased Properties.

3.5.2 Lessor shall not be required to furnish any services whatsoever to the Leased Properties, or make any payment of any kind whatsoever. Lessee hereby assumes the full and sole responsibility for the condition, operation, repair, alteration, improvement, replacement, maintenance and management of the Leased Properties. Lessor shall not be responsible for any loss or damage to any property of Lessee or any sub-tenant, concessionaire, or other user or occupant of any part of the Leased Properties, absent the gross negligence or willful misconduct of Lessor, its employees or

agents.

3.6 Limitation on Counterclaim. If Lessor commences any proceedings for non-payment of Rent, Lessee will not interpose any counterclaim or cross complaint or similar pleading of any nature or description in such proceedings unless Lessee would lose or waive such claim by the failure to assert it. This shall not, however, be construed as a waiver of Lessee's rights to assert such claims in a separate action brought by Lessee. The covenants to pay rent and other amounts hereunder are independent covenants, and Lessee shall have no right to hold back, offset or fail to pay any such amounts for default by Lessor or for any other reason whatsoever.

ARTICLE IV

4.1 Payment of Impositions. Subject to Section 12.1 relating to permitted contests, Lessee will pay, or cause to be paid, all Impositions before any fine, penalty, interest or cost may be added for non-payment, such payments to be made directly to the taxing authorities where feasible, and will promptly, upon request, furnish to Lessor copies of official receipts or other satisfactory proof evidencing such payments. If any such Imposition may, at the option of the taxpayer, lawfully be paid in installments (whether or not interest shall accrue on the unpaid balance of such Imposition), Lessee may exercise the option to pay the same (and any accrued interest on the unpaid balance of such Imposition) in installments and in such event, shall pay such installments during the Term hereof (subject to Lessee's right of contest pursuant to the provisions of Section 12.1) as the same respectively become due and before any fine, penalty, premium, further interest or cost may be added thereto. If any provision of any Facility Mortgage requires deposits for payment of real estate taxes or other Impositions to be made with such Facility Mortgagee, Lessee shall either pay to Lessor monthly the amounts required and Lessor shall transfer the amounts to such Facility Mortgagee, or, pursuant to written direction by Lessor, Lessee shall make such deposits directly with such Facility Mortgagee. Lessor, at its expense, shall, to the extent required or permitted by applicable law, prepare and file all tax returns and reports as may be required by governmental authorities in respect of Lessor's net income, gross receipts, sales and use, single business, transaction privilege, rent, ad valorem, franchise taxes and taxes on its capital stock, and Lessee, at its expense, shall, to the extent required or permitted by applicable laws and regulations, prepare and file all other tax returns and reports in respect of any Imposition as may be required by governmental authorities. If any refund is due from any taxing authority in respect of any Imposition paid by Lessee, the same shall be paid over to or retained by Lessee if no Event of Default has occurred hereunder and is continuing. Any such funds retained by Lessor due to an Event of Default shall be applied as provided in Article XVI. Lessor and Lessee shall, upon request of the other, provide such data as is maintained by the party to whom the request is made with respect to the Leased Properties as may be necessary to prepare any required returns and reports. In the event governmental authorities classify any property covered by this Master Lease as personal property, Lessee shall file all required personal property tax returns. Lessor, to the extent it possesses the same, and Lessee, to the extent it possesses the same, will provide the other party, upon request, with cost and depreciation records necessary for filing returns for any property classified as personal property. Lessee may, upon Notice to and with the consent of Lessor (which consent shall not be unreasonably withheld), at Lessee's sole cost and expense, protest, appeal, or institute such other proceedings as Lessee may deem appropriate to effect a reduction of real estate or personal property assessments and Lessor, at Lessee's expense as aforesaid, shall cooperate with Lessee in such protest, appeal, or other action. Lessee shall reimburse Lessor for Lessor's direct costs of cooperating with Lessee for such protest, appeal or other action. Billings for reimbursement by Lessee to Lessor of personal property taxes shall be accompanied by copies of a bill therefor and payments thereof which identify the personal property with respect to which such payments are made. Unless otherwise agreed by Lessor and Lessee, notwithstanding the foregoing, upon the expiration or earlier termination of the Term, all Impositions applicable to the final Lease Year of the Term (if a partial calendar year) shall be prorated between Lessee and Lessor as set forth in Section 4.3 hereof.

4.2 Notice of Impositions. Lessor shall give prompt Notice to Lessee of all Impositions payable by Lessee hereunder of which Lessor at any time has knowledge, but Lessor's failure to give any such Notice shall in no way diminish Lessee's obligation hereunder to pay such Impositions, but such failure shall obviate any default hereunder for a reasonable time after Lessee receives Notice of any Imposition which it is obligated to pay.

4.3 Adjustment of Impositions. Impositions imposed in respect of the tax-fiscal period during which the Term terminates or expires shall be adjusted and prorated between Lessor and Lessee, whether or not such Imposition is imposed before or after termination or expiration, and Lessee's obligation to pay its prorated share thereof if the same becomes due after such termination or expiration shall survive such termination or expiration.

4.4 Utility Charges. Lessee will pay or cause to be paid when due all charges for electricity, power, gas, oil, water and other utilities used in the Leased Properties during the Term. Lessee shall also pay or reimburse Lessor for all costs and expenses of any kind whatsoever which at any time with respect to the Term hereof with respect to any Facility may be imposed against Lessor by reason of any of the covenants, conditions and/or restrictions affecting the Leased Property or any portion thereof, or with respect to easements, licenses or other rights over, across or with respect to any adjacent or other property which benefits the Leased Property, including any and all costs and expenses associated with any utility, drainage and parking easements.

4.5 Insurance Premiums. Lessee will pay or cause to be paid when due all premiums for the insurance coverage required to be maintained pursuant to Article XIII during the Term.

ARTICLE V

5.1 No Termination, Abatement, etc. Except as otherwise specifically provided in this Master Lease, Lessee shall remain bound by this Master Lease in accordance with its terms and shall not take any action without the consent of Lessor to modify, surrender or terminate the same, and shall not seek or be entitled to any abatement, deduction, deferment or reduction of Rent, or setoff against the Rent. Except as expressly set forth herein, the respective obligations of Lessor and Lessee shall not be affected by reason of (i) any damage to, or destruction of, any of the Leased Properties or any portion of any Leased Property from whatever cause or any Taking of any Leased Property or any portion thereof, (ii) the lawful or unlawful prohibition of, or restriction upon, Lessee's use of any Leased Property, or any portion thereof, or the interference with such use by any person, corporation, partnership or other entity, or the eviction of Lessee by paramount title; (iii) any claim which Lessee has or might have against Lessor or by reason of any default or breach of any warranty by Lessor under this Master Lease or any other agreement between Lessor and Lessee, or to which Lessor and Lessee are parties, (iv) any bankruptcy, insolvency, reorganization, composition, readjustment, liquidation, dissolution, winding up or other proceedings affecting Lessor or any assignee or transferee of Lessor, or (v) for any other cause whether similar or dissimilar to any of the foregoing other than a discharge of Lessee from any such obligations as a matter of law. Lessee hereby specifically waives all rights, arising from any occurrence whatsoever, which may now or hereafter be conferred upon it by law to (a) modify, surrender or terminate this Master Lease or quit or surrender the Leased Properties or any portion thereof, or (b) entitle Lessee to any abatement, reduction, suspension or deferment of the Rent or other sums payable by Lessee hereunder except as otherwise specifically provided herein. The obligations of Lessor and Lessee hereunder shall be separate and independent covenants and agreements and the Rent and all other sums payable by Lessee hereunder shall continue to be payable in all events unless the obligations to pay the same are terminated pursuant to the express provisions of this Master Lease.

ARTICLE VI

6.1 Ownership of the Leased Properties. Lessor warrants and represents that it has the right to lease the Leased Properties to Lessee, and, if Lessor

acquired the Leased Properties from anyone other than Lessee or an Affiliate of Lessee, Lessor warrants and represents it has good and marketable fee simple title to the Leased Properties, subject only to the Permitted Encumbrances and any Lessee Encumbrances. Lessee acknowledges that the Leased Properties are the property of Lessor and that Lessee has only the right to the possession and use of the Leased Properties upon the terms and conditions of this Master Lease. Lessee will not, at any time during the Term: (i) file any income tax return or other associated documents; (ii) file any other document with or submit any document to any governmental body or authority; (iii) enter into any written contractual arrangement with any Person; or (iv) release any financial statements of Lessee, in each case that takes a position other than that Lessor is the owner of the Leased Properties for federal, state and local income tax purposes and that this Master Lease is a "true lease." If Lessee should reasonably conclude that GAAP or the SEC require treatment different from that set forth in the subsections (i), (ii), (iii) and (iv) of the previous sentence, then Lessee (y) shall give prior Notice to Lessor, and (z) notwithstanding the prior sentence, Lessee may comply with such requirements.

6.2 Lessor's Personal Property. Lessee hereby acknowledges and agrees that, as of the Commencement Date, all Personal Property located on the Land or in the Leased Improvements on the Amended Lease Release Date is the Personal Property of Lessor, except for the Excluded Lessee's Personal Property. Lessee shall, during the entire Term, maintain all of Lessor's Personal Property in good order, condition and repair as shall be necessary in order to operate the Facilities for the Primary Intended Use in compliance with all applicable licensure and certification requirements, all applicable Legal Requirements and Insurance Requirements, and customary industry practice for the Primary Intended Use, reasonable wear and tear and obsolescence excepted. If any of Lessor's Personal Property requires replacement in order to comply with the foregoing, Lessee shall replace it with similar property of the same or better quality at Lessee's sole cost and expense, and when such replacement property is placed in service with respect to any Leased Property it shall become Lessor's Personal Property. At the expiration or earlier termination of this Master Lease, all of Lessor's Personal Property shall be surrendered to Lessor with the Leased Properties at or before the time of the surrender of the Leased Properties in good operating condition.

6.3 Lessee's Personal Property. Lessee shall provide and maintain during the Term such Personal Property, in addition to Lessor's Personal Property, as shall be reasonably necessary and appropriate in order to operate the Facilities for the Primary Intended Use in compliance with all licensure and certification requirements and in compliance with all applicable Legal Requirements and Insurance Requirements. Upon the expiration or earlier termination of this Master Lease as to any or all of the Leased Properties other than as a result of Lessee's purchase of the Leased Properties or any portion thereof in accordance with the terms of this Master Lease (i) Lessee shall have the right, at its sole cost and expense, to remove from the Leased Properties or the Leased Property(ies) as to which this Master Lease has terminated, as applicable, the Excluded Lessee's Personal Property unless there is then outstanding an Event of Default hereunder and Lessor elects to exercise its rights with respect to the Excluded Lessee's Personal Property in accordance with the terms of the Security Agreement and (ii) the Relinquished Lessee's Property shall be and remain the property of Lessor and Lessee shall, upon request, execute such documents as may be reasonably necessary to convey to Lessor all of Lessee's right, title and interest therein free and clear of all liens, claims, charges and encumbrances. Any of the Excluded Lessee's Personal Property which Lessee fails to remove from the affected Leased Property(ies) within twenty (20) days following the expiration or earlier termination of this Master Lease shall be considered abandoned by Lessee and may be appropriated, sold, destroyed or otherwise disposed of by Lessor without giving notice thereof to Lessee and without any payment to Lessee or any obligation to account therefore. Lessee shall reimburse Lessor for any and all expenses reasonably incurred by Lessor in disposing of any of the Excluded Lessee's Personal Property in accordance with the immediately preceding sentence and shall either at its own expense restore the Leased Properties to the condition required by Section 9.1.7, including repair of all damages to the Leased Properties caused by the removal of any of the Excluded Lessee's Personal Property, or reimburse Lessor for any and all expense reasonably incurred by Lessor for such restoration and repair. Effective on not less than sixty (60) days prior written notice, or such shorter notice as shall be appropriate if this Master Lease is terminated prior to its expiration date, Lessor shall have the option to purchase some or all of Excluded Lessee's Personal Property, at the expiration or termination of this Master Lease, for an amount equal to the then fair market value thereof, subject to, and with appropriate price adjustments for, all equipment leases, conditional sale contracts, UCC-1 financing statements and other encumbrances to which such personal property is subject.

6.4 Grant of Security Interest in Lessee's Personal Property. Lessee has concurrently granted to Lessor a security interest in the "Collateral" (as defined in the Security Agreement), as more particularly described in the Security Agreement.

6.5 List of Lessee's Personal Property. Lessee shall, upon Lessor's request, from time to time but not more frequently than one time per Lease Year, provide Lessor with a list of the Lessee's Personal Property located at each of the Facilities.

ARTICLE VII

7.1 Condition of the Leased Properties. Lessee has been and currently is in possession of the Leased Properties and otherwise has knowledge of the condition of the Leased Properties and has found the same to be in good order and repair and satisfactory for its purposes hereunder. Lessee continues to lease the Leased Properties "as is" in their condition at the time this Master Lease is entered into. Lessee waives any claim or action against Lessor in respect of the condition of any Leased Property. LESSOR MAKES NO WARRANTY OR REPRESENTATION, EXPRESS OR IMPLIED, TO LESSEE OR TO ANY PARTY WITH WHICH LESSEE ENTERS INTO A MANAGEMENT CONTRACT, IN RESPECT OF ANY LEASED PROPERTY OR ANY PART THEREOF, EITHER AS TO ITS FITNESS FOR USE, DESIGN OR CONDITION FOR ANY PARTICULAR USE OR PURPOSE OR OTHERWISE, AS TO THE QUALITY OF THE MATERIAL OR WORKMANSHIP THEREIN, LATENT OR PATENT, IT BEING AGREED THAT ALL SUCH RISKS ARE TO BE BORNE BY LESSEE. LESSEE ACKNOWLEDGES THAT EACH LEASED PROPERTY HAS BEEN INSPECTED BY LESSEE AND IS SATISFACTORY TO LESSEE. Lessee further acknowledges that Lessee is solely responsible for the condition of the Leased Properties from and after the Commencement Date. Unless any Leased Property was acquired from Lessee, and to the extent permitted by law, Lessor hereby assigns to Lessee, all of Lessor's rights, if any, to proceed against any predecessor in title for breaches of warranties or representations, or for latent defects in such Leased Property and Lessee agrees to fully prosecute any and all such claims. Lessor shall cooperate with Lessee in the prosecution of any such claims, in Lessor's or Lessee's name, all at Lessee's sole cost and expense.

7.2 Use of Leased Properties.

7.2.1 Lessee covenants that it will obtain and maintain all approvals, licenses and permits needed to use and operate the Leased Properties and the Facilities under applicable local, state and federal law, including, but not limited to, licensure as a licensed nursing home or other applicable designation, such as rehabilitation hospital, and Medicare or Medicaid certification, to the extent applicable to the operation of each Facility from time to time.

7.2.2 After the Commencement Date and during the entire Term, Lessee shall use or cause each Leased Property to be used as the applicable Facility thereon is currently licensed, and for such other uses as may be necessary or incidental to such use (the particular such use is herein referred to as the "Primary Intended Use"). Lessee shall not use any Leased Property or any portion thereof for any other use without the prior written consent of Lessor. No use shall be made or permitted to be made by Lessee, its agents and employees of any Leased Properties, and no acts shall be done by Lessee, its agents and employees, which will cause the cancellation of any insurance policy covering any Leased Property or any part thereof, nor shall Lessee sell or otherwise provide to residents or patients therein, or permit to be kept, used or sold in or about any Leased Property any article which may be prohibited by law or by the standard form of fire insurance policies, or any other insurance policies required to be carried hereunder, or fire underwriter's

regulations.

7.2.3 Lessee covenants and agrees that during the Term it will continuously operate the Facilities on the Leased Properties as providers of health care services in accordance with the Primary Intended Use and that it will maintain its certification for reimbursement and licensure and its accreditation, if applicable.

7.2.4 Lessee shall not commit or suffer to be committed any waste on any Leased Property nor shall Lessee cause or permit any nuisance thereon.

7.2.5 Lessee shall neither suffer nor permit any Leased Property or any portion thereof, or Lessee's Personal Property, to be used in such a manner as (i) might reasonably tend to impair Lessor's (or Lessee's, as the case may be) title thereto or to any portion thereof, or (ii) may reasonably make possible a claim or claims of adverse usage or adverse possession by the public, as such, or of implied dedication of such Leased Property or any portion thereof.

7.3 Certain Environmental Matters.

7.3.1 Definitions. The terms defined in this Section have the meanings assigned to them in this Section and include the plural as well as the singular:

(a) Clean-Up: The investigation, removal, restoration, remediation and/or elimination of, or other response to, Contamination (as hereinafter defined) to the satisfaction of all governmental agencies having jurisdiction, in compliance with or as may be required by Environmental Laws (as hereinafter defined).

(b) Contamination. The presence, Release or threatened Release of any Hazardous Substance at any Leased Property in violation of any Environmental Law, or in a quantity that would give rise to any affirmative Clean-Up obligation under an Environmental Law, including, but not limited to, the existence of any injury or potential injury to public health, safety, natural resources or the environment associated therewith, or any other environmental condition at, in, about, under or migrating from or to such Leased Property.

(c) Environmental Documents: Each and every (i) document received by Lessee or any Affiliate from, or submitted by Lessee or any Affiliate to, the United States Environmental Protection Agency and/or any other federal, state, county or municipal agency responsible for enforcing or implementing Environmental Laws with respect to the condition of a Leased Property, or Lessee's operations at a Leased Property; and (ii) review, audit, report, or other analysis data pertaining to environmental conditions, including, but not limited to, the presence or absence of Contamination, at, in, or under or with respect to a Leased Property that have been prepared by, for or on behalf of Lessee.

(d) Environmental Laws: All federal, state and local laws (including, without limitation, common law), statutes, codes, ordinances, regulations, rules, orders, permits or decrees relating to the introduction, emission, discharge or release of Hazardous Substances into the indoor or outdoor environment (including, without limitation, air, surface water, groundwater, land or soil) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, transportation or disposal of Hazardous Substances; or the Cleanup of Contamination, all as are now or may hereinafter be in effect.

(e) Environmental Report: The environmental review, audit and/or report relating to any Leased Property provided to Lessor in connection with Lessor's acquisition of such Leased Property.

(f) Hazardous Substances: Any and all dangerous, toxic or hazardous material, substance, pollutant, contaminant, chemical, waste (including medical waste), or substance including petroleum products, asbestos and PCB's defined, listed or described as such under any Environmental Law.

(g) Regulatory Actions: With respect to any Leased Property, any claim, demand, notice, action or proceeding brought, threatened or initiated by any governmental authority in connection with any Environmental Law, including, without limitation, civil, criminal and/or administrative proceedings, and whether or not seeking costs, damages, equitable remedies, penalties or expenses.

(h) Release: The intentional or unintentional spilling, leaking, dumping, pouring, emptying, seeping, disposing, discharging, emitting, depositing, injecting, leaching, escaping, abandoning, or any other release or threatened release, however defined, of any Hazardous Substance.

(i) Third Party Claims: Any claims, actions, demands or proceedings (other than Regulatory Actions) howsoever based (including without limitation those based on negligence, trespass, strict liability, nuisance, toxic tort or detriment to health welfare or property) due to Contamination, and whether or not seeking costs, damages, penalties or expenses, brought by any person or entity other than a governmental agency.

7.3.2 Prohibition Against Use of Hazardous Substances. Lessee shall not permit, conduct or allow on any Leased Property, the generation, introduction, presence, maintenance, use, receipt, acceptance, treatment, manufacture, production, installation, management, storage, disposal or release of any Hazardous Substance except for those types and quantities of Hazardous Substances necessary for and ordinarily associated with the conduct of Lessee's business and in full compliance with all Environmental Laws.

7.3.3 Notice of Environmental Claims, Actions or Contaminations. Lessee will notify Lessor, in writing, promptly upon learning of any existing, pending or threatened: (i) investigation, inquiry, claim or action by any governmental authority with respect to any Leased Property in connection with any Environmental Law, (ii) Third Party Claims, (iii) Regulatory Actions, and/or (d) Contamination of any Leased Property.

7.3.4 Costs of Remedial Actions with Respect to Environmental Matters. If any investigation and/or Clean-Up of any Hazardous Substance or other environmental condition on, under, about or with respect to any Leased Property is required by any Environmental Law, then Lessee shall complete, at its own expense, such investigation and/or Clean-Up or cause each such other person as may be responsible for any of the foregoing to conduct such investigation and/or Clean-Up.

7.3.5 Delivery of Environmental Documents. Lessee shall deliver to Lessor complete copies of any and all Environmental Documents that

may now be in or at any time hereafter come into the possession of Lessee.

7.3.6 Environmental Audit. At Lessee's expense, Lessee shall from time to time, after Lessor's request therefor, provide to Lessor a written certificate, in form and substance satisfactory to Lessor, from an environmental firm acceptable to Lessor, which states that there is no Contamination on the Leased Property identified by Landlord in such request and that such Leased Property is otherwise in strict compliance with Environmental Laws (the "Environmental Audit"). All tests and samplings shall be conducted using generally accepted and scientifically valid technology and methodologies. Lessee shall give the engineer or environmental consultant reasonable access to such Leased Property and to all records in the possession of Lessee that may indicate the presence (whether current or past) or a Release or threatened Release of any Hazardous Substances on, in, under or about such Leased Property. Lessee shall also provide the engineer or environmental consultant an opportunity to interview such persons employed in connection with such Leased Property as the engineer or consultant deems appropriate. However, Lessor shall not be entitled to request such certificate or certificates from Lessee unless (i) there have been any changes, modifications or additions to any Environmental Laws as applied to or affecting such Leased Property; (ii) a significant change in the condition of any Leased Property has occurred; or (iii) Lessor has another good reason for requesting such certificate or certificates. If the Environmental Audit discloses the presence of Contamination or any noncompliance with Environmental Laws, Lessee shall immediately perform all of Lessee's obligations hereunder with respect to such Hazardous Substances or noncompliance.

7.3.7 Entry onto Leased Property for Environmental Matters. If Lessee fails to provide the Environmental Audit contemplated by Section 7.3.6 hereof, Lessee shall permit Lessor from time to time, by its employees, agents, contractors or representatives, to enter upon such Leased Property for the purposes of conducting such soil and chemical tests or any other environmental investigations, examinations, or analyses (hereafter collectively referred to as "Investigation") as Lessor may desire. Lessor, and its employees, agents, contractors, consultants and/or representatives, shall conduct any such investigation in a manner which does not unreasonably interfere with Lessee's use of and operations on any Leased Property (however, reasonable temporary interference with such use and operations is permissible if the investigation cannot otherwise be reasonably and inexpensively conducted). Other than in an emergency, Lessor shall provide Lessee with prior notice before entering any of the Leased Properties to conduct such Investigation, and shall provide copies of any reports or results to Lessee, and Lessee shall cooperate fully in such Investigation.

7.3.8 Environmental Matters Upon Termination or Expiration of Term of This Master Lease . Upon the termination of the Term or the expiration of the Term of this Master Lease, Lessee shall cause the Leased Properties to be delivered free of any and all Contamination, Regulatory Actions and Third Party Claims and otherwise in strict compliance with all Environmental Laws with respect thereto.

7.3.9 Compliance with Environmental Laws. Lessee shall comply with, and cause its agents, servants and employees, to comply with, and shall use reasonable efforts to cause each tenant and other occupant and user of each Leased Property, and the agents, servants and employees of such tenants, occupants and users, to comply with each and every Environmental Law applicable to Lessee and each such tenant, occupant or user with respect to each Leased Property. Specifically, but without limitation:

(a) Maintenance of Licenses and Permits. Lessee shall obtain and maintain (and Lessee shall use reasonable efforts to cause each tenant, occupant and user to obtain and maintain) all permits, certificates, licenses and other consents and approvals required by any applicable Environmental Law from time to time with respect to Lessee, each and every part of the Leased Properties and/or the conduct of any business at the Facilities or related thereto;

(b) Contamination. Lessee shall not cause, suffer or permit any Contamination;

(c) Clean-Up. If a Contamination occurs, Lessee promptly shall cause the Clean-Up and the removal of any Hazardous Substance and in any such case such Clean-Up and removal of the Hazardous Substance shall be effected in strict compliance with and in accordance with the provisions of the applicable Environmental Laws;

(d) Discharge of Lien. Within twenty (20) days of the date any lien is imposed against any Leased Property or any part thereof under any Environmental Law (or, in the event that under the applicable Environmental Law, Lessee is unable, acting diligently, to do so within twenty (20) days, then within such period as is required for Lessee, acting diligently, to do so), Lessee shall cause such lien to be discharged (by payment, by bond or otherwise to Lessor's absolute satisfaction);

(e) Notification of Lessor. Promptly upon receipt by Lessee of notice or discovery by Lessee of any fact or circumstance which might result in a breach or violation of any covenant or agreement, Lessee shall notify Lessor in writing of such fact or circumstance; and

(f) Requests, Orders and Notices. Promptly upon receipt of any request, order or other notice relating to any Leased Property under any Environmental Law, Lessee shall forward a copy thereof to Lessor.

7.3.10 Environmental Related Remedies. In the event of a breach by Lessee beyond any applicable notice and/or grace period of its covenants with respect to environmental matters, Lessor may, in its sole discretion, do any one or more of the following (the exercise of one right or remedy hereunder not precluding the simultaneous or subsequent taking of any other right hereunder):

(a) Cause a Clean-Up. Cause the Clean-Up of any Hazardous Substance or other environmental condition on or under any Leased Property, or both, at Lessee's cost and expense; or

(b) Payment of Regulatory Damages. Pay on behalf of Lessee any damages, costs, fines or penalties imposed on Lessee as a result of any Regulatory Actions; or

(c) Payments to Discharge Liens. Make any payment on behalf of Lessee or perform any other act or cause any act to be performed which will prevent a lien in favor of any federal, state or local governmental authority from attaching to any Leased Property or which will cause the discharge of any lien then attached to such Leased Property; or

(d) Payment of Third Party Damages. Pay, on behalf of Lessee, any damages, cost, fines or penalties imposed on Lessee as a result of any Third Party Claims; or

(e) Demand of Payment. Demand that Lessee make immediate payment of all of the costs of such Clean-Up and/or exercise of the remedies set forth in this Section 7.3 incurred by Lessor and not theretofore paid by Lessee as of the date of such demand, whether or not such costs exceed the amount of Rent and Additional Charges that are otherwise to be paid pursuant to this Master Lease, and whether or

not any court has ordered the Clean-Up, and payment of said costs shall become immediately due, without notice.

7.3.11 Environmental Indemnification. Lessee shall and does hereby agree to defend Lessor, its principals, officers, directors, agents and employees (hereinafter, all "Indemnitees") from and against each and every incurred and potential claim, cause of action, demand or proceeding, and does hereby agree to indemnify, defend and hold harmless Indemnitees from and against each and every obligation, fine, laboratory fee, liability, loss, penalty, imposition, settlement, levy, lien removal, litigation, judgment, disbursement, expense and/or cost (including without limitation the cost of each and every Clean-Up), however defined and of whatever kind or nature, known or unknown, foreseeable or unforeseeable, contingent, incidental, consequential or otherwise (including, but not limited to, attorneys' fees, consultants' fees, experts' fees and related expenses, capital, operating and maintenance costs, incurred in connection with (i) any investigation or monitoring of site conditions at any Leased Property, and (ii) any Clean Up required or performed by any federal, state or local governmental entity or performed by any other entity or person because of the presence of any Hazardous Substance, Release, threatened Release or any Contamination on, in, under or about any of the Leased Properties) which may be asserted against, imposed on, suffered or incurred by, each and every Indemnitee arising out of or in any way related to, or allegedly arising out of or due to any environmental matter including, but not limited to, any one or more of the following:

(a) Release Damage or Liability. The presence of Contamination in, on, at, under, or near any Leased Property or migrating to any Leased Property from another location;

(b) Injuries. All injuries to health or safety (including wrongful death), or to the environment, by reason of environmental matters relating to the condition of or activities past or present on, at, in or under any Leased Property;

(c) Violations of Law. All violations, and alleged violations, of any Environmental Law relating to any Leased Property or any activity on, in, at, under or near any Leased Property;

(d) Misrepresentation. All material misrepresentations relating to environmental matters in any documents or materials furnished by Lessee to Lessor and/or its representatives in connection with this Master Lease;

(e) Event of Default. Each and every Event of Default hereunder relating to environmental matters;

(f) Lawsuits. Any and all lawsuits brought or threatened against any one or more of the Indemnitees, settlements reached and governmental orders relating to any Hazardous Substances at, on, in, under or near any Leased Property, and all demands of governmental authorities, and all policies and requirements of Lessor's, based upon or in any way related to any Hazardous Substances at, on, in or under any Leased Property; and

(g) Presence of Liens. All liens imposed upon any Leased Property and charges imposed on any Indemnitee in favor of any governmental entity or any person as a result of the presence, disposal, release or threat of release of Hazardous Substances at, on, in, from or under any Leased Property.

7.3.12 Rights Cumulative and Survival. The rights granted Lessor under this Section are in addition to and not in limitation of any other rights or remedies available to Lessor hereunder or allowed at law or in equity. The obligations of Lessee to defend, indemnify and hold Lessor harmless, as set forth in this Section 7.3, arising as a result of an act, omission, condition or other matter occurring or existing during the Term, whether or not the act, omission, condition or matter as to which such obligations relate is discovered during the Term, shall survive the expiration or earlier termination of the Term of this Master Lease.

ARTICLE VIII

8.1 Representations and Warranties of Lessee . Each of Lessee hereby represents and warrants to Lessor as of the Amended Lease Release Date (except as otherwise set forth below) as follows:

(a) Good Standing; Due Authorization. Each of the Lessees has been duly formed or organized and is validly existing in good standing under the laws of the state or jurisdiction of its organization or formation. The execution, delivery and performance of this Master Lease by each Lessee have been duly authorized by all requisite corporate action and no further consent or authorization of any Lessee or Guarantor is required.

(b) Enforceability. This Master Lease has been duly executed and delivered by each Lessee and, when this Master Lease is duly authorized, executed and delivered by Lessor, will be a valid and binding agreement enforceable against Lessee in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity.

(c) Authority. Each of Lessee and New Sun has full corporate power and authority necessary to (i) own and operate its properties and assets, execute and deliver this Master Lease, (ii) perform its obligations hereunder and (iii) carry on its business as presently conducted and as presently proposed to be conducted. Each Lessee is duly qualified and authorized to do business and is in good standing as a foreign corporation in all jurisdictions in which the nature of its activities and of its properties (both owned and leased) makes such qualification necessary, except for those jurisdictions in which failure to do so would not have a material adverse effect on the business affairs, assets or results of operations of Lessee and its subsidiaries, taken as a whole.

(d) Consents. No consent, approval, authorization or order of any court, governmental agency or other body is required for execution and delivery by any Lessee of this Master Lease or the performance by any Lessee of any of its obligations hereunder to be performed on or before the Amended Lease Release Date other than such as may already have been received.

(e) No Conflicts. Neither the execution and delivery by any Lessee of this Master Lease nor the performance by any Lessee of any of its obligations hereunder:

(i) violates, conflicts with, results in a breach of, or constitutes a default (or an event which with the giving of notice or the lapse of time or both would be reasonably likely to constitute a default) or creates any rights in respect of any person under (A) the certificates of incorporation, by-laws or other organizational documents of any Lessee, (B) any decree, judgment, order, or determination of any court, governmental agency or body, or arbitrator having jurisdiction over any Lessee or any of their subsidiaries or any of their respective properties or

assets or any material law, treaty, rule or regulation, (C) the terms of any bond, debenture, note, indenture, credit agreement or any other evidence of indebtedness, or any material agreement, stock option or other similar plan, lease, mortgage, deed of trust or other instrument to which New Sun, any Lessee or any of their subsidiaries is a party, by which New Sun, any Lessee or any of its subsidiaries is bound, or to which any of the properties or assets of New Sun, any Lessee or any of its subsidiaries is subject; or

(ii) results in the creation or imposition of any material lien, charge or encumbrance upon any of the properties or assets of New Sun, any Lessee or any of its subsidiaries.

(f) Proceedings. There is no pending or, to the best knowledge of any Lessee, threatened action, suit, proceeding or investigation before any court, governmental agency or body or arbitrator having jurisdiction over any Lessee or any of their Affiliates that would materially affect the execution by any Lessee of this Master Lease.

8.2 Representations and Warranties of Lessor. Lessor hereby represents and warrants to Lessee as of the Amended Lease Release Date (except as otherwise set forth below) as follows:

(a) Good Standing; Due Authorization. Each of the entities comprising Lessor has been duly formed or organized and is validly existing in good standing under the laws of the state or jurisdiction of its organization or formation. The principal place of business of each Lessor is in the State of Maryland. The execution, delivery and performance of this Master Lease by each Lessor have been duly authorized by all requisite corporate action and no further consent or authorization of any Lessor or Omega.

(b) Enforceability. This Master Lease has been duly executed and delivered by each Lessor and, when this Master Lease is duly authorized, executed and delivered by Lessee, will be a valid and binding agreement enforceable against each Lessor in accordance with its terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights generally and to general principles of equity.

(c) Authority. Each Lessor has full corporate power and authority necessary to (i) own and operate its properties and assets, execute and deliver this Master Lease, (ii) perform its obligations hereunder and (iii) carry on its business as presently conducted and as presently proposed to be conducted.

(d) Consents. No consent, approval, authorization or order of any court, governmental agency or other body is required for execution and delivery by any Lessor of this Master Lease or the performance by any Lessor of any of its obligations hereunder other than such as may already have been received. In furtherance and not in limitation of the foregoing, Lessor (i) represents and warrants that (A) to the extent required thereunder, all of the amendments, modifications and waivers to the Existing Sun Master Lease provided for herein, have been consented to under the terms of that certain Credit Agreement dated as of April 13, 2010 among Bank of America, NA ("BofA") and the other financial institutions who are or thereafter become parties thereto (the "Omega Lenders"), as Lender and Lessor and certain affiliates of Lessor, as Borrowers (the " BofA Credit Agreement") and (B) in particular that the requirements of Section 7.08 of the BofA Credit Agreement will be satisfied after the execution by Lessor and Lessee of this Master Lease.

(e) No Conflicts. Neither the execution and delivery by any Lessor of this Master Lease nor the performance by any Lessor of any of its obligations hereunder violates, conflicts with, results in a breach of, or constitutes a default (or an event which with the giving of notice or the lapse of time or both would be reasonably likely to constitute a default) or creates any rights in respect of any person under (A) the certificates of incorporation, by-laws or other organization documents of any Lessor, (B) any decree, judgment, order, or determination of any court, governmental agency or body, or arbitrator having jurisdiction over any Lessor or any of their subsidiaries or any of their respective properties or assets or any material law, treaty, rule or regulation, or (C) the terms of any bond, debenture, note, indenture, credit agreement or any other evidence of indebtedness, or any material agreement, stock option or other similar plan, lease, mortgage, deed of trust or other instrument to which Omega, any Lessor or any of their subsidiaries is a party, by which Omega, any Lessor or any of its subsidiaries is bound, or to which any of the properties or assets of Omega, any Lessor or any of its subsidiaries is subject.

8.3 Limitation on Remedies. Notwithstanding any provision of this Master Lease to the contrary, with respect to any breach as of the Amended Lease Release Date of the representations and warranties set forth in Sections 8.1 and 8.2, each of the parties shall have any and all rights or remedies available at law or in equity, other than the right (i) to recover incidental and consequential damages or (ii) to seek any remedy designed to result in a termination of Lessee's leasehold rights hereunder or (iii) to enforce the remedies specified in Article XVI hereof.

8.4 Compliance with Legal and Insurance Requirements. Subject to Section 12.1 relating to permitted contests, Lessee, at its expense, will promptly (i) comply with all applicable Legal Requirements and Insurance Requirements in respect of the use, operation, maintenance, repair and restoration of the Leased Properties and Lessee's Personal Property, whether or not compliance therewith requires structural changes in any of the Leased Improvements (any such structural changes, nevertheless, being subject to Lessor's prior written approval, which approval shall not be unreasonably withheld or unreasonably delayed) or interferes with the use and enjoyment of the Leased Properties including such expenditures as are required to conform the Leased Properties to such standards as may from time to time be required by Federal Medicare (Title 18) or Medicaid (Title 19) Skilled Care Nursing Programs, if applicable, or any other applicable programs or legislation, or capital improvements required by any other governmental agency having jurisdiction over any Leased Property as a condition to the continued operation of such Leased Property, approved for Medicare, Medicaid or similar programs, pursuant to present or future laws or governmental regulation and (ii) procure, maintain and comply with all licenses, certificates of need, provider agreements and other authorizations required for any use of any Leased Property and Lessee's Personal Property then being made, and for the proper erection, installation, operation and maintenance of any Leased Property or any part thereof.

8.5 Legal Requirement Covenants. Lessee covenants and agrees that the Leased Properties and Lessee's Personal Property shall not be used for any unlawful purpose. Lessee further covenants and agrees that Lessee's use of the Leased Properties and maintenance, alteration, and operation of the same, and all parts thereof, shall at all times conform to all applicable local, state, and federal laws, ordinances, rules, and regulations (including but not limited to the Americans with Disabilities Act) unless the same are held by a court of competent jurisdiction to be unlawful. Lessee may, however, upon prior written Notice to Lessor, contest the legality or applicability of any such law, ordinance, rule or regulation, or any licensure or certification decision as provided in Section 12.1. The judgment of any court of competent jurisdiction or the admission of Lessee in any action or proceeding against Lessee, whether Lessor is a party thereto or not, that Lessee has violated any such Legal Requirements or Insurance Requirements shall be conclusive of that fact as between Lessor and Lessee.

8.6 Certain Covenants Regarding Management.

8.6.1 Limitation of Management Fees. A condition to the effectiveness of the Term with respect to this Master Lease shall be the disclosure to Lessor of the terms of any management agreement between Lessee and any other entity affecting the operational control of any Facility, and Lessor's

approval, which shall not be unreasonably withheld, of such terms and of such other entity. Each manager shall subordinate its right to receive any management fee from any Facility to Lessee's obligation to pay Lessor the Base Rent and Additional Charges for such Facility.

8.6.2 Management Agreements. Lessee covenants that during the Term of this Lease it shall neither (i) enter into any management agreement with respect to a Facility without Lessor's approval, which Lessor may grant or withhold in its sole discretion unless the proposed manager meets the requirements of a Discretionary Transferee or is an Affiliate of Lessee, in which case Lessor shall not unreasonably withhold its consent, or (ii) amend, modify, renew, replace or otherwise change the terms of any existing management agreement for a Facility without the prior written consent of Lessor, which Lessor may not unreasonably withhold, and, in either case, without a satisfactory subordination by such manager of its right to receive its management fee to the obligation of Lessee to pay the Base Rent and Additional Charges to Lessor.

8.7 Certain Financial Covenants.

8.7.1 Tangible Net Worth. At all times during the Term, New Sun shall maintain a minimum consolidated net worth equal to, or greater than, eighty percent (80%) of the Initial Consolidated Net Worth.

8.7.2 Cash Flow to Rent Ratio. Lessee on a consolidated basis shall maintain a Cash Flow to Rent Ratio as determined quarterly on a cumulative basis for the preceding four (4) calendar quarters of 1.25 or more.

8.8 Minimum Per Bed Capital Expenditures. Without limiting Lessee's obligations to maintain the Leased Property under this Master Lease, within thirty (30) days after the end of each Lease Year with respect to a Facility, Lessee shall provide Lessor with evidence satisfactory to Lessor in the reasonable exercise of Lessor's discretion that Lessee has in such Lease Year spent, with respect to the Leased Property, at least an aggregate amount of $360.00 per bed (as such amount is increased by the percentage change in the CPI from the Amended Lease Release Date to the first day of such Lease Year) (the "Minimum Aggregate Maintenance Amount") *minus* the Overage Amount (as hereinafter defined), for repair and maintenance of the Facilities excluding normal janitorial and cleaning but including such capital expenditures to the Facilities and replacements to Lessor's Personal Property at the Facilities as Lessee deems to be necessary in the exercise of its reasonable discretion. If Lessee fails to make at least the above amount of expenditures and fails to either (i) cure such default within sixty (60) days after receipt of a written demand from Lessor, or (ii) obtain Lessor's written approval, in its reasonable discretion, of a repair and maintenance program satisfactory to cure such deficiency, then the same shall be deemed an Event of Default hereunder. As used herein "Overage Amount" means any amounts expended by Lessee pursuant to this Section 8.8 in the two immediately preceding Lease Years in excess of the Minimum Aggregate Maintenance Amount (excluding any such amounts that are financed by Lessee and secured by a lien on the personal property relating thereto).

8.9 Preservation of Business. Lessee acknowledges that a fair return to Lessor on and protection of its investment in the Leased Property is dependent, in part, on the concentration on the Leased Property during the Term of the health care business of Lessee and its Affiliates in the geographical area of the Leased Property. Lessee further acknowledges that diversion of residents and/or patients, as applicable, from any Facility to other facilities or institutions owned, operated or managed, whether directly or indirectly, by Lessee or its Affiliates will have a material adverse impact on the value and utility of the Leased Property. Accordingly, Lessor and Lessee agree that during the Term and for a period of one (1) year thereafter, neither Lessee nor any of its Affiliates shall, without the prior written consent of Lessor: (i) operate, own, participate in or otherwise receive revenues from any other business providing services or goods which are directly competitive with those provided in connection with any Facility and the Primary Intended Use (which Lessee did not operate, own, manage or have any interest in on the Amended Lease Release Date), within (A) a three (3) mile radius of any such Facility listed as "urban" on Exhibit A attached hereto or (B) a ten (10) mile radius of any such Facility listed as "rural" on Exhibit A attached hereto; provided, however, the foregoing shall not be deemed or construed to apply to any facilities acquired by Lessee or its Affiliates after the Amended Lease Release Date, whether by acquisition, lease or management agreement, as part of a transaction or series of related transactions involving two (2) or more facilities, provided that, (A) less than fifty percent (50%) of the facilities involved in any such transaction are located within the area protected by this Section, or (ii) except as is necessary to provide residents or patients with an alternative level of care or as is otherwise necessary as a result of an admissions ban or non payment of stay or to ensure the health and welfare of other residents of any Facility, (A) recommend or solicit the removal or transfer of any resident or patient from any Facility to any other nursing, health care, senior housing or retirement housing facility or (B) divert actual or potential residents or patients of the business conducted at any Facility to any other facilities owned or operated by Lessee or its Affiliates or to facilities from which Lessee or its Affiliates receive any type of referral fees or other compensation for transfer. Lessee further agrees that during the last year of the Initial Term or any applicable Renewal Term (unless Lessee has elected to renew this Master Lease for the next applicable Renewal Term) and for a period of one (1) year after the expiration or earlier termination of the Term, Lessee shall not employ any management or supervisory personnel working at any Facility for any other business without the consent of Lessor in its reasonable discretion. Notwithstanding the foregoing, unless this Master Lease terminates as a result of an Event of Default by Lessee, the prohibition of employment during the one (1) year period after the expiration or earlier termination of the Term shall not apply to unsolicited personnel who approach Lessee directly and request employment by Lessee.

ARTICLE IX

9.1 Maintenance and Repair.

9.1.1 Lessee, at its expense, will keep the Leased Properties and all fixtures thereon and all landscaping, private roadways, sidewalks and curbs appurtenant thereto and which are under Lessee's control and Lessee's Personal Property in good order and repair (whether or not the need for such repairs occurs as a result of Lessee's use, the elements or the age of the Leased Properties or any portion thereof, or any cause whatever except the failure of Lessor to make any payment or to perform any act expressly required under this Master Lease or any willful misconduct of Lessor), and, except as otherwise provided in Article XIV, with reasonable promptness, make all necessary and appropriate repairs thereto of every kind and nature, whether interior or exterior, structural or non-structural, ordinary or extraordinary, foreseen or unforeseen or arising by reason of a condition whether or not existing prior to the commencement of the Term (concealed or otherwise). Lessee shall not make any changes or alterations to any Leased Property, except as permitted pursuant to Article X.

9.1.2 Lessee shall do or cause others to do all shoring of any Leased Property or adjoining property (whether or not owned by Lessor) or of the foundations and walls of the Leased Improvements, and every other act necessary or appropriate for the preservation and safety thereof, by reason of or in connection with any subsidence, settling or excavation or other building operation upon any of the Leased Properties or adjoining property, whether or not Lessor shall, by any Legal Requirements, be required to take such action or be liable for the failure to do so. All repairs shall, to the extent reasonably achievable, be at least equivalent in quality to the original work, and, subject to the provisions of paragraph 9.1.6, where, by reason of age or condition, such repairs cannot be made to the quality of the original work, the property to be repaired shall be replaced.

9.1.3 It is the intention of these provisions that the level of maintenance of the Leased Properties shall be not less than the standard applied by Lessee in its operation of other similar licensed health care facilities it owns and/or operates. At all times Lessee shall maintain, operate and otherwise manage the Leased Properties on a quality basis and in a manner consistent with the standards of other facilities in the market area for the Leased

Properties.

9.1.4 Lessor shall not under any circumstances be required to build or rebuild any improvements on any Leased Property, or to make any repairs, replacements, alterations, restorations or renewals of any nature or description to any Leased Property, whether ordinary or extraordinary, structural or non-structural, foreseen or unforeseen, or upon any adjoining property, whether to provide lateral or other support for any Leased Property or abate a nuisance affecting any Leased Property, or otherwise, or to make any expenditure whatsoever with respect thereto, in connection with this Master Lease, or to maintain any Leased Property in any way. Lessee hereby waives, to the extent permitted by law, the right to make repairs at the expense of Lessor pursuant to any law in effect at the time of the execution of this Master Lease or hereafter enacted.

9.1.5 Nothing contained in this Master Lease, and no action or inaction by Lessor, shall be construed for the benefit of any contractor, subcontractor, laborer, materialman or vendor as (i) constituting the consent or request of Lessor, expressed or implied, to or for the performance of any labor or services or the furnishing of any materials or other property for the construction, alteration, addition, repair or demolition of or to any Leased Property or any part thereof, or (ii) subject to the provisions of Section 12.1 , giving Lessee any right, power or permission to contract for or permit the performance of any labor or services or the furnishing of any materials or other property in such fashion as would permit the making of any claim against Lessor in respect thereof or to make any agreement that may create, or in any way be the basis for any right, title, interest, lien, claim or other encumbrance upon the estate of Lessor in any Leased Property, or any portion thereof. Lessor shall have the right to give, record and post, as appropriate, notices of non-responsibility under any mechanics' lien laws now or hereafter existing.

9.1.6 Lessee shall, from time to time, replace with other operational equipment or parts or property (the " Replacement Property") any of the Fixtures or Lessor's Personal Property (the "Replaced Property") which shall have (i) become worn out, obsolete or unusable for the purpose for which it is intended, (ii) been taken by Condemnation, in which event Lessee shall be entitled to that portion of any Award made therefor, or (iii) been lost, stolen, damaged or destroyed; provided, however, that the Replacement Property shall (1) be in good operating condition, (2) have a then value (as adjusted for inflation) and useful life at least equal to the value and estimated useful life of the Replaced Property as of the date hereof for Replaced Property specified in Subparagraph 9.1.6(i), or have a value and useful life at least equal to the value and estimated useful life of the Replaced Property immediately prior to the time that the Replaced Property specified in Subparagraphs 9.1.6 (ii) and 9.1.6 (iii) had become so taken or so lost, stolen, damaged or destroyed, and (3) be suitable for a use which is the same or similar to that of the Replaced Property. Lessee shall repair at its sole cost and expense all damage to the Leased Properties caused by the removal of Replaced Property or other personal property of Lessee or the installation of Replacement Property. All Replacement Property shall become the property of Lessor and shall become a part of the Fixtures or Lessor's Personal Property, as the case may be, to the same extent as the Replaced Property had been. Lessee shall promptly advise Lessor of all such Replacement Property, and if so requested by Lessor in writing, Lessee shall promptly cause to be executed and delivered to Lessor an invoice, bill of sale or other appropriate instrument evidencing the transfer or assignment to Lessor of all estate, right, title and interest (other than the leasehold estate created hereby) of Lessee or any other Person in and to the Replacement Property, free from all liens and other exceptions to title, and Lessee shall pay all taxes, fees, costs and other expenses that may become payable as a result thereof. At the expiration of the Term or the sooner termination of this Master Lease, the Leased Properties covered by this Master Lease, including all Leased Improvements, Fixtures and Personal Property shall be in good operating condition, ordinary wear and tear excepted. Notwithstanding the foregoing, Lessee shall be deemed to be in compliance with the requirements of this Section 9.1.6 if the total amount of the Permitted Personal Property Leases or Liens (as calculated by summing the annual amount of rental, principal and interest payments for all such leases and financings) affecting the Replaced Property or Lessee's Personal Property (other than the Excluded Lessee's Personal Property) for any Facility at any time does not exceed, (i) in the case of a Facility, the Primary Intended Use of which is as a nursing home, $420 per bed and (i) in the case of a Facility, the Primary Intended Use of which is as a rehabilitation hospital, $1,260 per bed, which per bed limit shall be increased in the case of each of clauses (i) and (ii) on each anniversary of the Commencement Date by the percentage change in the CPI. For the avoidance of doubt, nothing herein shall be construed as limiting the liens or other exceptions to title which may affect the Excluded Lessee's Personal Property.

9.1.7 Upon the expiration or earlier termination of the Term, Lessee shall vacate and surrender the Leased Properties to Lessor as a fully equipped, licensed nursing home or rehabilitation hospital or other healthcare facility, as applicable, with all equipment required by the laws of the State to maintain its then current license. The Leased Properties shall be returned in the condition in which it was originally received from Lessor, ordinary wear and tear excepted, and except as repaired, rebuilt, restored, altered or added to as permitted or required by the provisions of this Master Lease.

9.2 Encroachments, Restrictions, etc. Except in the case of Permitted Encumbrances, if any of the Leased Improvements, at any time, encroaches upon any property, street or right-of-way adjacent to the Leased Properties, or violates the agreements or conditions contained in any lawful restrictive covenant or other agreement affecting any Leased Property, or any part thereof, or impairs the rights of others under any easement or right-of-way to which the Leased Properties is subject, then promptly upon the request of Lessor or at the behest of any person affected by any such encroachment, violation or impairment, Lessee shall, at its expense, subject to its right to contest the existence of any encroachment, violation or impairment as provided in Section 12.1 and in such case, in the event of an adverse final determination, either (i) obtain valid and effective waivers or settlements of all claims, liabilities and damages resulting from each such encroachment, violation or impairment, whether the same shall affect Lessor or Lessee or (ii) make such changes to the Leased Improvements, and take such other actions, as Lessee in the good faith exercise of its judgment deems reasonably practicable, to remove such encroachment, and to end such violation or impairment, including, if necessary, the alteration of any of the Leased Improvements, and in any event take all such actions as may be necessary in order to be able to continue the operation of the Leased Properties for the Primary Intended Use substantially in the manner and to the extent the Leased Properties were operated prior to the assertion of such violation, impairment or encroachment. Lessee shall in no event have any claim or offset with respect to any such violation, impairment or encroachment. Any such alteration must be made in conformity with the applicable requirements of Article X.

ARTICLE X

10.1 Construction of Alterations and Additions to the Leased Properties . Lessee shall not make or permit to be made any alterations, improvements or additions of or to any Leased Property or any part thereof, unless and until Lessee has obtained Lessor's written approval thereof if and as required pursuant to the terms of this Article X, which approval shall not be unreasonably withheld, and, if and as required by the terms of a Facility Mortgage, the approval of the Facility Mortgagee. Routine landscaping, painting, floor and wallcovering replacements shall not be deemed to be alterations within the meaning of this Article X.

10.1.1 Without the prior written consent of Lessor, Lessee shall not make any structural alterations to any Leased Property (other than replacement with the same materials in the same configuration) the cost of which in any period of twelve (12) consecutive months exceeds Fifty Thousand Dollars ($50,000), including, without limitation, any alterations to the roof, exterior and other load-bearing walls, windows and foundation of such Leased Property.

10.1.2 Without the prior written consent of Lessor, Lessee shall not make any non-structural alterations to any Leased Property (other than replacement with the same materials in the same configuration) the cost of which in any period of twelve (12) consecutive months exceeds the Self Administered Amount.

10.1.3 As to any proposed alterations that do not require the approval of Lessor, before commencing the proposed alterations Lessee shall give Lessor at least fifteen (15) Business Days' Notice, and, in the case of structural alterations not requiring the approval of Lessor, Lessee shall deliver a copy of the plans and specifications therefor to Lessor within thirty (30) days after the commencement of such alterations.

10.1.4 If the approval of Lessor of a proposed structural alteration is required, at least thirty (30) days prior to the date upon which Lessee wishes to commence construction of such alteration, Lessee shall cause a copy of the plans and specifications therefor, prepared at Lessee's expense by a licensed architect, to be submitted to Lessor and, if and as required by a Facility Mortgage, to the Facility Mortgagee. Lessor's approval shall not be unreasonably withheld or delayed.

10.1.5 If a required approval is granted, Lessee shall cause the work described in the approved plans and specifications to be performed at its expense, promptly and in a first class workmanlike manner, by a licensed general contractor and in compliance with all applicable Insurance Requirements and Legal Requirements and the standards herein. Each alteration, alone or in conjunction with each affected portion of any Leased Property, shall constitute a complete architectural unit in keeping with the character of such Leased Property and the area in which such Leased Property is located, and shall not diminish the value of such Leased Property or change the Primary Intended Use of such Leased Property. Each and every such alteration shall immediately become a part of any Leased Property and shall belong to Lessor subject to the terms and conditions of this Master Lease. Lessee shall have no claim against Lessor at any time in respect of the cost or value of any such alteration. All materials which are scrapped or removed in connection with the making of such alteration shall be the property of Lessee. There shall be no adjustment in the Base Rent by reason of any such alteration.

10.1.6 In connection with any alteration which involves the removal, demolition or disturbance of any asbestos-containing material, Lessee shall cause to be prepared at its expense a full asbestos assessment applicable to such alteration, and shall carry out such asbestos monitoring and maintenance program as shall reasonably be required thereafter in light of the results of such assessment.

ARTICLE XI

11.1 Liens. Subject to the provisions of Section 12.1 relating to permitted contests, Lessee will not directly or indirectly create or allow to remain and will promptly discharge at its expense any lien, encumbrance, attachment, title retention agreement or claim upon any Leased Property or any attachment, levy, claim or encumbrance in respect of the Rent, not including, however, (i) this Master Lease, (ii) the Permitted Encumbrances, (iii) restrictions, liens and other encumbrances which are consented to in writing by Lessor (Lessor's consent to such liens not to be unreasonably withheld or delayed) and any Facility Mortgagee or any easements granted by or consented to in writing by Lessor, (iv) liens for those taxes of Lessor which Lessee is not required to pay hereunder, (v) subleases permitted by Article XXIII, (vi) liens for Impositions or for sums resulting from noncompliance with Legal Requirements so long as (a) the same are not yet payable, or (b) such liens are in the process of being contested as permitted by Section 12.1, (vii) liens of mechanics, laborers, materialmen, suppliers or vendors for sums either disputed or not yet due, provided that (a) the payment of such sums shall not be postponed for more than sixty (60) days after the completion of the action giving rise to such lien and such reserve or other appropriate provisions as shall be required by law or GAAP shall have been made therefor and (b) any such liens are in the process of being contested as permitted by Section 12.1, (viii) any liens which are the responsibility of Lessor hereunder, and (ix) any other liens expressly permitted by the terms hereof.

ARTICLE XII

12.1 Permitted Contests. Lessee, on its own or on Lessor's behalf (or in Lessor's) name, but at Lessee's sole cost and expense, may contest the amount or validity of any Imposition or any Legal Requirement or Insurance Requirement or any lien, attachment, levy, encumbrance, charge or claim, or any encroachment or restriction burdening any Leased Property as provided in Section 9.2 ("Claims"), not otherwise permitted by Article XI, by appropriate legal proceedings in good faith and with due diligence (but this shall not be deemed or construed in any way as relieving, modifying or extending Lessee's covenants to pay or its covenants to cause to be paid any such charges at the time and in the manner as in this Article provided), on condition, however, that such legal proceedings shall not operate to relieve Lessee from its obligations hereunder and shall not cause the sale of any Leased Property, or any part thereof, to satisfy the same or cause Lessor or Lessee to be in default under any Encumbrance or in violation of any Legal Requirements or Insurance Requirements upon any Leased Property or any interest therein. Upon request of Lessor, Lessee shall either (i) provide a bond, letter of credit or other assurance reasonably satisfactory to Lessor and any court having jurisdiction thereof that all Claims which may be assessed against any Leased Property together with interest and penalties, if any, thereon will be paid, or (ii) deposit within the time otherwise required for payment with a bank or trust company selected by Lessor as trustee, as security for the payment of such Claims, money in an amount sufficient to pay the same, together with interest and penalties in connection therewith and all Claims which may be assessed against or become a Claim on any Leased Property, or any part thereof, in said legal proceedings, or (iii) deposit in the court having jurisdiction thereof an amount required by the laws of the State in which a Facility is located, to release any lien from any Leased Property. Lessee shall furnish Lessor and any lender of Lessor and any other party entitled to assert or enforce any Legal Requirements or Insurance Requirements with evidence of such deposit within five (5) days of the same. Lessor agrees to join in any such proceedings if required to legally prosecute such contest of the validity of such Claims; provided, however, that Lessor shall not thereby be subjected to any liability for the payment of any costs or expenses in connection with any such proceedings; and Lessee covenants to indemnify and save harmless Lessor from any such costs or expenses, including but not limited to reasonable attorneys' fees incurred in any arbitration proceeding, trial, appeal and post-judgment enforcement proceedings. Lessee shall be entitled to any refund of any Claims and such charges and penalties or interest thereon which have been paid by Lessee or paid by Lessor and for which Lessor has been fully reimbursed. If Lessee fails to pay or satisfy the requirements or conditions of any Claims when due or to provide the security therefor as provided in this paragraph and to diligently prosecute any contest of the same, Lessor may, upon thirty (30) days' advance written Notice to Lessee, pay such charges or satisfy such claims together with any interest and penalties and the same (or the cost thereof) shall be repayable by Lessee to Lessor as Additional Charges upon presentation of a written statement setting forth the amounts so claimed. If Lessor reasonably determines that the giving of such Notice would risk loss to any Leased Property or cause damage to Lessor, then Lessor shall give such written Notice as is practical under the circumstances.

12.2 Lessor's Requirement for Deposits. Upon and at any time after Lessee has failed on three (3) consecutive occasions to fulfill its obligations hereunder with respect to the payment of Rent or Impositions or the compliance with any Insurance Requirements or Legal Requirements, whether or not Lessor has declared an Event of Default hereunder, Lessor, in its sole discretion, shall thereafter be entitled to require Lessee to pay monthly a pro rata portion of the amounts required to comply with the relevant Insurance Requirements, any Imposition and any Legal Requirements, and when such obligations become due, Lessor shall pay them (to the extent of the deposit) upon Notice from Lessee requesting such payment. In the event that sufficient funds have not been deposited to cover the amount of the obligations due at least thirty (30) days in advance of the due date, Lessee shall forthwith deposit the same with Lessor upon written request from Lessor. Lessor shall not be obligated to pay Lessee any interest on any deposit so held by Lessor. Upon an Event of Default, any of the funds remaining on deposit may be applied in any manner and on such priority, as determined by Lessor and without Notice to Lessee.

ARTICLE XIII

13.1 General Insurance Requirements. During the Term, Lessee shall at all times keep the Leased Properties, and all property located in or on Leased Property, including Lessor's Personal Property and Lessee's Personal Property, insured with the kinds and amounts of insurance described below. Except as otherwise provided in this Article XIII, (a) this insurance shall be written by companies authorized to do insurance business in the State and, (b) all such policies provided and maintained during the Term shall be written by companies having a rating classification of not less than "A-" and a financial size category of "Class X," according to the then most recent issue of Best's Key Rating Guide. The policies (other than Workers' Compensation policies) must name Lessor as an additional insured. Losses shall be payable to Lessor or Lessee as provided in Article XIV. In addition, the policies shall name as an additional insured, the holder of any mortgage deed of trust or other security agreement on the Leased Properties ("Facility Mortgagee") securing any Assumed Indebtedness and any other Encumbrance placed on the Leased Properties in accordance with the provisions of Article XXXIV ("Facility Mortgage"), as its interest may appear, by way of a standard form of mortgagee's loss payable endorsement in use in the State and in accordance with any such other requirements as may be established by the Facility Mortgagee. Any loss adjustment in the excess of the Self-Administered Amount shall require the written consent of Lessor, Lessee, and the Facility Mortgagee, which consent shall not be unreasonably withheld by either Lessor or Lessee. Evidence of insurance shall be deposited with Lessor and, if requested, with the Facility Mortgagee(s). If any provision of a Facility Mortgage requires deposits of premiums for insurance to be made with the Facility Mortgagee, Lessee shall either pay to Lessor monthly the amounts so required and Lessor shall transfer such amounts to the Facility Mortgagee, or, pursuant to written direction by Lessor, Lessee shall make such deposits directly with such Facility Mortgagee. Upon Lessee's request, Lessor shall provide Lessee with evidence of its transfer of such amounts. The policies on the Leased Properties, including the Leased Improvements, Fixtures and Lessor's Personal Property, and on Lessee's Personal Property, shall insure against the following risks:

13.1.1 Loss or damage by fire, vandalism and malicious mischief, earthquake (if available at commercially reasonable rates) and extended coverage perils commonly known as "Special Risk," and all physical loss perils normally included in such Special Risk insurance, including but not limited to sprinkler leakage, in an amount not less than one hundred percent (100%) of the then full replacement cost thereof (as defined below in Section 13.2);

13.1.2 Loss or damage by explosion of steam boilers, pressure vessels or similar apparatus, now or hereafter installed in any Facility, in such amounts with respect to any one accident as may be required by Lessor from time to time;

13.1.3 Loss of rental included in a business income or rental value insurance policy covering risk of loss during reconstruction necessitated by the occurrence of any of the hazards described in Sections 13.1.1 or 13.1.2 (but in no event for a period of less than twelve (12) months) in an amount sufficient to prevent either Lessor or Lessee from becoming a co-insurer;

13.1.4 Claims for personal injury or property damage under a policy of commercial general public liability insurance with a combined single limit per occurrence in respect of bodily injury and death and property damage of One Million Dollars ($1,000,000), and an aggregate limitation of Three Million Dollars ($3,000,000), which insurance shall include contractual liability insurance;

13.1.5 Claims arising out of professional malpractice in an amount not less than One Million Dollars ($1,000,000) for each person and for each occurrence and an aggregate limit of Three Million Dollars ($3,000,000);

13.1.6 Flood (when any Leased Property is located in whole or in part within a designated flood plain area) and such other hazards and in such amounts as may be customary for comparable properties in the area;

13.1.7 During such time as Lessee is constructing any improvements, Lessee, at its sole cost and expense, shall carry, or cause to be carried (i) workers' compensation insurance and employers' liability insurance covering all persons employed in connection with the improvements in statutory limits, (ii) a completed operations endorsement to the commercial general liability insurance policy referred to above, (iii) builder's risk insurance, completed value form, covering all physical loss, in an amount and subject to policy conditions satisfactory to Lessor, and (iv) such other insurance, in such amounts, as Lessor deems necessary to protect Lessor's interest in the Leased Properties from any act or omission of Lessee's contractors or subcontractors;

13.1.8 Lessee shall procure, and at all times during the Term of this Master Lease shall maintain, a policy of primary automobile liability insurance with limits of One Million Dollars ($1,000,000) per occurrence for owned and non-owned and hired vehicles; and

13.1.9 If Lessee chooses to carry umbrella liability coverage to obtain the limits of liability required hereunder, all such policies must cover in the same manner as the primary commercial general liability policy and must contain no additional exclusions or limitations materially different from those of the primary policy.

13.2 Replacement Cost. The term "full replacement cost" as used herein, shall mean as to each Leased Property, the actual replacement cost of the Leased Improvements, Fixtures and Personal Property, including an increased cost of construction endorsement, less exclusions provided in the standard form of fire insurance policy, of such Leased Property. In all events, full replacement cost shall be an amount sufficient that neither Lessor nor Lessee is deemed to be a co-insurer of a Leased Property. If Lessor believes that full replacement cost (the then replacement cost less such exclusions) of a Leased Property has increased at any time during the Term, it shall have the right to have such full replacement cost reasonably redetermined by an appraiser reasonably acceptable to the fire insurance company which is then carrying the largest amount of fire insurance carried on the Leased Properties, hereinafter referred to as "impartial appraiser". The determination of the impartial appraiser shall be final and binding on Lessor and Lessee, and Lessee shall forthwith increase, but not decrease, the amount of the insurance carried pursuant to this Section, as the case may be, to the amount so determined by the impartial appraiser, subject to the approval of the Facility Mortgagee, as applicable. Lessor and Lessee shall each pay one-half (½) of the fee, if any, of the impartial appraiser.

13.3 Additional Insurance. In addition to the insurance described above, Lessee shall within ninety (90) days after the receipt of Notice of any such requirement maintain such additional insurance as may be required from time to time by the Facility Mortgagee and shall further at all times maintain worker's compensation insurance coverage for all persons employed by Lessee on the Leased Properties to the extent required under applicable State laws. Such worker's compensation insurance shall be in accordance with the requirements of applicable local, state and federal law.

13.4 Waiver of Subrogation. All insurance policies carried by either party covering the Leased Properties, the Fixtures, the Facilities, Lessor's Personal Property or Lessee's Personal Property, including without limitation, contents, fire and casualty insurance, shall expressly waive any right of subrogation on the part of the insurer against the other party. Lessee shall pay any additional costs or charges for obtaining such waiver.

13.5 Form Satisfactory, etc.

13.5.1 All of the policies of insurance referred to in this Article XIII shall be written in a form reasonably satisfactory to Lessor and any

Facility Mortgagee. The property loss insurance policy shall contain a Replacement Cost Endorsement. If Lessee obtains and maintains the professional malpractice insurance described in Section 13.1.5 above on a "claims-made" basis, Lessee shall provide continuous liability coverage for claims arising during the Term either by obtaining an endorsement providing for an extended reporting period reasonably acceptable to Lessor in the event such policy is canceled or not renewed for any reason whatsoever, or by obtaining either (a) "tail" insurance coverage converting the policies to "occurrence" basis policies providing coverage for a period of at least three (3) years beyond the expiration of the Term, or (b) retroactive coverage back to the commencement date (which date shall be at least three (3) years prior to the expiration of the Term) for the policy in effect prior to the expiration of the Term and maintaining such coverage for a period of at least three (3) years beyond the expiration of the Term. Lessee shall (i) pay when due all of the premiums therefor, and deliver such policies or certificates thereof to Lessor prior to their effective date, (ii) with respect to any renewal policy, prior to the expiration of the existing policy, Lessee shall furnish a new policy or binder to Lessor) and (iii) promptly thereafter, deliver the certificate or the new policy and in the event of the failure of Lessee either to effect such insurance as herein called for or to pay the premiums therefor, or to deliver such policies or certificates thereof to Lessor at the times required, Lessor shall be entitled, but shall have no obligation, to effect such insurance and pay the premiums therefor when due, which premiums shall be repayable to Lessor upon written demand therefor as Rent, and failure to repay the same shall constitute an Event of Default within the meaning of Section 16.1.

13.5.2 Each insurer mentioned in this Article XIII shall agree, by endorsement on the policy or policies issued by it, or by independent instrument furnished to Lessor, that it will give to Lessor (and to any Facility Mortgagee, if required by the same) at least thirty (30) days' written notice before the policy or policies in question shall be materially altered or canceled.

13.5.3 Notwithstanding any provision of this Article XIII to the contrary, each Lessor acknowledges and agrees that the coverage required to be maintained by Lessee, including but not limited to the coverages required under Sections 13.1.4, 13.1.5, 13.1.8 and any workers' compensation insurance, may be provided under one or more policies of self-insurance maintained by New Sun and/or one or more of the Lessees or their respective Affiliates.

13.6 Increase in Limits. If, from time to time after the Commencement Date, Lessor determines in the exercise of its reasonable business judgment that the limits of the personal injury or property damage-public liability insurance then carried are insufficient, Lessor may give Lessee Notice of acceptable limits for the insurance to be carried; and within ninety (90) days after the receipt of such Notice, the insurance shall thereafter be carried with limits as prescribed by Lessor until further increase pursuant to the provisions of this Section.

13.7 Blanket Policy. Notwithstanding anything to the contrary contained in this Article XIII, Lessee's obligations to carry the insurance provided for herein may be brought within the coverage of a so-called blanket policy or policies of insurance carried and maintained by Lessee; provided, however, that the coverage afforded Lessor will not be reduced or diminished or otherwise be materially different from that which would exist under a separate policy meeting all other requirements hereof by reason of the use of the blanket policy, and provided further that the requirements of this Article XIII (including satisfaction of the Facility Mortgagee's requirements and the approval of the Facility Mortgagee) are otherwise satisfied, and provided further that Lessee maintains specific allocations acceptable to Lessor.

13.8 No Separate Insurance.

13.8.1 Lessee shall not on Lessee's own initiative or pursuant to the request or requirement of any third party, take out separate insurance concurrent in form or contributing in the event of loss with that required in this Article, to be furnished by, or which may reasonably be required to be furnished by, Lessee, or increase the amount of any then existing insurance by securing an additional policy or policies, unless all parties having an insurable interest in the subject matter of the insurance, including in all cases Lessor and all Facility Mortgagees are included therein as additional insureds, and the loss is payable under said insurance in the same manner as losses are payable hereunder.

13.8.2 Nothing herein shall prohibit Lessee from insuring against risks not required to be insured hereby, and as to such insurance, Lessor and any Facility Mortgagee need not be included therein as additional insureds, nor must the loss thereunder be payable in the same manner as losses are payable hereunder except to the extent required to avoid a default under the Facility Mortgage or any other Permitted Encumbrance.

ARTICLE XIV

14.1 Insurance Proceeds. All proceeds, net of any costs incurred by Lessor in obtaining such proceeds, payable by reason of any loss or damage to any Leased Property, or any portion thereof, insured under (i) any policy of insurance required by Article XIII or (ii) under any other policies of insurance owned or maintained by Lessee with respect to any Leased Property shall be paid to Lessor and held by Lessor as provided herein. If such proceeds, net of collection costs, but inclusive of the proceeds with respect to the Personal Property which Lessee elects to restore or replace pursuant to Section 14.2 (the "Net Proceeds") are less than the Self-Administered Amount, and, if no Event of Default has occurred and is continuing, Lessor shall pay the Net Proceeds to Lessee promptly upon the completion of any restoration or repair, as the case may be, of any damage to or destruction of any Leased Property, or any portion thereof. If the Net Proceeds equal or exceed the Self-Administered Amount, and if no Event of Default has occurred and is continuing, the Net Proceeds shall be made available for restoration or repair, as the case may be, of any damage to or destruction of any Leased Property, or any portion thereof, as provided in Section 14.9; provided, however, that within fifteen (15) days of the receipt of the Net Proceeds, Lessor and Lessee shall agree as to the portion, if any, thereof attributable to Lessee's Personal Property (and failing such shall submit the matter to arbitration pursuant to the provisions hereof) and those Net Proceeds which the parties agree are payable by reason of any loss or damage to any of Lessee's Personal Property shall be disbursed in the manner specified in Section 14.4.

14.2 Restoration in the Event of Damage or Destruction Covered by Insurance.

14.2.1 If during the Term any Leased Property is totally or partially damaged or destroyed from a risk covered by the insurance described in Article XIII and such Leased Property thereby is rendered Unsuitable for its Primary Intended Use, Lessee shall give Lessor Notice of such damage or destruction within five (5) Business Days of the occurrence thereof. Lessee shall, within sixty (60) days of the occurrence, either (i) commence the restoration of the affected Leased Property to substantially the same (or better) condition as the condition of such Leased Property immediately prior to such damage or destruction, and complete such restoration within the Reconstruction Period of the occurrence, or (ii) purchase the affected Leased Property from Lessor for a purchase price equal to the Minimum Purchase Price at the time of the damage or destruction.

14.2.2 If during the Term, any Leased Property is totally or partially destroyed from a risk covered by the insurance described in Article XIII, but such Leased Property is not thereby rendered Unsuitable for its Primary Intended Use, Lessee shall give Lessor Notice of such damage or destruction within five (5) Business Days of the occurrence thereof. Within sixty (60) days of the occurrence, Lessee shall commence to restore such Leased Property to substantially the same (or better) condition as existed immediately before the damage or destruction and complete the restoration within the Reconstruction Period. Lessor shall make the Net Proceeds available to Lessee for such purpose as provided in this Article XIV. Such damage or

destruction shall not terminate this Master Lease with respect to such Leased Property; provided, however, if Lessee cannot within a reasonable time obtain all necessary government approvals, including building permits, licenses, conditional use permits and any certificates of need, after diligent efforts to do so, in order to be able to perform all required repair and restoration work and to operate such Leased Property for its Primary Intended Use in substantially the same manner as that existing immediately prior to such damage or destruction, Lessee shall purchase such Leased Property for a purchase price equal to the Minimum Purchase Price at the time of the damage or destruction.

14.3 Restoration in the Event of Damage or Destruction Not Covered by Insurance . Except as provided in Section 14.7 below, if during the Term, a Leased Property is totally or partially destroyed from a risk not covered by the insurance described in Article XIII, Lessee shall give Lessor Notice of such damage or destruction within five (5) Business Days of the occurrence thereof. Whether or not such damage or destruction renders such Leased Property Unsuitable for Its Primary Intended Use, Lessee at its option shall either restore such Leased Property to substantially the same condition it was in immediately before such damage or destruction, and such damage or destruction shall not terminate this Master Lease as to such affected Leased Property, or purchase such Leased Property for the Minimum Purchase Price. If Lessee fails to make the election within sixty (60) days of the occurrence or if Lessee elects not to restore, or if Lessee fails to commence or complete the restoration within the Reconstruction Period, then Lessee shall be deemed to have elected to purchase such affected Leased Property and upon the closing of such purchase, this Master Lease shall terminate as to the affected Leased Property. Lessee shall complete the purchase within the Reconstruction Period.

14.4 Lessee's Property. All insurance proceeds payable by reason of any loss of or damage to any of Lessee's Personal Property shall be paid to Lessee, and Lessee shall hold such insurance proceeds in trust to pay the cost of repairing or replacing damaged Lessee's Personal Property.

14.5 Restoration of Lessee's Property. If Lessee is required or elects to restore a Leased Property as provided in Section 14.2 or 14.3, Lessee shall also restore all alterations and improvements made by Lessee and all of Lessee's Personal Property, to the extent required to maintain the then current license of such Leased Property.

14.6 Damage Near End of Term. Notwithstanding any provisions of Section 14.2 or 14.3 appearing to the contrary, if damage to or destruction of a Leased Property occurs during the last twelve (12) months of the Continuing Initial Term, Litchfield Initial Term or any Renewal Term, and if such damage or destruction cannot be fully repaired and restored within six (6) months immediately following the date of loss as reasonably estimated by Lessor, then Lessee shall have the option, in lieu of restoring such Leased Property to substantially the same (or better) condition as existed immediately before the damage or destruction, to purchase such Leased Property from Lessor for a price equal to the Minimum Purchase Price at the time of the damage or destruction occurred. If Lessee fails to exercise such option by written Notice to Lessor within thirty (30) days following the occurrence, or if Lessee elects not to restore, or if Lessee elects to restore but fails to commence or complete the restoration within the time limits specified in this Article XIV, then Lessee shall be deemed to have elected to purchase such Leased Property for the price set forth above. Lessee shall complete the purchase within (i) one hundred eighty (180) days of the occurrence if Lessee elects not to restore or (ii) sixty (60) days after the end of the Reconstruction Period in the event Lessee elects, but fails, to restore the affected Leased Property. In any such purchase, Lessee shall receive a credit for any Net Proceeds received and retained by Lessor, less such amounts as may be necessary to cure any default by Lessee.

14.7 Waiver. Except as provided elsewhere herein, Lessee hereby waives any statutory or common law rights of termination which may arise by reason of any damage to or destruction of all or any portion of the Leased Properties.

14.8 Procedure for Disbursement of Insurance Proceeds Equal to or Greater Than The Self-Administered Amount . In the event Lessee restores or repairs a Leased Property pursuant to any Subsection of this Article XIV and if the Net Proceeds equal or exceed the Self-Administered Amount, the restoration or repair shall be performed in accordance with the following procedures:

(i) The restoration or repair work shall be done pursuant to a written proposal and, if applicable, plans and specifications, in either case approved by Lessor, and Lessee shall cause to be prepared and presented to Lessor a certified construction statement, acceptable to Lessor, showing the total cost of the restoration or repair; to the extent such cost exceeds the available insurance proceeds, the amount of such excess cost shall be paid, in cash, by Lessee, to Lessor, before any disbursement is made by Lessor pursuant hereto (which insurance proceeds and any additional funds paid by Lessee to Lessor are hereinafter called the "Construction Funds").

(ii) The Construction Funds shall be made available to Lessee as the restoration and repair work progresses pursuant to certificates of an architect acceptable to Lessor, which certificates shall be in form and substance reasonably acceptable to Lessor and subject to a ten percent (10%) holdback until the architect certifies that the work is fifty percent (50%) complete after which, so long as there is no uncured Event of Default and so long as the architect certifies work is proceeding in accordance with schedule and budget, there shall be no further retainage. Any funds paid by Lessee to Lessor to pay all excess costs shall be disbursed prior to disbursement of any insurance proceeds. The architect shall be selected by Lessee, but in the judgment of Lessor, reasonably exercised, shall be highly qualified in the design and construction of nursing homes, or of the type of property for which the restoration or repair work is being done.

(iii) There shall be delivered to Lessor, with such certificates, sworn statements and lien waivers in an amount at least equal to the amount of Construction Funds to be paid out to Lessee pursuant to each architect's certificate and dated as of the date of the disbursement to which they relate.

(iv) There shall be delivered to Lessor such other evidence as Lessor may reasonably request, from time to time, during the restoration and repair, as to the progress of the work, compliance with the approved plans and specifications, the cost of restoration and repair and the total amount needed to complete the restoration and repair.

(v) There shall be delivered to Lessor such other evidence as Lessor may reasonably request, from time to time, showing that there are no liens against such Leased Property arising in connection with the restoration and repair and that the cost of such restoration and repair at least equals the total amount of Construction Funds then disbursed to Lessee hereunder.

(vi) If such Construction Funds are at any time reasonably determined by Lessor not to be adequate for completion of the restoration and repair, Lessee shall immediately pay any deficiency to Lessor to be held and disbursed as Construction Funds and prior to any other funds then held by Lessor for disbursement pursuant hereto.

(vii) Construction Funds may be disbursed by Lessor to Lessee or to the persons entitled to receive payment thereof from Lessee. Lessor may make such disbursement in either case directly or through a third party escrow agent, such as, but not limited to, a title insurance company, or its agent, as Lessor may determine in its sole discretion. Any excess Construction Funds shall be paid to Lessee upon completion of the restoration or repair.

(viii) In the event Lessee at any time shall fail to promptly and fully perform the conditions and covenants set out in subparagraphs (i) through (vi) above, and such failure is not corrected within twenty (20) days of written Notice thereof, or in the event during the Reconstruction Period an Event of Default occurs hereunder, Lessor may, at its option, immediately cease making any further payments to Lessee for such restoration and repair until cured.

14.9 Insurance Proceeds Paid to Facility Mortgagee. Notwithstanding anything herein to the contrary, in the event that any Facility Mortgagee is entitled to any insurance proceeds, or any portion thereof, under the terms of any Facility Mortgage, such proceeds shall be applied, held and/or disbursed in accordance with the terms of the Facility Mortgage. In the event that the Facility Mortgagee elects to apply the insurance proceeds to the indebtedness secured by the Facility Mortgage, Lessee shall either (i) restore such Facility to substantially the same (or better) condition as existed immediately before the damage or destruction, or (ii) offer to acquire such Facility from Lessor for the Minimum Purchase Price within the time periods provided for in this Master Lease. In such case, Lessee shall receive a credit against the purchase price for amounts applied to pay the Facility Mortgage. Lessor shall make commercially reasonable efforts to cause the Net Proceeds to be applied to the restoration of such Facility. If Lessee fails to make the election or if Lessee elects not to restore, or if Lessee fails to commence or complete the restoration within the time limits specified in this Article XIV, then Lessee shall be deemed to have elected to purchase the affected Leased Property.

14.10 Termination of Master Lease; Abatement of Rent. In the event Lessee purchases the affected Leased Property pursuant to this Article XIV as a result of damage or to destruction of all or any portion of the Leased Property, then (i) this Master Lease shall terminate as to such Leased Property upon payment of the purchase price set forth herein, (ii) the Base Rent due hereunder from and after the effective date of such termination shall be reduced by an amount determined by multiplying a fraction, the numerator of which shall be the Minimum Purchase Price for the affected Leased Property and the denominator of which shall be the Minimum Purchase Price for all of the Leased Properties then subject to the terms of this Master Lease by the Base Rent payable under this Master Lease immediately prior to the effective date of the termination of this Master Lease as to the affected Leased Property, (iii) provided that Lessee is not then in default under this Master Lease and then only to the extent not previously applied by Lessor, Lessor shall remit to Lessee all Net Proceeds pertaining to such Leased Property being held by Lessor and (iv) Lessor shall retain any claim which Lessor may have against Lessee for failure to insure such Leased Property as required by Article XIII. Unless this Master Lease shall terminate pursuant to this Article XIV as to the affected Leased Property, this Master Lease shall remain in full force and effect and Lessee's obligation to make rental payments and to pay all other charges required thereunder shall remain unabated during any period required for repair and restoration.

ARTICLE XV

15.1 Condemnation Article Definitions.

15.1.1 "Condemnation" or "Taking" means (i) the exercise of any governmental power, whether by legal proceedings or otherwise, by a Condemnor, or (ii) a voluntary sale or transfer by Lessor to any Condemnor, either under threat of condemnation or while legal proceedings for condemnation are pending.

15.1.2 "Date of Taking" means the date the Condemnor has the right to possession of a Leased Property being condemned.

15.1.3 "Award" means all compensation, sums or anything of value awarded, paid or received on a total or partial Condemnation.

15.1.4 "Condemnor" means any public or quasi-public authority, or private corporation or individual, having the power of condemnation.

15.2 Parties' Rights and Obligations. If during the Term there is any Taking of all or any part of a Leased Property or any interest in this Master Lease by Condemnation, the rights and obligations of the parties to this Master Lease shall be determined by this Article XV.

15.3 Total Taking. If title to the fee of the whole of a Leased Property shall be taken or condemned by any Condemnor, this Master Lease shall cease and terminate as to such Leased Property as of the Date of Taking by said Condemnor. If title to the fee of less than the whole of such Leased Property shall be so taken or condemned, which nevertheless renders such Leased Property Unsuitable for Its Primary Intended Use, Lessee and Lessor shall each have the option by written Notice to the other, at any time prior to the taking of possession by, or the date of vesting of title in, such Condemnor, whichever first occurs, to terminate this Master Lease as to such Leased Property as of the date so determined. Upon such date so determined, if such Notice has been given, this Master Lease shall thereupon cease and terminate as to such Leased Property. In either of such events, all Base Rent and Additional Charges paid or payable by Lessee hereunder shall be apportioned as to the affected Leased Property as of the date this Master Lease shall have been so terminated as aforesaid. In the event of any such termination, the provisions of Section 15.4 shall apply.

15.4 Allocation of Portion of Award. The Condemnation Award made with respect to all or any portion of a Leased Property or for loss of rent shall be the property of and payable to Lessor to the extent of the Minimum Purchase Price. To the extent that the laws of the State permit Lessee to make a claim which does not have the effect, directly or indirectly, of reducing Lessor's claim, for Lessee's leasehold interest, moving expenses, or for loss of goodwill or Lessee's business, Lessee shall have the right to pursue such claim in the Condemnation proceeding and shall be entitled to the Award therefor ("Lessee's Leasehold Award"). Lessee hereby assigns to Lessor its interest in Lessee's Leasehold Award to the extent of the difference between the total Condemnation Award and the Minimum Purchase Price. Any Award made for the taking of Lessee's Personal Property, or for removal and relocation expenses of Lessee in any such proceedings shall be the sole property of and payable to Lessee ("Lessee's Personal Property Award"). In any Condemnation proceedings, Lessor and Lessee shall each seek its own Award in conformity herewith, at its own expense. To assure that Lessor is made whole first from the Condemnation Award, the total of the Condemnation Award payable to Lessor and Lessee's Leasehold Award shall be allocated in the following order of priority:

(i) To Lessor, to the extent of the greater of Minimum Purchase Price (plus the amount of any additional capital investments made by Lessor in such Leased Property) as of the date the Award is paid to Lessor;

(ii) To Lessor, to the extent of Lessor's costs incurred, including reasonable legal fees, in connection with obtaining the Award; and

(iii) To Lessor and Lessee, in the ratio of seventy five percent (75%) to Lessor and twenty five percent (25%) to Lessee.

The provisions of this Section 15.4 shall not apply in the event Lessee purchases the Leased Property pursuant to this Article XV but, in such event, the provisions of Section 15.8 shall control with respect to the disposition of the Condemnation Award.

15.5 Partial Taking. If title to the fee of less than the whole of a Leased Property shall be so taken or condemned, Lessee shall give Lessor Notice of such partial taking or condemnation within five (5) Business Days of the occurrence thereof. If such Leased Property is still suitable for its Primary Intended Use, or if Lessee or Lessor shall be so entitled, but shall not elect to terminate this Master Lease with respect to such Leased Property as provided in Section 15.3 hereof,

Lessee shall with all reasonable dispatch restore the untaken portion of the Leased Improvements on such Leased Property so that such Leased Improvements shall constitute a complete architectural unit of the same general character and condition (as nearly as may be possible under the circumstances) as the Leased Improvements existing immediately prior to such Condemnation or Taking. Lessee shall commence the restoration of the Facility on such Leased Property within sixty (60) days of the Partial Taking, and shall complete the restoration within the Reconstruction Period following such Partial Taking. Lessor shall contribute to the cost of restoration such portion of the Condemnation Award payable to Lessor, if any, together with severance and other damages awarded for taken Leased Improvements, provided, however, the amount of such contribution shall not exceed the cost of restoration. As long as no Event of Default has occurred hereunder, if the Award is in an amount less than the Self-Administered Amount, Lessor shall pay the same to Lessee. As long as no Event of Default has occurred hereunder, if the Award is in an amount more than the Self-Administered Amount, Lessor shall make the portion of the Award to which it is entitled available to Lessee in the same manner as is provided in Section 14.9 for insurance proceeds in excess of the Self-Administered Amount. The Base Rent shall be reduced by reason of such Partial Taking to an amount agreed upon by Lessor and Lessee. If Lessor and Lessee cannot agree upon a new Base Rent, then the Base Rent for such Facility shall be proportionately reduced in accordance with the number of licensed beds no longer operable at such Facility solely by reason of the Partial taking. If Lessee fails to make the election or if it elects not to restore, or if it fails to commence or complete the restoration within the time limits specified in this Section 15.5, then Lessee shall be deemed to have elected to purchase such affected Leased Property for a purchase price equal to the Minimum Purchase Price. If Lessee fails to make the election to terminate this Lease as to the affected Leased Property or if it is required to restore the affected Leased Property but thereafter fails to commence or complete the restoration within the time periods specified in this Section 15.5, then Lessee shall be deemed to have elected to purchase such affected Leased Property for a purchase price equal to the Minimum Purchase Price. Lessee shall complete the purchase within (i) one hundred eighty (180) days of the Partial Taking if Lessee elects not to restore or (ii) sixty (60) days after the end of the Reconstruction Period in the event Lessee elects, but fails, to restore the affected Leased Property. In any such purchase, Lessee shall receive a credit for the portion of any Award retained by Lessor.

15.6 Temporary Taking. The Taking of a Leased Property, or any part thereof, by military or other public authority shall constitute a Taking by condemnation only when the use and occupancy by the Condemnor has continued for longer than six (6) months. During any such six (6) month period, all the provisions of this Master Lease shall remain in full force and effect. In the event of any Temporary Taking as in this Section 15.6 described, the entire amount of any Award made for such Taking allocable to the Term of this Master Lease, whether paid by way of damages, rent or otherwise, shall be paid to Lessee, net of any amount required to cure any then uncured Event of Default. Lessee covenants that upon the termination of any such period of temporary use or occupancy as set forth in this Section 15.6, it will restore such Leased Property as nearly as may be reasonably possible to the condition existing immediately prior to such Taking. If any Temporary Taking continues for longer than six (6) months, such Taking shall be considered a Total Taking governed by Section 15.3, and the parties shall have the rights provided thereunder.

15.7 Condemnation Awards Paid to Facility Mortgagee. Notwithstanding anything herein to the contrary, in the event that any Facility Mortgagee is entitled to any Condemnation Award, or any portion thereof, under the terms of any Facility Mortgage, such award shall be applied, held and/or disbursed in accordance with the terms of the Facility Mortgage. In the event that the Facility Mortgagee elects to apply the Condemnation Award to the indebtedness secured by the Facility Mortgage in the case of a Taking as to which the restoration provisions of Section 15.5 apply, this Master Lease shall terminate as of the date of the Taking as to the affected Leased Property, unless within fifteen (15) days of the notice from the Facility Mortgagee Lessor agrees to make available to Lessee for restoration of such Leased Property funds equal to the amount applied by the Facility Mortgagee. Unless the Taking is such as to entitle Lessor or Lessee to terminate this Master Lease as to the affected Leased Property and Lessor or Lessee, as the case may be, shall elect to terminate this Master Lease as to the affected Leased Property in the time and in the manner provided, Lessor shall disburse such funds to Lessee as provided in Section 14.9 and Lessee shall restore such Leased Property (as nearly as possible under the circumstances) to a complete architectural unit of the same general character and condition as such Leased Property existing immediately prior to such Taking.

15.8. Termination of Master Lease; Abatement of Rent . In the event Lessee purchases the affected Leased Property pursuant to this Article XV as a result of the Taking of all or any portion of the Leased Property, then (i) this Master Lease shall terminate as to such Leased Property upon payment of the purchase price set forth herein, (ii) the Base Rent due hereunder from and after the effective date of such termination shall be reduced by an amount determined by multiplying a fraction, the numerator of which shall be the Minimum Purchase Price for the affected Leased Property and the denominator of which shall be the Minimum Purchase Price for all of the Leased Properties then subject to the terms of this Master Lease by the Base Rent payable under this Master Lease immediately prior to the effective date of the termination of this Master Lease as to the affected Leased Property and (iii) provided that Lessee is not then in default under this Master Lease and then only to the extent not previously applied by Lessor, Lessor shall remit to Lessee the entire Award pertaining to such Leased Property being held by Lessor. Unless this Master Lease shall terminate pursuant to this Article XV as to the affected Leased Property, this Master Lease shall remain in full force and effect and Lessee's obligation to make rental payments and to pay all other charges required thereunder shall remain unabated during any period required for repair and restoration required as a result of such Taking.

ARTICLE XVI

16.1 Events of Default. If any one or more of the following events (individually, an " Event of Default") occurs, then Lessee will be in default under this Master Lease and Lessor shall have the rights and remedies hereinafter provided:

16.1.1 If any Lessee fails to make payment of Rent under this Master Lease within two (2) Business Days when due; or

16.1.2 If any Lessee or Guarantor:

(a) admits in writing its inability to pay its debts generally as they become due,

(b) files a petition in bankruptcy or a petition to take advantage of any insolvency law,

(c) makes a general assignment for the benefit of its creditors,

(d) consents to the appointment of a receiver of itself or of the whole or any substantial part of its property, or

(e) files a petition or answer seeking reorganization or arrangement under the Federal Bankruptcy Laws or any other applicable law or statute of the United States of America or any State thereof; or

16.1.3 If any Lessee or Guarantor, on a petition in bankruptcy filed against it, is adjudicated a bankrupt or has an order for relief thereunder entered against it, or a court of competent jurisdiction enters an order or decree appointing a receiver of a Lessee or Guarantor or of the whole or substantially all of such Lessee's or Guarantor property, or approving a petition filed against any Lessee or Guarantor or seeking reorganization or arrangement of any Lessee or Guarantor under the Federal Bankruptcy Laws or any other applicable law or statute of the United States of America or any State thereof, and such judgment, order or decree is not vacated or set aside or stayed within sixty (60) days from the date of the entry thereof; or

16.1.4 If any Lessee or Guarantor is liquidated or dissolved, or begins proceedings toward liquidation or dissolution, or has filed against it a petition or other proceeding to cause it to be liquidated or dissolved and the proceeding is not dismissed within thirty (30) days thereafter, or, in any manner, permits the sale or divestiture of substantially all of its assets except in connection with a dissolution or liquidation following or related to a merger or transfer of all or substantially all of the assets and liabilities of such Lessee with or to its parent corporation or with or to another direct or indirect wholly owned subsidiary of its parent corporation; or

16.1.5 If the estate or interest of any Lessee in the Leased Properties leased by it or any part thereof is levied upon or attached in any proceeding and the same is not vacated or discharged within thirty (30) days after commencement thereof (unless such Lessee is in the process of contesting such lien or attachment in good faith in accordance with Section 12.1 hereof); or

16.1.6 If, except as a result of damage, destruction or a Partial or Total Taking or Temporary Taking, any Lessee voluntarily ceases operations on any of the applicable Leased Properties for a period in excess of thirty (30) days; or

16.1.7 If with respect to more than ten percent (10%) of the Facilities then subject to the terms of this Master Lease either (i) the licenses to operate such Facilities for the Primary Intended Use are permanently revoked or are suspended and not reinstated within sixty (60) days thereafter or are reinstated subject to conditions not approved by Lessor in its sole but reasonable discretion or (ii) an order is imposed terminating the right of the applicable Lessee to operate or accept patients, which order is not promptly stayed and promptly cured; or

16.1.8 If any Lessee defaults, or permits a default, under any Facility Mortgage, related documents or obligations thereunder by which such Lessee is bound or to which Lessee has agreed to become bound, which default is not cured within the applicable time period; or

16.1.9 If a default occurs under the Guaranty which default is not cured within any applicable cure period; or

16.1.10 If any Lessee transfers, by means not expressly provided for in this Master Lease, the operational control or management of the Facility leased by such Lessee without the prior written consent of Lessor; or

16.1.11 If any obligation of any Lessee to repay borrowed money in excess of Two Million Dollars ($2,000,000) is accelerated by the creditor thereof after default or any other remedy available to such creditor or obligee is exercised because of such default; or

16.1.12 A default occurs under any contract or agreement or other lease between Lessor (or any of its Affiliates) and Lessee (or any of its Affiliates), including, but not limited to, the Agreement Re Separation, the Security Agreement and the Letter of Credit Agreement, which is not cured within applicable cure periods, provided Lessor elects to treat such default as an Event of Default;

16.1.13 If any local, state or federal agency having jurisdiction over the operation of any Facility removes ten percent (10%) or more of the patients or residents located in such Facility other than during any period of repair or restoration following damage, destruction or a partial Taking;

16.1.14 If Lessee voluntarily transfers, at any time during the last year of the Term, ten (10) or more patients located in the Facility to any other facility in which Lessee or any Affiliate of Lessee has any ownership or other financial interest, including, without limitation, fees earned under any management agreement, provided that Lessee's transfer of any patient to a different type of care facility as a result of such patient's special needs that cannot be met at such Facility or at the request of such patient or his/her responsible party shall not be deemed a voluntary transfer;

16.1.15 The sale or transfer, without Lessor's consent, of all or any portion of any certificate of need, bed rights or other similar certificate or license relating to the Leased Property;

16.1.16 A default shall occur under Sun's Credit Agreement, where the default is not cured within any applicable grace period set forth therein, and the lender thereunder elects to accelerate the loan as a result thereof or any other remedy available to such lender is exercised because of such default; provided, however, if such acceleration or other remedy is thereafter cancelled, then this Event of Default shall concurrently therewith cease to be outstanding; or

16.1.17 If Lessee shall fail to observe or perform any other term, covenant or condition of this Master Lease and such failure is not cured by Lessee within thirty (30) days after notice thereof from Lessor, unless such failure cannot with due diligence be cured within a period of thirty (30) days, in which case such failure shall not be deemed to be an Event of Default if Lessee proceeds promptly and with due diligence to cure the failure and diligently completes the curing thereof within one hundred twenty (120) days after such notice from Landlord; provided, however, that such notice shall be in lieu of and not in addition to any notice required under applicable law.

If any Event of Default occurs, Lessor may terminate this Master Lease by giving Lessee not less than ten (10) days' Notice, whereupon as provided herein, the Term of this Master Lease shall terminate and all rights of Lessee hereunder shall cease. The Notice provided for herein shall be in lieu of and not in addition to any notice required by the laws of the State as a condition to bringing an action for possession of the Facilities or to recover damages under this Master Lease. In addition thereto, Lessor shall have all rights at law and in equity available as a result of Lessee's breach.

Notwithstanding anything herein to the contrary, upon the occurrence of an Event of Default as set forth in Section 16.1.2., 16.1.3, 16.1.9 or 16.1.10, Lessor may terminate this Master Lease immediately without Notice of any kind.

Lessee will, to the extent permitted by law, be liable for the payment, as Additional Charges, of costs of and expenses incurred by or on behalf of Lessor as a consequence of an Event of Default, including, without limitation, reasonable attorneys' fees (whether or not litigation is commenced, and if litigation is commenced, including fees and expenses incurred in appeals and post-judgment proceedings) as a result of any default of Lessee hereunder.

No Event of Default (other than a failure to make payment of money) shall be deemed to exist under Section 16.1 during any time the curing thereof is prevented by an Unavoidable Delay, provided that upon the cessation of the Unavoidable Delay, Lessee remedies the default without further delay.

16.2 Certain Remedies. If an Event of Default has occurred, and whether or not this Master Lease has been terminated pursuant to Section 16.1, Lessee shall, to the extent permitted by law, if required by Lessor so to do, immediately surrender to Lessor all of the Leased Properties pursuant to the provisions of Section 9.1.7 and quit the same, and Lessor may enter upon and repossess all of the Leased Properties by reasonable force, summary proceedings, ejectment or otherwise, and may remove Lessee and all other persons and any and all Personal Property from the Leased Properties subject to rights of any residents or

patients and to any requirement of law. Lessor shall not have the right to exercise its remedies as to less than all of the Leased Properties since such Leased Properties constitute a single integrated economic unit as stated in Section 1.2.

16.3 Damages. Neither (i) the termination of this Master Lease pursuant to Section 16.1, (ii) the repossession of the Leased Properties, (iii) the failure of Lessor to relet the Leased Properties, (iv) the reletting of all or any portion of any of the Leased Properties, nor (v) the inability of Lessor to collect or receive any rentals due upon any such reletting, shall relieve Lessee of its liability and obligations hereunder, all of which shall survive any such termination, repossession or reletting. In the event of any termination, Lessee shall be liable for the payment to Lessor of all Rent due and payable to and including the date of the termination, including without limitation all interest and late charges payable under Section 3.4 hereof and thereafter for the payment to Lessor at Lessor's option, as and for liquidated and agreed current damages for such default, either:

(1) the sum of:

(a) the worth at the time of award of the unpaid Base Rent and Additional Charges which had been earned at the time of termination,

(b) the worth at the time of award of the amount by which the unpaid Base Rent and Additional Charges which would have been earned after termination until the time of award exceeds the amount of the rental loss that Lessee proves was avoided or could have been reasonably avoided,

(c) the worth at the time of award of the amount by which the unpaid Base Rent and Additional Charges for the balance of the Term after the time of award exceeds the amount of such rental loss that Lessee proves could be avoided, and

(d) intentionally omitted, and

(e) any other amount necessary to compensate Lessor for all the detriment proximately caused by Lessee's failure to perform its obligations under the terminated Lease or which in the ordinary course of things would be likely to result therefrom.

In making the above determinations, the "worth at the time of award" shall be determined using the lowest rate of capitalization (highest present worth) applicable at the time of the determination and allowed by applicable laws of the State. If the laws of the State do not provide for a rate of capitalization, then the worth at the time of award shall be computed by discounting such amount at the Federal Reserve Discount rate for the State, applicable at the time of the award, plus one percent (1%). Lessor's net income from its operation of the Leased Property, if any, shall be included in the determination of amounts of rental loss that Lessee proves could reasonably be or were avoided.

OR

(2) without termination of Lessee's right to possession of the Leased Property, each installment of the Rent and other sums payable by Lessee to Lessor as the same becomes due and payable, which Rent and other sums shall bear interest at the maximum annual rate permitted by the law of the State from the date when due until paid, and Lessor may enforce, by action or otherwise, any other term or covenant of this Master Lease.

16.4 Limited Remedy Events of Default. Notwithstanding anything to the contrary herein contained or in any other transaction document executed concurrently herewith, or any other provisions of this Master Lease or any other concurrent transaction document, if Lessor is exercising remedies due solely to the Events of Default described in clauses Sections 16.1.13 (each a "Limited Remedy Events of Default"), the aggregate amount Lessee shall be required to pay to Lessor from and after the date of the occurrence of such Limited Remedy Event of Default (the "Occurrence Date") shall be limited to the sum of (i) the present value of the unpaid Base Rent for the balance of the Term (excluding the portion of such rental loss that Tenant proves could be reasonably avoided) (determined using a discount rate of Eight percent (8.0%) per annum), (ii) any Additional Charges which are due and payable or have accrued under this Master Lease through the Occurrence Date, and (iii) any amounts of Additional Charges which are due and payable or have accrued under this Master Lease after the Occurrence Date while the Lessee remains in possession of the Leased Property after any Limited Remedy Event of Default that relate to insurance, utilities, repairs, maintenance, environmental maintenance, remediation and compliance and other customary costs and expenses of operating and maintaining the Leased Property in substantial compliance with the terms of this Master Lease (collectively, the "LRED Damages"). Lessor and Lessee hereby agree that the damages available to Lessor as a result of a Limited Remedy Event of Default shall be strictly limited to the LRED Damages and that nothing contained herein or in any other transaction document executed concurrently herewith shall entitle Lessor to additional reimbursement or monetary damages with respect to any such Limited Remedy Event of Default.

16.5 Waiver. If this Master Lease is terminated pursuant to Section 16.1, Lessee waives, to the extent permitted by applicable law, (i) any right of reentry, repossession or redesignation, (ii) any right to a trial by jury in the event of summary proceedings to enforce the remedies set forth in this Article XVI, and (iii) the benefit of any laws now or hereafter in force exempting property from liability for rent or for debt. Acceptance of Rent at any time does not prejudice or remove any right of Lessor as to any right or remedy. No course of conduct shall be held to bar Lessor from literal enforcement of the terms of this Master Lease.

16.6 Application of Funds. Any payments received by Lessor during the existence or continuance of any Event of Default (and any payment made to Lessor rather than Lessee due to the existence of an Event of Default, shall be applied to Lessee's obligations in the order which Lessor may determine or as may be prescribed by the laws of the State.

16.7 Availability of Remedies. Lessor may exercise its remedies hereunder to the maximum extent permitted by the laws of the State. It shall not be a defense in any proceeding brought in connection with this Master Lease that with respect to other leases or contracts to which Lessor (or Lessor's Affiliates) and Lessee (or Lessee's Affiliates) are parties, Lessor or its Affiliates have sought different remedies in different states or in the State.

ARTICLE XVII

17.1 Rights to Cure Default.

17.1.1 Lessor's Rights. If Lessee fails to make any payment or to perform any act required to be made or performed under this Master Lease, and fails to cure the same within the relevant time periods provided in Section 16.1, without further Notice to or demand upon Lessee, and without waiving or releasing any obligation of Lessee or waiving or releasing any default, Lessor may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Lessee, and may, to the extent permitted by law, enter upon all or any part of any Leased Property for such purpose and take all such action thereon as, in Lessor's reasonable opinion, may be necessary or appropriate therefor, provided, however, that if Notice is required under Section 16 but Lessor reasonably determines that the giving of the required Notice before making such payment or taking such action would risk material loss to the Facilities, then Lessor will give such Notice as is practical under the circumstances. No such

entry shall be deemed an eviction of Lessee. All sums so paid by Lessor and all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) so incurred, together with a late charge thereon (to the extent permitted by law) at the Overdue Rate from the date on which such sums or expenses are paid or incurred by Lessor, shall be paid by Lessee to Lessor on written demand. The obligations of Lessee and rights of Lessor contained in this Article shall survive the expiration or earlier termination of this Master Lease.

17.1.2 Lessee's Rights. If Lessor fails to make any payment or to perform any act expressly required under this Master Lease, and fails to cure the same within the relevant time periods provided in Section 33.1 upon Notice to Lessor but without waiving or releasing any obligation of Lessor, Lessee may (but shall be under no obligation to) at any time thereafter make such payment or perform such act for the account and at the expense of Lessor, and may, take all such action thereon as may be reasonably necessary or appropriate therefor. All sums so paid by Lessee and all costs and expenses (including, without limitation, reasonable attorneys' fees and expenses) so incurred, shall be paid by Lessor to Lessee following written demand. The obligations of Lessor and the rights of Lessee contained in this Article shall survive the expiration or earlier termination of this Master Lease.

ARTICLE XVIII

18.1 Holding Over. Except as provided in Sections 18.2 and 18.3, if Lessee shall for any reason remain in possession of any Leased Property after the expiration or earlier expiration of the Term, such possession shall be as a month-to-month tenant during which time Lessee shall pay as rental each month, two (2) times the aggregate of (i) one-twelfth (1/12th) of the aggregate Base Rent payable with respect to the affected portion of the Leased Property during the last Lease Year of the preceding Term, (ii) all Additional Charges related to the affected portion of the Leased Property accruing during the month, and (iii) all other sums, if any, payable by Lessee pursuant to the provisions of this Master Lease with respect to the affected portion of the Leased Property. During such period of month-to-month tenancy, Lessee shall be obligated to perform and observe all of the terms, covenants and conditions of this Master Lease, but shall have no rights thereunder other than the right, to the extent given by law to month-to-month tenancies, to continue its occupancy and use of such Leased Property until the month-to-month tenancy is terminated. Except as provided in Section 18.2, nothing contained herein shall constitute the consent, express or implied, of Lessor to the holding over of Lessee after the expiration or earlier termination of this Master Lease. For purposes hereof, the Base Rent to be allocated to the affected Leased Property(ies) shall be determined by multiplying a fraction, the numerator of which shall be the Minimum Purchase Price of the affected Leased Property(ies) and the denominator of which shall be the Minimum Purchase Price of all of the Leased Properties subject to the terms of this Master Lease on the last day of the Term, by the Base Rent payable hereunder on the last day of the Term.

18.2 Continuing Clean-Up. If on the last day of the Term of this Master Lease Lessee is obligated to complete a Clean-Up of any Leased Property which Clean-Up was commenced prior to the last day of the Term of this Master Lease, then at the option of Lessor either (i) Lessee shall remain in possession of such Leased Property subject to the terms of this Master Lease, for such period as may reasonably be required for Lessee to diligently complete the Clean-Up, which period, unless otherwise agreed by Lessor and Lessee, shall not exceed three hundred sixty-five (365) consecutive days, or (ii) Lessee shall vacate the Leased Premises on the last day of the Term of this Master Lease as elsewhere required herein and at such time pay to Lessor the amount reasonably required to complete the Clean-Up after the expiration of the Term, together with the reasonably estimated Fair Market Rental Value of such Leased Property to be lost by Lessor during the remaining period of Clean-Up assuming a diligent effort to complete such Clean-Up. If Lessor elects alternative "(i)" in the preceding sentence, the Base Rent for such Leased Property shall be one hundred five percent (105%) of the Base Rent allocated to the affected portion of the Leased Property for the Lease Year during which the last day of the Term of such occurred, and Lessee shall not be deemed to be holding over pursuant to Section 18.1 hereof. For purposes hereof, the Base Rent to be allocated to the affected Leased Property(ies) shall be determined by multiplying a fraction, the numerator of which shall be the Minimum Purchase Price of the affected Leased Property(ies) and the denominator of which shall be the Minimum Purchase Price of all of the Leased Properties subject to the terms of this Master Lease on the last day of the Term, by the Base Rent payable hereunder on the last day of the Term.

18.3 Post Termination Transition. In the event Lessee remains in possession of all or any portion of the Leased Properties after the expiration or earlier termination of this Master Lease at the request of Lessor pending the transition of all or any portion of the Leased Properties to Lessor or its designee pursuant to Section 34.2 hereof, the Rent due from Lessee hereunder shall be equal to the Rent paid by Lessee immediately prior to the expiration or earlier termination of this Master Lease with respect to such Leased Property(ies).

18.4 Indemnity. If Lessee fails to surrender any Leased Property in a timely manner and in accordance with the provisions of Section 9.1.7 upon the expiration or termination of this Master Lease, in addition to any other liabilities to Lessor accruing therefrom, Lessee shall indemnify and hold Lessor, its principals, officers, directors, agents and employees harmless from loss or liability resulting from such failure, including, without limiting the generality of the foregoing, loss of rental with respect to any new lease in which the rental payable thereunder exceeds any rental paid by Lessee and any claims by any proposed new tenant founded on such failure. The provisions of this Section 19.3 shall survive the expiration or termination of this Master Lease.

ARTICLE XIX

19.1 Subordination. Upon written request of Lessor, any Facility Mortgagee, or the beneficiary of any deed of trust of Lessor, Lessee will subordinate its rights in writing (i) to the lien of any mortgage, deed of trust or the interest of any lease in which Lessor is the lessee and to all modifications, extensions, substitutions thereof (or, at Lessor's option, cause the lien of said mortgage, deed of trust or the interest of any lease in which Lessor is the lessee to be subordinated to the Lease), and (ii) to all advances made or hereafter to be made thereunder. In connection with any such request, Lessor shall provide Lessee with a Non-Disturbance Agreement reasonably acceptable to such mortgagee, beneficiary or lessor providing that if such mortgagee, beneficiary or lessor acquires such Leased Property by way of foreclosure or deed in lieu of foreclosure (or termination of any lease in which Lessor is the Lessee), that such mortgagee, beneficiary or lessor will not disturb Lessee's possession under its Lease and will recognize Lessee's rights thereunder provided that no Event of Default has occurred thereunder. Lessee agrees to consent to amend this Master Lease as reasonably required by a Facility Mortgagee; Lessee shall be deemed to have unreasonably withheld or delayed its consent to changes or amendments to this Master Lease requested by the holder of a mortgage or deed of trust or such similar financing instrument encumbering Lessor's fee interest in such Leased Property if such changes do not materially (i) alter the economic terms of this Master Lease, (ii) diminish the rights of Lessee, or (iii) increase the obligations of Lessee, provided that Lessee shall also have received the Non-Disturbance Agreement provided for in this Section.

19.2 Attornment. If any proceedings are brought for foreclosure, or if the power of sale is exercised under any mortgage or deed of trust made by Lessor encumbering any Leased Property, or if a lease in which Lessor is the lessee is terminated, Lessee shall attorn to the purchaser or lessor under such lease upon any foreclosure or deed in lieu thereof, sale or lease termination and recognize the purchaser or lessor as Lessor under this Master Lease, provided that the purchaser or lessor acquires and accepts such Leased Property subject to this Master Lease. For purposes hereof, the Base Rent to be allocated to the affected Leased Properties shall be determined by multiplying a fraction, the numerator of which shall be the Minimum Purchase Price of the affected Leased Property and the denominator of which shall be the Minimum Purchase Price of all of the Leased Properties subject to the terms of this Master Lease immediately prior to such foreclosure or the conveyance of title to the affected Leased Property(ies) by deed in lieu of foreclosure, by the Base Rent payable hereunder immediately prior to such foreclosure or the conveyance of title to the affected Leased Property(ies) by deed in lieu of foreclosure.

19.3 Estoppel Certificate. Lessee and Lessor each agree, upon not less than ten (10) days prior Notice from the other (" Requesting Party"), to execute, acknowledge and deliver to the other, a statement in writing in substantially the same form as Exhibit E attached hereto (with such changes thereto as may reasonably be requested by the person relying on such certificate) ("Estoppel Certificate"). It is intended that any Estoppel Certificate delivered pursuant hereto may be relied upon by the Requesting Party, any prospective tenant or purchaser of any Leased Property, any mortgagee or prospective mortgagee, or by any other party who may reasonably rely on such statement. Lessee's failure to deliver the Estoppel Certificate within such time shall constitute an Event of Default, and Lessor's failure to deliver the Estoppel Certificate within such time shall be subject to the provisions of Section 33.1, below. If the Estoppel Certificate is not delivered within the ten (10) day period, then, in addition, the Requesting Party is authorized to execute and deliver a certificate to the effect that (i) this Master Lease is in full force and effect without modification, and (ii) the other party is not in breach or default of any of its obligations under this Master Lease.

ARTICLE XX

20.1 Risk of Loss. Except as otherwise specifically provided for herein, during the Term of this Master Lease, the risk of loss or of decrease in the enjoyment and beneficial use of the Leased Properties in consequence of the damage thereto or destruction thereof by fire, the elements, casualties, thefts, riots, wars or otherwise, or in consequence of foreclosures, attachments, levies or executions (other than those caused by Lessor and those claiming from, through or under Lessor) is assumed by Lessee, and, in the absence of gross negligence, willful misconduct or material breach of this Master Lease by Lessor pursuant to Section 33.1, Lessor shall in no event be answerable or accountable therefor nor shall any of the events mentioned in this Section entitle Lessee to (i) terminate this Master Lease or (ii) to any abatement of Rent except as specifically provided in this Master Lease.

ARTICLE XXI

21.1 Lessee Indemnification. Notwithstanding the existence of any insurance or self-insurance provided for in Article XIII, and without regard to the policy limits of any such insurance or self-insurance, Lessee will protect, indemnify, save harmless and defend Lessor, its principals, officers, directors and agents and employees from and against all liabilities, obligations, claims, damages, penalties, causes of action, costs and expenses (including, without limitation, reasonable attorneys' fees and expenses), to the extent permitted by law, imposed upon or incurred by or asserted against Lessor by reason of: (i) any accident, injury to or death of persons or loss of or damage to property occurring on or after the Possession Date on or about any Leased Property or adjoining sidewalks which are under Lessee's control, including without limitation any claims of malpractice, (ii) any use, misuse, non-use, condition, maintenance or repair by Lessee of any Leased Property, (iii) the failure to pay any Impositions which are the obligations of Lessee to pay pursuant to the applicable provisions of this Master Lease, (iv) any failure on the part of Lessee to perform or comply with any of the terms of this Master Lease, including, but not limited to, a breach of Lessee's representations or warranties set forth in Section 8.1, and (v) the nonperformance of any contractual obligation, express or implied, assumed or undertaken by Lessee or any party in privity with Lessee with respect to any Leased Property or any business or other activity carried on with respect to any Leased Property during the period commencing on the Possession Date and continuing through the Term or thereafter during any time in which Lessee or any such other party is in possession of any Leased Property or thereafter to the extent that any conduct by Lessee or any such person (or failure of such conduct thereby if the same should have been undertaken during such time of possession and leads to such damage or loss) causes such loss or claim. Any amounts which become payable by Lessee under this Section shall be paid within ten (10) days after liability therefor on the part of Lessee is determined by litigation or otherwise, and if not timely paid, shall bear a late charge (to the extent permitted by law) at the Overdue Rate from the date of such determination to the date of payment. Nothing herein shall be construed as indemnifying Lessor against its own grossly negligent acts or omissions or willful misconduct.

21.2 Survival. The liability of each indemnifying party under the provisions of this Article for a claim arising out of events occurring during the Term shall survive any termination of this Master Lease. The respective representations and warranties made in this Master Lease by or on behalf of the parties hereto shall remain in full force and effect, regardless of any investigation made by or on behalf of the other party to this Master Lease or any officer, director or employee of, or person controlling or under common control with, such party.

ARTICLE XXII

22.1 General Prohibition against Assignment. Lessee shall not voluntarily, involuntarily or by operation of law, assign, mortgage or otherwise encumber all or any part of Lessee's interest in this Master Lease or in any Leased Property or sublet the whole or any part of any Leased Property or enter any other arrangement (other than a management agreement which shall be governed by Section 8.6 above) under which any Facility is operated by or licensed to be operated by an entity other than Lessee (any and all of which are herein referred to as a "Transfer"), except as specifically permitted hereunder or consented to in advance by Lessor in writing, which consent may be withheld in Lessor's sole and absolute discretion. Lessee acknowledges that Lessor is relying upon the expertise of Lessee in the operation of the Facilities and that Lessor entered into this Master Lease with the expectation that Lessee would remain in and operate such Facilities during the entire Term and for that reason Lessor retains sole and absolute discretion in approving or disapproving any assignment or master sublease. Consent to any subletting or assignment shall not be deemed to be consent to any further subletting or assignment. In the event of any such Transfer, Lessor may collect rent and other charges from the assignee, subtenant or other occupant (any and all of which are herein referred to as a "Transferee") and apply the amounts collected to the rent and other charges herein reserved, but no Transfer or collection of rent and other charges shall be deemed to be a waiver of Lessor's rights to enforce Lessee's covenants under this Master Lease or the acceptance of the Transferee as lessee, or a release of Lessee from the performance of any covenants on the part of Lessee to be performed. Notwithstanding any Transfer, Lessee and any Guarantor shall remain fully liable for the performance of all terms, covenants and provisions of this Master Lease. Any violation of this Master Lease by any Transferee shall be deemed to be a violation of this Master Lease by Lessee. Lessee's incidental space sharing arrangements (by lease agreement or otherwise) with third parties for beauty shop and similar services shall not be deemed to constitute a Transfer.

22.2 Discretionary Transferee. Notwithstanding the foregoing, but subject to the rights of any Facility Mortgagee, and subject to Section 36.1, Lessee may, **(I)** without Lessor's prior written consent, assign this Master Lease or sublease the Leased Property to an Affiliate of Lessee or Guarantor if all of the following are first satisfied: **(w)** such Affiliate fully assumes Lessee's obligations hereunder; **(x)** Lessee remains fully liable hereunder and Guarantor remains fully liable under the Guaranty; **(y)** the use of the Leased Property remains unchanged; and **(z)** Lessor in its reasonable discretion shall have approved the form and content of all documents for such assignment or sublease and received an executed counterpart thereof; and **(II)** with Lessor's prior written consent, which consent shall not be unreasonably withheld, assign this Master Lease or sublease the Facilities to Discretionary Transferees if all of the following are satisfied: (a) such Discretionary Transferees fully assume Lessee's obligations hereunder or, in the case of a sublease, Lessee's obligations hereunder with respect to the subleased Facility or Facilities, (b) the use of the Leased Property under the terms of such assignment or sublease is permitted by Section 7.2 hereof, (c) Lessor in its reasonable discretion shall have approved the form and content of all documents for such assignment and assumption or sublease and received an executed counterpart thereof, (d) each Discretionary Transferee grants Lessor a lien on the Collateral having the same priority as the lien(s) then held by Lessor on the Lessee's Collateral under the terms of the Security Agreement.

22.3 Corporate or Partnership Transactions. If any Lessee, any Guarantor, any Facility manager which is an Affiliate of Lessee or any Guarantor or any member of any Lessee is a corporation or limited liability company, then, except as otherwise provided in this Section 22.3, the merger, consolidation or

reorganization of such corporation or limited liability company and/or the sale, issuance, or transfer, cumulatively or in one transaction, of any voting stock or other equity interests, by Lessee, any Guarantor or any manager which is an Affiliate of Lessee or any Guarantor or the members or stockholders of record of any of them as of the date of this Master Lease, which results in a change in the voting control of such entity, shall constitute a Transfer, provided, however, that Lessor's consent shall not be required with respect to Lessee's transfer of all or substantially all of its assets and liabilities to, or its merger or consolidation with, its parent corporation or a subsidiary, direct or indirect, of its parent corporation, but (i) the obligations of any Guarantor shall remain in full force and effect notwithstanding such transfer, merger or consolidation, and (ii) no such transfer, merger or consolidation shall diminish or in any way adversely affect any of Lessor's cross-default and cross-collateralization rights with respect to any other lease and this Master Lease. If Lessee, any Guarantor of this Master Lease, or any manager which is an Affiliate of Lessee or any Guarantor is a joint venture, partnership or other association, then the sale, issuance or transfer, cumulatively or in one transaction, within any five (5) year period of either voting control or of a twenty percent (20%) or greater interest in, or the termination of, such joint venture, partnership or other association, shall constitute a Transfer. A Change in Control as defined in Sun's Credit Agreement shall also constitute a Transfer. Pursuant to a Consent to Separation dated as of the Amended Lease Release Date from Lessor and Omega, Lessor and Omega have consented to the Separation. Pursuant to a Consent to Conversion dated as of the date of this Lease from Lessor and Omega, Lessor and Omega have consented to the Conversion.

22.4 Subordination and Attornment. Lessee shall insert in any sublease permitted by Lessor provisions to the effect that (i) such sublease is subject and subordinate to all of the terms and provisions of this Master Lease and to the rights of Lessor thereunder, (ii) if this Master Lease terminates before the expiration of such sublease, the sublessee thereunder will, at Lessor's option, attorn to Lessor and waive any right the sublessee may have to terminate the sublease or to surrender possession thereunder, as a result of the termination of this Master Lease, and (iii) if the sublessee receives a written Notice from Lessor or Lessor's assignee, if any, stating that an Event of Default has occurred under this Master Lease, the sublessee shall thereafter be obligated to pay all rentals accruing under said sublease directly to the party giving such Notice, or as such party may direct. All rentals received from the sublessee by Lessor or Lessor's assignees, if any, as the case may be, shall be credited against the amounts owing by Lessee under this Master Lease.

22.5 Sublease Limitation. No sublease of any Leased Property is permitted, except as specifically set forth in this Article. If a sublease of any Leased Property is permitted under this Article, nonetheless, Lessee shall not sublet such Leased Property on any basis such that the rental to be paid by the sublessee thereunder would be based, in whole or in part, on either (i) the income or profits derived by the business activities of the sublessee, or (ii) any other formula such that any portion of the sublease rental received by Lessor would fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto. The parties agree that this paragraph shall not be deemed waived or modified by implication, but may be waived or modified only by an instrument in writing explicitly referring to this paragraph by number.

22.6 Costs. Lessee shall reimburse Lessor for Lessor's reasonable costs and expenses incurred in conjunction with the processing and documentation of any Transfer, including reasonable attorneys', architects', engineers' or other consultants' fees whether or not such Transfer is actually consummated.

ARTICLE XXIII

23.1 Officer's Certificates and Financial Statements. Lessee will furnish and will cause any Guarantor to furnish the following statements to Lessor:

(a) Within ninety-five (95) days after the end of Lessees' Fiscal Years or concurrently with the filing by New Sun of its annual report on Form 10K with the SEC, whichever is later: (i) New Sun's Financial Statements; (ii) Financials for each of the Facilities for the fiscal year last completed (and, if any such Financials are thereafter provided to a Guarantor for such Fiscal Year, a copy thereof within fifteen (15) days after the same are so provided) in each case certified by an Executive Officer of Lessee; (iii) an Officer's Certificate of Lessee stating that Lessee is not in default in the performance or observance of any of the terms of this Master Lease, or if Lessee is in default, specifying all such defaults, the nature thereof, and the steps being taken to remedy the same and (iv) a report with respect to the financial statements from New Sun's accountants, which report shall be unqualified as to going concern and scope of audit of New Sun and its subsidiaries and shall provide in substance that (a) such consolidated financial statements present fairly the consolidated financial position of New Sun and its subsidiaries as at the dates indicated and the results of their operations and cash flow for the periods indicated in conformity with GAAP and (b) that the examination by New Sun's accountants in connection with such consolidated financial statements has been made in accordance with generally accepted auditing standards;

(b) Within fifty (50) days after the end of each of Lessee's Fiscal Year quarters or concurrently with the filing by New Sun of its quarterly report on Form 10Q with the SEC, whichever is later (i) a copy of any and all Financials for such period, and (ii) an Officer's Certificate of each Lessee, stating that Lessee is not in default of any covenant set forth in Article VIII of this Master Lease, or if Lessee is in default, specifying all such defaults, the nature thereof and the steps being taken to remedy the same;

(c) Upon Lessor's request from time to time, such additional information and unaudited quarterly financial information concerning the Leased Properties and Lessee as Lessor may require for its on-going filings with the Securities and Exchange Commission, under both the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including, but not limited to, 10-Q Quarterly Reports, 10-K Annual Reports and registration statements to be filed by Lessor during the Term of this Master Lease, subject to the conditions that neither Lessee nor Guarantor shall be required to disclose information that is material non-public information or is subject to the quality assurance immunity or is subject to attorney-client privilege or the attorney work product doctrine;

(d) Within forty (40) days after the end of each month, a financial report for each of the Facilities for such month, including detailed statements of income and expense and detailed operational statistics regarding occupancy rates, patient mix and patient rates by type for each Facility;

(e) Within thirty (30) days of receipt thereof, copies of surveys performed by the appropriate governmental agencies for licensing or certification purposes, and any plan of correction as approved by the State;

(f) Prompt Notice to Lessor of any action, proposal or investigation by any agency or entity, or complaint to such agency or entity, (any of which is called a "Proceeding"), known to Lessee, the result of which Proceeding would reasonably be expected to be to (i) revoke or suspend or terminate or modify in a way adverse to Lessee, or fail to renew or fully continue in effect, any license or certificate or operating authority pursuant to which Lessee carries on any part of the Primary Intended Use of all or any portion of the Leased Properties, or (ii) suspend, terminate, adversely modify, or fail to renew or fully continue in effect any cost reimbursement or cost sharing program by any state or federal governmental agency, including but not limited to Medicaid or Medicare or any successor or substitute therefor, if the effect thereof is or reasonably could be anticipated to be materially adverse to Lessee or the Leased Properties, or (iii) seek return of or reimbursement for any funds previously advanced or paid pursuant to any such program, if the effect thereof is or reasonably could be anticipated to be materially adverse to Lessee or the Leased Properties, or (iv) impose any bed hold, limitation on patient admission or similar restriction on the Leased Properties, or (iv) prosecute any party with respect to the operation of any activity on the Leased Properties or enjoin any party or seek any civil penalty in excess of Twenty Thousand Dollars ($20,000.00) in respect thereof;

(g) As soon as it is prepared in a Lease Year, a capital and operating budget for each Facility for that and the following Lease Year; and

(h) Within fifteen (15) days of Lessee's receipt thereof, copies of Medicaid rate letters.

23.2 Public Offering Information. Lessee specifically agrees that Lessor may include financial information and such information concerning the operation of the Facilities which does not violate the confidentiality of the facility-patient relationship and the physician-patient privilege under applicable laws, in offering memoranda or prospectuses, or similar publications in connection with syndications, private placements or public offerings of Lessor's securities or interests, and any other reporting requirements under applicable Federal and State Laws, including those of any successor to Lessor. Unless otherwise agreed by Lessee or Guarantor, Lessor shall not revise or change the wording of information previously publicly disclosed by Lessee or Guarantor and furnished to Lessor pursuant to Section 23.1 or this Section 23.2. Lessee agrees to provide such other reasonable information necessary with respect to Lessee and its Leased Property to facilitate a public offering or to satisfy SEC or regulatory disclosure requirements. Lessor shall provide to Lessee a copy of any information prepared by Lessor to be published, and Lessee shall have a reasonable period of time (not to exceed three (3) days) after receipt of such information to notify Lessor of any corrections.

23.3 Lessor's Obligations. Lessor acknowledges and agrees that certain of the information contained in the Financial Statements and/or in the Financials may be non-public financial or operational information with respect to the New Sun, the Lessees and/or the Leased Properties. Lessor further agrees (i) to maintain the confidentiality of such non-public information; provided, however, Lessor shall have the right to share such information with its accountants, attorneys and other consultants provided such disclosure is not prohibited by applicable state or federal securities laws and (ii) that it shall not engage in any transactions with respect to the stock or other equity or debt securities of New Sun based on any such non-public information.

ARTICLE XXIV

24.1 Lessor's Right to Inspect. Upon reasonable advance notice to Lessee, Lessee shall permit Lessor and its authorized representatives to inspect its Leased Property during usual business hours. Lessor shall take care to minimize any disturbance of or inconvenience to any residents of any Leased Property, except in the case of emergency, and to conduct such inspections in compliance with applicable laws governing the confidentiality of patient information, including the Health Insurance Portability and Accountability Act.

ARTICLE XXV

25.1 No Waiver. No failure by Lessor to insist upon the strict performance of any term hereof or to exercise any right, power or remedy consequent upon a breach thereof, and no acceptance of full or partial payment of Rent during the continuance of any such breach, shall constitute a waiver of any such breach or of any such term. No waiver of any breach shall affect or alter this Master Lease, which shall continue in full force and effect with respect to any other then existing or subsequent breach.

ARTICLE XXVI

26.1 Remedies Cumulative. To the extent permitted by law, each legal, equitable or contractual right, power and remedy of Lessor now or hereafter provided either in this Master Lease or by statute or otherwise shall be cumulative and concurrent and shall be in addition to every other right, power and remedy, and the exercise or beginning of the exercise by Lessor of any one or more of such rights, powers and remedies shall not preclude the simultaneous or subsequent exercise by Lessor of any or all of such other rights, powers and remedies.

ARTICLE XXVII

27.1 Acceptance of Surrender. No surrender to Lessor of this Master Lease or of any Leased Property or any part thereof, or of any interest therein, shall be valid or effective unless agreed to and accepted in writing by Lessor, and no act by Lessor or any representative or agent of Lessor, other than such a written acceptance by Lessor, shall constitute an acceptance of any such surrender.

ARTICLE XXVIII

28.1 No Merger of Title. There shall be no merger of this Master Lease or of the leasehold estate created thereby by reason of the fact that the same person, firm, corporation or other entity may acquire, own or hold, directly or indirectly, (i) this Master Lease or the leasehold estate created hereby or any interest in this Master Lease or such leasehold estate, and (ii) the fee estate in each Leased Property.

28.2 No Partnership. Nothing contained in this Master Lease shall be deemed or construed to create a partnership or joint venture between Lessor and Lessee or to cause either party to be responsible in any way for the debts or obligations of the other or any other party, it being the intention of the parties that the only relationship hereunder is that of lessor and lessee.

ARTICLE XXIX

29.1 Conveyance by Lessor. If Lessor or any successor owner of any Leased Property conveys such Leased Property in accordance with the terms hereof other than as security for a debt, Lessor or such successor owner, as the case may be, shall thereupon be released from all future liabilities and obligations of Lessor under this Master Lease arising or accruing from and after the date of such conveyance or other transfer and all such future liabilities and obligations shall thereupon be binding upon the new owner upon Lessor's delivery to the new owner of any prepaid Rent then held by Lessor with respect to such Leased Property.

ARTICLE XXX

30.1 Quiet Enjoyment. So long as Lessee pays all Rent as it becomes due and complies with all of the terms of this Master Lease and performs its obligations thereunder, Lessee shall peaceably and quietly have, hold and enjoy the Leased Properties hereby leased for the Term, free of any claim or other action by Lessor or anyone claiming by, through or under Lessor, but subject to all liens and encumbrances of record as of the Commencement Date or thereafter provided for in this Master Lease or consented to by Lessee. Except as otherwise provided in this Master Lease, no failure by Lessor to comply with the foregoing covenant shall give Lessee any right to cancel or terminate this Master Lease or abate, reduce or make a deduction from or offset against the Rent or any other sum payable under such Lease, or to fail to perform any other obligation of Lessee. Lessee shall, however, have the right, by separate and independent action, to pursue any claim it may have against Lessor as a result of a breach by Lessor of the covenant of quiet enjoyment contained in this Article.

ARTICLE XXXI

31.1 Notices. Any notice, request or other communication to be given by any party hereunder shall be in writing and shall be sent by registered or certified mail, postage prepaid and return receipt requested, by hand delivery or express courier service, by facsimile transmission or by an overnight express service to the following address:

To Lessee: c/o Sun Healthcare Group, Inc.
101 Sun Avenue, NE
Albuquerque, NM 87109
Attention: Director of Real Estate
Fax Number: 505-468-4998

Attention: General Counsel
Fax Number: 505-468-4747

With a copy to: SunBridge Healthcare, LLC
(that shall not 18831 Von Karman, Suite 400
constitute notice) Irvine, CA 92612
Attention: General Counsel
Fax Number: 949-255-7055

And with a copy to: The Nathanson Group PLLC
(that shall not One Union Square
constitute notice) 600 University Street, Suite 2000
Seattle, WA 98101
Attn: Randi S. Nathanson
Fax Number: 206-299-9335

To Lessor: c/o Omega Healthcare Investors, Inc.
200 International Circle, Suite 3500
Hunt Valley, MD 21030
Attn.: Daniel J. Booth
Telephone No.: (410) 427-1700
Facsimile No.: (410) 427-8800

And with copy to Doran Derwent, PLLC
(which shall not 5960 Tahoe Dr., S.E., Suite 101
constitute notice): Grand Rapids, Michigan 49546
Attn: Mark E. Derwent
Telephone No.: (616) 451-8690
Facsimile No.: (616) 451-8697

or to such other address as either party may hereafter designate. Notice shall be deemed to have been given on the date of delivery if such delivery is made on a Business Day, or if not, on the first Business Day after delivery. If delivery is refused, Notice shall be deemed to have been given on the date delivery was first attempted. Notice sent by facsimile transmission shall be deemed given upon confirmation that such Notice was received at the number specified above or in a Notice to the sender. If Lessee has vacated the Leased Properties, Lessor's Notice may be posted on the door of a Leased Property.

ARTICLE XXXII

32.1 Appraisers. If it becomes necessary to determine the Fair Market Rental of the Leased Property for any purpose of this Lease, Lessor and Lessee shall first attempt to agree on such Fair Market Rental. If Lessor and Lessee are not able to so agree within a reasonable period of time not to exceed forty-five (45) days, then Lessor and Lessee shall attempt to agree upon a single appraiser to make such determination. If Lessor and Lessee are unable to agree upon a single arbitrator within thirty (30) days thereafter, then the party required or permitted to give Notice of such required determination shall include in the Notice the name of a person selected to act as appraiser on its behalf. Within ten (10) days after such Notice, Lessor (or Lessee, as the case may be) shall by Notice to Lessee (or Lessor, as the case may be) appoint a second person as appraiser on its behalf. The appraisers thus appointed, each of whom must be a member of the American Institute of Real Estate Appraisers (or any successor organization thereto) and experienced in appraising nursing home properties, shall, within forty-five (45) days after the date of the Notice appointing the first appraiser, proceed to appraise the Leased Property to determine the Fair Market Rental thereof as of the relevant date (giving effect to the impact, if any, of inflation from the date of their decision to the relevant date); provided, however, that if only one appraiser has been so appointed, or if two appraisers have been so appointed but only one such appraiser has made such determination within fifty (50) days after the making of Lessee's or Lessor's request, then the determination of such appraiser shall be final and binding upon the parties. If two appraisers have been appointed and have made their determinations within the respective requisite periods set forth above and if the difference between the amounts so determined does not exceed ten percent (10%) of the lesser of such amounts, then the Fair Market Rental shall be an amount equal to fifty percent (50%) of the sum of the amounts so determined. If the difference between the amounts so determined exceeds ten percent (10%) of the lesser of such amounts, then such two appraisers shall have twenty (20) days to appoint a third appraiser. If no such appraiser has been appointed within such twenty (20) days or within ninety (90) days of the original request for a determination of Fair Market Rental, whichever is earlier, either Lessor or Lessee may apply to any court having jurisdiction to have such appointment made by such court. Any appraiser appointed by the original appraisers or by such court shall be instructed to determine the Fair Market Rental within forty-five (45) days after appointment of such appraiser. The determination of the appraiser which differs most in terms of dollar amount from the determinations of the other two appraisers shall be excluded, and the average of the sum of the remaining two determinations shall be final and binding upon Lessor and Lessee as the Fair Market Rental of the Leased Property, as the case may be.

This provision for determining by appraisal shall be specifically enforceable to the extent such remedy is available under applicable law, and any determination hereunder shall be final and binding upon the parties except as otherwise provided by applicable law. Lessor and Lessee shall each pay the fees and expenses of the appraiser appointed by it and each shall pay one-half (½) of the fees and expenses of the third appraiser and one-half (½) of all other costs and expenses incurred in connection with each appraisal.

ARTICLE XXXIII

33.1 Breach by Lessor. Lessor shall not be in breach of this Master Lease unless Lessor fails to observe or perform any term, covenant or condition of this Master Lease on its part to be performed and such failure continues for a period of thirty (30) days after Lessor receives written Notice from Lessee specifying such failure and the necessary curative action. If the failure cannot with due diligence be cured within a period of thirty (30) days, the failure shall not be deemed to continue if Lessor, within said thirty (30) day period, proceeds promptly and with due diligence to cure the failure and diligently completes the curing thereof, such additional time not to exceed thirty (30) days. The time within which Lessor shall be obligated to cure any such failure shall also be subject to extension of time due to the occurrence of any Unavoidable Delay.

33.2 Compliance With Facility Mortgages.

33.2.1 Lessee covenants and agrees that it will duly and punctually observe, perform and comply with all of the terms, covenants and conditions (including, without limitation, covenants requiring the keeping of books and records and delivery of Financial Statements) of any Facility Mortgage(s) and that it will not directly or indirectly do any act or suffer or permit any condition or thing to occur which would or might constitute a default under the Facility Mortgage. Anything hereof to the contrary notwithstanding, Lessee shall be obligated to conform to the additional reporting and other requirements of a Facility Mortgage which are not also requirements hereunder, only if Lessee is specifically made aware of such additional requirements and consents thereto in advance. Lessee shall have no liability for any payments of principal or interest under any Facility Mortgage.

33.2.2 Without limiting or expanding Lessee's obligations pursuant to Section 33.2.1, during the Term of this Master Lease, Lessee acknowledges and agrees that, except as expressly provided elsewhere in this Master Lease, it shall undertake at its own cost and expense the performance of any and all repairs, replacements, capital improvements, maintenance items and all other requirements relating to the condition of a Facility that are required by any Facility Mortgage Document or by Facility Mortgagee, and Lessee shall be solely responsible and hereby covenants to fund and maintain any and all impound, escrow or other reserve or similar accounts required under any Facility Mortgage Documents as security for or otherwise relating to any operating expenses of a Facility, including any capital repair or replacement reserves and/or impounds or escrow accounts for Taxes or insurance premiums (each a "Facility Mortgage Reserve Account"); provided, however, this Section 33.2.2 shall not (i) increase Lessee's monetary obligations under this Master Lease, (ii) materially and adversely increase Lessee's non-monetary obligations under this Master Lease or (iii) materially diminish Lessee's rights under this Master Lease, except to the extent that with respect to any Facility, such obligations were provided for in a Facility Mortgage, or otherwise required by the Facility Mortgagee, secured by such Facility as of the Amended Lease Release Date; and provided, further, that any amounts which Lessee is required to fund into a Facility Mortgage Reserve Account with respect to satisfy any repair or replacement reserve requirements imposed by a Facility Mortgagee shall be credited on a dollar for dollar basis against the mandatory expenditure obligations of Lessee for such applicable Facility(ies) under Section 8.8. During the Term of this Master Lease and provided that no Event of Default shall have occurred and be continuing hereunder, Lessee shall, subject to the terms and conditions of such Facility Mortgage Reserve Account and the requirements of the Facility Mortgagee(s) thereunder, have access to and the right to apply or use (including for reimbursement) to the same extent of Landlord all monies held in each such Facility Mortgage Reserve Account for the purposes and subject to the limitations for which such Facility Mortgage Reserve Account is maintained, and Lessor agrees to reasonably cooperate with Lessee in connection therewith. Lessor hereby acknowledges that funds deposited by Lessee in any Facility Mortgage Reserve Account are the property of Lessee and Lessor is obligated to return the portion of such funds not previously released to Lessee within fifteen (15) days following the earlier of (x) the expiration or earlier termination of this Master Lease with respect to such applicable Facility, (y) the maturity or earlier prepayment of the applicable Facility Mortgage, or (z) an involuntary prepayment or deemed prepayment arising out of the acceleration of the amounts due to a Facility Mortgagee as a result of the exercise of its remedies under the applicable Facility Mortgage; provided, however, that the foregoing shall not be deemed or construed to limit or prohibit Lessor's right to bring any damage claim against Lessee for any breach of its obligations under this Master Lease that may have resulted in the loss of any impound funds held by a Facility Mortgagee.

ARTICLE XXXIV

34.1 Facility Trade Names. If this Master Lease is terminated by reason of an Event of Default or Lessor exercises its option to purchase Lessee's Personal Property pursuant to Section 35.1, Lessor shall be permitted to use the name(s) under which any Facility has done business during the Term (the "Facility Trade Names"); provided, however, that nothing herein shall be construed as granting Lessor any right to use the name "SunBridge" or "Sun" or "Mediplex"or "Harborside" or "Peak" any variation thereof. Lessee shall not, after any termination of this Master Lease, use any Facility Trade Name in the same market in which any of the Facilities is located in connection with any business that competes with any Facility.

34.2 Transfer of Operational Control of the Facilities. Upon the expiration or earlier termination of the Term other than as a result of the purchased of the Leased Properties by Lessee pursuant to Section 32,

(a) Lessee shall enter into one or more OTAs in the form of Exhibit F hereto with respect to the Leased Properties and shall transfer operational control of the Facilities to Lessor or Lessor's nominee pursuant to the terms of such OTAs,

(b) To the extent permitted by law, Lessee shall provide all necessary information requested by Lessor or its nominee for the preparation and filing of any and all necessary applications or notifications of any federal or state governmental authority having jurisdiction over a change in the operational control of the Leased Properties, and Lessee shall use its commercially reasonable efforts to cause the operating healthcare licenses held by Lessee to be transferred to Lessor or to Lessor's nominee or shall cooperate in the efforts of Lessor or Lessor's nominee to secure operating healthcare licenses with respect to the Leased Properties in its own name,

(c) Lessee shall engage only in transactions or other activities with respect to the Leased Properties which are in the ordinary course of business and shall perform all maintenance and repairs reasonably necessary to keep the Leased Properties in satisfactory operating condition and repair, and shall maintain the supplies and foodstuffs at levels which are consistent and in compliance with all health care regulations, and shall not sell or remove any Personal Property except in the ordinary course of business; provided, further, that nothing herein shall affect any claims which Lessor may have against Lessee in the event this Master Lease was terminated as a result of an Event of Default,

(d) To more fully preserve and protect Lessor's rights under this Section 34.2, Lessee does hereby make, constitute and appoint Lessor its true and lawful attorney-in-fact, for it and in its name, place and stead to execute and deliver all such instruments and documents, and to do all such other acts and things, as Lessor may deem to be necessary or desirable to protect and preserve the rights granted under this Section 34.2, including, without limitation, the preparation, execution and filing with the Board of Health of the State or other appropriate agency of the State or department any and all required "Letters of Responsibility" or similar documents. Lessee further hereby grants to Lessor the full power and authority to appoint one or more substitutes to perform any of the acts that Lessor is authorized to perform under this Section 34.2, with a right to revoke such appointment of substitution at pleasure. The power of attorney granted pursuant to this Section is coupled with an interest and therefore is irrevocable. Any person dealing with Lessor may rely upon the representation of Lessor relating to any authority granted by this power of attorney, including the intended scope of the authority, and may accept the written certificate of Lessor that this power of attorney is in full force and effect. Photographic or other facsimile reproductions of this Master

Lease may be made and delivered by Lessor, and may be relied upon by any person to the same extent as though the copy were an original. Anyone who acts in reliance upon any representation or certificate of Lessor, or upon a reproduction of the Lease, shall not be liable for permitting Lessor to perform any act pursuant to this power of attorney. Notwithstanding the foregoing, Lessor shall not exercise this power of attorney until, and only during the continuance of, an uncured Event of Default under this Master Lease. Lessor shall provide to Lessee copies of any writing as to which Lessor has exercised the power of attorney.

34.3 Intangibles and Personal Property. Notwithstanding any other provision hereof but subject to Section 6.4 relating to the security interest in favor of Lessor, Lessor's Personal Property shall not include goodwill nor shall it include any other intangible personal property that is severable from Lessor's "interests in real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto. All of Lessor's Personal Property is leased to Lessee pursuant to the terms hereof.

ARTICLE XXXV

35.1 Arbitration. Except with respect to (i) the payment of Rent, and (ii) any proceedings for possession of any Leased Property, or (iii) valuation questions that are to be resolved by appraisal as set forth in Section 33, hereof, in case any controversy arises between the parties hereto as to any of the requirements of this Master Lease or the performance thereof, and the parties are unable to settle the controversy by agreement or as otherwise provided herein, the controversy shall be resolved by arbitration. The arbitration shall be conducted by three arbitrators selected in accordance with the procedures of the American Arbitration Association and in accordance with its rules and procedures. The decision of the arbitrators shall be final, binding and enforceable and judgment may be entered thereon in any court of competent jurisdiction. The decision shall set forth in writing the basis for the decision. In rendering the decision and award, the arbitrators shall not add to, subtract from, or otherwise modify the provisions of this Master Lease. The expense of the arbitration shall be divided between Lessor and Lessee unless otherwise specified in the award. Each party in interest shall pay the fees and expenses of its own counsel. Lessor and Lessee shall attempt to agree on a location for the arbitration, and if they are unable to agree within a reasonable period of time, then the arbitration shall be conducted in Baltimore, Maryland. In any arbitration, the parties shall be entitled to conduct discovery in the same manner as permitted under Federal Rules of Civil Procedure 26 through 37. No provision in this Article shall limit the right of any party to this Master Lease to obtain provisional or ancillary remedies from a court of competent jurisdiction before, after, or during the pendency of any arbitration, and the exercise of any such remedy does not waive the right of either party to arbitration.

ARTICLE XXXVI

36.1 REIT Protection.

36.1.1 The parties hereto intend that Rent and other amounts paid by Lessee hereunder will qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto and this Master Lease shall be interpreted consistent with this intent.

36.1.2 Anything contained in this Master Lease to the contrary notwithstanding, Lessee shall not (i) sublet, assign or enter into a management arrangement for the Leased Property on any basis such that the rental or other amounts to be paid by the subtenant, assignee or manager thereunder would be based, in whole or in part, on either (x) the income or profits derived by the business activities of the subtenant, assignee or manager or (y) any other formula such that any portion of any amount received by Lessor would fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto; (ii) furnish or render any services to the subtenant, assignee or manager or manage or operate the Leased Property so subleased, assigned or managed; (iii) sublet, assign or enter into a management arrangement for the Leased Property to any Person (other than a taxable REIT subsidiary of Lessor) in which Lessee or Lessor owns an interest, directly or indirectly (by applying constructive ownership rules set forth in Section 856(d)(5) of the Code); or (iv) sublet, assign or enter into a management arrangement for the Leased Property in any other manner which could cause any portion of the amounts received by Lessor pursuant to this Master Lease or any sublease to fail to qualify as "rents from real property" within the meaning of Section 856(d) of the Code, or any similar or successor provision thereto, or which could cause any other income of Lessor to fail to qualify as income described in Section 856(c)(2) of the Code. The requirements of this Section shall likewise apply to any further subleasing by any subtenant.

36.1.3 Anything contained in this Master Lease to the contrary notwithstanding, the parties acknowledge and agree that Lessor, in its sole discretion, may assign this Master Lease or any interest herein to another Person (including without limitation, a taxable REIT subsidiary) in order to maintain Lessor's status as a REIT; provided, however, Lessor shall be required to (i) comply with any applicable legal requirements related to such transfer including, but not limited to, any requirements under any certificate of need or other health care law, rules or regulations and (ii) give Lessee notice of any such assignment; and, provided, further, that any such assignment shall be subject to all of the rights of Lessee hereunder.

36.1.4 Anything contained in this Master Lease to the contrary notwithstanding, upon request of Lessor, Lessee shall cooperate with Lessor in good faith and at no cost or expense to Lessee, and provide such documentation and/or information as may be in Lessee's possession or under Lessee's control and otherwise readily available to Lessee regarding the valuation of the Leased Property in order to assist Lessor in its determination that Rent allocable for purposes of Section 856 of the Code to the Lessor's Personal Property at the beginning and end of a calendar year does not exceed 15% of the total Rent due hereunder (the "Personal Property REIT Requirement"); provided, however, that this provision shall not be interpreted to relieve Lessee from its obligations under Section 6.5 of this Agreement; and provided, further, that a violation by Lessee of its obligations under this Section 36.1.4 and/or a determination by Lessor that a violation of the Personal Property REIT Requirement has occurred shall not constitute an Event of Default under this Lease. Anything contained in this Master Lease to the contrary notwithstanding, Lessee shall take such reasonable action as may be requested by Landlord from time to time in order to ensure compliance with the Personal Property REIT Requirement as long as such compliance does not (i) increase Lessee's monetary obligations under this Master Lease or (ii) materially and adversely increase Lessee's non-monetary obligations under this Lease or (iii) materially diminish Lessee's rights under this Master Lease. Accordingly, if requested by Lessor and at Lessor's expense, Lessee shall cooperate with Lessor as may be necessary from time to time to more specifically identify and/or value the Lessor's Personal Property in connection with the compliance with the Personal Property REIT Requirement. Lessor shall reimburse Lessee for the reasonable amount of any out of pocket expenses incurred by Lessee in satisfying the requirements of this Section 36.1.4.

ARTICLE XXXVII

37.1 Survival, Choice of Law. Anything contained elsewhere to the contrary notwithstanding, all claims against, and liabilities of, Lessee or Lessor arising prior to the date of termination of this Master Lease shall survive such termination. If any late charges provided for in any provision of this Master Lease are based upon a rate in excess of the maximum rate permitted by applicable law, the parties agree that such charges shall be fixed at the maximum permissible rate. Neither this Master Lease nor any provision thereof may be changed, waived, discharged or terminated except by an instrument in writing and in recordable

form signed by Lessor and Lessee. All of the terms and provisions of this Master Lease shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. The headings in this Master Lease are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. This Master Lease shall be governed by and construed in accordance with the laws of the state of Maryland, except as to matters which, under applicable procedural conflicts of laws rules require the application of laws of the applicable State.

LESSEE CONSENTS TO IN PERSONAM JURISDICTION BEFORE THE STATE AND FEDERAL COURTS OF THE STATES OF MARYLAND, AND AGREES THAT ALL DISPUTES CONCERNING THIS MASTER LEASE BE HEARD IN THE STATE AND FEDERAL COURTS LOCATED IN THE STATE OF MARYLAND. LESSEE FURTHER CONSENTS TO IN PESONAM JURISDICTION BEFORE THE STATE AND FEDERAL COURTS OF EACH STATE WITH RESPECT TO ANY ACTION COMMENCED BY LESSOR SEEKING TO RETAKE POSSESSION OF ANY OR ALL OF THE LEASED PROPERTIES. LESSEE AGREES THAT SERVICE OF PROCESS MAY BE EFFECTED UPON IT UNDER ANY METHOD PERMISSIBLE UNDER THE LAWS OF THE STATE OF MARYLAND, AND IRREVOCABLY WAIVES ANY OBJECTION TO VENUE IN THE STATES OF MARYLAND OR, TO THE EXTENT APPLICABLE IN ACCORDANCE WITH THE TERMS HEREOF, LOCATED IN THE STATES.

37.2 Limitation on Recovery. Lessee specifically agrees to look solely to Lessor's interest in the Leased Properties covered by this Master Lease for recovery of any judgment from Lessor, it being specifically agreed that no constituent shareholder, member, manager, officer or director of Lessor shall ever be personally liable for any such judgment or for the payment of any monetary obligation to Lessee. Furthermore, Lessor (original or successor) shall never be liable to Lessee for any indirect or consequential damages suffered by Lessee from whatever cause.

37.3 Consents. Whenever the consent or approval of Lessor is required hereunder, Lessor may in its sole discretion and without reason withhold that consent or approval unless otherwise specifically provided. Lessee's consent with respect to Legal Requirements shall not be deemed to be unreasonably withheld or delayed if Lessee determines that the requested covenant, agreement, restriction or encumbrance to be created by Lessor would materially and adversely affect Lessee's leasehold rights hereunder.

37.4 Counterparts. This Master Lease may be executed in separate counterparts, each of which shall be considered an original when each party has executed and delivered to the other one or more copies of this Master Lease.

37.5 Options Personal. The renewal options granted to the Lessee in this Master Lease are granted solely to the Lessee and are not assignable or transferable except in connection with a transfer or assignment of this Master Lease as permitted in Article XXII. Any attempt to assign or transfer such options shall be void and of no force and effect.

37.6 Rights Cumulative. Except as provided herein to the contrary, the respective rights and remedies of the parties specified in this Master Lease shall be cumulative and in addition to any rights and remedies not specified in this Master Lease.

37.7 Entire Agreement. There are no oral or written agreements or representations between the parties hereto affecting this Master Lease. This Master Lease supersedes and cancels any and all previous negotiations, arrangements, representations, brochures, agreements and understandings, if any, between Lessor and Lessee with respect to this Master Lease including, but not limited to, the Existing Sun Master Lease.

37.8 Amendment in Writing. No provision of this Master Lease may be amended except by an agreement in writing signed by Lessor and Lessee.

37.9 Severability. If any provision of this Master Lease or the application of such provision to any person, entity or circumstance is found invalid or unenforceable by a court of competent jurisdiction, such determination shall not affect the other provisions of this Master Lease and all other provisions of this Master Lease shall be deemed valid and enforceable.

37.10 Successors. The term "Lessor" shall mean only the owner or owners at the time in question of fee title to the Leased Properties. In the event of any transfer of the Lessor's interest in this Master Lease, Lessor named in this Master Lease (and in case of any subsequent transfers, the then grantor) shall be relieved from and after the date of the transfer of all liability as respects Lessor's obligations to be performed thereafter. Any funds in the hands of Lessor or the then grantor at the time of the transfer, in which Lessee has an interest, shall be delivered to the grantee. All rights and obligations of Lessor and Lessee under this Master Lease shall extend to and bind the respective heirs, executors, administrators and the permitted concessionaires, successors, subtenants and assignees of the parties. If there is more than one (1) Lessee under this Master Lease, each shall be bound jointly and severally by the terms, covenants and agreements contained therein.

37.11 Time of the Essence. Time is of the essence of all provisions of this Master Lease of which time is an element.

ARTICLE XXXVIII

38.1 Commissions. Each party represents and warrants to the other that no real estate commission, finder's fee or the like is due and owing to any person in connection with this Master Lease. Each party agrees to save, indemnify and hold the other harmless from and against any and all claims, liabilities or obligations for brokerage, finder's fees or the like in connection with this Master Lease or the transactions contemplated hereby, asserted by any person on the basis of any statement or act alleged to have been made or taken by the indemnifying party.

ARTICLE XXXIX

39.1 Memorandum of Lease. Lessor and Lessee shall, promptly upon the request of either, enter into a short form memorandum of this Master Lease, in form suitable for recording under the laws of the State, in which reference to the Lease, and all options contained therein, shall be made. Lessee shall pay all costs and expenses of recording such memorandum.

ARTICLE XL

40.1 Security Deposit. Guarantor previously delivered a Security Deposit in the amount of (i) Three Hundred Sixty Two Thousand Five Hundred Dollars ($362,500) to Lessor in the form of a Letter of Credit (the "Peak L/C"), and (ii) Eight Hundred Thirty Seven Thousand Five Hundred Dollars ($837,500) to Lessor in the form of a Letter of Credit (the "Harborside L/C" and together with the Peak L/C, the " LCs"). Lessor and Lessee acknowledge and agree that the LCs shall be subject to the terms and conditions of the Letter of Credit Agreement, and shall be held by Lessor as security for the full and faithful performance by the Lessee of each and every term, provision, covenant and condition of this Master Lease. If at any time the Security Deposit is in the form of cash, it shall be deposited by Lessor into an account which shall earn interest, which interest shall be added to, and become part of, the Security Deposit. The Security Deposit shall not be considered an advance payment of Rent (or of any other sum payable to Lessor under this Lease) or a measure of Lessor's damages in case of a default by

Lessee. The Security Deposit shall not be considered a trust fund, and Lessee expressly acknowledges and agrees that Lessor is not acting as a trustee or in any fiduciary capacity in controlling or using the Security Deposit. Lessor shall have no obligation to maintain the Security Deposit separate and apart from Lessor's general and/or other funds. The Security Deposit, less any portion thereof applied as provided in the Letter of Credit Agreement or in Section 40.2 shall be returned to Lessee within sixty (60) days following the expiration of the Term.

40.2 Application of Security Deposit. Upon the occurrence and during the continuance of an Event of Default, Lessor may, but shall not be required to, in addition to and not in lieu of any of the rights and remedies available to Lessor, use and apply all or any part of the Security Deposit to the payment of any sum in default, or any other sum, including, but not limited to, any damages or deficiency in reletting the Leased Properties, which Lessor may expend or be required to expend by reason of the existence of such Event of Default. Whenever, and as often as, Lessor has applied any portion of the Security Deposit to cure (in whole or in part) an Event of Default, Lessee shall, within ten (10) days after Notice from Lessor, deliver a new letter of credit to Lessor (or, at Lessor's option, deposit additional money with Lessor) sufficient to restore the Security Deposit to the full amount originally provided or paid, and Lessee's failure to do so shall constitute an Event of Default hereunder without any further Notice.

40.3 Transfer of Security Deposit. If Lessor transfers its interest under this Lease, Lessor shall assign the Security Deposit to the new lessor and thereafter Lessor shall have no further liability for the return of the Security Deposit, and Lessee agrees to look solely to the new lessor for the return of the Security Deposit. The provisions of the preceding sentence shall apply to every transfer of assignment of Lessor's interest under this Lease. Lessee agrees that it will not assign or encumber or attempt to assign or encumber the Security Deposit and that Lessor, its successors and assigns, may return the Security Deposit to the least Lessee in possession at the last address for Notice given by such Lessee and that Lessor shall thereafter be relieved of any liability therefor, regardless of one or more assignments of this Lease or any such actual or attempted assignment or encumbrances of the Security Deposit.

SIGNATURES ON FOLLOWING PAGE

IN WITNESS WHEREOF, the parties hereby execute this Third Amended and Restated Master Lease effective as of the Amended Lease Release Date.

LESSOR:

DELTA INVESTORS I, LLC, a Maryland limited liability company, and
DELTA INVESTORS II, LLC, a Maryland limited liability company
OHI ASSET, LLC, a Delaware limited liability company
OHI ASSET (CA), LLC, a Delaware limited liability company
OHI ASSET (CO), LLC, a Delaware limited liability company
OHI ASSET (ID), LLC, a Delaware limited liability company

By: OMEGA HEALTHCARE INVESTORS, INC., a Maryland corporation, Its Member

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

OHIMA, INC., a Massachusetts corporation

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

STATE OF MARYLAND)
) ss.
COUNTY OF BALTIMORE)

This instrument was acknowledged before me on the 2nd day of November, 2010, by C. Taylor Pickett, the Chief Executive Officer of OHIMA, Inc., a Massachusetts corporation, and Omega Healthcare Investors, Inc., a Maryland corporation, the sole member of Delta Investors I, LLC, a Maryland limited liability company, Delta Investors II, LLC, a Maryland limited liability company, OHI Asset, LLC, a Delaware limited liability company, OHI Asset (CA), LLC, a Delaware limited liability company, OHI Asset (CO), LLC, a Delaware limited liability company, OHI Asset (ID), LLC, a Delaware limited liability company, on behalf of said corporations and companies.

Judith A. Jacobs

Notary Public, Baltimore County, Maryland

My commission expires: May 12, 2012

LESSEE:

SUNBRIDGE CARE ENTERPRISES, INC., a Delaware corporation
SUNBRIDGE CIRCLEVILLE HEALTH CARE CORP., an Ohio corporation
SUNBRIDGE BECKLEY HEALTH CARE CORP., a West Virginia corporation
SUNBRIDGE PUTNAM HEALTH CARE CORP., a West Virginia corporation
SUNBRIDGE BRASWELL ENTERPRISES, INC., a California corporation
SUNBRIDGE MEADOWBROOK REHABILITATION CENTER, a California corporation
SUNBRIDGE DUNBAR HEALTH CARE CORP., a West Virginia corporation
SUNBRIDGE MARION HEALTH CARE CORP., an Ohio corporation
SUNBRIDGE SALEM HEALTH CARE CORP., a West Virginia corporation
SUNBRIDGE REGENCY-NORTH CAROLINA, INC., a North Carolina corporation
SUNBRIDGE HEALTHCARE, LLC, a New Mexico limited liability company
SUNBRIDGE SHANDIN HILLS REHABILITATION CENTER, a California corporation
SUNBRIDGE REGENCY-TENNESSEE, INC., a Tennessee corporation
FALMOUTH HEALTHCARE, LLC, a Delaware limited liability company
MASHPEE HEALTHCARE, LLC, a Delaware limited liability company
WAKEFIELD HEALTHCARE, LLC, a Delaware limited liability company
WESTFIELD HEALTHCARE, LLC, a Delaware limited liability company
PEAK MEDICAL COLORADO NO. 2, INC., a Delaware corporation
PEAK MEDICAL OF IDAHO, INC., a Delaware corporation
PEAK MEDICAL OF BOISE, INC., a Delaware corporation

By: /s/ Mike Berg
Name: Mike Berg
Title: Secretary

STATE OF NM)
) ss.
COUNTY OF Bernalillo)

This instrument was acknowledged before me on the 2nd day of November , 2010, by Mike Berg , the Secretary of SunBridge Care Enterprises, Inc., a Delaware corporation, SunBridge Circleville Health Care Corp., an Ohio corporation, SunBridge Beckley Health Care Corp., a West Virginia corporation, SunBridge Putnam Health Care Corp., a West Virginia corporation, SunBridge Braswell Enterprises, Inc., a California corporation, SunBridge Meadowbrook Rehabilitation Center, a California corporation, SunBridge Dunbar Health Care Corp., a West Virginia corporation, SunBridge Marion Health Care Corp., an Ohio corporation, SunBridge Salem Health Care Corp., a West Virginia corporation, SunBridge Regency-North Carolina, Inc., a North Carolina corporation, SunBridge Healthcare, LLC, a New Mexico limited liability company, SunBridge Shandin Hills Rehabilitation Center, a California corporation, SunBridge Regency-Tennessee, Inc., a Tennessee corporation, Falmouth Healthcare, LLC, a Delaware limited liability company, Mashpee Healthcare, LLC, a Delaware limited liability company, Wakefield Healthcare, LLC, a Delaware limited liability company, Westfield Healthcare, LLC, a Delaware limited liability company, Peak Medical Colorado No. 2, Inc., a Delaware corporation, Peak Medical of Idaho, Inc., a Delaware corporation, and Peak Medical of Boise, Inc., a Delaware corporation, on behalf of said corporations and companies.

Anne Rider
Notary Public, NM County, Bernalillo

My commission expires: 6/16/2014

List of Exhibits and Schedules to
THIRD AMENDED AND RESTATED MASTER LEASE

Schedules

I Original Master Leases

Exhibits

A List of Facilities

B Legal Descriptions

C-1 Lessor funding of certain Capital Expenditures

C-2 Lessor performance of certain Capital Expenditures

C-3 Funded Amount and Additional Project Rent

D Permitted Encumbrances

E Form of Estoppel Certificate

F Form of Operations Transfer Agreement

Schedule I

Original Master Leases

1. Master Lease Agreement, dated as of October 7, 1997, among Delta Investors I, LLC ("Delta I"), Circleville Health Care Corp., Care Enterprises, Inc., Beckley Health Care Corp., Putnam Health Care Corp., Care Enterprises West, Regency Rehab Hospitals, Inc., Braswell Enterprises, Inc. and Meadowbrook Rehabilitation Center (collectively, the "Original Delta I Tenants"), and Sun Healthcare Group, Inc. ("Sun"), as guarantor (as such, the "Guarantor"), as amended by (i) First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty, dated as of April 24, 1998, among Delta I, the Original Delta I Tenants and Guarantor, (ii) First Amendment of Security Agreements and Second Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty, dated as of June 15, 1998, among Delta I, Delta Investors II, LLC and Guarantor, (iii) Assumption and Amendment of Delta I Master Lease Agreement and Delta I Transaction Documents, dated as of November 30, 1999, among Delta I, the Original Delta I Tenants and Guarantor, (iv) Amendment to Master Lease Agreement and Facilities Leases, dated as of March 1, 2003, between Delta I and the Original Delta I Tenants and (v) Letter Agreements between Guarantor and Omega dated February 18, 2003 and March 27, 2003 (the "Delta I Master Lease").

2. Master Lease Agreement, dated as of October 7, 1997, among Delta Investors II, LLC ("Delta II"), Care Enterprises, Inc., Dunbar Healthcare Corp., Marion Health Care Corp., Salem Health Care Corp., Care Enterprises West, Regency-North Carolina, Inc., Braswell Enterprises, Inc., Coalinga Rehabilitation Center, Fullerton Rehabilitation Center, Newport Beach Rehabilitation Center, San Bernardino Rehabilitation Hospital, Inc., Shandin Hills Rehabilitation Center and Vista Knoll Rehabilitation Center (collectively, the "Original Delta II Tenants") and Sun, as Guarantor, as amended by (i) First Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty, dated as of April 24, 1998, among Delta II, the Original Delta II Tenants and Guarantor, (ii) First Amendment of Security Agreements and Second Amendment of Purchase Agreement, Master Lease Agreement, Facility Leases and Guaranty, dated as of June 15, 1998, among Delta I, Delta II and Guarantor, (iii) Assumption and Amendment of Delta II Master Lease Agreement and Delta II Transaction Documents, dated as of November 30, 1999, among Delta II, the Original Delta II Tenants and Guarantor, (iv) Amendment to Master Lease Agreement and Facilities Leases, dated as of March 1, 2003, between Delta II and the Original Delta II Tenants and (v) Letter Agreements between Guarantor and Omega dated February 18, 2003 and March 27, 2003 (the "Delta II Master Lease").

3. Facility Master Lease, dated as of June 1, 1997, among Omega Healthcare Investors, Inc. ("Omega") and OHI (Illinois), Inc. ("OHI"), together as lessor, and Sun, as lessee, as amended by Assumption and Amendment of Qualicorp Master Lease and Qualicorp Transaction Documents, dated as of November 30, 1999, among Omega, OHI, Sun, as lessee, and Sun, as guarantor (the "Qualicorp Master Lease").

4. Amended, Restated and Consolidated Master Lease, dated February 1, 1996, between Omega and Regency-North Carolina, Inc. (the "Regency-North Carolina Lease"), and Amended, Restated and Consolidated Master Lease between Omega and Regency-Tennessee, Inc. (the "Regency-Tennessee Lease"), together with (i) Security Deposit Agreement dated as of April 11, 1996 between Omega and Regency-North Carolina, Inc., (ii) Cash Deposit Agreement dated as of April 19, 1996 among Omega, Regency-North Carolina, Inc. and Wells Fargo Bank, N.A., Security Agreement dated as of April 11, 1996 between Omega and Regency-North Carolina, Inc., (iii) Assumption and Amendment of Liberty Lease and Liberty Transaction Documents, dated November 30, 1999, between Omega, Regency-North Carolina, Inc. and Regency-Tennessee, Inc., which consolidated the Regency-North Carolina Lease and the Regency-Tennessee Lease, and (iv) Letter Agreements between Guarantor and Omega dated February 18, 2003 and March 27, 2003 (the "Regency North Carolina Master Lease").

ARTICLE I

Exhibit A

Facilities

1. Facility Name: Meadowbrook Manor
   Facility Address: 3951 East Blvd, Los Angeles, CA
   Landlord: OHI Asset (CA), LLC
   Tenant: SunBridge Meadowbrook Rehabilitation Center
   Primary Intended Use: Skilled Nursing Facility
   Section 8.9 Classification: URBAN
2. Facility Name: Sierra Vista Rehabilitation Center
   Facility Address: 3455 East Highland Avenue, Highland, CA
   Landlord: OHI Asset (CA), LLC
   Tenant: SunBridge Braswell Enterprises, Inc.
   Primary Intended Use: Skilled Nursing Facility
   Section 8.9 Classification: URBAN
3. Facility Name: SunBridge Care & Rehab for Circleville
   Facility Address: 1155 Atwater Avenue, Circleville, OH
   Landlord: Delta Investors I, LLC
   Tenant: SunBridge Circleville Health Care Corp.
   Primary Intended Use: Skilled Nursing Facility
   Section 8.9 Classification: URBAN
4. Facility Name: SunBridge Care & Rehab for Homestead
   Facility Address: 1900 E. Main Street, Lancaster, OH
   Landlord: Delta Investors I, LLC
   Tenant: SunBridge Care Enterprises, Inc.
   Primary Intended Use: Skilled Nursing Facility
   Section 8.9 Classification: URBAN
5. Facility Name: SunBridge Care & Rehab for Putnam
   Facility Address: 300 Seville Road, Hurricane, W. VA
   Landlord: Delta Investors I, LLC
   Tenant: SunBridge Putnam Health Care Corp.
   Primary Intended Use: Skilled Nursing Facility
   Section 8.9 Classification: RURAL
6. Facility Name: SunBridge Pine Lodge Care & Rehab
   Facility Address: 405 Stanford Road, Beckley, W. VA
   Landlord: Delta Investors I, LLC
   Tenant: SunBridge Beckley Health Care Corp.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

7. Facility Name: SunBridge Care & Rehab for Emmett

   Facility Address: 501 W. Idaho Blvd., Emmett, ID

   Landlord: Delta Investors I, LLC

   Tenant: SunBridge Healthcare, LLC

   Primary Intended Use: Skilled Nursing Facility

   Section 8.9 Classification: RURAL

8. Facility Name: SunBridge Care & Rehab for Milford

   Facility Address: 10 Veterans Memorial Drive, Milford, MA

   Landlord: Delta Investors I, LLC

   Tenant: SunBridge Healthcare, LLC

   Primary Intended Use: Skilled Nursing Facility

   Section 8.9 Classification: URBAN

9. Facility Name: Laurel Park

   Facility Address: 1425 Laurel Avenue, Pomona, CA

   Landlord: OHI Asset (CA), LLC

   Tenant: SunBridge Braswell Enterprises, Inc.

   Primary Intended Use: Skilled Nursing Facility

   Section 8.9 Classification: URBAN

10. Facility Name: Olive Vista

    Facility Address: 2350 Culver Court, Pomona, CA

Landlord: OHI Asset (CA), LLC

Tenant: SunBridge Braswell Enterprises, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

11. Facility Name: Shandin Hills Behavior Therapy Center

    Facility Address: 4164 North 4th Avenue, San Bernardino, CA

    Landlord: OHI Asset (CA), LLC

    Tenant: SunBridge Shandin Hills Rehabilitation Center

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: URBAN

12. Facility Name: SunBridge Care & Rehab for Lexington

    Facility Address: 877 Hill Everhart Road, Lexington, NC

    Landlord: Delta Investors II, LLC

    Tenant: SunBridge Regency-North Carolina, Inc.

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: RURAL

13. Facility Name: SunBridge Care & Rehab for Marion

    Facility Address: 524 Jamesway, Marion, Ohio

    Landlord: Delta Investors II, LLC

    Tenant: SunBridge Marion Health Care Corp.

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: URBAN

14. Facility Name: SunBridge Care & Rehab for Dunbar

    Facility Address: 501 Caldwell Lane, Dunbar, W. VA

    Landlord: Delta Investors II, LLC

    Tenant: SunBridge Dunbar Health Care Corp.

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: RURAL

15. Facility Name: SunBridge Care & Rehab for Parkersburg

    Facility Address: 1716 Gihon Road, Parkersburg, W. VA

    Landlord: Delta Investors II, LLC

    Tenant: SunBridge Care Enterprises, Inc.

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: RURAL

16. Facility Name: SunBridge Care & Rehab for Salem

    Facility Address: 146 Water Street, Salem, W. VA

    Landlord: Delta Investors II, LLC

    Tenant: SunBridge Salem Health Care Corp.

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: RURAL

17. Facility Name: Ballard Care & Rehabilitation

    Facility Address: 820 NW 95th Street, Seattle, WA

Landlord: Delta Investors II, LLC

Tenant: SunBridge Healthcare, LLC

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: URBAN

18. Facility Name: SunBridge Care & Rehab – Shoals

    Facility Address: 500 John Aldridge Drive, Tuscumbia, AL

    Landlord: OHI Asset, LLC

    Tenant: SunBridge Healthcare, LLC

    Primary Intended Use: Skilled Nursing Facility

    Section 8.9 Classification: URBAN

19. Facility Name: SunBridge Care & Rehab – Tuscumbia

Facility Address: 813 Keller Lane, Tuscumbia, AL

Landlord: OHI Asset, LLC

Tenant: SunBridge Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

20. Facility Name: SunBridge Care & Rehab for Decatur

Facility Address: 1350 14th Avenue SE, Decatur, AL

Landlord: OHI Asset, LLC

Tenant: SunBridge Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

21. Facility Name: SunBridge Care & Rehab for Merry Wood

Facility Address: 280 Mt. Hebron Road, Elmore, AL

Landlord: OHI Asset, LLC

Tenant: SunBridge Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

22. Facility Name: SunBridge Care & Rehab for Muscle Shoals

Facility Address: 200 Alabama Avenue, Muscle Shoals, AL

Landlord: OHI Asset, LLC

Tenant: SunBridge Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

23. Facility Name: SunBridge Care & Rehab for Alleghany

Facility Address: 179 Combs Street, Sparta, NC

Landlord: OHI Asset, LLC

Tenant: SunBridge Regency-North Carolina, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

24. Facility Name: SunBridge Care & Rehab for Mount Olive

Facility Address: 228 Smith Chapel Road, Mount Olive, NC

Landlord: OHI Asset, LLC

Tenant: SunBridge Regency-North Carolina, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

25. Facility Name: SunBridge Care & Rehab for Siler City

Facility Address: 900 West Dolphin Street, Siler City, NC

Landlord: OHI Asset, LLC

Tenant: SunBridge Regency-North Carolina, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

26. Facility Name: SunBridge Care & Rehab for Triad

Facility Address: 700 North Elm Street, High Point, NC

Landlord: OHI Asset, LLC

Tenant: SunBridge Regency-North Carolina, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

27. Facility Name: SunBridge Care & Rehab for LaFollette

Facility Address: 155 Davis Road, La Follette, TN

Landlord: OHI Asset, LLC

Tenant: SunBridge Regency-Tennessee, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

28. Facility Name: SunBridge Care & Rehab for Maynardville

Facility Address: 215 Richardson Way, Maynardsville, TN

Landlord: OHI Asset, LLC

Tenant: SunBridge Regency-Tennessee, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

29. Facility Name: Idaho Falls Care Center

Facility Address: 3111 Channing Way, Idaho Falls, Idaho

Landlord: OHI Asset (ID), LLC

Tenant: Peak Medical of Idaho, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

30. Facility Name: Twin Falls Care Center

Facility Address: 674 Eastland Drive, Twin Falls, Idaho

Landlord: OHI Asset (ID), LLC

Tenant: Peak Medical of Idaho, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

31. Facility Name: Falmouth Nursing & Rehabilitation Center

Facility Address: 359 Jones Road, Falmouth, MA

Landlord: OHIMA, Inc.

Tenant: Falmouth Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

32. Facility Name: Mashpee Nursing & Rehabilitation Center

Facility Address: 161 Falmouth Road, Rte 128, Mashpee, MA

Landlord: OHIMA, Inc.

Tenant: Mashpee Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

33. Facility Name: Wakefield Nursing & Rehabilitation Center

Facility Address: 1 Bathol Street, Wakefield, MA

Landlord: OHIMA, Inc.

Tenant: Wakefield Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

34. Facility Name: Westfield Nursing & Rehabilitation Center

Facility Address: 60 East Silver Street, Westfield, MA

Landlord: OHIMA, Inc.

Tenant: Westfield Healthcare, LLC

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

35. Facility Name: Capitol Care Center

Facility Address: 8211 Ustick Road, Boise, ID

Landlord: OHI Asset (CO), LLC

Tenant: Peak Medical of Boise, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

36. Facility Name: Cheyenne Mountain Care Center

Facility Address: 835 Tenderfoot Hill Road, Colorado Springs, CO

Landlord: OHI Asset (CO), LLC

Tenant: Peak Medical Colorado No. 2, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

37. Facility Name: Cheyenne Place Retirement Center

Facility Address: 945 Tenderfoot Hill Road, Colorado Springs, CO

Landlord: OHI Asset (CO), LLC

Tenant: Peak Medical Colorado No. 2, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

38. Facility Name: Mesa Manor Care Center

Facility Address: 2901 North 12th Street, Grand Junction, CO

Landlord: OHI Asset (CO), LLC

Tenant: Peak Medical Colorado No. 2, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: RURAL

39. Facility Name: Pikes Peak Care Center

Facility Address: 2719 North Union Boulevard, Colorado Springs, CO

Landlord: OHI Asset (CO), LLC

Tenant: Peak Medical Colorado No. 2, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

40. Facility Name: Pueblo Extended Care Center

Facility Address: 2611 Jones Avenue, Pueblo, CO

Landlord: OHI Asset (CO), LLC

Tenant: Peak Medical Colorado No. 2, Inc.

Primary Intended Use: Skilled Nursing Facility

Section 8.9 Classification: URBAN

Exhibit B

Leased Properties

Legal Descriptions

Exhibit C-1

Lessor funding of certain Capital Expenditures

Exhibit C-2

Lessor performance of certain Capital Expenditures

Exhibit C-3

Funded Amount and Additional Project Rent as of _____, 2010

Exhibit D
Permitted Encumbrances

All covenants, easements, restrictions, conditions and other matters of record with respect to the Leased Properties as of the Commencement Date as to each Leased Property, except the following: (a) liens for past due real estate taxes and assessments; (b) mechanic's liens (other than resulting from the actions of Omega and its Affiliates); (c) judgment liens (other than against Omega and its Affiliates); and (d) monetary liens, mortgages or financing statements for the benefit of any third-party creditor of Lessee, other than Omega and its Affiliates.

Exhibit E

Form of Estoppel Certificate

The undersigned, _____, a _____ corporation ("_____") under that certain Third Amended and Restated Master Lease Agreement (the "Lease") dated _____, 2010 and effective as of _____, 2010 and made with _____ ("_____"), hereby certifies:

1. That it is _____ under this Lease; that attached hereto as Exhibit "A" is a true and correct copy of this Lease; that said Lease is now in full force and effect and has not been amended, modified or assigned except as disclosed or included in Exhibit "A"; and that said Lease constitutes the entire agreement between Lessor and Lessee.

2. That there exist no defenses or offsets to enforcement of this Lease; that there are, as of the date hereof, no breaches or uncured defaults on the part of the undersigned or, to the undersigned's knowledge, on the part of the other party to the Lease; and that the undersigned has no notice or knowledge of any prior assignment, hypothecation, subletting or other transfer of the other party's interest in this Lease, except _____.

3 . That the Base Rent for the Lease Year under this Lease is $_____. All Rent which is due has been paid, and there are no unpaid Additional Charges owing to or by the undersigned under this Lease as of the date hereof. No Base Rent or other items (including without limitation security deposit and any impound account or funds) have been paid by the undersigned in advance under this Lease except for the security deposit held by Lessor [in the form of an irrevocable letter of credit] in the amount of $_____ and the monthly installment of Base Rent that became due on _____..

4. That the undersigned has no claim against the other party to the Lease for any security deposit, impound account or prepaid Rent except as provided in paragraph 3 of this Certificate.

5. That there are no actions, whether voluntary or otherwise, pending against the undersigned under the bankruptcy laws of the United States or any State thereof, nor has the undersigned nor, to the best of the undersigned's knowledge has the other party to the Lease begun any action, or given or received any notice for the purpose of termination of this Lease.

6. That there are, as of the date hereof, no breaches or uncured defaults on the part of the undersigned under any other agreement executed in connection with this Lease.

7. This Estoppel Certificate has been requested for the benefit of _____("Relying Party"). The Relying Party is entitled to rely on the statements of the undersigned contained in this certificate.

8. All capitalized terms used herein and not defined herein shall have the meanings for such terms set forth in the Lease.

9. (Add provision required by Relying Party).

Dated:_____

(Name of Lessor or Lessee)

By:

Its:_____

Exhibit F

Form of OTA

[Attached]

Exhibit 12.1

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges on a reported basis for the periods indicated. Earnings consist of income from continuing operations plus fixed charges. Fixed charges consist of interest expense, amortization of deferred financing costs and costs related to retiring certain debt early. We have calculated the ratio of earnings to fixed charges by adding net income from continuing operations to fixed charges and dividing that sum by such fixed charges.

	Year Ended December 31,				
	2006	2007	2008	2009	2010
			(in thousands)		
Income from continuing operations before income taxes	$ 58,252	$ 67,591	$ 77,619	$ 82,111	$ 58,436
Interest expense	47,611	44,092	39,746	39,075	90,602
Income before fixed charges	$ 105,863	$ 111,683	$ 117,365	$ 121,186	$ 149,038
Capitalized interest	$ -	$ 110	$ 160	$ 141	$ 22
Interest expense	47,611	44,092	39,746	39,075	90,602
Total fixed charges	$ 47,611	$ 44,202	$ 39,906	$ 39,216	$ 90,624
Earnings / fixed charge coverage ratio	**2.2x**	**2.5x**	**2.9x**	**3.1x**	**1.6x**

Exhibit 12.2

RATIO OF EARNINGS TO
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

The following table sets forth our ratio of earnings to combined fixed charges and preferred stock dividends on a reported basis for the periods indicated. Earnings consist of income from continuing operations plus fixed charges. Fixed charges consist of interest expense, amortization of deferred financing costs and costs related to retiring certain debt early. We have calculated the ratio of earnings to combined fixed charges and preferred stock dividends by adding net income from continuing operations to fixed charges and dividing that sum by such fixed charges plus preferred dividends, irrespective of whether or not such dividends were actually paid.

	Year Ended December 31,				
	2006	2007	2008	2009	2010
			(in thousands)		
Income from continuing operations before income taxes	$ 58,252	$ 67,591	$ 77,619	$ 82,111	$ 58,436
Interest expense	47,611	44,092	39,746	39,075	90,602
Income before fixed charges	$ 105,863	$ 111,683	$ 117,365	$ 121,186	$ 149,038
Capitalized interest	$ -	$ 110	$ 160	$ 141	$ 22
Interest expense	47,611	44,092	39,746	39,075	90,602
Preferred stock dividends	9,923	9,923	9,714	9,086	9,086
Total fixed charges and preferred dividends	$ 57,534	$ 54,125	$ 49,620	$ 48,302	$ 99,710
Earnings / combined fixed charges and preferred dividends coverage ratio	**1.8x**	**2.1x**	**2.4x**	**2.5x**	**1.5x**

EXHIBIT 21

LIST OF SUBSIDIARIES
OMEGA HEALTHCARE INVESTORS, INC.

Subsidiary	Jurisdiction of Incorporation
Arizona Lessor - Infinia, Inc.	Maryland
Baldwin Health Center, Inc.	Pennsylvania
Bayside Alabama Healthcare Second, Inc.	Alabama
Bayside Arizona Healthcare Associates, Inc.	Arizona
Bayside Arizona Healthcare Second, Inc.	Arizona
Bayside Colorado Healthcare Associates, Inc.	Colorado
Bayside Colorado Healthcare Second, Inc.	Colorado
Bayside Indiana Healthcare Associates, Inc.	Indiana
Bayside Street II, Inc.	Delaware
Bayside Street, Inc.	Maryland
Canton Health Care Land, Inc.	Ohio
Carnegie Gardens LLC	Delaware
Center Healthcare Associates, Inc.	Texas
Cherry Street – Skilled Nursing, Inc.	Texas
CHR Bartow LLC	Delaware
CHR Boca Raton LLC	Delaware
CHR Bradenton LLC	Delaware
CHR Cape Coral LLC	Delaware
CHR Clearwater Highland LLC	Delaware
CHR Clearwater LLC	Delaware
CHR Deland East LLC	Delaware
CHR Deland West LLC	Delaware
CHR Fort Myers LLC	Delaware
CHR Fort Walton Beach LLC	Delaware
CHR Gulfport LLC	Delaware
CHR Hudson LLC	Delaware
CHR Lake Wales LLC	Delaware
CHR Lakeland LLC	Delaware
CHR Panama City LLC	Delaware
CHR Pompano Beach Broward LLC	Delaware
CHR Pompano Beach LLC	Delaware
CHR Sanford LLC	Delaware
CHR Sarasota LLC	Delaware
CHR Spring Hill LLC	Delaware
CHR St. Pete Abbey LLC	Delaware
CHR St. Pete Bay LLC	Delaware
CHR St. Pete Egret LLC	Delaware
CHR Tampa Carrollwood LLC	Delaware
CHR Tampa LLC	Delaware
CHR Tarpon Springs LLC	Delaware
CHR Titusville LLC	Delaware
CHR West Palm Beach LLC	Delaware
Colonial Gardens, LLC	Ohio
Colorado Lessor - Conifer, Inc.	Maryland
Copley Health Center, Inc.	Ohio
CSE Albany LLC	Delaware
CSE Amarillo LLC	Delaware
CSE Anchorage LLC	Delaware
CSE Arden L.P.	Delaware
CSE Augusta LLC	Delaware
CSE Bedford LLC	Delaware
CSE Blountville LLC	Delaware
CSE Bolivar LLC	Delaware
CSE Cambridge LLC	Delaware
CSE Cambridge Realty LLC	Delaware
CSE Camden LLC	Delaware
CSE Canton LLC	Delaware

CSE Casablanca Holdings II LLC	Delaware
CSE Casablanca Holdings LLC	Delaware
CSE Cedar Rapids LLC	Delaware
CSE Centennial Village	Delaware
CSE Chelmsford LLC	Delaware
CSE Chesterton LLC	Delaware
CSE Claremont LLC	Delaware
CSE Corpus North LLC	Delaware
CSE Crane LLC	Delaware
CSE Denver Iliff LLC	Delaware
CSE Denver LLC	Delaware
CSE Douglas LLC	Delaware
CSE Dumas LLC	Delaware
CSE Elkton LLC	Delaware
CSE Elkton Realty LLC	Delaware
CSE Fairhaven LLC	Delaware
CSE Fort Wayne LLC	Delaware
CSE Frankston LLC	Delaware
CSE Georgetown LLC	Delaware
CSE Green Bay LLC	Delaware
CSE Hilliard LLC	Delaware
CSE Huntingdon LLC	Delaware
CSE Huntsville LLC	Delaware
CSE Indianapolis-Continental LLC	Delaware
CSE Indianapolis-Greenbriar LLC	Delaware
CSE Jacinto City LLC	Delaware
CSE Jefferson City LLC	Delaware
CSE Jeffersonville-Hillcrest Center LLC	Delaware
CSE Jeffersonville-Jennings House LLC	Delaware
CSE Kerrville LLC	Delaware
CSE King L.P.	Delaware
CSE Kingsport LLC	Delaware
CSE Knightdale L.P.	Delaware
CSE Lake City LLC	Delaware
CSE Lake Worth LLC	Delaware
CSE Lakewood LLC	Delaware
CSE Las Vegas LLC	Delaware
CSE Lawrenceburg LLC	Delaware
CSE Lenoir L.P.	Delaware
CSE Lexington Park LLC	Delaware
CSE Lexington Park Realty LLC	Delaware
CSE Ligonier LLC	Delaware
CSE Live Oak LLC	Delaware
CSE Logansport LLC	Delaware
CSE Lowell LLC	Delaware
CSE Marianna Holdings LLC	Delaware
CSE Memphis LLC	Delaware
CSE Mobile LLC	Delaware
CSE Moore LLC	Delaware
CSE North Carolina Holdings I LLC	Delaware
CSE North Carolina Holdings II LLC	Delaware
CSE Omro LLC	Delaware
CSE Orange Park LLC	Delaware
CSE Orlando-Pinar Terrace Manor LLC	Delaware
CSE Orlando-Terra Vista Rehab LLC	Delaware
CSE Pennsylvania Holdings	Delaware
CSE Piggott LLC	Delaware
CSE Pilot Point LLC	Delaware
CSE Pine View LLC	Delaware
CSE Ponca City LLC	Delaware
CSE Port St. Lucie LLC	Delaware
CSE Richmond LLC	Delaware
CSE Ripley LLC	Delaware
CSE Ripon LLC	Delaware
CSE Safford LLC	Delaware
CSE Salina LLC	Delaware
CSE Seminole LLC	Delaware

CSE Shawnee LLC	Delaware
CSE Spring Branch LLC	Delaware
CSE Stillwater LLC	Delaware
CSE Taylorsville LLC	Delaware
CSE Texarkana LLC	Delaware
CSE Texas City LLC	Delaware
CSE The Village LLC	Delaware
CSE Upland LLC	Delaware
CSE Walnut Cove L.P.	Delaware
CSE West Point LLC	Delaware
CSE Whitehouse LLC	Delaware
CSE Williamsport LLC	Delaware
CSE Winter Haven LLC	Delaware
CSE Woodfin L.P.	Delaware
CSE Yorktown LLC	Delaware
Dallas – Skilled Nursing, Inc.	Texas
Delta Investors I, LLC	Maryland
Delta Investors II, LLC	Maryland
Desert Lane LLC	Delaware
Dixie White House Nursing Home, Inc.	Mississippi
Dixon Health Care Center, Inc.	Ohio
Florida Lessor – Crystal Springs, Inc.	Maryland
Florida Lessor – Emerald, Inc.	Maryland
Florida Lessor – Lakeland, Inc.	Maryland
Florida Lessor – Meadowview, Inc.	Maryland
Florida Real Estate Company, LLC	Florida
Georgia Lessor - Bonterra/Parkview, Inc.	Maryland
Greenbough, LLC	Delaware
Hanover House, Inc.	Ohio
Heritage Texarkana Healthcare Associates, Inc.	Texas
House of Hanover, Ltd	Ohio
Hutton I Land, Inc.	Ohio
Hutton II Land, Inc.	Ohio
Hutton III Land, Inc.	Ohio
Indiana Lessor – Jeffersonville, Inc.	Maryland
Indiana Lessor – Wellington Manor, Inc.	Maryland
Jefferson Clark, Inc.	Maryland
LAD I Real Estate Company, LLC	Delaware
Lake Park – Skilled Nursing, Inc.	Texas
Leatherman 90-1, Inc.	Ohio
Leatherman Partnership 89-1, Inc.	Ohio
Leatherman Partnership 89-2, Inc.	Ohio
Long Term Care – Michigan, Inc.	Michigan
Long Term Care – North Carolina, Inc.	North Carolina
Long Term Care Associates – Illinois, Inc.	Illinois
Long Term Care Associates – Indiana, Inc.	Indiana
Long Term Care Associates – Texas, Inc.	Texas
Meridian Arms Land, Inc.	Ohio
North Las Vegas LLC	Delaware
NRS Ventures, L.L.C.	Delaware
Ocean Springs Nursing Home, Inc.	Mississippi
OHI (Connecticut), Inc.	Connecticut
OHI (Florida), Inc.	Florida
OHI (Illinois), Inc.	Illinois
OHI (Indiana), Inc.	Indiana
OHI (Iowa), Inc.	Iowa
OHI (Kansas), Inc.	Kansas
OHI Acquisition Co I, LLC	Delaware
OHI Asset (CA), LLC	Delaware
OHI Asset (CO), LLC	Delaware
OHI Asset (CT) DIP, LLC	Delaware
OHI Asset (CT) Lender, LLC	Delaware
OHI Asset (FL) Lender, LLC	Delaware
OHI Asset (FL), LLC	Delaware
OHI Asset (ID), LLC	Delaware
OHI Asset (IL), LLC	Delaware
OHI Asset (IN), LLC	Delaware

OHI Asset (LA), LLC	Delaware
OHI Asset (MI), LLC	Delaware
OHI Asset (MI/NC), LLC	Delaware
OHI Asset (MO), LLC	Delaware
OHI Asset (OH) Lender, LLC	Delaware
OHI Asset (OH) New Philadelphia, LLC	Delaware
OHI Asset (OH), LLC	Delaware
OHI Asset (PA) Trust	Maryland
OHI Asset (PA), LLC	Delaware
OHI Asset (SMS) Lender, Inc.	Maryland
OHI Asset (TX) Paris, LLC	Delaware
OHI Asset (TX), LLC	Delaware
OHI Asset CSB LLC	Delaware
OHI Asset CSE – E, LLC	Delaware
OHI Asset CSE – U, LLC	Delaware
OHI Asset Essex (OH), LLC	Delaware
OHI Asset HUD Delta, LLC	Delaware
OHI Asset HUD H-F, LLC	Delaware
OHI Asset II (CA), LLC	Delaware
OHI Asset II (FL), LLC	Delaware
OHI Asset II (PA) Trust	Maryland
OHI Asset III (PA) Trust	Maryland
OHI Asset IV (PA) Silver Lake Trust	Maryland
OHI Asset, LLC	Delaware
OHI of Texas, Inc.	Maryland
OHI Sunshine, Inc.	Florida
OHI Tennessee, Inc.	Maryland
OHIMA, Inc.	Massachuesttes
Omega (Kansas), Inc.	Kansas
Omega TRS I, Inc.	Maryland
Orange Village Care Center, Inc.	Ohio
OS Leasing Company	Kentucky
Panama City Nursing Center LLC	Delaware
Parkview – Skilled Nursing, Inc.	Texas
Pavillion North Partners, Inc.	Pennsylvania
Pavillion North, LLP	Pennsylvania
Pavillion Nursing Center North, Inc.	Pennsylvania
Pensacola Real-Estate Holdings I, Inc.	Florida
Pensacola Real-Estate Holdings II, Inc.	Florida
Pensacola Real-Estate Holdings III, Inc.	Florida
Pensacola Real-Estate Holdings IV, Inc.	Florida
Pensacola Real-Estate Holdings V, Inc.	Florida
Pine Texarkana Healthcare Associates, Inc.	Texas
Reunion Texarkana Healthcare Associates, Inc.	Texas
San Augustine Healthcare Associates, Inc.	Texas
Skilled Nursing – Gaston, Inc.	Indiana
Skilled Nursing – Herrin, Inc.	Illinois
Skilled Nursing – Hicksville, Inc.	Ohio
Skilled Nursing – Paris, Inc.	Illinois
Skyler Boyington, Inc.	Mississippi
Skyler Florida, Inc.	Mississippi
Skyler Maitland LLC	Delaware
Skyler Pensacola, Inc.	Florida
South Athens Healthcare Associates, Inc.	Texas
St. Mary's Properties, Inc.	Ohio
Sterling Acquisition Corp.	Kentucky
Sterling Acquisition Corp. II	Kentucky
Suwanee, LLC	Delaware
Texas Lessor – Stonegate GP, Inc.	Maryland
Texas Lessor – Stonegate, Limited, Inc.	Maryland
Texas Lessor – Stonegate, LP	Maryland
Texas Lessor – Treemont, Inc.	Maryland
The Suburban Pavilion, Inc.	Ohio
Washington Lessor – Silverdale, Inc.	Maryland
Waxahachie Healthcare Associates, Inc.	Texas
West Athens Healthcare Associates, Inc.	Texas
Wilcare, LLC	Ohio

EXHIBIT 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-61354) related to the 2000 Stock Incentive Plan of Omega Healthcare Investors, Inc.;
(2) Registration Statement (Form S-8 No. 333-117656) related to the 2004 Stock Incentive Plan of Omega Healthcare Investors, Inc.;
(3) Registration Statement (Form S-3 No. 333-162083) related to the Dividend Reinvestment and Common Stock Purchase Plan of Omega Healthcare Investors, Inc.;
(4) Registration Statement (Form S-3 No. 333-150183) universal shelf registration of Omega Healthcare Investors, Inc.; and
(5) Registration Statement (Form S-3 No. 333-168088 and No. 333-164367) related to the resale of certain common stock of Omega Healthcare Investors, Inc. held by CapitalSource Healthcare LLC.

of our reports dated February 28, 2011, with respect to the consolidated financial statements and schedules of Omega Healthcare Investors, Inc. and the effectiveness of internal control over financial reporting of Omega Healthcare Investors, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2010.

/s/ Ernst & Young LLP

Baltimore, Maryland
February 28, 2011

Exhibit 31.1

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

I, C. Taylor Pickett, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 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: February 28, 2011

/S/ C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

Exhibit 31.2

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

I, Robert O. Stephenson, certify that:

1. I have reviewed this Annual Report on Form 10-K 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 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: February 28, 2011

/S/ ROBERT O. STEPHENSON
Robert O. Stephenson
Chief Financial Officer

EXHIBIT 32.1

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 Annual Report on Form 10-K of the Company for the year ended December 31, 2010 (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: February 28, 2011

/S/ C. TAYLOR PICKETT
C. Taylor Pickett
Chief Executive Officer

EXHIBIT 32.2

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 Annual Report on Form 10-K of the Company for the year ended December 31, 2010 (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: February 28, 2011

/S/ ROBERT O. STEPHENSON
Robert O. Stephenson
Chief Financial Officer